

Internal fraud: the trader who hides its losses

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

Whereas the frauds of 2020 were directed against the banks, another category of fraud is directed against the trading house itself by its own employees. A trader who accumulates losses on unauthorised positions, conceals them through fictitious transactions or erroneous valuations and hopes to recover before being discovered reproduces a pattern that the banks encountered in the rogue trader cases of previous decades, and which several trading houses have suffered.¹ The Hin Leong case, in which the founder himself concealed the losses, shows that internal fraud can come from the very top.

The safeguards are organisational: separation between trading, execution, valuation and risk control, position limits monitored daily, independent valuation of positions and stocks, regular reconciliations with counterparties, brokers and warehouse keepers, rotation and compulsory leave for traders, and finally a culture in which the reporting of anomalies is protected. The large Geneva houses have put these controls in place under pressure from their banks and their auditors. Mid-sized houses, where the founder often combines several functions, are more vulnerable, so that financiers apply the closest vigilance to them.

Key points. The frauds of 2020 exploited the separation between the bank, which sees documents, and the goods, which it never sees: bills of lading presented several times, stocks pledged repeatedly, circular sales. The countermeasures — verification of documents with the carriers, cross-checking of vessel positions, independent inspections, sharing of information between financiers, electronic registers — increase the cost of fraud without eliminating it. Their price is borne by honest traders, in the form of stricter conditions, and by the centre, in the form of reduced financing capacity.

1 Notes

1. Wikipedia (en), art. “Sumitomo copper affair”: unauthorised trading by Yasuo Hamanaka over ten years, control of 93 per cent of LME copper warrants as at 24 November 1995, losses of 1.8 billion dollars announced on 13 June 1996, later raised to 2.6 billion, sentence of eight years’ imprisonment in 1997; Wikipedia (en), art. “Trafigura”: write-down of 1.1 billion dollars in 2024 “resulting from the misconduct by staff in its Mongolian office”; Wikipedia (en), art. “Hin Leong” (800 million of concealed losses on futures contracts); see also Part D, Chapter III, for Barings (1995). ↩

For general information only. This article does not constitute legal or tax advice, does not replace advice on an individual case and creates no lawyer-client relationship. It reflects the legal position as of September 2026.

Online version: helveticaregister.com/geneva-internal-fraud-the-trader-who-hides-its-losses