

PREFACE

At a time when the global financial system is engulfed into the mother of all financial crises, it is indeed tempting and opportune to charge derivatives for creating mayhem. Are derivatives indeed “*the financial weapons of mass destruction*” as vilified by Warren Buffet? This book is not another treatise on financial derivatives. The purpose of this project instead is to unlock the secrets of mystifying derivatives by telling the stories of institutions, which played in the derivative market and lost big. For some of them, it was honest but flawed financial engineering which brought them havoc. For others, it was unbridled speculation perpetrated by rogue traders, whose unchecked fraud brought their house down.

Each story is unique reflecting in part the idiosyncratic circumstances of derivative use and/or misuse but, as the reader will discover, a number of key themes keep reappearing under various guises: flawed financial engineering, poor auditing, ill-designed risk management and control systems, weak governance, old-fashioned fraud . . . Each chapter addresses one major derivative debacle by first narrating the story before deconstructing the financial architecture behind the debacle. In the process, the reader will become acquainted with institutions encompassing universal banks, hedge funds, industrial firms, trading companies and municipalities, and their lead character or villain. Like many I find myself mesmerized by the ingenuity of these infamous derivatives and the saga of powerful institutions in the hands of which they misfired: This book is their story.