UBS: Rogue Trader Hit Firm

Swiss Bank Says It Lost $2 Billion on London Employee’s Unauthorized Bets

By DEBORAH BALL, PAUL SONNE and CARRICK MOLLENKAMP

UBS AG said a rogue trader racked up as much as $2 billion in losses using the firm’s own money, a dramatic admission that raised new questions about the ability of one of the world’s largest banks to manage risk and global regulators’ ability to monitor it.

The losses stemmed from unauthorized derivatives-trading bets, according to a person familiar with the matter. The bank said no client positions were affected.

The Swiss bank made the discovery late Wednesday and notified London police at 1 a.m. Thursday, alleging that one of its traders had committed fraud. At 3:30 a.m., police arrested a 31-year-old man on “suspicion of fraud by abuse of position.”

The man arrested is Kweku Adoboli, according to the person familiar with the matter, and is a trader in London who makes bets using UBS’s money on financial instruments tied to exchange-traded funds, which allow clients to trade securities that track the performance of broad indexes. Police said the person arrested hasn’t been charged, but remained in custody late Thursday. Mr. Adoboli couldn’t be reached for comment.

According to the person familiar with the matter, John Hughes, a trader who worked with Mr. Adoboli, has resigned. Mr. Hughes didn’t respond to an emailed request for comment.

The bank has suspended a number of other members of the desk, pending questioning as to whether any were involved.

The crisis slammed shares of UBS, which on Thursday fell nearly 11% in Swiss trading and 10% in New York Stock Exchange trading.

Moody’s Investors Service said it was reviewing UBS’s credit rating for a possible downgrade, citing concerns about UBS’s reputation and its abilities to manage risk and rebuild its investment bank. Moody’s said its review will focus on “ongoing weaknesses” in UBS’s risk management “that have become evident again by the events leading” to the trading loss. Moody’s said it believed a $2 billion loss would be financially “manageable” for UBS.

The losses raised questions among industry executives about supervision at the bank, as well as the ability of regulators to police such activity.

Bad Bets, Big Losses
A look at traders known for bad bets.

Various aspects of the scheme remain unclear, including which specific trades Mr. Adoboli allegedly executed, how such heavy losses could be generated without supervisors knowing and the way the bank uncovered the unauthorized trades.

UBS declined requests to provide details.

The Swiss financial regulator Finma, the Swiss Finance Ministry and the Swiss central bank all declined to comment on the potential loss or its likely causes, as did the U.K.’s Financial Services Authority.

Because of the way UBS’s operations are structured in the U.K., it wasn’t immediately clear which country’s regulator was responsible for the London ETF operation.

The losses from alleged unauthorized trading rank among the largest in the history of finance. Over the past two decades, banks including Société Générale SA, Barings PLC and Kidder Peabody also have been victims of alleged rogue traders.

The news dealt a heavy blow to efforts by UBS Chief Executive Oswald Grübel to win back client confidence in a bank that was among the hardest hit by the financial crisis. It raised fresh questions about UBS’s risk-management systems three years after its investment bank had to write down about $50 billion in securities trades.
Questions Arise About UBS Risk Controls
UBS’s Unusual Set-Up Muddies Regulatory Picture
Heard on the Street: UBS Joins the Delta Farce
Heard on the Street: Faith in UBS Goes Rogue
Deal Journal: Meet Kweku Adoboli
Deal Journal: UBS Reputation Battered Again
Commentary: It’s Not Rogue When You Win
Deal Journal: Rogue Traders Through History
The Source: Banks Can’t Stop Rogue Traders
Letter to UBS Staff on Unauthorized Trades

Topics: Kweku Adoboli

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DETAILED FACTS, according to people familiar with the matter.

His desk specialized in so-called Delta One products that allow banks and investors to track underlying assets or indexes. The “delta” terms describe a level of risk—a delta of one implies limited risk of losses. There are about a half-dozen Delta One products that banks offer, including ETFs.

One avenue that is being examined is whether the trading loss is tied to the volatility in European stocks, a result of worries that Greece could default. One possibility is that Mr. Adoboli picked the wrong time to either bet that a European stock index would rise or fall and that an ETF was used in the trade.

ETFs, which typically track market indexes and trade like stocks, have become a big business for banks. Global ETF assets under management rose to $1.3 trillion last year from $410 billion in 2005, according to the Bank for International Settlements.

Some ETFs have become increasingly complex and opaque because banks have identified ways to replicate derivative exposure using ETFs.

Before trading, Mr. Adoboli worked for three years in a "back office" position as a trade-support analyst, according to the LinkedIn profile. Back-office employees input transactions and carry out accounting relating to trades, while so-called front-office workers execute trades and speak with clients.

Mr. Adoboli appeared to have initially worked with the technical side of these trades before becoming an employee executing these transactions. Some banks have restricted the shift of back-office, technical personnel to the client-facing trading desk because of the risk of their exploiting their knowledge to manipulate trades.

UBS didn’t respond to a request for comment on whether it had such a restriction.

UBS’s investment bank has been struggling to come back fully from its near-collapse in 2008. In the wake of huge write-downs, the unit posted a loss of 34.4 billion Swiss francs ($30.4 billion) in 2008, forcing the Swiss National Bank to bail the bank out.

Since then, Mr. Grübel and Carsten Kengeter, investment-banking chief, have battled pressure from regulators and politicians to drastically downsize the unit, even as they fought to lure clients back. Swiss regulators have pushed for UBS and Credit Suisse Group to hold extra-large capital cushions.

News of the losses could accelerate a revamp of Mr. Grübel’s investment-banking ambitions. In July, he scaled back his targets for the unit in light of disappointing first-half performance and new regulations.

The development could raise questions as to how long Mr. Grübel, who began his career as a trader, will stay on. A former Credit Suisse chief executive, he came out of retirement in February 2009 to help turn around UBS.

Until recently, Mr. Adoboli lived in a loft apartment in London’s trendy Spitalfields neighborhood, near the London offices of UBS. Outside the apartment building on Thursday, his former landlord, Philip Octave, said the trader four months ago moved out of the apartment, which rented for £1,000 ($1,570) a week.

He called Mr. Adoboli "very, very polite, a salesman sort of chap."

A Facebook profile under Mr. Adoboli’s name, removed from public view on the site Thursday afternoon, listed the Nigerian musician Fela Kuti and dance-music artist MC Xander among his favorites and said he was also a fan of the show “The Wire” and a member of two Facebook groups tied to Ghana, his home country.

He joined UBS about two months after graduating, with honors, from the University of Nottingham with a bachelor’s degree in e-commerce and digital business, a spokeswoman for the university said. Before that he attended the Ackworth School, a Quaker boarding and day school in West Yorkshire, England.

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