

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

**IN THE MATTER OF)
MASSIMILIANO LOCCI)
FORMER EMPLOYEE)
ISTITUTO BANCARIO SAN PAOLO DI TORINO)
NEW YORK, NEW YORK)**

AA-EC-97-1

DECISION OF THE COMPTROLLER OF THE CURRENCY

This matter is before the Comptroller of the Currency ("Comptroller") on a motion for entry of default against Respondent Locci ("Respondent"), a former employee of the Federal Branch ("the Branch") of Istituto Bancario San Paolo di Torino, New York, New York ("the Bank"), in civil money penalty, cease and desist, and removal proceedings. Upon consideration of the pleadings, the recommended decision of the Administrative Law Judge ("ALJ") and the entire record, the Comptroller now enters a default judgment against Respondent and orders Respondent to pay both a civil money penalty of \$50,000 and restitution totaling \$9,415,819.

I. FACTUAL SUMMARY

On April 21, 1997, the Office of the Comptroller of the Currency issued a Notice of Intention To Remove From Office and Prohibit Further Participation, Notice of Assessment of a Civil Money Penalty, and Notice of Charges ("Notice") against Respondent. The Notice alleged that Respondent, who traded foreign currency options for the Branch, engaged in unsafe and/or unsound practices, breaches of fiduciary duty, and violations of law that consisted of providing false and inaccurate information to the Branch about currency spot exchange and volatility rates, thereby concealing the adverse affects of his trading activities.

According to the Notice, Respondent's inaccurate information caused the Branch not to

be fully informed of its exposure to risk or its actual losses during a period of time, from January 18 through March 24, 1995, when the currency market was unusually volatile. The Bank allegedly remained unaware of its substantial losses as Respondent engaged in options trading that violated the Branch's internal limits and, contrary to specific instructions, increased the Branch's open option position using a "short straddle" investment strategy that was inappropriate for the exceptionally unstable conditions in the currency market at that time.¹

On November 13, 1997, the Comptroller issued an order finding Respondent in default after he failed to request a hearing, file an answer with respect to the matters alleged in the Notice, or reply to the ALJ's order that Respondent show cause why Enforcement Counsel's motion for default should not be granted. However, the Comptroller requested additional information from Enforcement Counsel regarding the proper measure of restitution. On December 12, 1997, Enforcement Counsel responded by filing (1) a report of an internal investigation by the Branch into Respondent's inappropriate trading activities and (2) a transaction journal of Respondent's foreign currency option trades. These documents show that the Branch's net losses resulting from Respondent's actions came to at least \$9,415,819. Respondent has failed to file a response to Enforcement Counsel's submission.

The Comptroller concludes that the entry of a final default judgment is now appropriate. Respondent knew or should have known that it was unlawful to falsify information regarding exchange and volatility rates, to cause the creation of false entries in the Branch's books and

¹ A "short straddle" strategy requires the trade to simultaneously sell a put and a call for the same amount, strike price, and maturity. While the trader earns extra fee income from selling the two options, a "short straddle" strategy does not make money for the bank unless markets remain stable.

records, and to violate the Branch's internal limits upon options trading. Because Respondent acted with reckless disregard for the law within the meaning of 12 U.S.C. § 1818(b)(6)(A)(ii), the Comptroller has the authority to require Respondent to make restitution for the Branch's losses resulting from his improper activities.

II. ORDER

Consequently, for the reasons set forth above, it is hereby

ORDERED that a civil money penalty be assessed against Respondent Massimiliano Locci in the amount of fifty thousand dollars (\$50,000); and it is further

ORDERED that Respondent shall cease and desist from engaging in unsafe or unsound practices; and it is further

ORDERED that Respondent shall immediately make restitution to the Bank in the amount of nine million four hundred fifteen thousand eight hundred nineteen dollars (\$9,415,819).

If, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed on him by the several laws of the United States of America to undertake any other action affecting Respondent, nothing in this Order shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

Remittance of the civil money penalty shall be immediately payable to the Treasury of the United States and delivered to the Hearing Clerk, Office of the Chief Counsel, Comptroller of the Currency, Washington, D.C. 20219. Pursuant to 12 U.S.C. § 1818(b)(2), the remainder of this Order shall become effective 30 days after the service of the Order upon Respondent and

shall remain effective and enforceable except to such extent as it is stayed, modified, terminated, or set aside by the Comptroller or a reviewing court.

IT IS SO ORDERED, this 26 day of January, 1998.

EUGENE A. LUDWIG
Comptroller of the Currency