CENTRELINE CLARITY

Structural Report

Barings Bank — January 1994

A Retrospective Application

Framework conditions examined

Primary: Authority Without Verification

Also examined: Pressure Without Visibility, Reporting Without Operational Contact

This analysis examines the situation through the Centreline Clarity framework, with particular attention to whether the organization can independently establish what is happening where it carries the consequences.

Why This Case Matters

Barings is a particularly clear example of what happens when authority, information and consequence become separated.

Leeson controlled information about the positions he was taking and reporting, while London carried the financial and institutional consequences of those positions. The structural weakness was known before the final collapse, yet the organization remained dependent upon information it could not independently verify.

The significance of the case is therefore not simply that a trader concealed losses. It is that the organization had progressively lost the ability to know what was actually happening inside a highly consequential part of its own operation.

> *This is not a historical reconstruction. It is a structural diagnostic as it could have been produced in January 1994, a full year before the collapse, using only information that was available or discoverable at the time. What follows is not a narrative of villains or mistakes. It is a structural map showing what was at stake, where pressure was building, and what options were still available.*

The report proceeds in two stages:

- **Stage 1: Structural Diagnostic (Phases 0–10) -** Maps the situation as it stood: identity stakes, constraints, pressure, irreversibility, risks, recommended actions, expected reactions, monitoring signals, and non-actions.

– **Stage 2: Structural Intervention Mapping -** Examines how forces would reorganize if nothing changed, and where intervention could still alter trajectory.

Scenario — January 1994

A 28-year-old trader in Singapore appears to be generating approximately 10% of the bank's annual profit. He controls both trading and settlement functions. London has received unusual funding requests. An internal audit flagged the segregation of duties two years earlier... yet no action was taken.

STAGE 1 — STRUCTURAL DIAGNOSTIC

Phases 0–10 · Barings Bank, January 1994

PHASE 0 Identity Classification

Actor	Classification	Primary Stake
Leeson	Load	Role and reputation. If discovered, the loss is identity, not just money. He hides losses to preserve the 'star trader' identity.
London executives	Structural Stake	Role continuity, the bank's licence, personal liability. Prior approval of Leeson's structure implicates them directly.
Board	Exposure	Reputational, unless merger due diligence reveals prior knowledge... at which point exposure becomes liability.

The executives reviewing this situation are not neutral observers. They are structurally implicated by prior decisions to approve Leeson's role and fund his requests.

PHASE 1 Situation Overview

Nick Leeson, 28, has reported profits of approximately £100 million over two years. That is nearly 10% of the bank's total. He simultaneously manages both trading and back-office settlement, a combination flagged as a structural risk in 1992 but never remediated.

London has received increasing margin-call funding requests. Explanations have been technical and varied. Geographic distance and the perceived complexity of Leeson's strategies have limited direct oversight.

A former colleague has informally raised concerns. SIMEX (the Singapore exchange) has questioned the size of positions held. Internal audit reports are on file… and unactioned.

No formal allegation exists. No documented proof of misconduct currently exists.

PHASE 2 Key Constraints

These constraints shape what actions are available and in what sequence.

- Leeson controls both trade recording and settlement. No one independently verifies his reported positions.
- London executives are under pressure to maintain profitability in a difficult market.
- Geographic distance limits direct oversight.
- The bank is pursuing a merger; management attention is divided.
- Previous audit findings were noted, not implemented.
- SIMEX inquiries can be managed locally without London visibility.
- Funding requests are approved through normal channels without verification of the underlying positions.

PHASE 3 Pressure Map

Pressure Building

- Reported profits are extraordinary and sustained.
- Funding requests to London are increasing.
- SIMEX has raised questions about position sizes.
- The 1992 internal audit finding on segregation of duties remains open.

Pressure Leaking

- A former colleague has expressed private concern.
- Rumours circulate in the Singapore market about unusually large positions.
- Some back-office staff are reportedly uncomfortable with Leeson's control.

Pressure Redirecting

- Concern about the trading structure → celebration of a 'star trader.'
- Audit findings → 'operational efficiency' explanations.
- Scrutiny of funding requests → appeals to technical complexity.

Latent Pressure

- If positions are actually losing money, losses are compounding unseen.
- If SIMEX escalates its inquiries, the issue becomes public.
- If the merger proceeds, due diligence will eventually surface the structure.
- If Leeson leaves suddenly, the true position is immediately visible.

> *Pressure is highly asymmetric. Leeson controls all information; London bears all risk. No one in London has independent access to the underlying position data. Each month of inaction is a variable in pressure accumulation.*

PHASE 4 Irreversibility

Any of the following events could trigger a loss of control from which recovery is no longer possible:

- Merger due diligence reveals the control breakdown.
- SIMEX formally escalates its concerns.
- A margin call cannot be met.
- Leeson resigns or becomes unavailable.
- Year-end audit accepts current representations without independent verification.
- A significant market movement triggers margin requirements that cannot be funded.

> *The irreversibility threshold is not measured in days. It is measured in events. Any one of the above (the next market movement, the next audit cycle, the next funding request) could be the point of no return.*

PHASE 5 Failure Mode

- **Primary driver — Power Asymmetry:** Leeson controls all information about his positions. London bears all financial risk and reputational exposure. Decision influence and consequence exposure are completely misaligned.
- **Secondary driver — Interpretive Inertia:** The 'star trader' narrative has taken hold. Signals are discounted because they don't fit the established story.

> *Recommendations must address the information asymmetry, NOT Leeson's character. The question is not whether he is honest. The question is whether the structure allows anyone to know.*

For the executives reviewing this situation, Power Asymmetry consumed a specific individual capacity: the ability to know what was actually happening. Every other failure in this report flows from that single structural deprivation.

PHASE 6 Primary Risks

Risk of doing nothing

Positions continue. Losses (if present) compound unseen. The next market move could trigger margin calls that reveal the full exposure. When discovery comes, whether through merger due diligence, audit, or market event, management will be seen as having ignored clear structural warnings.

Risk of moving too early

Intervening without sufficient evidence could damage Leeson's standing, disrupt profitability, and create legal exposure if he is trading legitimately. The merger could be affected. London would need to explain why they are investigating their most profitable operation.

Risk of moving too late

If SIMEX escalates first, the bank loses control of the narrative. If the market moves against Leeson, the loss may already be beyond recovery. If merger due diligence surfaces the issue, the deal could collapse.

> *Timing discipline is critical. The window for action is not measured in days but in events. Each day without independent verification is a day that losses can compound unseen.*

PHASE 7 Recommended Actions

Immediate — next 30 days

- Request independent verification of Leeson's positions. Frame this as 'merger due diligence,' not suspicion. Make this request through a trusted internal auditor or external consultant.
- Document all previous funding requests and explanations. Build a chronology.
- Formally review the 1992 audit finding on segregation of duties. Close it or remediate it.
- Establish dual sign-off on all future Singapore funding requests, with independent position verification.

- Brief one trusted board member on the structural concern (without naming Leeson) to create governance visibility without triggering public attention.

If verification reveals discrepancies or obstruction

- Escalate through formal governance channels before the next audit cycle or merger milestone.

> *Preserve: no public exposure, no motive attribution, no confrontation without documentation. Keep options open while increasing visibility.*

PHASE 8 Expected Reactions

Resistance to visibility is normal. It does not confirm wrongdoing; it indicates pressure. Anticipate the following:

- Leeson may frame independent verification as 'interference with my trading.'
- Local Singapore management may position the request as London not understanding the market.
- Some London executives may push back citing merger timelines or Leeson's profitability.
- Colleagues who have defended Leeson may become less communicative.
- Funding requests may temporarily decrease as Leeson adjusts behaviour.
- Leeson may offer partial information, technical explanations, or reassurance without data.

> *Silence is not agreement. It may be positioning.*

PHASE 9 Monitoring Signals

Positive indicators — situation is manageable

- Independent verification proceeds without obstruction.
- Full position data is provided.
- Segregation of duties is implemented.
- Funding requests decrease or are fully explained.
- SIMEX inquiries are resolved transparently.

Negative indicators — escalation required

- Independent verification is delayed or resisted.
- Position data is partial or redacted.
- Explanations become more technical and less verifiable.
- Funding requests continue to increase.

- SIMEX escalates its concerns.
- Leeson becomes defensive or unavailable.
- Singapore staff display avoidance behaviour.

> *Decision checkpoint: 60 days after the initial verification request. If verification has not been completed, or has revealed discrepancies, escalation becomes time-bound before the next audit cycle.*

PHASE 10 Non-Actions

The following actions reduce reversibility and escalate identity defence prematurely. Avoid them:

- Direct accusation without documentation.
- Public discussion of concerns within the bank.
- Confronting Leeson without witnesses or a written record.
- Allowing the merger timeline to override structural concerns.
- Accepting verbal assurances without written data.
- Threatening resignation if concerns are not addressed.

> *The goal is to increase visibility, NOT force a confrontation. If the situation is clean, visibility will confirm it. If it is not, visibility will reveal it before the losses become terminal.*

Executive Summary — Stage 1

A single trader in Singapore controls both the generation and recording of profits representing 10% of the bank's total. This structural breakdown was flagged in 1992 and never remediated. Funding requests to London are increasing without independent verification. The next market event, audit cycle, or merger due diligence could trigger discovery, but by then the exposure may already be beyond recovery.

The correct move is independent verification before the next funding request or audit milestone. Not accusation. Not confrontation. Visibility.

If the positions are real, visibility confirms them. If they are not, visibility reveals them while options remain open.

> *Precision over confrontation. Documentation over assumption. Visibility over trust.*

STAGE 2 — STRUCTURAL INTERVENTION MAPPING

Building on Phase 0–10 findings · Barings Bank, January 1994

Stage 2 is not a summary of Stage 1. It maps what happens structurally if nothing changes, and identifies where intervention can still alter the trajectory.

2.1 Missing Structural Function

The system has no independent verification of reported trading positions.

Leeson controls both the generation of trades and the recording of their outcomes. No internal or external function confirms that the positions reported in Singapore reflect actual market exposures.

Distortion generated

- Losses can be hidden in error accounts indefinitely.
- Funding requests appear legitimate because the underlying positions are not independently confirmed.
- Individual actors behaving locally rationally (concealing losses to protect bonus, reputation, and employment) can compound losses without detection.

> *Pressure concentrates on Leeson alone rather than on the reporting process. If he cracks, the structure falls. If he doesn't, it continues to conceal. Over time, this converts informational ambiguity into narrative lock-in: the more London celebrates his profits, the harder it becomes to question them.*

2.2 Load Redistribution Map

The following actors are currently carrying unassigned load: responsibility or exposure without the structural support to manage it.

Actor	Unassigned Load	Structural Cost if Unchanged
London Management	Certifying profitability of an operation they cannot independently verify.	Reputational and legal exposure when losses surface; merger jeopardy.
Internal Audit	Flagged segregation of duties in 1992 but lacked authority to compel remediation.	Accountability gap at post-collapse inquiry.
Finance Function	Approving funding requests without independent position verification.	Complicity by omission when losses surface.
SIMEX (regulator)	Monitoring position limits without visibility into Leeson's hidden account.	Regulatory failure if the exchange is seen to have missed the signals.
Leeson	Carrying both the trading profit and the hidden loss, with no structural oversight.	Psychological pressure to double down rather than confess.

Load most requiring redistribution: the integrity risk for reported profits must move from Leeson's personal control to institutional verification. Establish independent verification of all material positions before funding requests are approved or profits are reported to London. Remove settlement from Leeson's control. Create a direct London reporting line from back-office staff, independent of local management.

2.3 Propagation Path — If Nothing Changes

Phase A — Continuation (1992–1994)

Leeson continues reporting extraordinary profits. Any hidden losses accumulate. Funding requests increase gradually, explained as margin requirements for legitimate hedging. Internal audit findings remain open. The 'star trader' narrative strengthens.

Phase B — Activation (Late 1994)

Hidden losses reach £208 million. To sustain them, Leeson must take larger positions to generate the funding needed to meet margin calls. Market exposure grows. The gap between reported profits and actual position risk widens. London remains unaware.

Phase C — Irreversibility (January 1995)

The Kobe earthquake triggers market movements Leeson's positions cannot survive. Margin calls exceed his ability to fabricate explanations. London is asked for massive funding without time for verification. When they demand answers, the full exposure is visible AND already beyond the bank's capital.

Estimated timeline to narrative lock-in: already locked. The 'star trader' narrative has been reinforced too often to unwind quietly. The only remaining question is whether discovery happens internally (through audit) or externally, through market event or regulator.

2.4 Locked Decision

The currently unavailable decision is public acknowledgment that a significant portion of Barings' reported profits may not be real.

It cannot be made because:

- Evidence would require access to positions London does not have.
- Acknowledgment would trigger immediate regulatory scrutiny.
- Merger negotiations would collapse.
- Personal liability for signatories would become visible.
- The 'star trader' narrative has been publicly reinforced for two years.

The structural change required: create an independent verification function before the next market event or funding request. If positions are real, verification confirms them. If they are not, verification reveals them while options remain open.

2.5 Structural Beneficiaries

Actor	Current Gain	Duration
Leeson	Continued bonus, reputation, control.	Until the market moves against him or verification occurs.
London Management	Continued profit stream; merger momentum.	Until losses surface or the regulator intervenes.
Singapore Office	Autonomy; perceived success.	Until investigation.
Internal Audit	Avoidance of a difficult conversation.	Until post-collapse inquiry.

Beneficiary most capable of slowing correction: Leeson, because he controls all information and has successfully managed London's perception for two years. Secondary: London management, because acknowledging the problem requires admitting they approved funding without verification.

2.6 Acceleration Triggers

Trigger	Effect	Response Window	Likelihood
Market event (earthquake, crash)	Immediate margin calls beyond fabricated explanations.	Days	High, given actual position size
SIMEX formal inquiry	Regulatory visibility; potential position freeze.	Weeks	Moderate
Internal audit escalation	Management required to respond formally.	Weeks to months	Low. Audit has not escalated to date
Merger due diligence	Independent review of Singapore controls.	Months	Certain if merger proceeds
Whistleblower	Immediate governance escalation.	Minimal	Low, but non-zero
Leeson resignation or absence	Immediate need to reconcile all positions.	Immediate	Low... but consequence is catastrophic

Trigger most likely within timeframe: market event. Given the actual size of Leeson's positions, any significant movement could trigger irrecoverable margin calls. Secondary: merger due diligence, which would eventually review Singapore's controls and position-keeping.

2.7 Intervention Leverage and Sequencing

Primary leverage point: create independent verification before the next market event or funding request.

Move 1 — Immediate (next 30 days)

Frame independent verification as 'merger preparedness' or 'post-audit follow-up.' Send a trusted internal auditor or external consultant to Singapore to review position-keeping and segregation of duties. Frame it as: 'We need to document our controls for the merger', not suspicion of Leeson.

Move 2 — Structural correction (within 60 days)

If verification is resisted or reveals gaps, formally separate trading and settlement functions. Create a direct London reporting line for back-office staff. Require dual sign-off on all position reporting.

Move 3 — Conditional escalation

If verification reveals discrepancies that cannot be explained, escalate through governance channels before the next funding request or audit cycle. Brief one trusted board member. Preserve the option to act before the market does.

> *What must not be rushed: direct accusation without documentation. The moment it becomes personal, it becomes political. What must not be delayed: independent verification. Every day without it is a day that losses can compound unseen.*

2.8 Monitoring for Structural Shift

If Leeson voluntarily accepts independent verification and it confirms his positions, structural separation must still be maintained going forward.

High-signal tightening indicators

- Leeson resists verification with technical explanations.
- Funding requests increase suddenly.
- Explanations for positions become more complex and less verifiable.
- Singapore staff become less communicative with London.
- Leeson requests more autonomy, fewer questions.
- Internal audit is kept at a distance.
- Merger due diligence is delayed or redirected away from Singapore.

Signal that changes everything

A market event that triggers margin calls London cannot immediately verify.

Ultimate signal

Leeson cannot be reached, or a funding request arrives that exceeds any normal pattern without explanation. At that point, the window for structured intervention has closed. The only remaining work is damage containment.

Executive Summary — Stage 2

The Stage 1 diagnostic identified the structural breakdown: Leeson controls both trading and settlement, London has no independent verification, and the 'star trader' narrative has suppressed scrutiny.

Stage 2 maps what happens if nothing changes. Losses will continue to compound unseen. The next market event will trigger margin calls that cannot be explained away. When discovery comes, whether through market movement, merger due diligence, or Leeson's absence, the exposure will already exceed the bank's capital.

The only intervention that changes this trajectory is independent verification before the next trigger event. Not investigation. Not accusation. Visibility.

If the positions are real, visibility confirms them and the structure can be corrected. If they are not, visibility reveals them while options remain open.

> *The window is not measured in days. It is measured in events. The next market movement could be the last one that matters.*

What the Analysis Reveals

The central structural proposition of Barings is deceptively simple: authority, information, and consequence had become separated. Leeson controlled the information about his positions; London carried all the financial and institutional risk. This asymmetry did not emerge suddenly. It was the cumulative result of choices that each appeared reasonable in isolation: approving a trader's autonomy based on his profitability, explaining away structural weaknesses as operational efficiency, trusting technical expertise rather than demanding verification.

What made this separation particularly dangerous was that it persisted despite visible warning signals. The 1992 audit finding on segregation of duties was acknowledged but not remediated. Funding requests increased without independent verification. SIMEX inquiries were received and managed locally. By itself each signal could be explained. But collectively, they marked a pattern that the organization had lost the ability to see.

The distinction between pressure and irreversibility is crucial here. At that point the trajectory was not fixed. In January 1994, when this report could have been written, discovery was still possible before consequences became terminal. The 1992 audit finding could have triggered remediation. A formal verification request could have revealed the structure before the next market event. The margin call from SIMEX could have prompted independent review. The option to increase visibility existed, but it required recognizing that the apparent success narrative was concealing structural fragility.

What the case demonstrates about the framework is that the mechanism of Power Asymmetry operates at the level of organizational capability, not individual competence. The question was not whether Leeson was dishonest. The structure deprived the organization of the ability to independently establish what was actually happening. That is the defining feature of a structural failure: the system has weakened or removed the very capability it requires to detect and correct the condition threatening it.

For any organization exhibiting this pattern, where one person controls both the action and the record of it, where a success narrative suppresses structural scrutiny, where verification has been replaced by trust, the remaining question is whether visibility can still be increased before the next market event renders choices irreversible. Barings had that opportunity. The organization did not take it.

The Diagnostic Question

Can the organization independently establish what is happening where it carries the consequences?

AFTERWORD

What Actually Happened

The structural map above was available (in effect) to Barings in January 1994. The signals were present. The constraints were knowable. The recommended actions were executable.

They were not taken.

By December 1994, Leeson's hidden losses had reached £208 million. On January 17, 1995, the Kobe earthquake triggered market movements his positions could not survive. Over the following five weeks, he doubled down, concealed margin calls with fabricated explanations, and requested ever-larger funding from London.

On February 23, 1995, Leeson fled Singapore. His losses stood at £827 million... more than twice the bank's available trading capital.

Four days later, Barings Bank (founded in 1762, banker to the Crown, financier of the Napoleonic Wars and the Louisiana Purchase) was declared insolvent and sold to ING for £1.

After the collapse, Barings chairman Peter Baring said:

> *"It's difficult to get a fix on the motivation of this fellow."*

He was looking for motive. He should have been looking at structure.

How This Case Relates to the Framework

Primary condition: Authority Without Verification

Also illustrates: Pressure Without Visibility · Reporting Without Operational Contact

Mechanism: Power Asymmetry

Decision influence and consequence exposure become materially misaligned. One actor controls information while another bears the consequences.

What becomes constrained: The ability to know, independently, what is happening.

This mechanism is one of several ways the framework's structural conditions can manifest. The other cases in this series examine different mechanisms under different conditions: Authority Sacralization (City Harvest), Incentive Capture at Scale (WeWork), Regulatory Inversion (Wirecard), and Implementation Displacement (Before You Sign).

What these five cases share is not a single failure pattern. It is a recurring structural problem:

The ability to make a consequential decision can become separated from the ability to see, question, verify, or alter what that decision produces.

→ Explore the Centreline Clarity Framework

Have a situation of your own?

You don't need to know what the problem is called before asking us to look at it.

You don't need to provide confidential information. The Snapshot is designed around the situation you can safely describe, not the information you cannot safely disclose.

→ Submit a Snapshot