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Former Royal Bank quartet intend to root out rogue traders

KARL WEST, City Editor

February 28 2005

FOUR former senior bankers from Royal Bank of Scotland have formed a specialist treasury consultancy that aims to help clients root out rogue traders such as Nick Leeson and John Rusnak.

Well-known Scottish banker John Wright, a former chief executive of the Clydesdale and former chairman of Edinburgh Fund Managers, will act as chairman of the consultancy. The firm, known as Xm International Associates was set up by David Peebles, Jim Kerr, Tom Nicol and Mike Gibb.

The four have worked in treasury and capital markets trading functions for most of their professional lives, and believe they can use their knowledge of the short-cuts and sloppy practices sometimes used in dealing rooms to help executives combat any associated risk.

Kerr, a former head of trading at Royal Bank of Scotland's huge capital markets division, talked of the "winner takes all" bonus culture that can sometimes infect dealing rooms. He said: "People are paid a lot of money to take on a lot of risk."

Kerr said the pay structure for dealers was, perhaps, too heavily skewed towards incentive bonuses rather than a more equal split between salary and bonus.

For instance, a dealer might earn a £60,000 annual salary, but could earn up to £200,000 in bonuses for meeting targets.

"It can be winner takes all," he said, adding: "So you can imagine the risk the person is willing to take (to ensure they get the bonus)."

Last year, the four got together intending to plug the gap they believe is not being filled by companies' internal or external auditors, most of whom are trained accountants but have little or no experience of treasury operations.

Their idea to set up a specialist trouble-shooting consultancy came against the background of yet another high-profile trading scandal. National Australia Bank, owner of the Clydesdale, was in the midst of a foreign exchange trading debacle involving four traders making false trades, which left Australia's biggest bank nursing a £100m black hole.

It eventually led to the departure of Frank Cicutto and Charles Allen, former chief executive and chairman respectively of NAB.

Leeson brought down Barings while he was a trader at the bank and Rusnak was at the centre of a currency scandal involving Allied Irish Banks.

Peebles, a former head of treasury at Clydesdale, noted: "The chances of us going in anywhere and finding anything like that are probably rare, but they are the worst manifestations.

"We're not expecting to find a Leeson or a Rusnak. We give people an extra level of comfort and security to give to the board."

Kerr says Xmi acts as the "conduit" between the coal-face of the dealing room and executive level.

He said all four men were fortunate enough to work in good dealing rooms in their career, but added: "We've also all worked in dealing rooms and we could see that some of the controls were not quite as tight as they should be, but it's not a problem until it's a problem."

Kerr points out that Xmi is not just focused on the dealing rooms of banks, but that multinational companies also have treasury operations, many of whom need to hedge against foreign currency risks.

Peebles added: "Our view was there's a gap in the market and nobody's attending to that."

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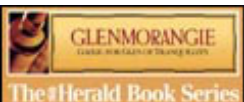

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Nicol was former chief spot foreign exchange trader at Royal Bank.
Gibb was head of treasury for Royal in Singapore, before returning to the UK to set up the bank's interest rate trading business.

