

NATIONAL AUSTRALIA BANK LTD
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON DC 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of March 2004

National Australia Bank Limited

ACN 004 044 937

(Registrant's Name)

Level 24

500 Bourke Street

MELBOURNE VICTORIA 3000

AUSTRALIA

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Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 -

This Report on Form 6-K shall be deemed to be incorporated by reference in the prospectus included in the Registration Statement on Form F-3 (No. 333-6632) of National Australia Bank Limited and to be part thereof from the date on which this Report, is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

SIGNATURE PAGE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

NATIONAL AUSTRALIA BANK LIMITED

Susan E Crook

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Date: 13 April 2004

Title: *Associate Company Secretary*

Group Corporate Affairs

National Australia

Bank Limited

ABN 12004044937

ASX Announcement

500 Bourke Street
Melbourne
Victoria 3000
Australia

Melbourne, 24 March 2004

APRA report into irregular currency options trading at the National

The National today released a report by the Australian Prudential Regulation Authority (APRA) into irregular currency options trading at the bank.

The National's Chairman, Mr Graham Kraeche, and Chief Executive, Mr John Stewart, also outlined the bank's response to the APRA report and its proposed remedial actions.

Mr Kraeche said the Board, following consultation with APRA, had decided to release the entire APRA report and their proposed remedial actions to ensure full disclosure.

As a matter of policy we do not release correspondence between the National and regulatory authorities, he said. However, because of the exceptional circumstances surrounding this issue, we have decided to release the APRA report.

Mr Kraeche said the APRA report is consistent with the conclusions in the PricewaterhouseCoopers report released earlier this month.

The two reports, and the remedial actions proposed by APRA, provide the Board with a clear roadmap to improve key policies and systems within the National, he said. We fully accept APRA comments about the need for the Board to take a leadership role in transforming the culture and governance processes at the National.

The Chief Executive of the National, Mr John Stewart, said the bank would act as quickly as possible to implement all of the remedial actions proposed by APRA including capital adequacy initiatives to take the National's total capital to 10 per cent. This will also result in termination of the current share buy-back.

We have already started to implement a series of actions to enhance our policies and systems, he said. We will continue to work co-operatively with APRA, and other regulatory authorities, to implement all remedial actions within agreed timelines.

The first step will be to incorporate the remedial actions proposed by APRA into the four point action plan we announced earlier this month. We will then report regularly to the Board and APRA on implementation of the remedial actions.

For further information:

Brandon Phillips

Corporate Relations Manager

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REPORT INTO IRREGULAR

CURRENCY OPTIONS TRADING

AT THE

NATIONAL AUSTRALIA BANK

23 MARCH 2004

EXECUTIVE SUMMARY

The losses ultimately incurred by the National Australia Bank (NAB) on currency options were caused by four currency options traders, possessed of an abundance of self confidence, who positioned the NAB's foreign currency options portfolio in the expectation that the falls in the US dollar that occurred mid last year would reverse and volatility would stabilise. Rather than closing their positions as the market moved against them, the traders chose to conceal their true positions - allowing those positions to deteriorate unchecked over a period of three months before they were finally discovered. By that time, the positions held were totally out of control.

That this was possible was, first and foremost, due to the collusive behaviour of the traders themselves. However, it can also be attributed to an operating environment characterised by lax and unquestioning oversight by line management; poor adherence to risk management systems and controls; and weaknesses in internal governance procedures.

Our report identifies a number of weaknesses and areas for improvement in NAB's market risk control framework. While many of the areas identified for improvement bear directly upon the losses that emerged, the control failures in this case have more to do with poor implementation than poor design. On paper, NAB's existing control framework - despite its weaknesses - should have been able to identify and contain the risk positions of the traders. Had the risk control framework been implemented effectively, the losses would certainly have been substantially less or, quite possibly, averted altogether.

There were many missed opportunities to detect and close down the irregular currency options trades. In particular, a number of key control weaknesses were identified in APRA on-site risk reviews. Other missed signals included: critical internal audit reports; prolonged limit excesses; unreconciled reporting issues; and expressions of concern by counterparties at large and unusual trades being undertaken by NAB's currency options desk. While none of these - on their own - suggested the true nature of the emerging risk on the currency options desk, in combination they should have set alarm bells ringing and led to probing examinations.

There are many layers to NAB's internal control framework: line management; back office; middle office; risk committees; internal audit; and the Principal Board and its sub-committees. While the collusive behaviour of the traders involved succeeded in suppressing many of the bank's early warning signals, NAB's internal control systems failed at every level to detect and shut-down the irregular currency options trading activity. NAB's internal governance model, which should have enabled timely identification and effective and quick escalation of serious risk issues on the currency options desk, simply did not function. That this could occur is symptomatic of an organisational culture that did not have sufficient regard to the risks attendant with these products.

In particular:

Line Management turned a blind eye to known risk management concerns. Despite some worrying signals of irregular trading practices on the currency options desk, these were ignored. *Profit is king* was an expression frequently heard in our interviews with Corporate and Institutional Banking (CIB) staff. As long as the business unit turned a profit, other shortcomings could be overlooked.

Operations (the back office) verification procedures contained significant gaps, raising questions about the adequacy of its resourcing and skills, and whether its mandate had been weakened by pressure to reduce costs and its growing subservience to the front office.

Market Risk (the middle office), while noting a number of irregularities, failed to engage the trading desk effectively to resolve them and failed to attract the attention of higher management or otherwise escalate its concerns.

Executive Risk Committees were particularly ineffective, missing or dismissing risk information pertinent to the problems that emerged and failing to escalate warnings. If the members of the CIB Risk Management Committee had acted on the warning signs before them - for example, by commissioning a targeted review of known control weaknesses by Internal Audit - the irregular trading would surely have been discovered.

The Principal Board (the Board) was not sufficiently proactive on risk issues. Despite often asserting that risk issues were of such importance that they should be dealt with by the full board, the Board paid insufficient attention to risk issues and, until the establishment of a separate risk committee, appeared content to leave the elevation of risk issues to its Audit Committee.

Cultural issues are at the heart of these failings. In recent years, NAB has repositioned the role of the Global Risk Management function to be more of a business partner with frontline areas rather than a separate risk controller. There has been a conscious effort to embed a more commercial culture in risk management areas within NAB. Considerable emphasis has been placed on the role of risk managers in assisting business units to develop new business. Terms such as *business partnership* and *embedded risk management* are used frequently.

But, as in any successful partnership, each partner must recognise and accept the contribution that the other brings to the partnership. Business units - under pressure to meet performance hurdles - will always take a more *rose-coloured* view of risk than their more dispassionate colleagues in risk management. The culture that predominated in CIB at NAB was one in which risk management controls were seen as trip-wires to be negotiated rather than presenting any genuine constraint on risk-taking behaviour.

It is self-evident that all business units within a bank have a long-term vested interest in prudent risk management. However, in order to properly give effect to that principle, banks need to have in place appropriate checks and balances, and implement them rigorously. Business units need to be supported by independent risk management professionals. And where differences of views emerge on risk, it is important that risk managers have the final say. In banking, the aphorism "risk managers are right, even when they are wrong" is a sound one.

Remedial Actions

Our report identifies a number of areas that need remedying. These are detailed in the body of the report. They fall broadly into two categories and the main points are:

1. *Fixing cultural, governance and risk management issues across NAB*

Culture - The Board is required to review cultural norms within NAB and clearly articulate the standards of behaviour, professionalism and openness it expects of the organisation; the Board is required to develop policies that promote and support whistle-blowing ; the Board is required to review incentive arrangements to ensure that these promote behaviours that have appropriate regard to risk.

Governance - The Board, its Committees and Executive Risk Committees are required to clarify the appropriate escalation channels available to enable the Board and its committees to deliberate on serious risk issues. The Board must establish more transparent risk reporting systems and place greater reliance on independent checks and balances on executive management to enable it to discharge its duties appropriately.

2. *Fixing risk management and operational controls for traded markets area*

Limit Frameworks - The Board is required to review, and formally approve, all market risk limits in Global Markets; limit policies should clearly specify mandatory (or hard) limits; trigger levels (or soft limits) should also be specified; all limit excesses - whether hard or soft must have a defined response.

Global Markets - the respective roles and responsibilities of Global Markets and Market Risk in respect of risk analysis and escalation of risk issues needs to be clearly specified and distinct from each other.

Market Risk - reporting lines in, and responsibilities of, Market Risk and Prudential Control (MR&PC) are required to be streamlined in order to ensure that adequate attention is devoted to market risk issues; roles and

responsibilities in MR&PC are required to be clarified and confer an unambiguous mandate; the process surrounding the approval of Product Usage Authorities is to be reviewed to ensure that all relevant risk management issues are covered.

Operations - in relation to Operations, NAB is required to review: all confirmation and reconciliation procedures; operational procedures followed by Operations staff - especially as regards interaction with the front office; and reporting of transactional and other statistical information.

Finance - Finance is to be assigned responsibility for data integrity; analysis of the components of reported profit and loss data; and critical questioning of discrepancies. Finance is also required to review and formally document the materiality thresholds applicable to each desk.

Quantitative Support - a number of reforms are required to formalise and enhance the role played by Quantitative Support in model validation and testing.

Regulatory Response

1. NAB is to commence a program to implement all required actions (and recommended actions, as necessary) identified in this report according to timeframes agreed with APRA. NAB will remain under close supervision by APRA until these actions are implemented.
2. NAB's internal target total capital adequacy ratio is to rise to 10 per cent until such time as APRA is satisfied that all material weaknesses identified in this report have been rectified.
3. NAB's approval to use an internal model to determine market risk capital is withdrawn; future market risk capital requirements are to be measured according to the standard method.
4. NAB's currency options desk is to remain closed to corporate business and proprietary trading until new limit structures have been approved; all key staff changes have been settled; and substantial progress has been made to redress the issues raised in this report.

End-Piece

The taking of risk is an inherent part of banking. A bank's viability is dependent upon having in place a strong network of risk management controls to manage and contain risks. But no risk management system is bullet-proof; some losses are inevitable. In this case, the bank's customers were not affected by the losses.

The wisdom of hindsight provides a valuable platform from which to learn lessons for the future. Our report focuses on analysing the trading activity that led to the losses; identifying gaps and weaknesses in NAB's internal control framework; assessing whether risk management policies and procedures were being implemented correctly; and setting out what needs to be done to rectify the breakdowns.

Much needs to be implemented if NAB is to achieve the best practice in market risk management which a bank such as NAB should have. This report is provided as a constructive basis from which to move forward.

1. Objectives & Scope

APRA was informed of the irregular activity on the currency options desk on Tuesday 13 January, immediately prior to NAB's release of its first announcement on the matter to the ASX.

APRA's actions were to:

1. identify appropriate requirements to control risk on the currency options desk in the immediate term; and
2. commence a full investigation into the causes of the losses and the control breakdowns that led to the losses.

In the immediate term, APRA required that NAB only trade currency options where trades either resulted in a reduction of risk in the portfolio or to provide services to customers who would be without, or unable to establish quickly, other banking connections (and, in this event, NAB had to clear such exposures daily through the interbank market). The controls on ongoing operations of the desk have continued to be monitored by APRA since being put into effect. These controls were to be reviewed as part of the completion of the APRA investigation.

The objectives of APRA's investigation into the trading losses were to:

- (i) investigate and report upon:

the facts surrounding the trading losses reported by NAB on 13 January 2004;

the cause of the losses;

the control and governance breakdowns that contributed to the losses;

any other relevant failings or deficiencies in NAB's market risk management or trading operations;

- (ii) identify remedial actions required to be instituted by NAB; and

- (iii) set out APRA's regulatory response to the matters raised in (i) and (ii).

A timeframe for implementation of all actions proposed in this report will be specified after its delivery to NAB.

Scope

APRA's investigation included the following phases of work:

initial briefings from NAB senior executives, the (previous) NAB Chairman and the internal investigation team first established to deal with the matter;

establishment of an on-site investigation team and scoping of the investigation work required;

on-site investigation;

documentation by the investigation team of its findings and preparation of a draft report;

peer review of the investigation process, report findings and recommended actions; and

finalisation of the report and submission of recommendations to APRA's Chairman and other Members.

The on-site investigation team carried out the following tasks:

interviews with relevant senior executives and operational staff in all functional areas associated with trading operations and market risk management (see Annexure 3);

review of relevant reports and documentation surrounding the currency options desk and risk management of that desk;

review of agendas, papers and minutes of relevant Boards and Committee meetings within the NAB governance structure;

liaison and co-ordination, where relevant and appropriate, with the PricewaterhouseCoopers (PwC's) investigation commissioned by NAB; and

liaison with NAB's internal investigation team, where relevant and appropriate.

The scope of the investigation covered:

front office operations relating to the following functional areas:

the trading operations of the currency options desk;

quantitative support operations;

systems support.

back office functions for the currency options desk;

related accounting and finance operations;

risk management functions for the currency options desk, performed within the Market Risk Management unit;

internal audit and external audit reviews;

corporate governance issues, including the operations of relevant boards and committees, internal reporting and escalation procedures; and

the performance incentives and culture, and other human resources issues.

The investigation did not include in its scope the following areas:

analysis of the Horizon system operations;

valuation of the losses, other than to review the KPMG report for reasonableness;

the operations of any other desks in the trading room, other than related operations of the foreign exchange desk;

risk management of any other desks; or

review of the operational risk framework or Business Risk Management (BRM) process.

The APRA investigation has relied upon information provided by the PwC investigation in the following areas:

forensic accounting work to corroborate our understanding of:

the fabricated and incorrectly valued transactions; and

the system deficiencies that facilitated these transactions.

The services of PwC were also used to source:

internal NAB e-mails relevant to our enquiries; and

extracts from dealing room tapes relevant to our enquiries.

Pending completion of our investigation and remedial action in connection with NAB's trading room operations, APRA has continued to rely on data provided by NAB, such as VaR levels, in relation to our understanding of ongoing operations of the currency options desk.

This report is prepared for APRA in relation to its prudential supervision of NAB. APRA may choose to release this report to equivalent prudential supervisors in other jurisdictions. Any other release of information contained in this report by APRA is to be made in accordance with the relevant secrecy provisions of the *Australian Prudential Regulation Authority Act 1998*.

2. Analysis of Events Leading to Losses

2.1.1. Background on NAB's Currency Options desk

The currency options business is part of Global Foreign Exchange. Currency options sales desks operate from all major trading rooms of the Bank: Melbourne, Sydney, New York, Wellington, London, Singapore and Hong Kong. Prior to the suspension of the four dealers, the Currency Options trading activity was managed globally out of Melbourne and London, with deals being booked centrally onto the Melbourne global book. External transactions with intra-group entities such as currency option deals between BNZ customers and BNZ, are backed out by BNZ transacting an equal and opposite deal with the global desk. In these cases, the intra-group entity assumes the credit risk with the counterparty and maintains the banking relationship. All back office operations are performed in Melbourne.

The Currency Options desk transacts a range of currency option products both on behalf of clients and on NAB's own account. Products range from the vanilla option products (European, American style) to the more exotic path dependent options (barrier, One-Touch and Digital). The desk also has Product Usage Authority (PUA) to transact a range of other foreign currency products including Spot FX, Forward FX and Non-Deliverable Forwards. The list of currency pairs transacted is broad but concentrated to just five currencies.

2.1.2. How the losses were incurred

Most of the losses occurred in the December quarter 2003, escalating rapidly in the month of December. Some smaller losses created in earlier periods were disguised and carried forward into the current financial year.

In general, the trading losses were the result of the Currency Options desk not anticipating and protecting its positions against a sustained and significant rally in both the AUD and NZD. Similarly, the desk did not foresee and manage its exposures against a rise in AUD and NZD volatility over the last quarter of 2003.

The underlying cause of the bulk of the losses can be traced to proprietary currency options positions taken in advance of the G-7 Meeting on 22 September, when the dealers took an aggressive view on both the direction and volatility of the USD.

A combination of bought and sold option and spot positions were taken to put this trading strategy into effect. In particular, the desk sold butterfly spreads (ie long at-the-money volatility; short out-of-the-money volatility).

Contrary to the dealers' expectations, the G-7 meeting on 22 September came out with a statement explicitly supporting flexible exchange rates. This statement was followed by a significant and continuing weakening of the USD.

As the USD weakened, the desk lost money on their spot positions and became progressively shorter AUD (and NZD) due to the nature of the options positions they had taken. Their positions were also exposed to increasing implied volatility over the period. In addition, the desk transacted proprietary deals in USD/JPY and GBP/USD which subsequently generated additional losses.

Throughout the December quarter the traders sought to mask the growing actual loss position by entering fictitious trades (explained within 2.1.4). To complicate the issue, the traders were already masking a carried forward loss position from the prior financial year (ending September 2003).

The fictitious trades had the dual effect of producing an immediate profit (as they were often dealt at off-market prices) and dampening the risk measures for the books. As the USD weakened, further proprietary transactions (both spot and option related) were dealt which, in turn, produced losses. The traders sought to disguise these additional losses by entering more fictitious trades. By early 2004, the actual risk position and loss had grown to sizeable amounts in the AUD, NZD, GBP and JPY.

The traders also transacted options which exploited known weaknesses in the bank's approach to currency options revaluation. These weaknesses related to the accuracy of the volatility smile used to revalue the portfolio. This enabled certain deals, transacted at market prices, to generate an immediate profit when revalued.

2.1.3. Quantum of the loss

On 13 January 2004, the NAB announced that it had experienced a loss of \$180m from unauthorised dealing within its Currency Options business. This amount was subsequently marginally adjusted to \$185m on 19 January 2004. A further announcement was made by the NAB on 27 January 2004 in which it restated the size of the losses to be \$360m. The adjustment from the previously quoted \$185m to the higher amount of \$360m was due to revisions to revaluation rates and to market prices used, as well as an adjustment to these rates/prices to reflect expected close-out costs.

2.1.4. How the actual positions were concealed: the fictitious trades

The traders concealed loss-making positions in three ways:

P&L Smoothing using Spot FX - Late 2001 to May 2003

Loss Masking using surrendered Spot FX trades - July 2003 to January 2004

Fictitious Options Trades - October 2003 to January 2004

A. P&L smoothing using amended spot FX deals

The masking of losses using amended spot trades was achieved using a number of different methods. In all cases, however, traders took advantage of the window between Horizon end-of-day and the Kapiti deal matching process to mask losses.

Prior to end-of-day, a spot deal would be transacted with a counterparty (the evidence so far suggests all counterparties were internal) in the currency pair where the loss needed to be masked.

One method used would be for this deal to be booked in the system by the Currency Options desk at an exchange rate different to what was agreed with the internal counterparty to generate the desired profit.

Once Horizon end-of-day is complete, the posting to the sub ledger occurs and the daily P&L for the desk is calculated (based on the incorrect trade rate).

Post end-of-day, the deal would be amended by the trader to the correct rate and then allowed to mature as a legitimate deal.

While the profit smoothing method allowed the traders to conceal loss-making trades, only daily P&L figures were affected. Long term P&L figures reflected legitimate deals at correct prices.

B. Loss-masking using surrendered spot FX deals

The next level of loss-masking activity commenced in July 2003 when the traders began using the surrender function in the Horizon system to remove fictitious Spot FX deals. This followed a Horizon change request made in May 2003 that allowed Front Office to surrender(1) Spot FX deals. This change was significant because the ability to remove trades from the system meant that the traders were now able to input fictitious

trades into Horizon.

The extent of loss masking from July to September 2003 was in the range of AUD \$3-\$6 million per day. In late September 2003, the extent of the loss masking using fictitious spot trades escalated rapidly to approximately \$45m (as at 30 September 2003).

(1) Surrender is a process used to amend or cancel deals.

The end-of-day for the currency desk was New York close of business (3pm New York). Just before end-of-day (i.e. 7.59am Melbourne time) processing for Horizon was completed, a one-sided spot deal would be transacted within the desk (i.e. between Horizon portfolios 1792: non exotic and 1371: exotic). Because this deal was one-sided this deal could be designed to generate the required amount of P&L.

The Horizon end-of-day process generated the P&L posting to the Treasury sub-ledger.

Once end-of-day was complete (i.e. soon after 8.00am local), and the system clock has ticked over to the new day, the trade is surrendered in Horizon.

Operations (back office) reconciliations commenced at Melbourne open (depending on time of year this could be between 15 minutes and two hours after end-of-day) and only looked at trades that were then still live. Thus, the automated internal deal matching process for spot deals using Kapiti information did not occur.

When the Kapiti reconciliation was completed, the original fictitious trade and the surrendered trade would effectively cancel each other out. Consequently, it did not appear as an exception on the unmatched deal report.

The window of time between Horizon end-of-day and the Kapiti reconciliation of internal deals, allowed Front Office to book P&L on a one-sided internal deal without it being detected via the deal matching process. This impacted on the daily P&L figures by concealing the extent of losses on legitimate trades.

This process was repeated daily and the loss rolled forward.

C. Fictitious options trades

The third stage of loss-masking evolved from stage two and involved the use of fictitious options trades. It began shortly after 10 October 2003 when Operations ceased reconciling internal trades. Entry of fictitious one-sided options trades commenced on 22 October 2003. The booking of these trades appears to coincide with the point at which the booking of spot trades became so large (i.e. > \$50m) that an alternative means of masking the losses was required. In December 2003, the extent of the loss-masking escalated exponentially to around AUD \$150m.

On 10 October, the Operations practice of reconciling internal option trades ceased. This followed an email

that was received from the Head of Cu