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Profits of doom

(Filed: 23/09/2001)

Grant Ringshaw finds the terrorists made millions by sophisticated trading before they attacked

ONE option trader recalls: "The market had been dead. Then all of a sudden there was a huge spike in trading in certain options - it just came out of nowhere. You have to think that there was something suspicious going on."



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Last week the financial world realised that the Islamic terror groups behind the devastating attacks on America **could have made millions by short-selling shares and derivatives** through

a secret financial network before the attack took place - the largest and most chilling piece of insider dealing in history.

In the past seven days, international intelligence agencies, worldwide financial regulators and the world's biggest financial institutions have been sifting through millions of records in a bid to find who perpetrated the rogue deals.

The investigation is part of a wider [probe into the financial network of Osama bin Laden](#), the Islamic radical who the United States believes masterminded the attacks.

Investigators are seeking to freeze bank accounts and other assets belonging to bin Laden, who is thought to have a personal fortune of \$300m, his associates and Afghanistan's Taliban government.

So far the focus of the international probe into suspicious trading has centred on an extraordinary surge in trading in certain airlines and insurance companies in the days immediately ahead of the attacks on September 11.

Liffe, the London futures and options market, is understood to be particularly concerned about a huge spike in trading in options based on British Airways' shares. On September 7 - the Friday before the attacks - 2,184 "put" contracts were traded. This was almost five times the normal daily trading volume.

Buyers of put options seek to make profits from an anticipated fall in a company's share price by selling borrowed shares and later buying them back at a lower price.

According to figures from the London Stock Exchange, there was also a massive spike in trading of BA shares on September 6 with around 32m shares changing hands - almost three times the normal level.

Traders at the Chicago Board Options Exchange, the world's biggest options market, were also perplexed by surges in other airlines including United Airlines and American Airlines, which each had two planes hijacked and used as weapons by the terrorists.

Three trading days before the attack, the volume of puts in United rocketed to 2,000 contracts - an astonishing 285 times the average trading level. The day before two American Airlines' planes were hijacked and crashed, the number of put options bought in the airline rose to reach 60 times the daily average.

In Amsterdam, traders and regulators were also astonished

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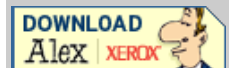
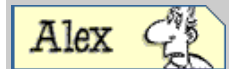
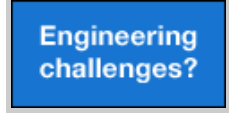
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to see a huge rise in put options in KLM, the Dutch airline. For weeks, only around a dozen puts had been bought in the airline each day, but on the two trading days before the attacks on the World Trade Centre an incredible 1,800 contracts were bought.

International investigators also believe there may have been suspicious trading in insurance companies such as Munich Re and Swiss Re, the world's two biggest reinsurers.

On September 6 and 7, trading was almost double the normal level in Munich Re, which has estimated its losses on the disaster at £1.2bn. The company's shares fell by 12 per cent in the four days before the September 11 attacks and 15 per cent on the day of the strike.

Trading in the shares of Swiss Re, which has estimated its losses at £835m, was more than double average daily volumes on September 7 with regulators particularly concerned about a number of large block trades.

The international probe is also understood to be investigating options trades in some of the world's biggest financial institutions including Axa, the French insurer, Citigroup, the financial services company which has a \$500m liability to the disaster through its Travellers insurance subsidiary, and investment banks such as Merrill Lynch and Morgan Stanley.

Italian regulators are understood to be probing trades amid allegations that bin Laden has channelled money through a number of Italian brokerages in the past, while authorities in Tokyo, where bin Laden associates are known to have operated, are probing trades in options between September 3 and 14.

Swiss authorities are also understood to be focusing on an investment bank in Lugano called Al Taqwa.

"I saw put-call numbers higher than I have ever seen in 10 years of following the markets. When you see this type of activity, the first thing you do is ask yourself: 'What is the explanation? What are people worried about?' " says John Kinnucan, the principal of Broadband Research, an independent American research firm.

Though some analysts claim volatile stockmarkets and fears of a global recession could have been behind the extraordinary short-selling, the suspicion remains that someone, somewhere had inside knowledge of the attacks and sought to reap profits by dumping the shares of airlines and insurance companies.

True, the airline industry was already in trouble, but the short-selling of reinsurers is far more perplexing. Insurance stocks had been one of the brightest spots in a difficult market as rates hardened to their best level in years.

The army of investigators face a mammoth task in piecing together who was behind the suspicious trades. But tantalisingly, the paper trail could lead to new revelations about the obscure financial network of Osama bin Laden and his Al Qaeda organisation.

"It is very hard to pull something off like this and not leave some sort of paper trail," says one senior financial regulator.

Options market experts point out that trading records are transparent and that there should be a clear trail for investigators to follow, since no one can trade in options without opening a brokerage account. This is no easy task and can take months.

"The fact of the matter is that if an international bank in London is dealing on behalf of a bank in the Far East who is dealing for an Arabic client in the Middle East through an introducing broker, that such a trade in all its levels would be traceable," says one trader.

What is certain is if the terrorists or their associates did try to profit by short-selling they will have attempted to cover their tracks - this could have included using an executing broker, often small brokers which parcel together trades on behalf of a number of clients, to place the trades through a long network of different banks.

"We are dealing with intelligent operatives who will be trying to find the weakest link in the chain," says one options market expert.

That weak link could be the use of shadowy trusts in offshore financial centres such as the Cayman Islands and Bermuda.

These trusts may be owned by legitimate front companies. Though money-laundering regulations have been tightened in the past decade, international investigators still do not have the armoury of weapons to block the movement of terrorist and organised crime funds.

Bankers say that until the 1990s it was relatively easy to move illicit finds through the international financial system. One key new move has been the introduction of "Know Your Customer" rules which require banks to know the true identity of their customers including companies even in tax havens such as the British Virgin Islands.

But as bankers point out, these rules are not always strictly applied, especially in offshore centres. Ironically, the US Congress refused to tighten the Know Your Customer Rules in 1999, claiming it was a threat to civil liberties.

In normal circumstances these tax havens would protect the identity of their clients at all costs from outside regulators. But in these times, it is likely that any tax haven, no matter how secretive, would hand over any information about accomplices of bin Laden, or face the wrath of the US.

Even if investigators do track the trail to offshore financial centres, there will still be difficulties in unravelling a web of front companies which are commonly used by secret financial organisations.

According to testimony by Jamal Ahmed al-Fadl, effectively bin Laden's former chief financial officer, the bin Laden network used 80 front companies to conceal its activities. These are thought to include Wadi al-Aqiq, a corporate shell in Sudan, Taba Investment, a currency trading firm, and Laden International Company, an import-export business.

A web of secret numbered Swiss bank accounts are thought to have been used as well as accounts in Sudan, Hong Kong, Monaco, Pakistan, Malaysia and London.

Last week Barclays Bank confirmed that it had frozen one account which is believed to have been in the name of Khalid al-Fawwaz, a Saudi Arabian who is on remand in Britain's Bellmarsh prison and is fighting extradition to the US.

The United States has been attempting to throttle bin Laden's finances since 1998, but has so far struggled to pin down the movement of his assets around the world.

One of the biggest problems is thought to be the group's use of a secure network of financial brokers operating an informal money transfer system known by the Hindi name hawala.

The network transfers money through a complicated barter system, relies on personal contacts and allows payments to be made in one place in return for cash being provided in another location.

No one doubts that the investigation, which is headed by the the US Treasury, is the biggest ever attempt to hunt down and smash apart a secretive financial network.

If it succeeds it may reveal just whether bin Laden and his associates not only had the audacity to pull off the world's worst terrorist atrocity, but also make unbelievable profits by short-selling the markets.

- ▶ [21 September 2001: Terrorist hunt turns to London futures market](#)
- ▶ [21 September 2001: Trade Centre insurers face peak losses](#)
- ▶ [18 September 2001: Did bin Laden cash in before terrorist attack?](#)
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