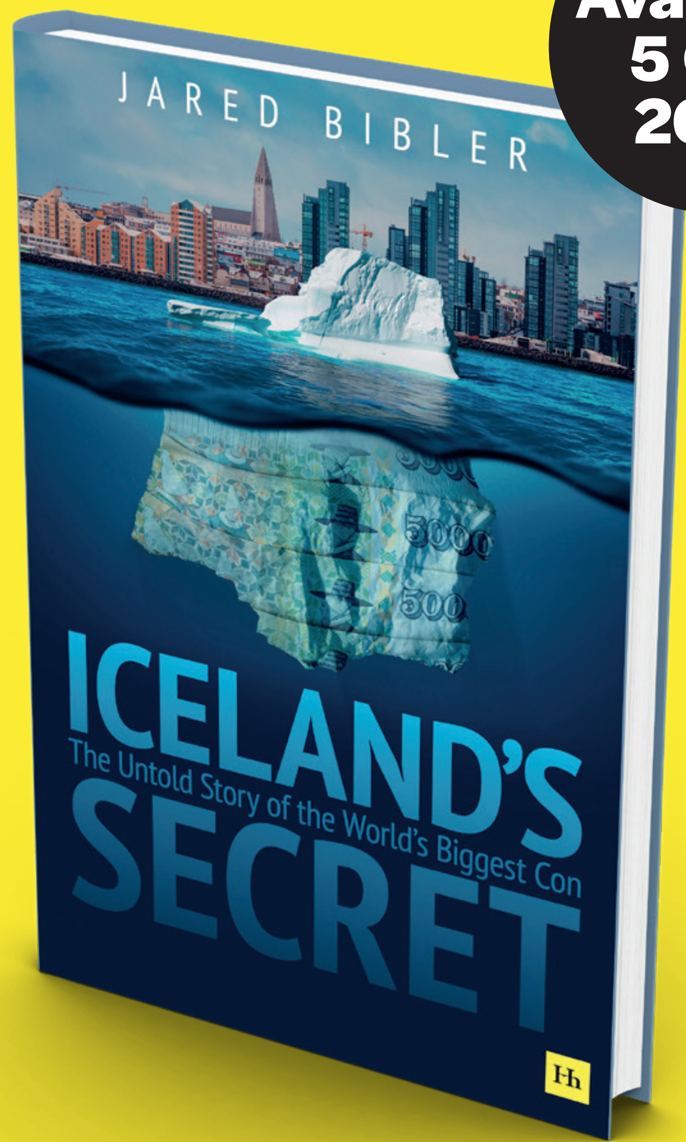
"Nordic noir but with bankers going to jail. It reads like a thriller—but amazingly it's all true."

—**Russell Napier**
Bestselling author of *Anatomy of the Bear*



Available 5 Oct 2021

The world's biggest con—in little Iceland?

That's right. The three Icelandic banks at the heart of this incredible story of high-stakes fraud and cozy criminality collapsed in a single week.

One was larger than Enron. Together they amounted to three simultaneous Madoff scandals—or 26 Allen Stanford Ponzi schemes.

Now imagine all three banks going bust in the space of four days in a place with a thousandth the population of the USA—it would have taken 300 Lehman Brothers collapses (or 140 Northern Rock crashes in the UK) to come close to this.

Why haven't I heard about this before?

The international press doesn't base any reporters in Iceland.

Why is it interesting?

Not everything that happened in 2008 has already been told. And this tale has it all: insatiable greed, flamboyant crime, scheming politicians, angry mobs brandishing pots and pans—all set against a Nordic noir backdrop.

So how do you know about this?

The author Jared Bibler played a central role investigating these massive financial crimes—including the three largest cases of stock market manipulation to be prosecuted globally.

This insider look at these investigations describes how Jared came to work in Iceland and gives the reader a front-row seat as he discovers the full magnitude of the fraud.

Why now?

A decade after the investigations, and with most of the criminal cases now through the courts, the story can be told at last and in full.

The crisis, barely understood inside or outside of Iceland even today, is a cautionary tale for the world: an inside look at the high crimes that follow unbridled Wild West capitalism.

Who should read it?

If you are a fan of books like *The Big Short, Billion Dollar Whale*, *The Smartest Guys in the Room* and *Bad Blood*, you will love *Iceland's Secret*.

What are readers saying about it?

"A killer read from the heart of Iceland's epic financial meltdown. A thrilling saga of crooked bankers and the dogged investigators who took them down."

—Tom Ashbrook

U.S. broadcasting legend

"For someone who thought he knew something about the Icelandic crisis, this book came as a real surprise. The degree of devastation, the brazenness of the criminality and the clear connections to the wider world all serve as a wake-up call."

— Haig Simonian

Former correspondent to the *Financial Times*

PROLOGUE

The Big Mystery

I COULD have driven to the *Fjármálaeftirlitið* (FME)—the financial supervisory authority of Iceland—from my home in about 12 minutes. Instead I am sitting in an old minibus with nine seats and no muffler and at the top of the hill I'll need to change to a bigger bus to get taken to my new office.

The whole trip will take almost an hour. The transfer point at Hamraborg looks like a big deal on the transit map: lots of bus routes converge here. In another country it would have a kiosk with hot coffee and someone selling newspapers. But here in Iceland it's merely a wind- and rain-swept hilltop, with schedules for the unreliable connections fastened haphazardly to streetlight poles.

Transferring passengers hold our bodies against a steady barrage of wind and icy droplets of rain, our expressions grim. No shelters. The city buses that pull up to the curbside are a hodgepodge of cast-offs from other Nordic countries, seemingly no two vehicles alike, all painted in various shades of yellow, and clearly never designed for the aggressive and unplanned system of speed bumps that plague suburban Reykjavík. Once inside the larger bus, the diesel-soaked air, fogged windows, and near-constant jostling induce nausea.

I try to ignore the immediate surroundings and focus on the day ahead. This is an important day for me. It is the first working day of April 2009, nearly six months to the day since the collapse of Iceland's banks, its economy, and nearly the nation.

As I look out the window of this old workhorse heading towards my new office, hearing the gnashing of the engine and the studded tires chewing Reykjavík's roadways beneath me, I feel grateful to have finally found paying work. But why did they choose me? Perhaps for the first time being an *útlendingur*—a foreigner—actually helped. I became an Icelandic citizen the year before, but nobody took *that* seriously. For most, I would remain a misfit. And maybe for this job they need someone who is a bit of an outsider.

Whatever the reason, I am grateful. The last few months have been tough. We have been running on fiscal fumes: only my fiancée Hulda's new job as office manager in a small law firm plus drawing down what was left of our meager savings allowed us to pay the bills each month. Slashed or zero incomes, frozen savings, a depleted stock market, ever-rising prices. The Icelandic crisis of 2008 was an earthquake that leveled the financial fortunes of a whole country.

The stock market has lost 97% of its value from its high in 2007, effectively a stunning reset of the whole market to zero. (By comparison the U.S. S&P 500 and German DAX indexes have each dropped around 55% in the same period: still big but not a wipeout.) The cause of the complete deletion of the Icelandic stock market is pretty clear: its value was more or less comprised of the shares of three collapsed banks. When these went bust, the entire market went with them. Unemployment has also surged in Iceland: from a handful of unemployed in 2007, by spring of 2009 the number of those without work has quintupled. (The U.S. media caterwauls about the terrible crisis in that country, where the number of unemployed doubled: a huge surge, to be sure, but nothing like five times.)[1]

I haven't worked for a paycheck the entire six months until this morning. Because I was the one to resign from the bank where I worked, rather than being fired, I haven't been eligible for unemployment benefits for most of the months I've been jobless. To keep myself from going crazy pacing our small apartment while Hulda worked and studied long days, I found unpaid employment at a start-up in January. I was developing a business plan for green energy plants. But I worked for free, on a gentlemen's agreement that they'd pay me when they got funding. They weren't gentlemen.

We have been through the very darkest of winters. Hulda and I have taken a fine-tooth comb to our household finances and looked for ways to save every possible *króna* in order to keep ourselves afloat. Hence my bus ride this morning instead of a convenient trip by car: we are limiting ourselves to one tank of fuel per month. Our misery even reaches onto our plates: finding affordable food becomes an issue. Trying to get creative, I took a Sunday trip to Kólaportið, the weekend flea market and farmers' market in Reykjavík, where I picked up *bjúgur*, horsemeat sausages, and brought them home. These may very well constitute the cheapest edible protein in the Land. Hulda knew how to prepare them from her childhood: boiled in water. Once done, I tried to smile across the dinner table at her, but the smell, the taste, and especially the texture of the giant white gobs of horse-fat that popped out of the sliced casing were too much. For me, this is the sign that we have hit the bottom of the barrel.

The national political mood has also hit rock bottom during these past months. The politicians in power during the run-up to the crisis at first refused to step aside and call for new elections. The heads of the central bank and the FME itself similarly refused. But angry mobs gathered daily in the frigid cold of downtown Reykjavík all winter long. They banged loudly on pots and pans, carrying banners and chanting slogans in front of the *Alþingi* (parliament), every day for months. My friend Süßmann has his office in the old Apotek building overlooking this square. He's working to settle the estate of one of the banks with its foreign creditors, but his phone calls overseas are routinely interrupted by the clamor from the crowds.

One day he looked out the window to see that the national Christmas tree, a gift from Norway each year, was on fire. It did not last to see Christmas morning. Then, a New Year's TV broadcast, normally a staid roundtable discussion among a handful of top politicians, was interrupted when protesters clanged their way right into the live shoot. At last, we have new elections to look forward to at the end of the month[2] and hopefully a chance to start over for our tumultuous nation.

1 Sources: Hagstofa Íslands, U.S. Bureau of Labor Statistics.

2 25 April 2009.

At this point, six months after the onset of the crisis, I would have taken any work at all. But this new opportunity is not just any job. Not only is the salary decent by post-crisis Icelandic standards, but this one feels like the chance to do something positive for my new country and for the people around us who have been suffering as much as us. I am going to be one of the few tasked with investigating the banking crisis, the very thing that plunged our nation into this black hole.

I am going to be an investigator for the FME, the financial supervisor of the Land.

A few days into my new job, a lawyer shows up at my desk. It's our first interaction and I am not sure if he's my teammate or my boss. I know he's the senior attorney on the team, but we both report to the same boss. So he can't delegate work to me. Or can he? The lawyers do seem to have the run of the place here. In Iceland there is often a near complete lack of organizational hierarchy, meaning most tasks are negotiated peer-to-peer. He looks at me jovially: "Jared, can you have a look at this? None of us really knows what to do with it."

I grab the document: just a couple of stapled pages under the letterhead of the Icelandic stock exchange and addressed to us, the FME. I puzzle over the subject line, turning it over to see a series of data tables. I look up and the lawyer has already disappeared. I take it apart line by line. In short, the stock exchange noticed some strange trading patterns in the three days right before the banks collapsed and thought that we, the market regulator, should be made aware of it.

I can check this out, I think. After all, I worked in a Wall Street back office, and then became a fund manager, so I've executed and settled some trades in my day. This material shouldn't prove too difficult to verify.

The letter runs to just three printed pages, including the tables. Short and sweet. Yet as I probe into the substance of it, the content hits me like a thunderbolt. This is absolutely wild; well beyond anything I have come across in my career. Even all the hijinks I tried to stop at Landsbanki, the ones that ultimately led me to resign, have nothing on this material. If this is even half true, it is completely nuts.

The document lays it all out in plain Icelandic. During three crucial days—the days immediately preceding the nation's collapse—the traders who buy and sell with the banks' own money bought nearly every single one of the banks' shares that crossed the public market. *At each bank!* Was this a coordinated effort to prop up the markets and make everyone think things were just fine? By that point it was far too late to stop the inevitable collapse, but that did not seem to matter to these guys. At a time when those three banks were running on fumes, barely able to pick up two *krónur* off the floor, they seem to be throwing everything they have left at buying up their own shares.

This activity is more than clearly illegal; it's beyond the pale. I can't believe these guys thought they would get away with it. Mumbling to myself in my cubicle, I pencil notes down the margins of the letter. Anyone with any knowledge at all of securities markets would be thunderstruck at the sight of this brazen buying. It's so destructive that it is hard to come up with a real-world analogy to explain it. It would be something like as bad as if a supermarket owner, seeing that nobody is buying his well-rotted tomatoes, hired dozens of actors to queue outside his store, buying up his produce with the store's own cash. But here we aren't talking about tomatoes, we are talking about the former high-flying blue-chip shares of Iceland, the three gleaming giant banks that made up nearly *all* of the value of the country's stock market. A market in which every one of us, rich and poor, had a good chunk of our retirement savings invested, via a legally mandated pension.

The letter raises far more questions for me than it answers. I list a few bullets for what I would like to understand better and walk down the hall to my new boss' office late that afternoon. Back in my Wall Street days, a colleague would often remind us to "go to the videotape", by which he meant look at the actual data. Raw trades are what I really need to see. I realize halfway down the hallway that I have no idea how things work here. I just know that I am in possession of a potentially huge story.

Sigrún[3] is a careful woman who speaks in measured tones. In her fifties, always impeccably well dressed, she carries herself with confidence. She is in charge of all market regulation at the FME, and post-crisis, most of the investigations as well. She selected me for this new investigation role from nearly 200 applicants,

3 The events described in this book are true to the best of the author's recollection and information. The following names have been changed and are fictive: Binni, Guðfinnur, Högni, Pétur, Siddi, Sigrún, Villi, and Waingro. Also changed from the original: Aurora Capital Management, Mike Shimrinmanson, and Zodiac Software.

so I know she has some confidence in me—and some expectations as well. I am happy to have found something so juicy so early in my new career as a regulator.

"Sigrún! I can't believe what I'm seeing here," I tell her. "I would like to see the detailed trading data. How can I get it?"

"We have a good relationship with the exchange," she replies, unmoved. "Just give them a ring."

At my desk I lift the phone and dial the contact on the letterhead and wait. The analysis is already a few months old but my counterpart remembers and says he can send some data related to these three trading days.

Then I wait. I go back to reading some auditor reports, thinking this request will take a few days. Within an hour, though, I get an email from the guy at the exchange. It has: guess what? An Excel file attached. Excel? *Really?* I think. I am not quite sure what I was expecting, but not a casual two-line email with an attached unlocked file filled with rows of trades. Maybe I shouldn't be surprised by this point; all of the Land seems to run on handmade Excel files.

I am by no means an expert user of this software. Most of my experience with spreadsheets comes from the bank: trying to analyze by how much we'd gouged our investors on a faulty price calculation, or how many more days we had left until our pet hedge fund ran out of cash. So I'll need to figure out how to use Excel in a new way: to visualize trading flows across a whole market over many days. Studying the first graphs I generate, more than looking at rows of raw trades, helps me to begin to make sense of the story. I start with Kaupþing, the biggest Icelandic bank. Once I put the pictures up on one of my two screens, the pattern appears clearly for anyone to see.

The price barely moves over a whole day and the ID for the buyer is always the same, on each and every exchange trade. This market only had one buyer? Yes, just as the letter laid out. But I still don't believe my eyes. I call the stock exchange again.

"Is this everything? Are all the trades in the document you sent over?" I ask.

"Sure," the employee says.

"But there's only one guy at the bank buying everything."

"That's right," he replies, like nothing abnormal was happening.

This craziness can't have taken place for more than a few trading days. I make a new request the day after.

"I have a new inquiry," I tell my new friend at the stock market. He doesn't sound too delighted.

"Go ahead."

"I need two more weeks of trading data, starting mid-September, up until the three days before the collapse."

Bothered as he seems, he fills the new request pretty quickly. Upon opening the latest Excel file, I begin to understand how naïve I have been. I thought I would be able to catch the beginning of this pattern with only a few weeks' data. But all the trading days in September 2008 are near carbon copies of each other. The prop desk of Kaupþing would buy 90 to 100% of the market volume in KAUP shares all day and every day, gobbling up nearly every share that came across the exchange. And the same pattern holds for the other big banks, Landsbanki and Glitnir, in their own share issues.

Since the 1990s, many big banks developed prop desks, short for proprietary trading desks, and these three fast-growing Icelandic institutions wanted to be just like the big boys overseas. In a typical bank, these operations effectively served as in-house hedge funds, placing bets with the bank's own money. They tried to earn profits through both intraday trading and longer-term positions. What is jumping off the page at me here is that in each major Icelandic bank, the prop desk seemed to be taking a large and unannounced position in that bank's own shares. How could they justify this clearly manipulative behavior?

The raw data show that each Icelandic bank had one or two traders who had access to the bank's own funds and performed the same mission: keeping the share price of their own employer high. But something else strikes me as odd here: how did Nasdaq OMX, the stock exchange, not detect this earlier? And not raise an alarm with more eagerness? Why wait until months after the crisis and then send a letter focused on only the final three days? I can't help but wonder about this lack of prompt action. Did they just not see it? Did they not want to see it? I decide to keep hunting.

In my next conversation with the exchange I see the effect that my digging is starting to have. My 'friend' still answers my requests, but he seems more and more reluctant. He takes his time, doesn't always pick up the phone, responds laconically. I get the feeling my questions are making some members of the small Nasdaq outpost nervous. They don't try to discourage me, at least not explicitly.

Nevertheless, the tone is changing. They seem to hope I'll find a different bone to chew on.

I need to keep up the charm offensive each time I place a call to the exchange. I next analyze all the way back to April 2008, a full six months before the crisis. But the daily buying by each bank is nearly the same over that whole period! So I go big, finally asking them to send a full five years of trading data. An Excel spreadsheet of gargantuan proportions, it is a file that my PC can barely open. Working inside it slows the machine to a crawl; these are nearly all the market trades done in Iceland over half a decade. Using my ever-improving Excel skills, I graph net purchases of shares by month as well as share price. And to my astonishment, I can trace the same pattern all the way back to the summer of 2004. This illegal buying has been going on in each of the three banks over the whole time I've been living in Iceland.

There are variations in the data, to be sure. During some relatively calmer periods, the banks' traders did not amass so many of their own shares. However, the overall picture is crystal clear: as soon as the stock price of any one bank declines even a little bit, the bank's prop desk pounces on it. The visuals make this trend obvious. There are almost no months in all those long years—the years of the 'Icelandic miracle', the years of Range Rovers, private jets, and Elton John being flown in to play a private birthday party—when these bank traders did not buy a substantial amount of the shares issued by their own employer.

Starting out at this job as a new investigator, I knew the expectation was that we might find a handful of rogue trades and money wires in the few weeks before each bank's collapse. We could dig into these few events, write reports, and then close the case files. But a years-long fraud perpetrated on the entire stock market of our proud nation is a much bigger discovery than anyone bargained for. I know now that I am on an important but precarious mission. Yet, in many ways, I still can't believe my eyes. It seems incredible that these three giant institutions would control the markets for their own shares for so many years without catching attention. And a bigger mystery is also becoming obvious: what did they do with all the shares once they'd bought them? We must have missed something. Something bigger than this trading pattern. We miscounted somewhere, we left something out.

These are the thoughts churning in my head as I ride the faded yellow bus back home in the bright light of an early spring evening at the conclusion of a roller-coaster first week at the FME.

The causes of the Icelandic financial crisis of 2006–08 are hardly understood and barely discussed either inside or outside the country even today. That is a mistake. This is a crisis that has clear relevance for every country that practices market capitalism. And these days, that's just about every country.

Iceland is a small nation, with only around 350,000 residents today. But it's still a country, with all of the trappings of larger places. Iceland is actually a perfect laboratory in which to view the forces at work in larger nations.

This crisis stands out in a couple of respects. First, by magnitude. The year 2008 saw a financial crisis spreading across nearly all of the Western world, but no country experienced the disaster the way Iceland did. Its three giant banks fell over in one week, quickly engulfing the whole economy. Icelanders who had savings in their stock portfolios had them no more: the stock market had lost all of its value. People who had their savings in cash fared no better: accounts and funds were frozen. Mortgage payments doubled almost overnight. The value of the currency dropped by half. The setback was not just huge, it was lasting; the country can still feel the crisis more than a decade later. The quick drop off in the currency kicked off a tourist invasion that, while initially providing a much-needed economic boost, has now reduced Iceland to a giant T-shirt shop. Meanwhile, those who lost their savings and their homes never got them back. Forced to start over from zero, many fled the country for better opportunities abroad.

Iceland also stands out in its response to this crisis. The magnitude of the crisis and the discontent of the Icelandic people were enough to trigger real, if short-lived, investigations into the responsibilities for the disaster. The financial supervisory authority, a special parliamentary commission, and the appointment of a special prosecutor whose team briefly counted over 100 staff made it possible to uncover at least some of the facts. These processes led to the criminal convictions of the heads of the three biggest banks, a handful of lower-level executives, and even the prime minister. This, again, is more than any other country managed to do after the 2008 financial crisis.

Was it enough? Have the lessons been properly learned? By no means. Despite the shocking depths of this crisis, today in Iceland almost nothing has changed in either the political or economic structures that underpin society. And the same can be said for the wider world as well.

The Icelandic crisis is a cautionary tale for the world, a saga of the high level of crime that follows unregulated Wild West capitalism. Don't think your own country is any better or worse than Iceland.

This is the untold story of how it unfolded.

5

AURORA

How to be a Clairvoyant

"I NEED to trade!" The voice on the other end of the line sounds a little manic. It belongs to a guy with a small office somewhere nearby in downtown Reykjavík who is 'advising' one of our funds. In fundspeak that means he is making the daily trading decisions and we are stuck with the clean-up work. The Aurora fund itself legally belongs to my employer, the captive money management arm of Landsbanki. As the daily management of cash is grunt work that nobody wants, it has landed on me, the lowest on the totem pole.

And the problem today, as the problem has been for weeks, is that the €120m Aurora Capital Fund is fast running out of cash, and this guy is on a buying bender. Every day he gets on the phone with his brokers and tells them to buy more shares in the same three or four names. We get the trade confirms by email and the fund needs to have cash on hand three business days later to settle the trades. I've called him to tell him he needs to stop buying or the fund won't have the money to cover its obligations, and he is unhappy with me. He needs to trade.

When people in our biz say 'trade' they usually mean 'buy and sell'. But this guy can't seem to ever sell any shares. The only thing that looks to make him happy is the idea of coming in and amassing some more the next day. The shares are his precious children; how could he turn them out on the street?

This fund has been trouble from the get-go, but my bosses turn a deaf ear to any problems because it was forced on us by the CEO of the bank.

The bank's interest in playing host to Aurora actually seems to have been based on a misunderstanding. In the world of hedge funds, the 'prime broker' is the bank that holds custody of a fund's positions: shares, bonds, options. On the back of these valuable assets, the prime broker lends additional money, allowing the fund to lever up its balance sheet: to take on ownership of more assets than it has investor money to cover.

So Aurora had said it needed a prime broker, and the stockbrokers at Landsbanki had said "we'll do it!" They heard the words 'prime broker', thought it meant 'broker number one', and saw thousands of new trade executions, each one wrapped in their fat uncompetitive trading commissions, each commission feeding into their bonuses, each bonus feeding into their beer money. (Out in the real world, the name for this is the fund's 'executing broker', and a given fund may have several.)

Landsbanki has neither the skill nor the inclination to be a real prime broker. For trade settlement, we make use of the same rickety back-office software that my old employer Zodiac developed. It lacks even the most basic position-keeping functions: it can't tell you how much of anything you really hold at any point in time. The bank is also not set up to make a loan with stocks or bonds as collateral. Nor do our back office personnel seem equipped with the mental or systemic tools to settle a short sale, the very thing that puts the 'hedge' in hedge fund.

In order to manage the Aurora cash balance, I have to write my own position keeper. In a real bank the nuts and bolts of fund management, like cash provisioning, would be handled by automated systems, but here at Iceland's oldest bank we run everything on a series of home-grown spreadsheets. Microsoft Excel is the bubble gum and toothpicks of the financial world. My cash tracker is no exception.

In many markets and products, trades settle three business days after they are executed. Like when you buy a house or car, you sign a contract for the purchase and then on some agreed-upon later date you come with the money and take delivery of the valuable asset. It's no different with shares, but nobody in Iceland seems to really get this. Knowing the sum total of trades the fund does on any given day, I can see how much cash we will need to have on hand three days down the road.

Back before Christmas 2007, when I showed the empty suit who runs the fund management company the settlement report showing that the fund would be nearly out of money three days later, he asked incredulously, "How can you see the future, Jared?" He didn't believe me when I explained. "What if they sell something tomorrow?" he countered.

"Tomorrow would be too late because that cash wouldn't hit until the *following* day," I explained. "So for at least one overnight we'd be in trouble."

He was unconvinced, staring at me with owl eyes behind his large designer glasses.

In that case I had indeed seen the future, and the fund ran bone-dry as predicted. Still, nobody around me seemed curious to learn more of my black magic.

Now I hear it again on the phone. "I need to trade!" Half a year after the Christmas mess and this guy has exhausted all €60m of last-minute credit he got from a Swedish bank to save us from our Yuletide woes. Now we are back in the same situation: he doesn't slow down at all and just keeps buying. Every day, another couple hundred thousand euros of shopping spree to pay for. Finally the cash account of the fund is sitting at under €20,000. This time I decide to just let it ride and see what happens.

Bizarrely, the owner of the cash accounts for our giant investment funds is not us, the fund management company, but a branch office of Landsbanki at Laugavegur 77. This is a commercial and retail bank branch that serves the businesses on the main shopping street of our little capital city. I call up the account rep, an older-sounding lady.

"Are you the owner of this account number for Aurora Capital Fund?" I ask. I hear her punching it in.

"Yes…" she says hesitantly.

"Great, I wanted to let you know that in three days that account will be sitting at around negative €80,000."

"How do you know what will happen in three days?" She sounds bewildered.

I explain T+3 trade settlement to her as succinctly as I can. She doesn't seem to get it.

"Well, that can't be," she concludes. "That account cannot go negative."

"What will happen if it gets debited and it doesn't have the funds to cover?" I push.

"It can't happen."

We hang up. Three days later, I have successfully predicted the future for a second time: the account has indeed gone negative.

It's a euro-denominated account held within RB. *Reiknistofa Bankanna* is the master Icelandic account-keeping system shared by all the banks, and run out of an undisclosed location, rumored to be a garage somewhere in the 101. I log into this old mainframe greenscreen system to check the Aurora account balance versus my own spreadsheet. On this particular day I can see all the cash flows out to settle the very important 'I need to' trades. And the final balance has a minus sign in front of it. Otherwise, all appears normal.

Covering my ass, I copy the settled amounts and the final balance into an email and send it to my bosses, with another to the poor beleaguered account rep on Laugavegur. "Aurora is negative today, as I warned earlier in the week." But no response. They're all on vacation. July in Iceland and one finds oneself in a sort of land that time forgot. Nothing much at all happens.

I start to enjoy just letting it ride. I already know the next three days of cash activity and there is really nothing I can do to stop the account from going more deeply negative. I'm waiting for something to happen: some bank internal controller to call me screaming, someone to intervene. Someone to shut this insanity down.

But it just keeps on rolling. Days pass, then weeks. Each day the euro cash account ticks more and more into the red. I learn that this type of account was never designed to be negative at any time, so there is not even any penalty interest charged. We are in a sort of phantom zone; the fund is in effect getting an interest-free loan from the bank. At the conclusion of each day I dutifully send an email to my bosses: the head of alternative assets, the head of the fund management company, and the head of asset management himself.

Still nothing happens. The bosses keep ignoring my emails. But things in the account are becoming ridiculous. The negative balance that had started out as a mere €80,000 has blossomed and grown giant like a pumpkin plant in the endless light of Icelandic summer: it is now in excess of €6,200,000.

I decide to try one more thing. I call up an old friend from the Zodiac days who used to sit across from me and talk Björk and Sigur Rós. He now works in risk management at Landsbanki. I ask him to have lunch with me. I explain the situation to him. "That sounds like operational risk," he says. "We only really focus on trading risk."

"Who focuses on operational risk?" I ask.

"Nobody, really." He shrugs.

"Do me a favor," I say. I pass him a piece of paper with the Aurora euro cash account number on it. "Look this up in RB when you get back to your desk."

Later that day, I overhear my boss on the phone. He sounds defensive. He clicks off and leans across the desk. "Jared, that was the head of risk management. He wants to meet us about the Aurora cash stuff for some reason."

That meeting is enjoyable from start to finish. My boss claims that the large negative balance is nothing to really worry about. I parrot his statements, feigning nonchalance, the company man. Then I get to watch him get raked over the coals by the head of risk management, who gives us a couple of days to get the balance back above zero. That means my boss will have to call up Mr. 'I need to trade' and explain that he has to sell some positions. Or we will have to liquidate them ourselves, a prospect I have been relishing.

But this turns out to be far from the end of the drama. A few weeks after the fund's cash account is (surprisingly quickly) back to positive, I get an email from a partner of 'I need to trade'. He's actually the only one over there to whom I can relate as a human being. But this request is odd: "Please wire €5m to the below account in the name of Aurora Capital for participation in Shipping portfolio with [Mike Shimrinmanson]."[4]

I write back and explain that I need a little more information to put a wire through. And while he's at it, how about some documentation on this new investment Aurora is making? A contract, perhaps? The account turns out to be domiciled at a big Nordic bank, but in the name of a smaller investment firm. The Aurora guys offer zero detail on the investment itself.

This doesn't feel at all right to me. They want us to put through a naked cash wire worth millions and for a round-number amount, itself a red flag, to some guy's account in Norway?

4 Name changed.

Yes, they do. So I take it to my boss, the man with the skinny tie. I explain that I am not comfortable wiring out investor money against no paperwork. What's to say the Aurora 'advisers' aren't just taking the €5m for themselves by sending it to a friend? I stand next to him at his desk and explain the scenario. He taps through his inbox with a stone face. "Why do you always make problems, Jared?" he says. "Bring me solutions!"

But I persist. Why should we send millions to some joker's account? He finally looks up at me: "What bank holds the account?"

"Nordea," I say.

"Well, they're a reputable bank, we trade with them sometimes. I'm sure it's OK," he says, turning back to his inbox.

The depth of this man's arrogance seems to be matched only by his ignorance. Nordea is a bank many times larger than our own, and they maintain accounts for thousands of third parties: the fact that Landsbanki trades with the bank itself sometimes has no bearing on the prudence of making a money wire to the account of a random dude.

We do the wire. And then some time after that I get another email. They want to do another one. Of course! Why not? A second €5m… and then just a couple days after that a third! All told, €15m in cash straight out of our investment fund. Into the hands of: some Norwegian guy.

Around the same time, on 25 July 2008, the economy is starting to go off the rails in Iceland. A Merrill Lynch analyst points to super high credit derivative spreads as indicators that the market expects the Icelandic banks not to repay their debts. Asked about this, the Minister of Education and Culture, Þorgerður Katrín Gunnarsdóttir, comments on camera that maybe this analyst just needed some "continuing education".[5]

The many problems with Aurora have by now become legendary, at least within our small team. The fund had been kicked off and handed to us on the first day with 120 large, sitting in a cash account. The brokers upstairs had booked all the initial investors and that created an immediate problem. Aurora is, by law, a vehicle for professional investors only. To buy in one needs to meet any two out of the following three criteria: a lot of wealth, a lot of personal trades, or a lot of knowledge of markets. And the brokers had never bothered to check that their clients met the criteria.

In fact, a number of them don't, and can't. But I only hear whispers of this. I am not party to the shareholder list anyway, and don't care to be. But over the course of a year or more, I hear rumors that several of these individuals do not in fact satisfy these criteria. It's illegal to have them in the fund, but they've been with us this whole time.

I keep agitating our owl-eyed head of the fund management company: the one who was previously amazed by my fortune-telling powers. He seems to have the magic key to these secret investors. Finally, after more than a year he tells me in September 2008 that they are going to have to "exit" several of them, to the tune of millions of euros. He only discloses this because the fund needs to have enough cash on hand to make these large transfers.

These guys all bought into Aurora at the original price, €100 per share. But by this point in 2008, 'I need to trade' has lost massively. Shares are valued at only around €70, a 30% loss. The question is: how much to pay back these illegal investors as they exit the fund? Will they receive what they originally paid, or what their investments are now worth? It's a big difference: €100 versus €70. Based on the murmuring around the sales desk it seems pretty certain we will pay them out *all* their initial investment, or €100 per share, though owl-eyes will never give me a clean answer. The upshot is that we decided to steal millions belonging to legal investors to pay off other investors who never had a legitimate basis for being in the fund. And once again, as with the case of the currency fund pricing screw-up, the bank does not make good its mistake.

Then the biggest bomb hits. We learn that 'I need to trade' made a secret gigantic trade, priced in the tens of millions of euros, that he never reported to us. It's a long forward and we find out about it only when the counterparty demands settlement. (This is the second and unreported leg of the trade that magically solved our summer cash problems. Now that cash problem is back.) Finally, finally, and at long last my boss' boss (and best friend since kindergarten) is both furious and curious enough to take a gander at the same Aurora accounts that have become my daily grind. He comes in on a Sunday and calls my boss

5 www.youtube.com/watch?v=1Ree2wxZOZ0

in as well. The first thing that jumps off the page at him are the three wires for exactly €5m each.

"What's this?" he says. "Why are these transfers?"

"No idea," shrugs my boss. "That looks like something Jared did."

I hear this story secondhand late Sunday afternoon. I'm fuming. I relay it all to Hulda, sitting together on her couch. We moved in together at the end of 2007, and by now she has heard the whole Aurora saga in near-daily briefings. I sleep fitfully that night, as I have for months, dreading the work week ahead.

Monday morning we're just waking up. Hulda has a strange but very clear expression when she turns to me. "I had a dream about your job," she says. "Don't let those assholes fire you. You should quit."

I've learned already that when my new fiancée says something with this quiet certainty, I need to listen. So I don't hesitate: I resign that week with effective date Friday, 30 September 2008. My contract stipulates three months of notice and I don't know if I'll be forced to work the entire period through year-end; the bosses are tight-lipped. The following Friday I am still reporting for work each day. By this time the word of my short-timer status has spread around the department. "Is today your last day?" co-workers ask, quietly, with raised eyebrows.

"I am not sure, they haven't told me," I reply.

That afternoon, I hear a rustle behind me. Our admin assistant is sneaking into the office kitchen with plastic sacks full of cakes from the best bakery in town. I catch her eye and she winks at me. Before long, the crows have descended on the desserts and soon it's an unauthorized but full-blown going away party for me. Sheepishly, my bosses shake my hand and wish me well. I am out the door.

The day of the cakes is Friday, 3 October 2008. The following Tuesday, 7 October 2008, Landsbanki collapses.

About the Author

Jared Bibler is a graduate of MIT, where he studied engineering. He is also a CFA charterholder with nearly 20 years of broad experience in the global financial markets. Jared started his career in Boston and New York, where he worked as a consultant to a Wall Street giant.

Following that, he moved to Iceland where he supported the Icelandic pension funds' foreign investments. Unhappy with this environment, he resigned from his job at a leading Icelandic bank days before the 2008 Icelandic financial crisis. He was subsequently hired to head a special investigation team at the Icelandic markets regulator. Jared and his team referred more than 30 criminal cases to the Special Prosecutor of Iceland, including the largest stock market manipulation cases to be prosecuted globally.

Author photograph by Dominic Büttner

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