

The bank up jo

Pete Sawyer couldn't believe that one of the biggest banks in the world was paying British journalists to spy on its enemies. But after a series of clandestine meetings and a trip to Luxembourg, he changed his mind. Here is his extraordinary tale.

Few outside of the City will have heard of a bank called Cedel. Its concrete-and-glass headquarters are tucked away in an otherwise residential district of Luxembourg City. Just around the corner is the computerised nerve centre which processes dealings in obscure financial instruments such as Eurobonds and Chinese securities. Despite its low public profile, Cedel is a waking giant poised to make a concerted attack on markets that have traditionally been dominated by the Stock Exchange in Britain and other stock markets across the world. Cedel is owned by an international consortium of 95 banks, but has worked particularly closely with Barclays Bank.

Last year, its turnover was more than £8 trillion, and profits were £31 million. Its sophisticated computer system hums day and night, clearing an incredible £1 billion of transactions an hour. Cedel's aggressive chief executive is André Lussi, a 47-year-old Swiss. Highly ambitious, he is determined that the bank will thrive under his stewardship. And that means by fair means or foul.

Punch has uncovered a sordid tale of commercial espionage and dirty tricks by Cedel, not only against its main competitor but against its own employees. What's more, the tale involves at least two respected British financial journalists. The two journalists, Ian Kerr, aged 55, and David Cowan, 36, have been paid tens of thousands of pounds to act as industrial spies on behalf of Cedel. Both have written for Euromoney Publications, a major financial publisher, with which Cedel has close links. One of them has even written about Cedel for the *Financial Times*, supposedly the financial world's journal of record.

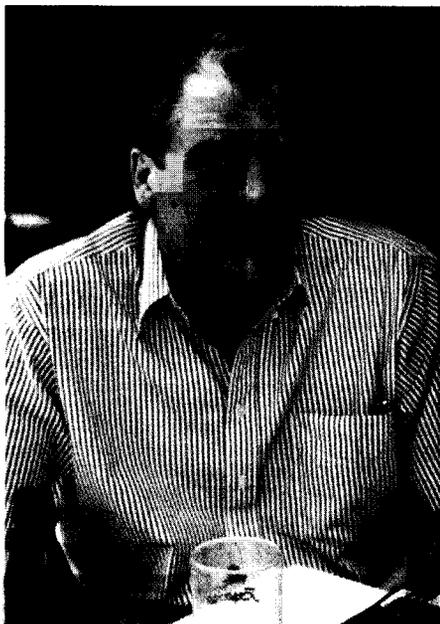
Part of the National Union of Journalists' code of conduct stipulates that a journalist

"shall not accept bribes nor ... allow other inducements to influence the performance of his or her professional duties". The rule is there to ensure that what you read is fair and accurate and is not distorted, selective or misrepresented. And nowhere is it more important than in financial journalism, where lay people are reliant on experts to help them make knowledgeable judgements about their own investments.

For Ian Kerr, it is a rule that went out of the window long ago.

Kerr has been around for almost as long as the Eurobond markets. A former banker with a penchant for white suits, he cuts a slightly eccentric figure in the City, often turning up in a chauffeur-driven Mercedes. He has an opulent lifestyle.

In the early Nineties, Kerr wrote a satirical column in *International Financing Review*, a



financial trade journal, under the pen-name "L'Eminence Noire". The column carried regular jibes about Cedel and its autocratic boss. But then, in mid-1992, it all changed. Cedel was suddenly flavour of the month. No one could understand why until, one day, Kerr inadvertently faxed a proposed draft contract with Cedel to one of his contacts. The proposed retainer was a mouth-watering £60,000 a year.

Unbeknown to *International Financing Review*, Kerr had been put on a retainer by Cedel to act as an external consultant to Cedel's senior management, to enhance Lussi's international profile and to write Lussi's speeches. More sinisterly, he was also asked to spy on Cedel's only competitor, Euroclear.

One assignment, called enigmatically Project 5094, involved providing "intelligence on Euroclear's moves to introduce corporate and fund management customers into Euroclear", and assessing the "erosion of confidence" among the employees of JP Morgan, one of the main players in the Eurobond market.

Kerr's "professional fees" for Cedel's Project 5094 came to some £16,700 — not bad for 16 and a half days' work. The payment to Kerr was approved at board level. Many of the subject areas he investigated on behalf of Cedel for Project 5094 were reflected in items contained in his L'Eminence Noire column. Kerr also kept making favourable references to Cedel. But these were meticulously edited out. So, in March 1994, he took himself and his column to Euromoney Publications.

There, eulogies to Cedel continue to spring forth. As recently as June 20, in "A Week in the Markets", Kerr's regular column in *Euroweek*,

Regis Hempel was dismissed from Cedel by Lussi for 'passing internal information' to a British journalist

that buys journalists

INVESTMENT BANKING CORPORATE FINANCE, CAPITAL MARKETS AND MERGERS & ACQUISITIONS

Smith Barney and Salomon are as different as chalk and cheese. Let's hope this marriage fails to reach the altar

Little chance of nuptial bliss for Salomon

I have followed Salomon Brothers, first as a competitor and then as a financial columnist, since the early 1970s. In 1972 I was in New York and invited to view Salomon's trading floor which was almost a tourist attraction because of its size. Only the computers were missing. Later I watched Salomon arrive in London to considerable fanfares and 21-gun salutes. The rather modest offices at 1 Moorgate seemed to suggest a bark bigger than its bite, but Salomon did little to suppress the fear that it played the big bad wolf in every market in which it chose to participate.



Ian Kerr

Liar's Poker by Michael Lewis so, so well. But Salomon wasn't everyone's cup of cocoa. It's bruising trading tactics upset competitors. Clients sometimes wondered where they ranked in the firm's list of priorities. "We did a ton of business with Solly but I always tried to remember that the firm's most junior trader was more important than their best salesman," said a London-based asset manager. "Solly stock in the past - I wondered whether the firm for the time being was always

partnership environment. Because of the cost involved it was impossible, but in the darker days wouldn't it have been possible to strike a deal between the firm's managers, Warren Buffett, say, AIG - and at price

Street. He can turn dress into gold dust. Under Weill some of Wall Street's most famous lost causes were transformed into nine

Rivals eye each other closely

Both organisations have undergone changes as they prepare for even greater competition

Since their formation in the late 1960s, Euroclear and Cedel have eyed each other closely across the Ardennes. Not in recent times there has been more of a competitive spirit in the Cedel eye. Euroclear has always been the bigger, the one with the biggest market share able to best of its secure Morgan backing. Its younger sibling

sackings and management changes, often tainted by acrimony. But this has been at the heart of which Cedel Bank, now armed with a banking licence, has been transformed from the rotten borough grandees into a tough international competitor which clearly now has its rivals in Brussels worried.

This is seen in the response by Euroclear, which has become more aggressive in a subtle kind of way. The... employees. Last... point I am making... and Sal... chalk

such as collateral management and repo. Last year, the total value of securities transactions within the Euroclear system totalled \$25,000bn, a 14 per cent increase on the year, and \$10,000bn within the Cedel Bank system, a 35 per cent increase on the year. The other key figure is the value of deposits held within the systems, which in Euroclear stands at \$1,400bn, a 10 per cent increase, while Cedel Bank exceeded the \$1,000bn mark after an 18 per cent increase on the year.

Isn't Sandy Weill (above) biting off more than he can chew with Salomon Brothers?

he described in glowing terms a charity ball sponsored by Cedel: "Well done to Cedel's John Gilchrist... who orchestrated the evening with great flair..."

In February this year, Kerr gave a touching description of how Lussi saved the day for Cedel: "A white knight was needed very quickly. Fortunately, former UBS top manager André Lussi was there to answer the call for help. Against all the odds... Lussi pulled Cedel back from the brink..." He continues: "The turnaround, according to one of our most senior banking friends in Luxembourg, was little short of a miracle". Indeed.

We contacted some of the publications Kerr writes for to see if he had disclosed his interest in Cedel to them. The editor of *Euroweek*,

Mark Johnson, told *Punch* that he was "aware" of Kerr's payments from Cedel. When asked whether that sat comfortably, he said: "He's a diary columnist and doesn't give share tips. He writes about Cedel in a light and humorous manner."

Kerr also writes a column for *London Financial News*. Editor Clive Wolman says Kerr had disclosed that he had done "some work" for Cedel but says that in any event Kerr's column in *LFN* never mentions Cedel.

It gets worse. From the point of view of the

public, perhaps the most important part of the NUJ's code of practice is the requirement that journalists shall protect confidential sources of information. Without this rule, no one would trust any journalist and consequently they would not get their stories.

In May 1992, a damning article appeared in a Luxembourg newspaper criticising Andre Lussi's management style, described in the article as "arbitrary, subjective and dictatorial".

The bank that buys up journalists

Simett checked out Cowan's credentials and then introduced him to Regis Hempel, then a Cedel vice-president. After a couple of phone conversations, Hempel agreed to meet Cowan at the plush Hotel Le Royal in the centre of the city of Luxembourg. Hempel recalls the line of questioning: "He wanted to know what we thought of Lussi and other senior managers. I thought he was a journalist. He promised me nothing would be divulged and at no time did he tell me that he was working for Cedel."

The conversation was recorded by Cowan and reported back to Lussi, who called in the managers and accused them of passing internal information about Cedel to a foreign journalist. They were dismissed.

Cowan also taped a conversation with another senior manager, Roland Raison, then in charge of custody administration and equities. The tape was passed to the board and was used to incriminate Raison with a view to an eventual dismissal. According to sources within Cedel, Cowan received at least 1.3 million Luxembourg francs (£22,000) for this assignment. One payment in June 1992 was for 300,000LUF (£5,000).

Cowan's investigation continued, with Lussi anxious to find out the sources of the leaks within Cedel. In October 1995, Cowan sent a report to Lussi, headed "CK Investigation", outlining who CK's sources were, and detailing the stories then circulating about Cedel. Ironically, one of these stories, noted in Cowan's report to Lussi, was that a story about Cedel had been planted in the financial trade press and that the (named) journalist concerned was paid via an overseas offshore fund.

Despite his undercover activities, Cowan has kept up his journalistic credentials. Last November, he used his intimate knowledge of Cedel to write an upbeat article for a *Financial Times* survey. Headlined "Rivals eye each other closely", it describes the competition between Cedel and Euroclear. The article concludes that Cedel is "very much on the attack".

We spoke to David Cowan about his work for Cedel but he refused to confirm or deny any commercial relationship with the bank. But he added: "Like any trade journalist, I both write about and advise the people I write about."

The damage that Cowan did is such that few in Luxembourg will talk openly about Cedel, especially to another British journalist. In that sense, Lussi achieved his aim. The fall-out for others, however, has been severe. Two senior Cedel executives maintain they lost their jobs as a result but, more importantly, many more will lose their faith in British financial journalism. □

LUSSI: "NAPOLEONIC, SINGLE-MINDED AND DISCIPLINED"

Cedel's chief executive, André Lussi, rarely misses an opportunity to gain advantage. The week after the London Stock Exchange pulled the plug on its Taurus paperless share dealing system, Lussi held a big party at one of Luxembourg's plush hotels, and promptly hired some of the Taurus software engineers. Napoleonic, single-minded, with a penchant for discipline, Lussi has villas in Luxembourg and Portugal and owns a castle in Scotland.

He was formerly head of private banking at Union Bank of Switzerland's London branch. But his management style seems to be more influenced by his periodic stints with the Swiss Army than by his days with UBS. He stands accused of interfering unnecessarily in his employees' personal lives, and of using tactics straight out of a spy novel to achieve his corporate aims.

He used to routinely send his staff on "training courses" to Nadrin, an army training camp in the Ardennes formerly used by Belgian right-wing activists. Some would say the courses were more suited to special forces training than to banking. On one course, so-called "leadership exercises" included escaping from a sinking platform on a lake using a variety of reliable and not-so-reliable equipment and building a makeshift bridge across rapids.

In another exercise, staff were divided into five groups. Two had to pretend to be Cedel, another two pretended to be competitor X and the fifth group was the customer. All parties were blindfolded and dumped in the middle of nowhere with walkie-talkies and maps. Cedel had to find the customer before competitor X, but competitor X could listen in to Cedel's plans and use that information to get to the customer. On this occasion, the customer was hidden deep in a large forest and Cedel got there first.

Not surprisingly, some of Cedel's managers complained about what they saw as ludicrous exercises. And when one senior manager was sent on a similar exercise in the UK, instead of finding the customer he found the nearest pub and waited for the rescue services to arrive.

The bank also has a "code of ethics", introduced by Lussi, which all employees have to sign. It effectively sanctions interference with employees' private lives. One article in the code, setting out the way which employees are expected to deal with the media, has been described by a top Luxembourg employment lawyer as "an attempt to impose control on employees in a manner reminiscent of Stalin".

The code also sanctions the recording of telephone lines at Cedel. However, Cedel's employees can expect to be covertly taped at any time, not just when dealing with clients.

Cedel also funds the Edmond Israel foundation, named in honour of Cedel's former chairman, which promotes research into financial markets. Last month, the German Chancellor, Helmut Kohl, received the Foundation's Vision for Europe award. However, as one former Cedel employee put it, if Kohl ran his country the way that Lussi ran his bank, we would be back to the days of the Cold War. □



From top: Cedel chief executive André Lussi's luxurious mansion; the bank's headquarters in Luxembourg and the Hotel Le Royal, where David Cowan stitched up Cedel executives on Lussi's orders

The article was signed with the initials CK. A month later, David Cowan popped up in Luxembourg and started asking leading questions. He met a representative of the banking trade union, several senior Cedel managers and one of Luxembourg's top lawyers, Gaston Vogel. He told them he was researching the Cedel dispute. Nobody thought anything of it. Cowan had good credentials and had worked for a number of *Euromoney* titles.

Cowan contacted first Joseph Simett, then senior vice-president.