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Rogue trader costs Société Générale £3.6bn

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Société Générale, France's second-biggest bank, has revealed that one of its traders in Paris had committed a 5bn euros (£3.6bn) fraud.

The bank discovered that the trader, who was not named, secretly set up positions that will cost one of the most prestigious names in European banking 4.9bn euros before tax. The trader had gone beyond permitted limits on futures linked to European stock indexes.

Leeson: the UK's most famous 'rogue trader'

Société Générale, which has had its shares suspended this morning, said today it had "uncovered a fraud, exceptional in its size and nature: one trader, responsible for plain vanilla futures hedging on European equity market indices, had taken massive fraudulent directional positions in 2007 and 2008 beyond his limited authority."

The massive fraud carries echoes of by the infamous "Rogue Trader" Nick Leeson, who caused Barings to collapse with losses of £725m in 1995.

"The most serious thing is that this puts into doubt the risk management systems at some banks," said Carlos Garcia, an analyst at Fortis bank. "You can't suddenly announce from one day to the next a hit of $7 billion. In the light of this, what we've done is to downgrade banks that are very linked to trading income or whose capital base is weak."

Société Générale went on in its statement "aided by his in-depth knowledge of the control procedures resulting from his former employment in the middle office, he managed to conceal these positions through a scheme of elaborate fictitious transactions."

Daniel Bouton, the bank's chairman, offered to resign, but the board rejected his offer. As a result of the fraud and the write-down, Soc Gén is planning to raise 5.5bn euros of new capital through a rights issue underwritten by JP Morgan Chase and Morgan Stanley.

The news from Société Générale comes months after French rival Crédit Agricole admitted that an unauthorized proprietary trade had cost it 250 million euros.

The French bank said that it had uncovered the fraudulent positions on January 19th and January 20th. The positions have been closed.

Soc Gén also said that it would make a 2.05bn Euros (£1.5bn) write-down related to "credit market turbulence".

Société Générale said it's taking 1.1 billion euros of writedowns linked to the U.S. residential real estate market, 550 million euros linked to U.S. bond insurers, and 400 million euros on other unspecified risks.