

UPDATE 3-TD Bank hit by UK derivatives charge; trader leaves

Lynne Olver, Reuters

Published: Friday July 4, 2008

TORONTO, July 4 (Reuters) - Toronto-Dominion Bank (TD.TO: [Quote](#), [Profile](#), [Research](#)), Canada's second-largest bank, said on Friday it will take a pretax charge of about C\$96 million (\$94 million) for the mispricing of derivatives by a senior trader who has left the London office of its investment dealer unit.

TD Bank said that the charge in its TD Securities unit was tied to credit derivatives that were not properly priced, and said the unnamed trader left the bank on June 23.

TD discovered the mispriced credit index swaps the same day, spokeswoman Simone Philogene said.

The bank said it was cooperating with regulators.

A spokeswoman for Britain's Financial Services Authority said that it does not comment on individual firms.

TD Bank President and Chief Executive Ed Clark said the bank was "very disappointed" with the loss.

"Our company has a strong risk culture and we deeply regret this incident. We take this very seriously and will make every effort to ensure that this doesn't happen again."

TD shares closed down 25 Canadian cents, or 0.4 percent, at C\$63.09 a share on the Toronto Stock Exchange on Friday.

Analysts said investors would probably overlook the charge, even though it exceeds the C\$93 million in wholesale banking profit that TD reported in the second quarter.

"I think in this case, TD has done extremely well through the credit crunch so far, and I don't think people are going to change their assessment of the risk management culture yet," said **Ohad Lederer**, a banking analyst at **Veritas Investment Research** in Toronto.

In June, Wall Street bank Morgan Stanley (MS.N: [Quote](#), [Profile](#), [Research](#)) said it had suspended a London-based credit trader who had overvalued positions by \$120 million, prompting a writedown of the same amount, and in May, Lehman Brothers Holdings Inc (LEH.N: [Quote](#), [Profile](#), [Research](#)) suspended two London equities traders after identifying a similar problem.

TD has largely steered clear of harm during the credit crisis, in part because retail banking in Canada and the United States makes up the bulk of its operations.

In the most recent quarter, which ended April 30, retail businesses produced about 90 percent of the bank's total profit of C\$852 million.

TD Securities does currency and international fixed income trading in London, as well as institutional equity sales and trading.

TD will swallow a relatively small loss from the mispriced credit derivatives, a second analyst said, compared with the billions of dollars in writedowns taken at U.S., European and other Canadian banks as a result of weak credit markets.

"That's a pretty small hit," said Douglas Davis, president at Davis-Rea. "I think TD wants to be known as the most defensive bank with the cleanest balance sheet."

TD's Canadian peers, Bank of Montreal (BMO.TO: [Quote](#), [Profile](#), [Research](#)), Canadian Imperial Bank of Commerce (CM.TO: [Quote](#), [Profile](#), [Research](#)), and Royal Bank of Canada (RY.TO: [Quote](#), [Profile](#), [Research](#)), have reported bigger charges in the past year.

In the case of BMO, the culprits were commodity trading and structured-finance losses. CIBC has taken hits for various credit-market securities and hedges with downgraded bond insurers. And RBC's charges covered a variety of asset-backed, structured credit and auction rate securities. (\$1=\$1.02 Canadian) (Additional reporting by Cameron French in Toronto and Mark Potter in London; Editing by Peter Galloway)