# The collapse of Barings in 1995

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## Barings Futures Singapore and Nick Leeson

Barings had been present in London merchant banking for more than 230 years. In the late 1980s it entered new businesses, above all securities trading through Baring Securities Limited. The group struggled to integrate them into a structure whose culture had been shaped by traditional banking.[1] The bank's earlier crisis of 1890, when the Bank of England organised a guarantee fund of £17.1 million after Barings had channelled some £140 million of investment into Argentina, had shown that the house could be rescued when the City judged it too important to fail.[2] No such rescue would be possible in 1995.

Barings opened a futures and options office in Singapore in April 1992. Nick Leeson, a young employee from the settlements side of the Barings business, was appointed general manager. He was placed in charge of both the front office, where trades were executed, and the back office, where they were recorded and settled. He was authorised to trade only as part of a "switching" operation between SIMEX and the Osaka exchange, which Barings management regarded as low-risk because it did not involve outright open positions.[3]

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## Account 88888 and the concealed losses

In reality Leeson engaged for two and a half years in unauthorised position-taking in Nikkei futures and Japanese government bond futures on SIMEX and in Osaka. He also wrote options on the Nikkei index without authority, which exposed the group to potentially unlimited losses. He concealed the resulting losses in an error account of the branch, which later became known by its number, 88888. Because he controlled the back office, he could manipulate the records so that the account did not appear in the reports sent to London.[4]

The figures disclosed after the collapse show how the losses accumulated. In the account of the Chancellor of the Exchequer to Parliament, they exceeded £20 million by the end of 1993 and £200 million by the end of 1994. Barings' draft accounts for 1994 nevertheless showed a pre-tax profit of £102 million, after a transfer of the same amount to a group bonus pool, while recorded group capital was of the order of £350 million. At one point Barings management believed that more than 60 per cent of the revenue of its worldwide derivatives business came from Leeson's supposedly low-risk arbitrage.[5] The apparent profits were in fact the product of concealed losses. Nobody in London asked how a riskless activity could earn so much.

## Kobe and the final weeks

By early 1995 Leeson held long positions in Nikkei futures, short positions in Japanese government bond futures and a short volatility position in Nikkei options. The strategy required the Nikkei to rise, Japanese bond prices to fall and the volatility of the index to remain low. On 17 January 1995 an earthquake of magnitude 6.9 struck the Kobe region of Japan. From around the middle of January the Nikkei fell, at times sharply, while an easing of Japanese interest rates caused losses on the short bond positions. Leeson briefly recovered his losses for the year in early February. In the last two weeks of the month all his markets turned against him.[6]

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The losses had to be financed through margin payments to the exchanges, which demanded cash from Barings each day as prices moved. The money came mainly from London and was advanced to Singapore without any independent check on the validity of the requests. Price Waterhouse, appointed by the court in Singapore, reported that Barings had sent about US$900 million to its Singapore futures subsidiary in the first two months of 1995. Immediately before the collapse, the funding provided to the Singapore subsidiary was twice the capital of the Barings group.[7] The margin system of the exchange thus did exactly what it was designed to do. It forced Barings to pay for its losses in cash, day by day, until the bank could pay no more.

## Flight, insolvency and trial

Leeson left Singapore on 23 February 1995. Over the following weekend the Bank of England tried to organise a rescue without success. Barings was declared insolvent on 26 February. By 27 February the cumulative losses had reached £827 million, and with the cost of closing out all positions the losses on the unauthorised trading of the Singapore subsidiary amounted to £927 million. In early March the Dutch financial group ING bought Barings for the nominal sum of £1 and assumed its liabilities.[8]

Leeson was arrested in Frankfurt on 2 March 1995 and extradited to Singapore in November, the sources giving the date as 20 or 23 November 1995. He pleaded guilty to two charges, deceiving the auditors of the bank and cheating SIMEX. District Judge Richard Magnus sentenced him to six and a half years' imprisonment. The prosecution did not proceed with nine further counts of fraud and forgery, which Leeson admitted and the court took into consideration in sentencing. He was released from Changi Prison in July 1999, after serving about two-thirds of the sentence with remission for good behaviour.[9]

The choice of Singapore as the place of trial mattered. Since the offences had been committed on a Singapore exchange and against a Singapore market, the Singapore authorities sought the extradition of a British national arrested in Germany and tried him under Singapore law. The prosecution showed foreign participants that

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the city would apply its criminal law to conduct on its markets regardless of the nationality of the offender or of his employer. Chapter V of Part H returns to that principle in the context of modern enforcement.

## Notes

1. Reserve Bank of Australia, "Implications of the Barings Collapse for Bank Supervisors", *RBA Bulletin*, November 1995, p. 1: Barings had "a presence in merchant banking of over 230 years"; from the late 1980s the most challenging task was "the incorporation of the securities business into a structure which, until then, had been dominated by banking activities and culture". ↩
2. Bank of England, *Bank Underground*, "Rescuing a SIFI, Halting a Panic: the Barings Crisis of 1890", 10 February 2016: Barings had channelled about £140 million into Argentina between 1885 and 1890; the £17.1 million guarantee fund was announced on 15 November 1890. ↩
3. Wikipedia, "Nick Leeson" (accessed November 2026): Barings opened a futures and options office in Singapore in April 1992; Leeson, appointed general manager, was "sent to head both front office and back office operations"; Reserve Bank of Australia, "Implications of the Barings Collapse for Bank Supervisors", *RBA Bulletin*, November 1995, p. 2: Leeson "was authorised to engage in active trading out of Singapore, but only as part of a 'switching' (or arbitrage) operation between the Singaporean and Osaka futures exchanges", viewed as low-risk because it did not involve outright, open positions. ↩
4. Reserve Bank of Australia, "Implications of the Barings Collapse for Bank Supervisors", *RBA Bulletin*, November 1995, p. 2: Leeson "had engaged, for a period of 2½ years, in unauthorised position-taking in Nikkei futures and Japanese Government Bond (JGB) futures on SIMEX and Osaka futures exchanges" and had written, without authority, exchange-traded options against the Nikkei index; Wikipedia, "Barings Bank" (accessed November 2026): Leeson altered the branch's error account, later known as account

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88888, the "five-eights account", to keep London from receiving standard daily reports. ↩

5. *Hansard*, House of Lords, 18 July 1995, "Barings", vol. 566, cols 142–156 (repetition of the Chancellor's statement): cumulative losses of "over £20 million" by the end of 1993 and "over £200 million" by the end of 1994; Reserve Bank of Australia, "Implications of the Barings Collapse for Bank Supervisors", *RBA Bulletin*, November 1995, pp. 2–3: unrecognised losses in 1994 of £185 million; draft accounts for 1994 showed pre-tax profit of £102 million "after allowing for transfers to a Group bonus pool of the same amount"; recorded group capital "in the order of £350 million"; "over 60 per cent of the revenues of its worldwide derivatives operations was generated out of Leeson's arbitrage operations". ↩

6. Reserve Bank of Australia, "Implications of the Barings Collapse for Bank Supervisors", *RBA Bulletin*, November 1995, p. 2: by early 1995 Leeson was taking long positions in Nikkei futures, short positions in JGB futures and a "short volatility" position in Nikkei exchange-traded options, which required the Nikkei to rise, Japanese bond prices to fall and volatility to remain low; "from around mid January, the Nikkei fell, at times sharply"; at one point in early February Leeson had recovered his losses for the year; in the final two weeks of February all markets turned against him; Wikipedia, "Great Hanshin earthquake" (accessed November 2026): the earthquake struck on 17 January 1995 at 5:46:53 a.m. Japan Standard Time and "measured 6.9 on the moment magnitude scale". ↩

7. *Hansard*, House of Lords, 18 July 1995, "Barings": "The money required to fund the losses came primarily from London" and was "advanced to Singapore with no independent check on the validity of the requests"; *The Christian Science Monitor*, "Singapore Sent Warnings In Barings Bank Debacle", 8 March 1995: Price Waterhouse reported that in the first two months of 1995 Barings sent about $900 million to its Singapore futures subsidiary; Reserve Bank of Australia, *RBA Bulletin*, November 1995, p. 3: "Immediately prior to the collapse, funding to BFS represented twice Barings Group capital." ↩

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8. Wikipedia, "Barings Bank" (accessed November 2026): Leeson left Singapore on 23 February 1995; a Bank of England weekend bailout was unsuccessful; Barings was declared insolvent on 26 February 1995; ING bought the bank in 1995 "for the nominal sum of £1" and took over its liabilities; Reserve Bank of Australia, *RBA Bulletin*, November 1995, p. 2: cumulative unreported losses reached "£827 million by 27 February 1995. Adding in the costs of closing out all positions, cumulative losses incurred on BFS's unauthorised trading totalled £927 million." ↩
9. Wikipedia, "Barings Bank" (accessed November 2026): captured in Frankfurt on 2 March and extradited to Singapore on 23 November, 272 days after fleeing; Wikipedia, "Nick Leeson" (accessed November 2026): extradited on 20 November 1995; guilty pleas to two counts of "deceiving the bank's auditors and of cheating the Singapore exchange"; sentence of six and a half years by District Judge Richard Magnus; release in July 1999 for good behaviour after serving at least two-thirds of the sentence; *Gulf News*, "December 2, 1995: Whiz-kid trader Nick Leeson jailed": nine other fraud and forgery counts were dropped but admitted and taken into consideration; six months of the sentence related to deceiving the auditors. The sources date the sentence to 1 or 2 December 1995. ↩

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