## Ellie and the Rogue Trader

The head of the company's internal treasury investigation looked at her hard, and simply said, "Ellie, you've been robbed."

Eleanor Woodward, CEO of a successful U.S. financial services company took a minute before she dared ask the next question.

"How much are we talking, Seth?"

"Hundreds of millions in losses," he replied.

Ellie took off her glasses and fell back into her chair. It was a staggering sum.

After delivering two consecutive years of double-digit growth for the firm, how could something like this happen on her watch? Why weren't these bogus FX trades detected? How had they slipped past the auditors and regulators and all those state-of-the-art controls?

Later that day as she met with the head of risk management and chief legal officer, she knew it was an even more serious situation. Finally, a price tag was put on the fraud.

Andrew Ansel, a currency trader was responsible for this sophisticated caper that could have decimated the company and ruined livelihoods.

Andrew reported to the head of a fledgling trading unit that was an island unto itself. This unit was not a core business and Ellie had questioned the reason for its creation when she first stepped into the role of CEO. But her board had pushed back, saying they wanted and needed to establish this sector.

As Andrew became a fixture in currency trading, he assumed an arrogance and a Wall Street swagger that his boss continually encouraged. He was bright, and had a firm grasp of the bank's systems and procedures. Of course, his boss ignored the fact that he intimidated and sabotaged other employees who questioned his risky moves.

All of this was on her mind as Ellie mobilized her management team to deal with the monumental crisis at hand. Within forty-eight hours, the conference rooms were overflowing with auditors, analysts, and senior players. By day three, Ellie was ready to announce publicly the extent of the loss. A loss on her watch.

Believing transparency was the best course of action, Ellie communicated up and down the ranks to all the stakeholders.

Of course, the press was all over the scandal. The FBI had been called in to investigate Andrew's whereabouts. Ever the manipulator, Andrew was in hiding. The collateral damage was spread far and wide. Wall Street had found its newest target for destruction. The company braced itself for an ongoing and significant decrease in valuation.

As Ellie put together a timeline for the fraud, and a complete understanding of how the controls were breached, she was battered in the press.

Although her phalanx of lawyers claimed they were in her corner, she was instructed not to speak to anyone in the media until her board had approved a public-relations strategy.

"But we need a response; we need to control the messaging right now!" she countered. Ellie's Board decreed that "No comment" was, in fact, the only comment that would save the integrity of the organization. Ellie believed that "No comment" would instead destroy the integrity of the organization. Sadly, "No comment" from the credible sources meant the press went elsewhere and created their own very negative and damning version of the facts. After all, as Ellie knew well, in the absence of information, people create their own theories.

Suddenly, former execs who had wanted her job created a campaign to imply she should have known about the rogue trader. Their intention? Make Ellie the scapegoat.

"We're working on it," the high-powered legal team replied. But of course, its not up to you, its in the Board's hands.

## Questions for Discussion:

- 1. What if any red flags could Ellie have seen? Do you, as a Board member, believe that she could have known that this would happen?
- 2. Based on your answers to question 1, what might Ellie have done to prevent this betrayal by the rogue trader and his boss?
- 3. As a Board member, when should you have been told about the situation?
- 4. What steps should the Board have taken?
- 5. Do you agree that the best response was "no comment?" if yes, why? If no, what should have occurred?
- 6. Do you, as members of the Board, believe that Ellie should be removed as CEO for allowing this to occur? If yes, why? And who should replace her? If no, why not?
- 7. Given that Ellie inherited this unit and had long questioned its validity, does the Board bear any responsibility for this betrayal? If yes, why? If not, why not?
- 8. What is the key lesson from this case?
- 9. Have any of you been in similar situations as either a CEO or Board member? What happened?