Finance Watch

Finance and Society Conference 2012:

Addressing Fragility and Effectiveness

Session One

The Volcker Rule and Structural Issues

BETTER MARKETS
TRANSPARENCY · ACCOUNTABILITY · OVERSIGHT

Who is Better Markets?

- An independent, nonprofit, nonpartisan organization founded October 1, 2010
- A team of market, economic, legal & legislative professionals with many decades of experience
- Mission to promote the public interest in the financial markets in the US and internationally
- Based in Washington, D.C.
- More information: www.bettermarkets.com

I’m going to address

The ongoing struggle to balance the interests of banking and society

Background to Volcker Rule

- Before 1929 Crash & the Great Depression
  - Frequent financial crises & panics
- Caused by reckless bank speculation & fraud
- <u>After 1929, Regulation of Financial Markets</u>
  - Many laws passed to stop banks from threatening society
    - <u>Many layers of protections put in place</u>
  - Key was Glass-Steagall in 1933: separated commercial banking & investment banking
    - Protect depositors & society by reducing risk of runs, panics, reckless speculation and fraud at gvt-backed banks
    - Rejected unitary banking model

What did banks & allies say about this?

- Said the laws would destroy the economy
- Would kill economic growth & prolong the slump
- End of capitalism & free market
- Cost a fortune & cause unemployment to rise
- Said regulating banks was socialism
- Basically, the world as we knew it would end if strong regulations on banks were put in place
- Banks, bankers & their mouthpieces <u>always</u> say the sky will fall if they are regulated

What Happened?

- None of what banks said happened
- United States thrived
- Economic boom for decades
- Created prosperous middle class
- Banking system strong, sound & safe
- No financial crises or panics
- Banks grew along with the economy
- Until……

De-regulation of Banks & Finance

- Starting in earnest 1990s
- By end of 1990s, banking largely unregulated
  - Glass Steagall was repealed in 1999
    - Basically back to pre-Great Depression model with few if any limitations
- Shadow banking system growing unregulated
- The other layers of protection also removed
- If laws & regulations were not removed or repealed, they just weren't enforced:

Bank regulators + bankers cutting regs

Determined to cut red tape and reduce regulatory burden are (l to r), OTS Director James Gilleran, Jim McLaughlin of the American Bankers Association, Harry Doherty of America's Community Bankers, FDIC Vice Chairman John Reich and Ken Guenther of the Independent Community Bankers of America.

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What happened next?

In less than 10 years, the biggest Financial Crisis since the Great Depression began

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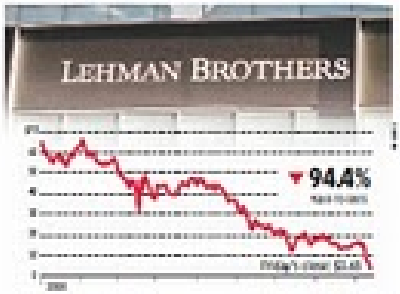
THE WALL STREET JOURNAL.

MONDAY, SEPTEMBER 15, 2008 · VOL. CCLII NO. 64 ★★★★ $1.00



Crisis on Wall Street as Lehman Totters, Merrill Is Sold, AIG Seeks to Raise Cash

Fed Will Expand Its Lending Arsenal in a Bid to Calm Markets; Moves Cap a Momentous Weekend for American Finance

By Carrick Mollenkamp, Susanne Craig, Serena Ng and Aaron Lucchetti

The American financial system was shaken to its core on Sunday. Lehman Brothers Holdings Inc. faced the prospect of liquidation, and Merrill Lynch & Co. agreed to be sold to Bank of America Corp.

The U.S. government, which bailed out Fannie Mae and Freddie Mac a week ago and orchestrated the sale of Bear Stearns Cos. to J.P. Morgan Chase & Co. in March, played much tougher with Lehman. It refused to provide a financial backstop to prevent a bankruptcy.

Without such support, Barclays PLC and Bank of America, the two most interested buyers, walked away. On Sunday night, Bank of America struck a deal to buy Merrill Lynch for $29 a share, or about $44 billion. Lehman was working on a possible bankruptcy filing that would allow most of its subsidiaries to continue operating as the firm is wound down.

Though it averted clear of a bailout, the Federal Reserve is expected to take new steps to stabilize the broader financial system. Those steps, expected to be announced, would make it easier for banks and investment firms to borrow from the central bank by using a wider range of collateral. Bankers say Charles Schwab Corp. brokerage might need short-term funds as they unwind their many trading positions with Lehman.

In addition, 10 major commercial and investment banks announced Sunday night that they would pool $70 billion of their own money to create a borrowing facility. The 10 institutions, which include Citigroup Inc., Credit Suisse Group, Deutsche Bank AG, could tap the pool to help them ride out the crisis. The banks also said they are strongly committed to trying to help gauge market volatility.

A series of forebodings gripped Wall Street as top executives feared collateral damage from a Lehman liquidation. Attention was focused on Merrill Lynch, which boasts the largest force of retail brokers, and American International Group Inc., the insurance giant. Both firms have seen their stocks get battered amid worries that they needed capital.

"Monday will be a day of reckoning for the financial markets," said Gilfed Mitchell, senior managing director of ICP Capital, a business investment firm in New York. On Sunday, he said, "It will be a day when we sort out people that are strong from weak."

AIG executives spent the weekend trying to raise cash, either from outside sources or a capital infusion from private-equity firms, or both. AIG executives were meeting with Fed officials to see if they could transfer capital from some of its subsidiaries to the holding company.

At Weather Upload, a Wall Street firm that Lehman wouldn't survive, brokerage firms, hedge funds and other clients moved to disentangle themselves from dealings with Lehman. When hopes of a potential sale dissolved, a quiet Sunday on Wall Street turned into a mad rush. Executives and traders hurried to shift or close out outstanding contracts with Lehman and to gauge their overall exposure.

Merrill, whose brokerage force is known as the "thundering herd," quickly started discussions with Bank of America, which has retail bank branches stretching from coast to coast and has long coveted Merrill. Wall Street executives said the Federal Reserve may have been involved in orchestrating the sale, figuring that it was "better to have the value

Please turn to page A10

Ultimatum By Paulson Sparked Frantic End

One of the most tumultuous weekends in Wall Street's history began Friday, when federal officials decided to follow a tortuous message to the executive of Lehman. There would be no government bailout of Lehman Brothers Holdings Inc.

Officials wanted to prepare the market for the possibility that Lehman could simply fail. The best way to do that in an orderly way would be to get as many who together in a room.

Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke and his top New York lieutenant, Timothy Geithner, summoned some 30 Wall Street executives for a 6 p.m. Friday meeting at the Fed's offices in Lower Manhattan.

What's News—

Business & Finance · *World-Wide*

Bank of America to Buy Merrill

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THE WALL STREET JOURNAL.

THURSDAY, SEPTEMBER 18, 2008 · VOL. CCLII NO. 67 ★★★★ $1.00

Mounting Fears Shake World Markets As Banking Giants Rush to Raise Capital

By Tom Lauricella, Liz Rappaport and Annelena Lobb

Fear continued through the U.S. financial system on Wednesday, as hope for a resolution to the year-old credit crisis faded.

Stocks tumbled, markets grew alert which financial firm would fall next, and investors rushed toward the safe haven of government bonds in the wake of the collapse of Lehman Brothers Holdings Inc. and the crisis at Merrill Lynch. Insurance Group.

The market turmoil is doing more than inflicting losses on investors. Borrowing costs for U.S. companies have skyrocketed, and the debt markets have become nearly inaccessible to all but the most creditworthy businesses.

The desperation was especially strong in the market for U.S. government debt, long considered the safest of investments. At one point during the day investors were willing to pay more for one-month Treasury bills than they could expect to get back when the bonds matured. In the interim, it would have had doubled that a small but known loss was better than the uncertainty connected to any other type of investment.

There never happened before. It signaled government stocks on Wednesday, said Jim Lebenthal, a portfolio manager at Federated Investors. "It's just crazy."

A 440-point selloff took the Dow Jones Industrial Average to its lowest level in almost three years, leaving it 20% below where it stood a year ago. Volume on the New York Stock Exchange was the second highest in history, trailing just slip of the record set on Tuesday. The VIX, a widely watched measure of market volatility that is sometimes referred to as the "fear index," hit its highest level since late 2002.

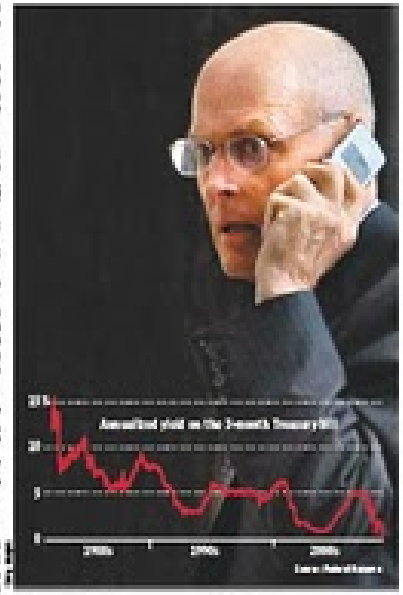
In Europe, stock markets lost roughly 3% of their value. In Russia, the home of recent massive declines, trading on the country's major exchanges was halted for the second day in a row. Oil fell nearly an hour and a half into the session. Gold prices rose 9% to $869.40 an ounce amid the global turmoil.

"Forget about retail investors, all the pros are scared," says one broker. "People have no idea where to put their money."

For now, "if you have cash, you're going to get it in the Treasuries, most liquid market you can," says Steve Van Order, chief investment strategist for Calvert Asset Management.

Adding to the fear was a loss in a previously money market fund, the Reserve Primary Fund, which held Lehman Brothers debt. It was the first time since 1994 that such a fund, which is supposed to be as safe as a bank account, had lost money. The loss was large enough to "break the fund. Over two days, investors

Follow this in the last page



High Anxiety, Low Returns

In a clear sign of the severity of the crisis, investors poured money into Treasury bills, one of the safest investments. Wednesday, yields hit their lowest level since the 1950s, as the premium on security rose sharply.

Morgan Stanley in Talks With Wachovia, Others

By Aaron Lucchetti, Randall Smith and Jenny Strasburg

Morgan Stanley sought shelter from the growing financial storm Wednesday, starting preliminary merger talks with Wachovia Corp. and other banks as a new stock-market decline in the company's share price sent the stock to its lowest level since 1998.

After a harrowing day, Morgan Stanley's shares finished down $6.08, or 24%, to $19.75. Goldman Sachs Group, the largest U.S. investment bank by market value, also fell $10.52, or 14%, to $64.50.

While the situation in these areas at Morgan Stanley, the new Wall Street banks are both battling extraordinary market pressures that have already pushed stable Lehman Brothers Holdings Inc. and Merrill Lynch & Co. into bankruptcy proceedings. Many hedge funds, as Morgan Stanley and Goldman Sachs, two of the oldest and most successful investment banks, market confidence withered in the past 24 hours for firms that were once trusted and admired.

As employees stared at their trading screens and television sets, a sense of disbelief hung over people who had thought themselves largely insulated from credit-market fears. "We lost more than half my net worth in a month," said one Goldman employee.

Follow this in page A8

Reaching Down

Morgan Stanley's share price dropped 24% on Wednesday

Source: WSJ Market Data Group

What's News—

Business & Finance

World-Wide

Bad Bets and Cash Crunch Pushed Ailing AIG to Brink

Worst Crisis Since '30s, With No End

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The Washington Post

DISTRICT & MARYLAND HOME EDITION

THURSDAY, SEPTEMBER 18, 2008

Markets in Disarray as Lending Locks Up

ON CAPITOL HILL

Lawmakers Left On the Sidelines As Fed, Treasury Take Swift Action

By Lori Montgomery
Washington Post Staff Writer

The frenetic pace of the financial crisis has forced the Treasury Department and Federal Reserve to make rapid-fire decisions in recent days, leaving Capitol Hill lawmakers effectively impotent — and frustrated.

Lawmakers on both sides of the aisle expressed concern yesterday that they have had no control over when and how federal money has been used to rescue the parts of Wall Street. While many have been convinced that the moves so far have been necessary to prevent a wider financial meltdown, they said they felt confined to the sidelines as power to make momentous decisions has been concentrated in very few hands.

House Speaker Nancy Pelosi (D-Calif.) said she has dispatched Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee, to determine whether Federal Reserve Chairman Ben S. Bernanke should retain authority to unilaterally bail out failing firms, as he did Tuesday with a loan of $85 billion to insurance giant American International Group.

Congressional leaders learned of the rescue late Tuesday during a hastily called meeting in the Capitol with Bernanke and Treasury Secretary Henry M. Paulson Jr., who explained the deal after it was done.

Federal Intervention Fails to Stem Crisis of Confidence on Wall St.

By Nancy Trautman and Dennis Cauchon
Washington Post Staff Writers

The flow of money through critical parts of the financial system all but stopped yesterday, prompting the stock market to plunge again as banks lost faith in one another and investors rushed to U.S. government securities to protect their savings.

Goldman Sachs and Morgan Stanley, the only major investment banks still standing amid the wreckage of Wall Street's old order, survived.

In one of the most tumultuous days ever for financial markets, the Dow Jones industrial average fell [illegible] points, or [illegible] percent, and a money fund broke with U.S. debt that buyers were at one point willing to accept interest rates for Treasury bills of only 0.2 percent, the lowest since World War II.

The financial toll continued to mount despite a series of escalating steps taken by the government in recent weeks. As one investment bank failed Sunday and another was taken over, the Federal Reserve lowered its lending to troubled institutions. Then, in its most dramatic step yet, the government on Tuesday took over the mortgage insurance company American International Group and extended it an [illegible] billion emergency loan. None of these measures succeeded in stopping the accelerating troubles.

Investors "are worried there is a lot more out there," said Robert McTeer, chief economist for Dallas Asset Management in Boston.

See BANKS, A12, Col. 1

ANALYSIS

Scrambling to Clean Up After A Category 4 Financial Storm

By Steven Pearlstein
Washington Post Staff Writer

You know you're in a heap of trouble when the leader of last resort suddenly runs out of money.

Having pumped $100 billion into the banking system and lent $112 [illegible] since the broker's fire was figured in.

This is what a Category 4 financial crisis looks like. Giant blue-chip financial institutions vanish overnight in a matter of days. Banks refusing to lend to other banks. Hedge funds closing in stock market to stop the panicked selling. Gold soaring $70 in a single

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Weekend Journal: Dancing on Gehry's Rooftops

THE WALL STREET JOURNAL.

FRIDAY, SEPTEMBER 19, 2008 - VOL. CCLII NO. 68 $1.00

U.S. Drafts Sweeping Plan to Fight Crisis As Turmoil Worsens in Credit Markets

Paulson Briefs Congress on Idea to Buy Bad Assets From Banks, Insure Money-Market Funds; Stocks Rebound Sharply

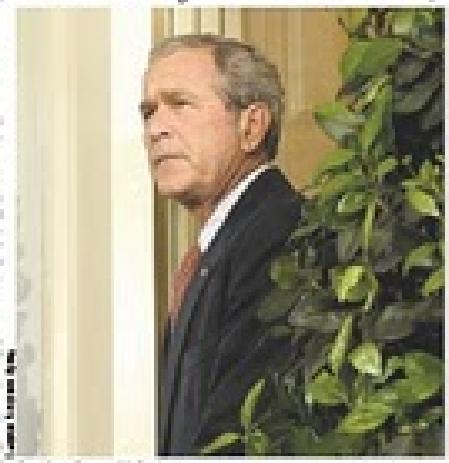
By Deborah Solomon And Damian Paletta

WASHINGTON—The government is drafting a sweeping new plan of programs that would try to remove perhaps the biggest stumbling block to financial markets since the 1930s, underscoring the need for a comprehensive approach to the financial crisis after a series of ad hoc rescues.

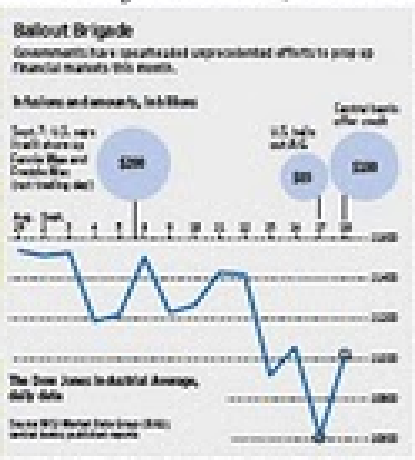
At the center of the potential plan is a mechanism that would take bad assets off the balance sheets of financial companies, according to people familiar with the matter, a device that echoes similar moves taken in past financial crises. Details of the mechanism could reach hundreds of billions of dollars, one person said.

Another proposed would be the creation of federal insurance for investors in money-market mutual funds, coverage akin to the insurance that currently safeguards bank deposits. The move is designed to ease a crisis of liquidity in commercial paper, a mainstay of short-term borrowing for companies, which has been seized up, but is in a period to apply to financial markets.

Details of the plan were still being worked out Thursday night and it will be delivered to Congress in "hours," said Senate Majority Leader Harry Reid of Nevada.



President George W. Bush arrives to make a statement regarding the economy in the Oval Office Colonnades of the White House Thursday.



The administration had been taking a piecemeal approach to the financial crisis, putting each fire out as it arises. That approach represents an effort to take a more systematic approach, after signs of bad debts, credit downgrades and rumbling stocks brought down Wall Street giant Lehman Brothers Holdings Inc. to Bank of America Corp. and insurance giant American International Group Inc. Banks have grown unwilling to lend to one another, a sign of an overall crisis, because financial institutions work with what [illegible] to meet their obligations. (See articles on Page A8 and C1.)

Word of the plan came the

Please turn to page A10

SEC Is Set To Issue Temporary Ban Against Short Selling

The Securities and Exchange Commission prepared to approve sweeping steps to temporarily prevent investors from making bets on stock declines in an attempt to stem some of the worst stock market slides in years, according to people briefed on the proposal.

By Kara Scannell, Deborah Solomon, Craig Karmin and Gregory Zuckerman

The SEC was contemplating a list of steps, including banning short selling in certain financial stocks, some of which could be announced as early as today, a person familiar with the matter said. It is unclear whether the ban will be limited to a certain number of financial stocks or how long it would last.

Following a late meeting with Congress, Mr. Cox said, "We're going back to work tonight and in fact the entire commission is in formal meeting right now."

What's News—

Business & Finance

World-Wide

Street Scenes: The Players Remaking Financial World

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The Washington Post

DISTRICT & MARYLAND HOME EDITION

Friday, September 19, 2008

CAMPAIGN 2008

GOP Sees Rebound in Battle for Congress

Party Hopes Momentum Will Help Limit Losses

By Shailagh Murray and Paul Kane
Washington Post Staff Writers

Like many of her Republican colleagues concerned about their reelection prospects, Sen. Elizabeth Dole of North Carolina skipped the party's national convention to focus on campaigning back home. But even in her absence, the gathering may have given her bid for a fourth term a boost in its biggest hour yet.

Volunteers began showing up at GOP campaign offices as soaring ratings for the convention gave many of them conservatives who were lukewarm to presidential nominee John McCain but ecstatic about his running mate, Alaska Gov. Sarah Palin. Their enthusiasm could be Dole's saving grace on Nov. 4.

"We have to move out of here and take on the fight together," Dole said at a GOP dinner in North Carolina earlier this month, acknowledging, "We're in a very tough cycle."

After months of fundraising doldrums, recruitment troubles and damning polls, Republicans believe they are finally on the rebound in the battle for Congress. Both sides concede that the GOP stands almost no chance of taking back the House or Senate in November, but party leaders think the Palin factor and an increasingly competitive fight for the White House have generated enthusiasm and momentum that could limit GOP losses to only a few Senate seats and perhaps fewer than a dozen House seats.

Ascendence of the job provided to the party base by the Republican convention

See SENATE, A6, Col. 1

Citing Grave Financial Threats, Officials Ready Massive Rescue

Treasury Secretary Henry Paulson announces the government's intervention with House Speaker Nancy Pelosi and Fed Chairman Ben Bernanke.

Lawmakers Work With Fed, Treasury To Try to Restore The Flow of Money

By Binyamin Appelbaum and Lori Montgomery
Washington Post Staff Writers

The Bush administration is urgently preparing a massive intervention to revive the U.S. financial system, including a plan to sweep away the unpaid loans that are choking banks and blocking the flow of money to borrowers.

Congressional leaders gave bipartisan support to the administration's efforts after a meeting last night with Treasury Secretary Henry M. Paulson Jr. and Federal Reserve Chairman Ben S. Bernanke.

Paulson and Bernanke presented a "chilling" picture of the state of the financial system, according to a participant in the meeting who spoke on condition of anonymity. Lawmakers were told the consequences would be grave if they failed to pass legislation by the end of next week. Sen. Harry Reid (D-Nev.) and Rep. Nancy Pelosi (D-Calif.) committed to meeting that deadline.

The plan involves using hundreds of billions of dollars in government funding to buy bad loans, leaving banks with more money and fewer problems, according to two sources familiar with what was said at the meeting.

See FINANCE, A10, Col. 1

WALL STREET

Despite Late Surge, Markets Still Show Signs of Instability

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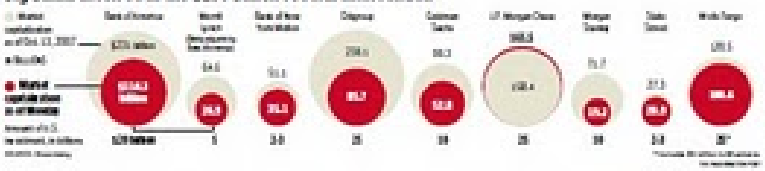
The Washington Post

DISTRICT & MARYLAND HOME EDITION

Tuesday, October 14, 2008

U.S. Forces Nine Major Banks To Accept Partial Nationalization

Big Banks Involved in the $250 Billion Federal Intervention



DOW SOARS 11 PERCENT: BIGGEST POINT GAIN EVER

By Dennis Cass, Nana Sonia and Peter Wonacott
Washington Post Staff Writers

The U.S. government is dramatically escalating its response to the financial crisis by planning to invest $250 billion in the country's banks, forcing nine of the largest to accept a Treasury stake in what amounts to a partial nationalization.

News that European governments also planned to take stakes in their banks and anticipation of new U.S. measures unleashed a tremendous surge in U.S. stock prices yesterday, with the Dow Jones industrial average soaring to the biggest percentage gain since the 1930s, up 11.1 percent. It ended 936.42 points higher, the largest point gain ever, just days after the Dow had its worst weekly decline in history.

The Treasury Department's decision to take equity stakes in banks represents a significant reversal, coming just weeks after Treasury Secretary Henry M. Paulson Jr. had opposed the idea. In a nonstop meeting yesterday afternoon in Washington, Paulson, flanked by top financial regulators, told the chief executives of nine leading banks that they needed to participate in the program for the good of the national economy. Two industry sources said on condition of anonymity because they were not authorized to speak publicly.

The government's initiative, which was to be announced this morning before the markets open for New York trading, is part of a wider plan that goes beyond the $700 billion rescue package approved by Congress earlier this month. The Federal Deposit Insurance Corp. is also set to announce today the launch of an insurance fund to guarantee new issues of bank debt. It will provide unlimited deposit insurance for non-interest-bearing accounts, which are widely used by small businesses for payroll and other purposes.

In pressing the bank executives to accept partial government ownership, Paulson is expected to stress that though officials the program was voluntary, the banks had little choice in the matter. In exchange for giving the Treasury minority stakes, the nine firms would jointly receive an investment worth $125 billion. The

See TREASURY, A7, Col. 1

SYMBOLIC INVESTMENT

Treasury Invokes Patriotism In Pitch to Bank Executives

By Binyamin Appelbaum
Washington Post Staff Writer

The federal government is investing in at

More Coverage

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International Monetary Fund

World Economic Outlook

World Growth Grinds to Virtual Halt, IMF Urges Decisive Global Policy Response

IMF Survey online

January 28, 2009

- IMF revises world growth down to lowest rate since World War II
- Stresses need for stronger international policy response to the crisis
- Banking sector must be unclogged to get economies moving again.

World growth is forecast to fall to its lowest level since World War II, with financial markets remaining under stress and the global economy taking a sharp turn for the worse, sending both global output and trade plummeting, the IMF said in its latest assessment of the world economy.

"We now expect the global e
Olivier Blanchard in prepa

World growth is projected
said in an *Update* to its *W*
update to its *Global Finan*

Despite wide-ranging poli
financial strains remain ac
IMF Managing Director D
possible until the banking

New policy initiatives ne

"For this purpose, new po
sort financial companies a
viable institutions by injec
"bad bank" approach," the

"We think that more decisive action is needed now by both policymakers and market participants, and with greater emphasis on balance sheet cleansing," said Jaime Caruana, Financial Counsellor of the IMF.

World growth is forecast to fall to its lowest level since World War II, with financial markets remaining under stress and the global economy taking a sharp turn for the worse, sending both global output and trade plummeting.

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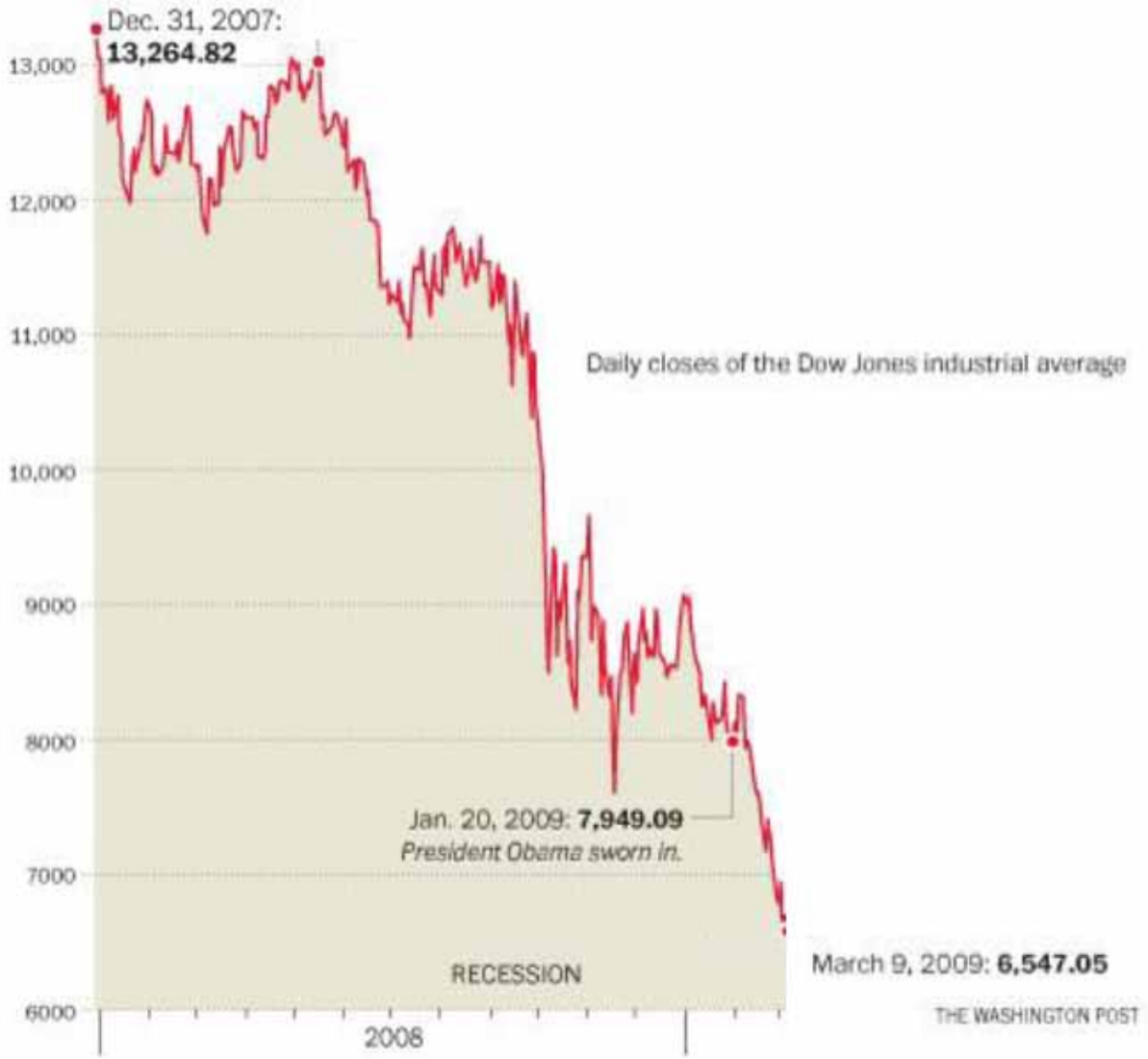

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What Could Have Happened & What Might Happen Next Time

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"All the News That's Fit to Print"

The New York Times

Late Edition

Today, partly sunny, milder, high 46. **Tonight,** turning mostly cloudy, but not as cold, low 35. **Tomorrow,** cloudy, showers arriving, high 45. Weather map appears on Page D8.

VOL. CLVII . . No. 54,231 New York, Monday, November 10, 2008 $1.25

Bank of America, Merrill Lynch, Wells Fargo File Bankruptcy

Bank of America filed bankruptcy Monday morning, marking the end of Too Big to Fail

WASHINGTON — A Congressional hearing on Thursday addressing homegrown Islamic terrorism offered divergent portraits of Muslims in America: one as law-abiding people who are unfairly made targets, the other as a community ignoring radicalization among its ranks and failing to confront what one witness called "this cancer that's within."

Attacked by critics as a revival of McCarthyism, and lauded by supporters as a courageous stand against political correctness, the hearing — four hours of sometimes emotional testimony — revealed a deep partisan split in lawmakers' approach to better investigations and their views on the role of mosques in America.

Republicans drilled down with questions about whether Muslims cooperate with law enforcement, and singled out a Washington-based advocacy group, the Council on American-Islamic Relations, saying it

Homeland Security Committee chairman who convened the session, declared it a "discredited group," an assertion the organization's executive director, Nihad Awad, dismissed as "political theater."

Democrats sought to put the spotlight on the lone law enforcement witness, Sheriff Leroy D. Baca of Los Angeles, who testified that Muslims do cooperate, and they cited a Duke University study that found that 90 percent of tribal domestic terror plots had been thwarted with the help of Muslims.

"A Muslim is on the panel! A Muslim has testified!" thundered Representative Sheila Jackson Lee, the Texas Democrat, referring to one of the witnesses — a film that brought a chorus of supportive gestures from those watching on television in an overflow hearing room. She went on, "And so I question, where are the of how their relatives embraced radical Islamic extremism.

"Our children are in

unsympathetic Muslims?"

The hearing room was tiny and crowded, and the drama restrained; at the slightest hint of audience reaction, Mr. King warned that authority would not be tolerated. But the hallways bustled with a slideshow of flashing television cameraman and onlookers, from women dressed in hijabs to a couple of retirees holding a sign that said "Respect all Religion — Live With Love."

Representative Keith Ellison, a Minnesota Democrat who is Muslim, wept as he recounted the story of Mohammed Salman Hamdard, a 23-year-old volunteer medical technician who rushed to help when the World Trade Center was compelling narratives of how their relatives embraced Islamic extremism.

"Our children are in danger," Mr. Hodges warned, endorsed

attacked on Sept. 11, 2001 — and died in the building's collapse. Mr. Ellison barely finished his testimony, breaking down as he described how, when his Hamdard disappeared, his religion fueled speculation that he was part of the plot — rumors put to rest by the discovery of his remains.

But two other witnesses — Melvin Hodges, a Memphis businessman, and Abdirizak Bile of the Somali Education and Social Advocacy Center in Minneapolis — offered their own compelling narratives of how their relatives embraced Islamic extremism.

"Our children are in danger," Mr. Hodges warned, endorsed Islamic extremism.

"Our children are in danger," Mr. Hodges warned, endorsed Islamic extremism.

"Our children are in danger," Mr. Hodges

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THE WALL STREET JOURNAL.

DOWJONES

MONDAY, NOVEMBER 3, 2008 – VOL. CCLI NO. 75

★★★★ $1.50

DJIA 13739.39 ▲ 335.97 2.5% NASDAQ 2651.66 ▲ 2.7% NIKKEI 15801.80 ▼ 2.0% DJ STOXX 50 3731.94 ▲ 1.5% 10-YR TREAS ▼ 2/32, yield 4.478% OIL $81.51 ▲ $0.94 GOLD $715.80 unch. EURO $1.3970 YEN 116.23

Goldman Sachs, Morgan Stanley File Bankruptcy

As Banking Giants Fall, Leaders Fear Threat of Total Economic Collapse

BY JOHN SMITH

Fannie Mae said Monday that it might need more than the $100 billion that the Treasury said it was willing to invest in the giant mortgage company to help it stay in business.

"If we continue to experience substantial losses in future periods or to the extent that we experience a liquidity crisis that prevents us from accessing the unsecured debt markets, this commitment may not be sufficient to keep us in solvent condition or from being placed into receivership," Fannie Mae said in a filing with the Securities and Exchange Commission.

Fannie Mae reported earlier Monday that it lost $29 billion in the third quarter. It said the number of loans in its portfolio that were in foreclosure or delinquent by more than three months had jumped to 1.72 percent in September.

Fannie Mae reported earlier

Goldman Sachs filed bankruptcy Monday

Fannie Mae said Monday that it might need more than the $100 billion that the Treasury said it was willing to invest in the giant mortgage company to help it stay in business.

"If we continue to experience substantial losses in future periods or to the extent that we experience a liquidity crisis that prevents us from accessing the unsecured debt markets, this commitment may not be sufficient to keep us in solvent condition or from being placed into receivership," Fannie Mae said in a filing with the Securities and Exchange Commission.

Fannie Mae reported earlier Monday that it lost $29 billion in the third quarter. It said the number of loans in its portfolio that were in foreclosure or delinquent by more than three months had jumped to 1.72 percent in September.

"If we continue to experience substantial losses in future periods or to the extent that we experience a liquidity crisis that prevents us from accessing the unsecured debt markets, this commitment may not be sufficient to keep us in solvent

BETTER MARKETS
TRANSPARENCY · ACCOUNTABILITY · OVERSIGHT

The Washington Post

MD DC VA M2 V1 V2 V3 V4

TODAY'S WEATHER: *Sunny. 59/43* • *Tomorrow: Partly sunny. 70/52*

Thursday, November 20, 2008

75¢ (Newsstand) • *49¢ (Home Delivery)*

JP Morgan Chase, Other Banks File Bankruptcy

WASHINGTON – A Congressional hearing on Thursday addressing homegrown Islamic terrorism offered divergent portraits of Muslims in America: one as law-abiding people who are unfairly made targets, the other as a community ignoring radicalization among its ranks and failing to confront what one witness called "this enemy that's within."

Attacked by critics as a revival of McCarthyism, and lauded by supporters as a courageous stand against political correctness, the hearing – first hours of committee emotional testimony – revealed a deep partisan split in lawmakers' approaches to terror investigations and their views on the role of Muslims in America.

Republicans drilled down with questions about whether Muslims cooperate with law enforcement, and singled out a Washington-based advocacy group, the Council on American-Islamic Relations. Democrats, who control the committee, dismissed it as a "discredited group," an assertion the organization's executive director, Nihad Awad, dismissed as "political theater."

Democrats sought to put the spotlight on the lone law enforcement witness, Sheriff Leroy D. Baca of Los Angeles, who testified that Muslims do cooperate, and they cited a Duke University study that found that 40 percent of foiled domestic terror plots had been thwarted with the help of Muslims.

"A Muslim is on the panel! A Muslim has testified!" thundered Representative Sheila Jackson Lee, the Texas Democrat, referring to one of the witnesses – a film that brought a chorus of supportive gulfstream from those watching on television in an overflow hearing room. She went on, "And as I question, where are the of how their relatives embraced radical Islamic extremism.

"Our children are in danger," Mr. Hoekstra

Jamie Dimon of JP Morgan outside the bank's headquarters

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TRANSPARENCY · ACCOUNTABILITY · OVERSIGHT

"All the News That's Fit to Print"

The New York Times

Late Edition

Today, partly sunny, milder, high 46. **Tonight,** turning mostly cloudy, but not as cold, low 35. **Tomorrow,** cloudy, showers arriving, high 45. Weather map appears on Page D8.

VOL. CLVII . . No. 54,231 New York, Monday, May 1, 2015 $1.25

Banks Collapsed Like Dominoes, GE, Others Now Failing

Is Wall Street Gone?

BETTER MARKETS
TRANSPARENCY · ACCOUNTABILITY · OVERSIGHT

THE WALL STREET JOURNAL.

DOWJONES

MONDAY, December 15, 2008 – VOL. CCLI NO. 75

★★★★ $1.50

DJIA 13739.39 ▲ 335.97 2.5% NASDAQ 2651.66 ▲ 2.7% NIKKEI 15801.80 ▼ 2.0% DJ STOXX 50 3731.94 ▲ 1.5% 10-YR TREAS ▼ 2/32, yield 4.478% OIL $81.51 ▲ $0.94 GOLD $715.80 unch. EURO $1.3970 YEN 116.23

Financial Crisis Leads to Panic

COURTESY: NASDAQ OMX GROUP, INC.

Fannie Mae said Monday that it might need more than the $100 billion that the Treasury said it was willing to invest in the giant mortgage company to help it stay in business.

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World falls into New Great Depression

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Businesses Have No Money for Payroll

Due to credit crunch businesses across America are unable to

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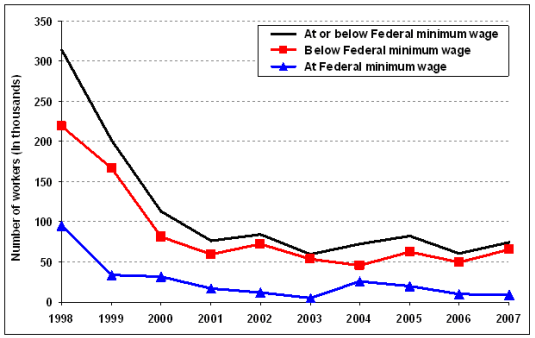

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Unemployment Shoots to 25 Percent in 2 Months

WASHINGTON– U.S. unemployment has reached 25 percent, which eclipses unemployment rates that were seen during the Great Depression.

A of Muslims in America one as law-abiding people who are unfairly made targets, the other as a community ignoring radicalization among its own and failing to confront what one witness called "this cancer that's within."

Attached by critics as a revival of McCarthyism, and lauded by supporters as a courageous stand against political correctness, the hearing — four hours of sometimes emotional testimony — revealed a deep partisan split in lawmakers' approach to terror investigations and

Massive Layoffs Nationwide

NEW YORK– As a community ignoring radicalization among its own and failing to confront what one witness called "this cancer that's within."

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Attached by critics as a revival of

Homeland Security Committee chairman who convened the session, declared it a "discredited group," an assertion the organization's executive director, Nihad Awad, dismissed as "political theater."

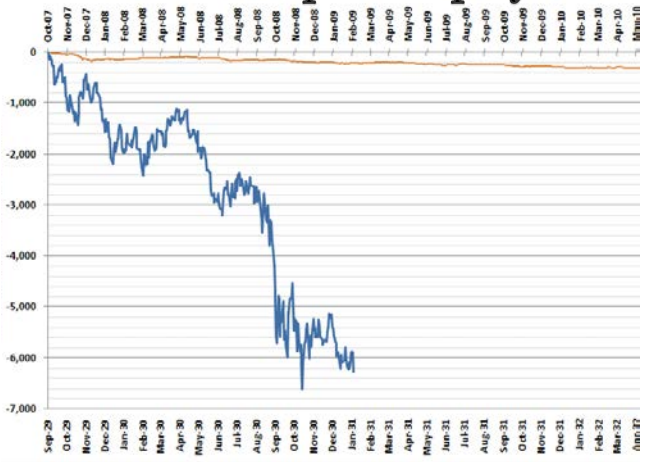
Democrats sought to put the spotlight on the home

unsympathetic Muslims."

The hearing room was tiny and crowded, and the drama centered, at the slightest hint of audience reaction, Mr. King warned that outbursts would not be tolerated. But the hallways bustled with a

attended on foot, in jeans — and died in the building's collapse. Mr. Elliott barely finished his testimony, breaking down as he described how, when Mr. Hamdard disappeared, his religion fueled suspicions that he was

Dramatic Drop in Employment



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World Falls into New Great Depression

BY JOHN SMITH

A once proud and dominant General Motors, which at its peak controlled half the American auto market, filed for bankruptcy court protection on June 1 in an historic act that will see federal taxpayers own 60% of a smaller, reorganized company.

After decades of decline, GM (GM) was finally brought to its knees by the recession and frozen credit markets, forcing the company into the arms of the federal government. But the money the government gave to keep GM upright—$19.4 billion to date and as much as $30.1 billion more down the line—came with big strings. President Barack Obama wanted GM to completely restructure so it could become competitive again. The only way to get the savings the carmaker needed from bondholders and its sprawling dealer network was under the umbrella of court supervision.

With the bankruptcy, GM will get a chance at a new start. Management and its government overseers hope GM can wipe away decades of outsized retiree and labor costs and brand-and-marketing strategy, both of which were designed for an era that had long passed. The

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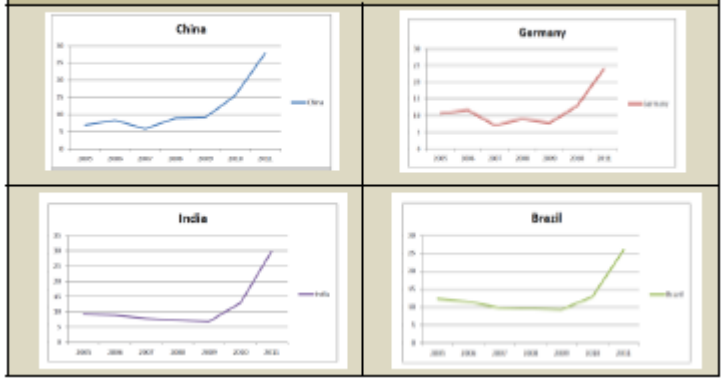
Economies Grind to a Halt

Unemployment Skyrockets Worldwide



Global Financial System Fails

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Why Didn't That Happen?

Massive U.S. and International Action

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Board of Governors of the Federal Reserve System

For release at 8:30 a.m. EDT

February 23, 2009

Joint Statement by the Treasury, FDIC, OCC, OTS, and the Federal Reserve

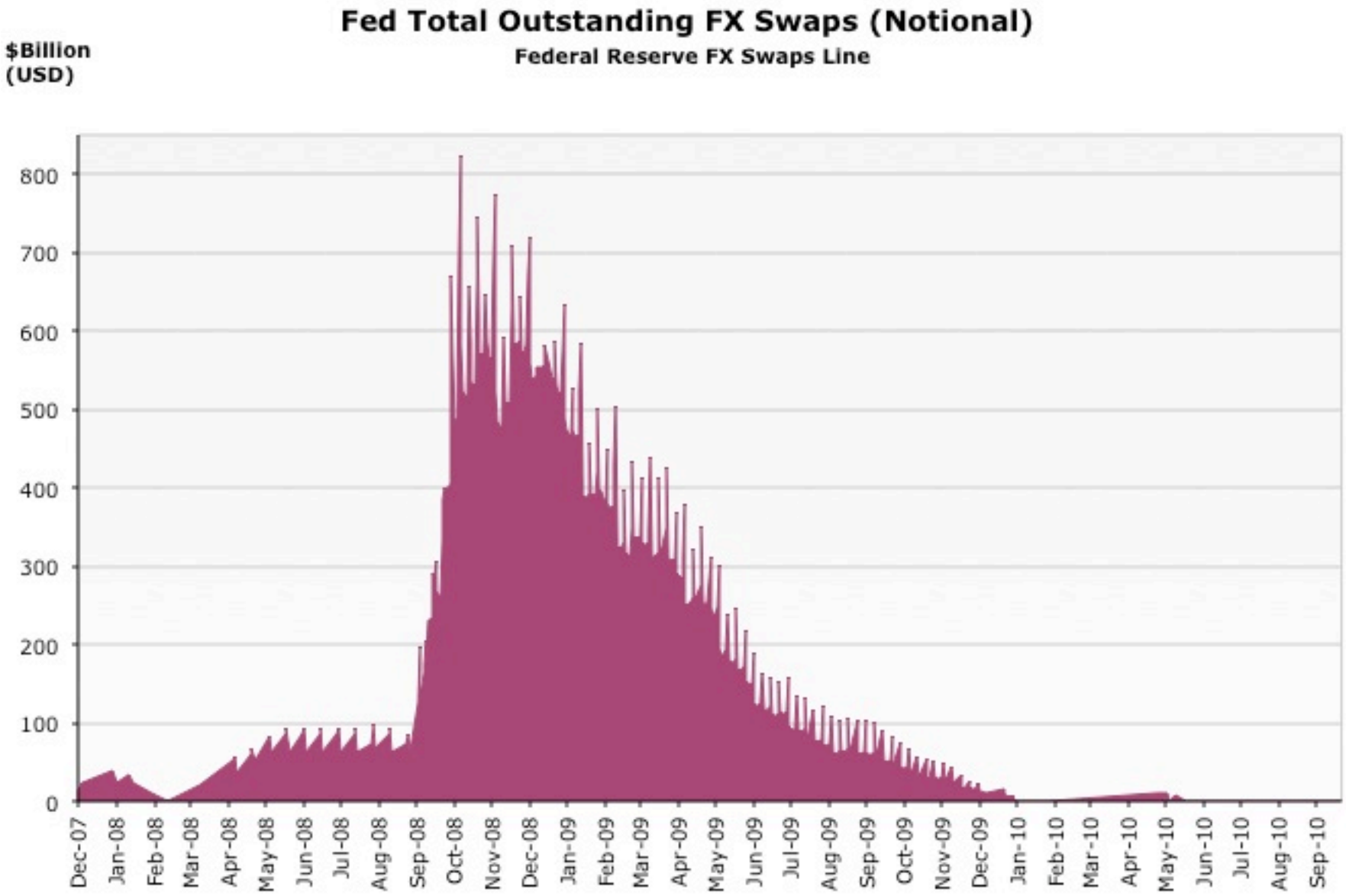
The U.S. Department of the Treasury, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Reserve Board today issued the following joint statement:

"A strong, resilient financial system is necessary to facilitate a broad and sustainable economic recovery. The U.S. government stands firmly behind the banking system during this period of financial strain to ensure it will be able to perform its key function of providing credit to households and businesses. The government will ensure that banks have the capital and liquidity they need to provide the credit nec y to restore economic growth. Moreover, we reiterate our determination to preserve the viabili cally important financial institutions so that they are a

"We announced on Feb ing institutions are appropriately capita ed on February 25, the capital needs of llenging economic environment. rranted, institutions will have an porary capital buffer will be made ava w capital standard and it is not e o provide a cushion against larger t conomic environment, and to su e in the form of mandatory convertible s only as needed over time to keep banks cial conditions before the conversion b set Relief Program will also be eli The conversion feature will enable insti

"Currently, the major U to be considered well capitalized. This pr e sufficient capital to perform their critical r omic recovery, even under an economic The customers and the providers of capital and pating banks will be able to move forward to provide the credit necessary for the stabilization and recovery of the U.S. economy. Because our economy functions better when financial institutions are well managed in the private sector, the strong presumption of the Capital Assistance Program is that banks should remain in private hands."

The government will ensure that banks have the capital and liquidity they need to provide the credit necessary to restore economic growth. Moreover, we reiterate our determination to preserve the viability of systemically important financial institutions so that they are able to meet their commitments.


Fed Total Outstanding FX Swaps (Notional)
Federal Reserve FX Swaps Line
$Billion
(USD)
800
700
600
500
400
300
200
100
0
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
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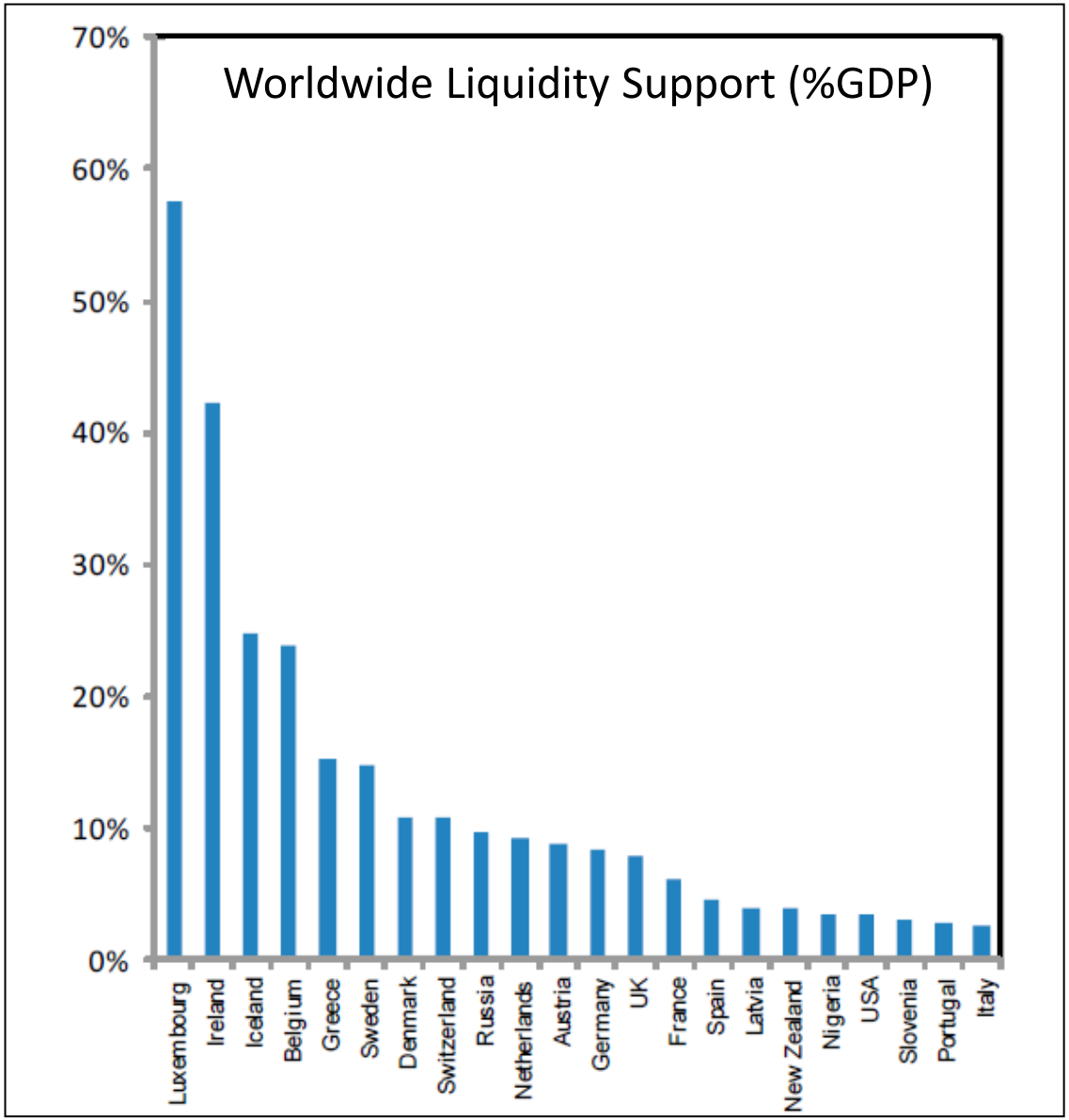

Source: WEO, Official Websites, IMF IFS, and authors' calculations.

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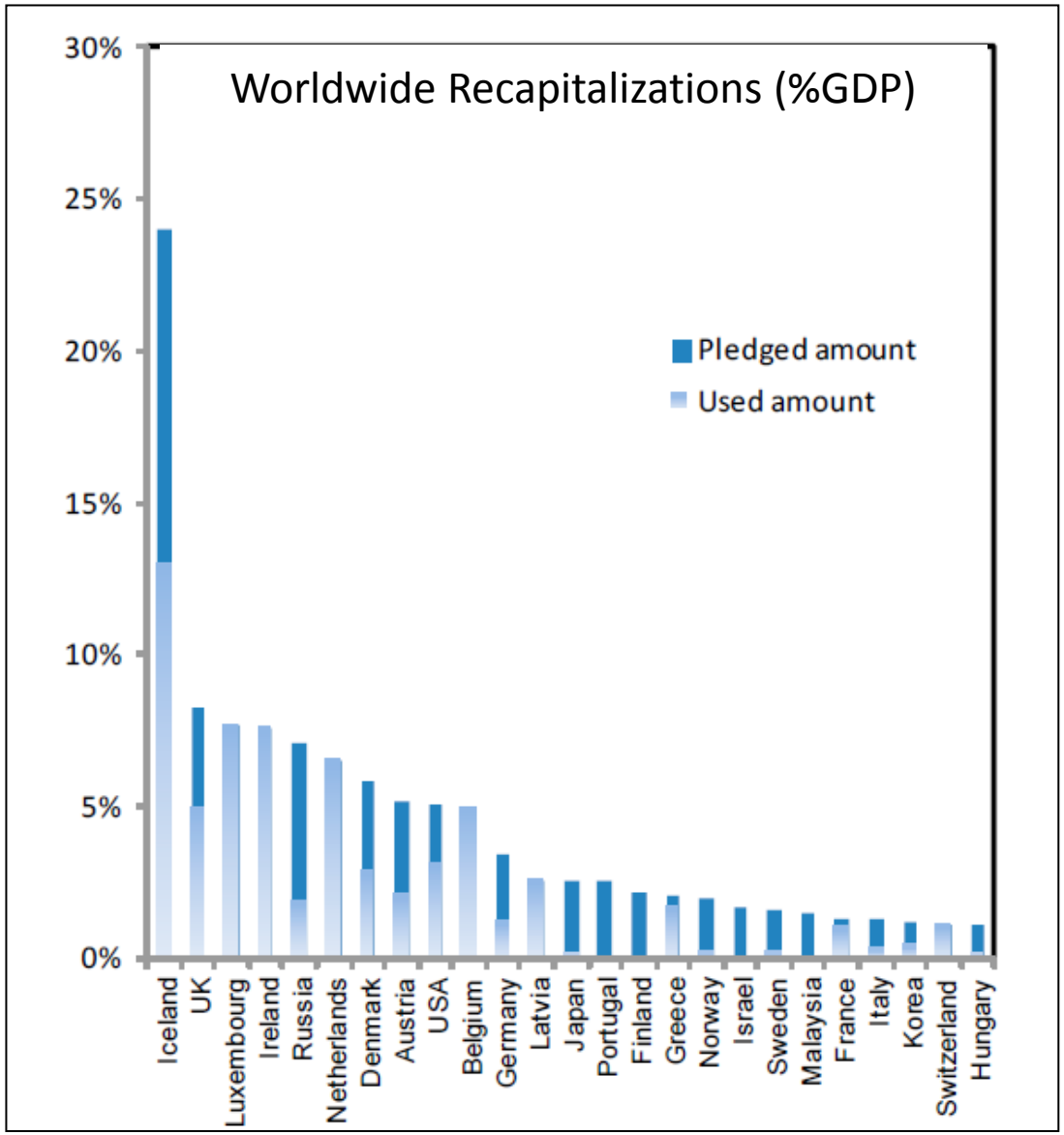

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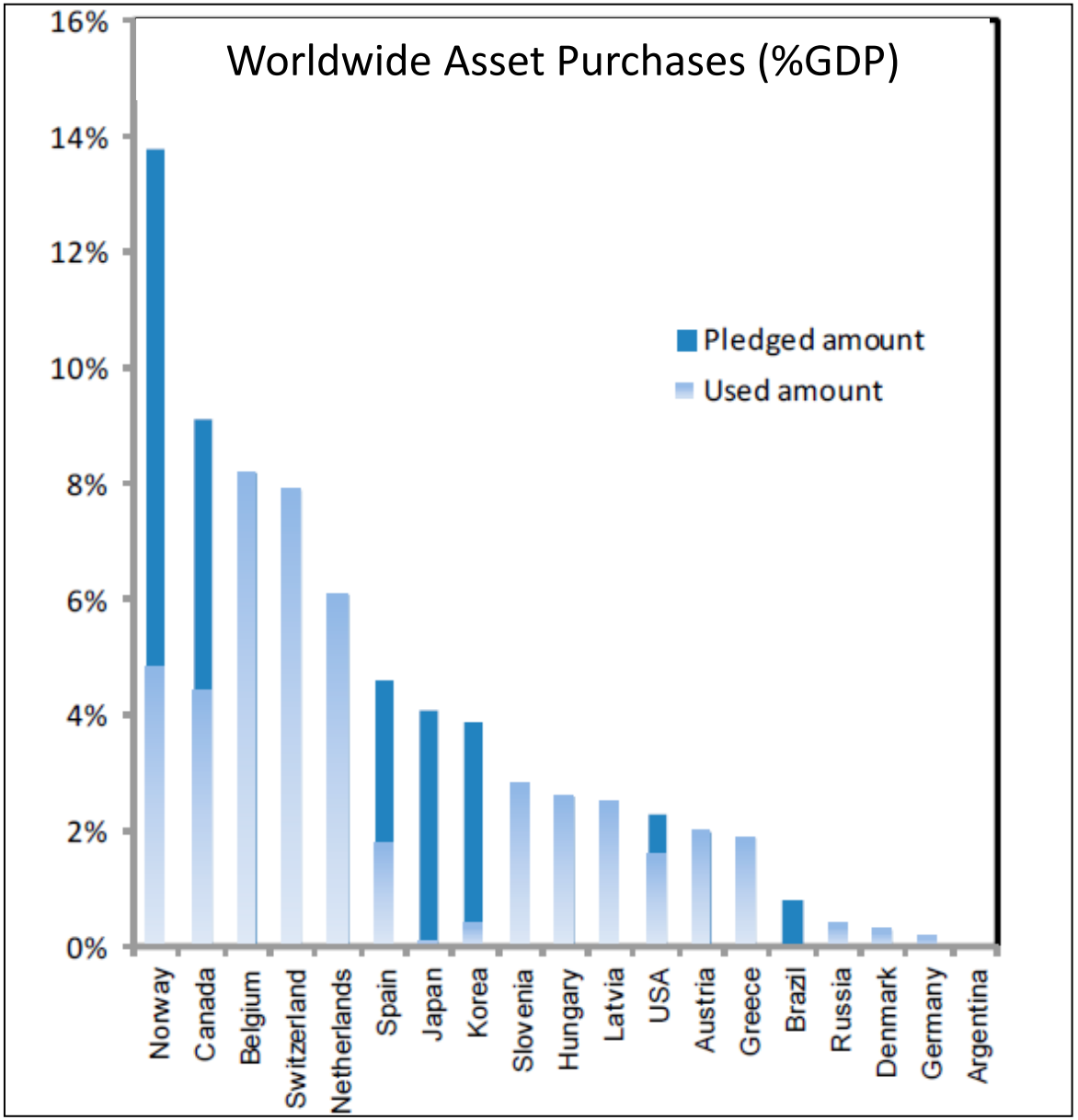

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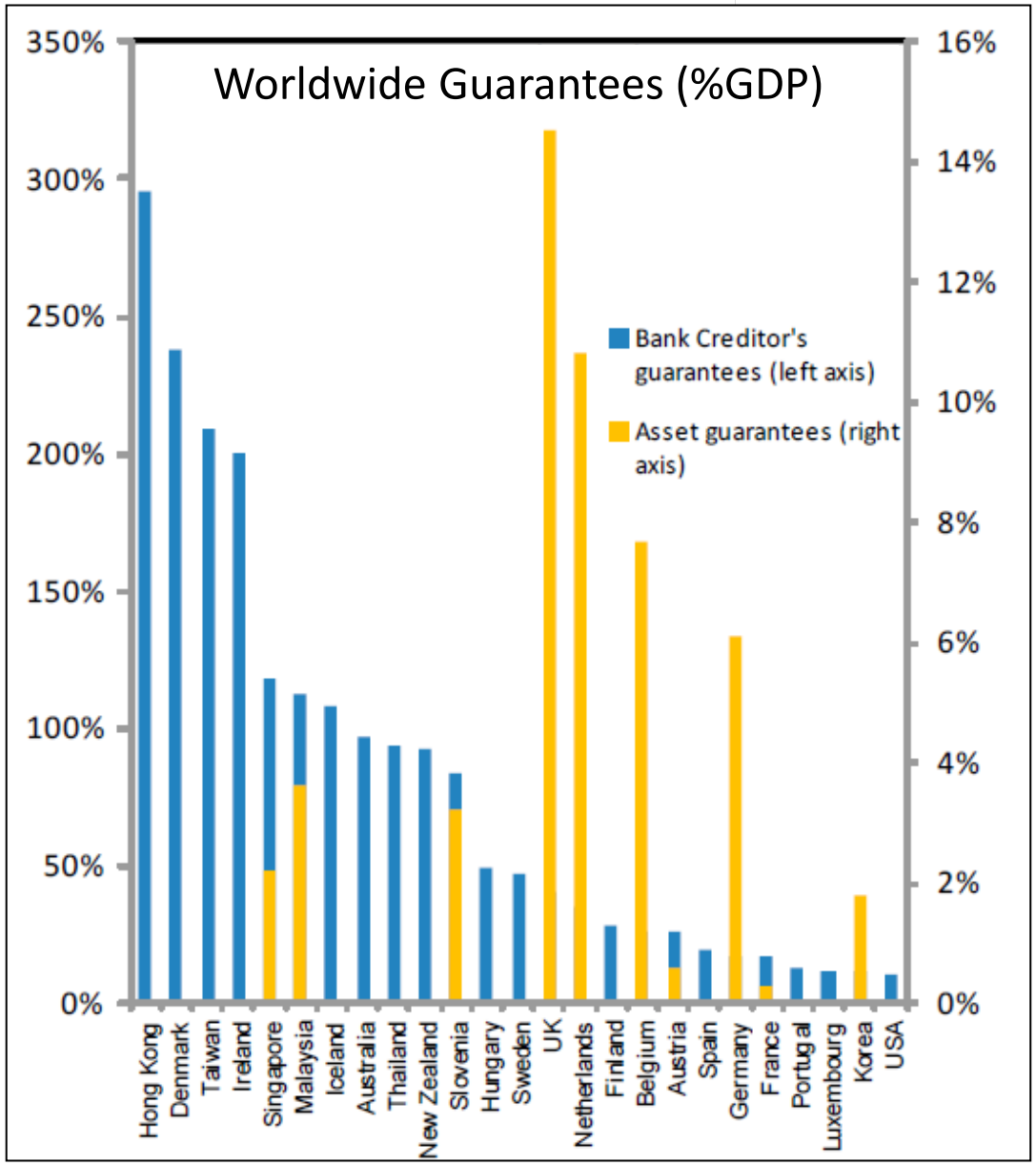

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Costs of the Last Financial Crisis

Costs of the Crisis

- Tens of Trillions of dollars spent, lent, invested, pledged, loaned or otherwise used to stop the financial sector from collapsing
- Tens of Trillions spent or used to stop the economic free fall and prevent a Second Great Depression

Additional Costs:

- Unemployment and underemployment skyrocketed and remains stubbornly high
- Trillions of stock market wealth evaporated
- Trillions of housing wealth vanished
- Trillions in government spending on important programs are gone as countries, states and provinces cut back on everything to reduce the deficits created by the costs of the financial crisis

Tracking the Costs of Crisis

- Many costs still ongoing
- Many qualitative human costs not quantifiable
- In US, bipartisan interest to **understate** cost of crisis
  - Reps claim crisis didn't cost much so can kill reform
  - Dems claim didn't cost much because they saved the world from 2nd great depression
  - Both want to fundraise from industry
- Industry, of course, wants to deny the costs
- Better Markets tracks the costs of the crisis: www.bettermarkets.com

US Passes Financial Reform Law

- Dodd Frank Wall Street Reform and Consumer Protection Act (DFA) passed July 2010
- DFA: comprehensive, integrated financial reform law targeted at systemically important institutions because they are too-big-to-fail
- Because their failure – as was seen in 2008 – threaten not just the financial system, but entire economies – and cost many trillions of dollars, euros, pounds, etc.
- Intent to make the financial system safer and more stable, less prone to crisis and failure and, therefore, less likely to fail and need government/taxpayer bailouts

Purpose of Dodd Frank

- Purpose to prevent another crisis like 2007-2009 from happening again
- Passed to prevent an even worse crisis from happening next time
  - No reason to think next time won't be worse
    - Largest banks & shadow banking system even bigger now
  - Some luck last time; highly experimental
  - Little fiscal or monetary flexibility available now
  - Some Federal Reserve powers eliminated or limited

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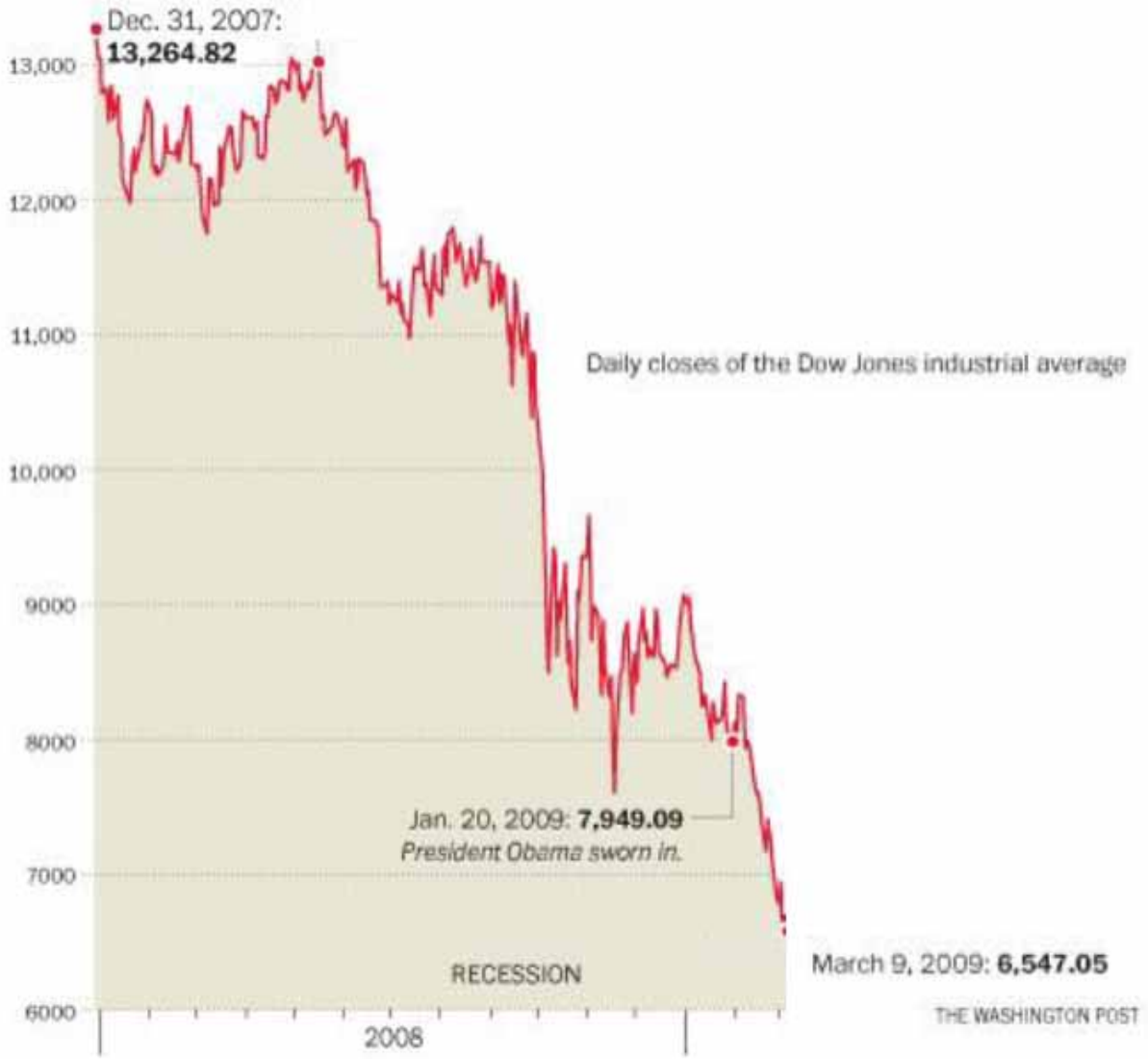

Key Parts of Dodd Frank

- Regulate systemically significant bank and non-bank financial institutions
- Leverage, capital, transparency requirements
- Regulate derivatives & OTC markets
- Resolution plans & orderly liquidation power
- Broadly increase consumer protection
- Creation of Financial Stability Oversight Council (FSOC) & Office Financial Research

Other Reforms Defeated

- Many other financial reforms were attempted during the legislative consideration of what became the Dodd Frank Act financial reform law
- The financial industry and their allies fought them and won, including defeating
  - Restoring Glass Steagall separation
  - Limiting the size of banks so can’t be too-big-to-fail

Reform Shifts Costs Back to Banks

- The law mandates that significant costs are going to be imposed on systemically important financial firms
- Most are not new costs: they are pre-existing costs being shifted BACK to the industry from society which has had to bear them since deregulation
- Costs include lost revenue, income, bonuses
  - Some prior lucrative business lines are going to be prohibited like proprietary trading and owning hedge funds with losses in tens of billions/year
  - The law and rules are going to require significant compliance costs: personnel and systems costs in the tens of millions of dollars

The Volcker Rule

Six Agencies Doing Joint Rulemaking

- Six agencies are required to act jointly to propose a Volcker Rule that implements the law
  - Commodities Futures Trading Commission (CFTC)
  - Securities & Exchange Commission (SEC)
  - Federal Deposit Insurance Commission (FDIC)
  - The Federal Reserve Board
  - The Treasury Department
  - Office of the Comptroller of the Currency

Industry lobbying adds length/complexity

- Proposed initial Volcker Rule was very short
- Became 11 pages in the law, primarily due to industry lobbying of Congress & Exec Branch for exceptions, limitations, “clarifications,” etc
- The 6 agencies then proposed a Volcker Rule, which is hundreds of pages long with hundreds of questions
- Much of this also comes from industry lobbying of the regulators

Paul Volcker's Volcker Rule

- Former Fed Chairman Paul Volcker has said "I'd write a much simpler bill. I'd love to see a 4 page bill that bans proprietary trading and makes the board and chief executive responsible for compliance. And I'd have strong regulators. If the banks didn't comply with the spirit of the bill, they'd go after them."
- We too would much prefer a different proposed rule, but this is likely the best we're going to get given industry power & the political climate

In Post-Comment Period Now

- Agencies required to allow "public" to comment on any proposed rule
  - In reality, "public" is almost always industry
- More than 17,000 comments letters were received on the proposed Volcker Rule
  - Most not that substantive
  - About 400 substantive comments from industry
  - 13 pro-reform comment letters, including from Better Markets (www.bettermarkets.com)
    - Most pro-reform comment letters filed

Procedure Now

- Agencies required to consider all comment letters
- Agencies also meet with those seeking to discuss the proposed rule
  - Overwhelming majority (about 99%+) industry
- Different agencies have different policies & practices about meetings
- Then all 6 agencies have to agree on a final rule, which is supposed to be issued by July 21, 2012
  - Likely they will miss deadline
- Parts of law become effective on July 21, 2012, but industry fighting that as well

Provisions of the Volcker Rule

- Bans proprietary trading & hedge fund investments
  - Prop trading = banks speculative trading for their own accounts, usually highly leveraged bets in risky securities (high return, but high risk)
    - Banks keep upside, but society pays downside
- Ban necessary to reduce risk of failure of systemically significant institutions with insured deposits & implicit government guarantees, i.e., subsidies
  - Only really applies to handful of biggest banks
  - Market making, underwriting, hedging, etc., explicitly allowed as "permitted activities"
- Important to remember ban on prop trading only 1 provision of comprehensive reform in DFA

Prop Trading Key to Crisis

- No genuine dispute that massive prop trading by the biggest banks contributed to the crisis
- Basel Committee on Banking Supervision: “the majority of losses and most of the build-up of leverage occurred in the trading book”
- Better Markets Comment Letter uses the collapse of Citigroup as an illustration of dangers & risks from prop trading (www.bettermarkets.com)

Making the Proposed Volcker Rule Work

- Prop trading is done for 1 reason: huge bonuses
  - Therefore, must eliminate revenue & bonuses from prop trading; bonus pool documents key to enforce
- + Swift, certain & significant penalties for traders, supervisors & executives
- +Eliminate unstable funding methods used by bank broker-dealers
- +Require market-making book to be fully hedged & require hedging congruence
- All detailed in Better Markets' Comment Letter

Extra-territorial reach

- Banning prop trading along with the other protections of the DFA designed to protect US taxpayers, US treasury, US economy & financial system, as any sovereign has the right, indeed, duty to do
- Therefore, any activity anywhere that doesn't threaten those vital national interests are entirely permissible

Exception for non-US activities

There are 4 conditions to qualify for foreign trading exception:

1. Transaction conducted by non-US banking entity
2. No party to the transaction is a resident of the US
3. No personnel of the banking entity that is directly involved in the transaction is physically located in the US
4. The transaction is executed wholly outside of the US

Exception for US Gvt Securities

- Exception: "The purchase, sale, acquisition, or disposition of obligations of the US or any agency thereof … and obligations of any State or of any political subdivision thereof."
- Perfectly reasonable exception for a sovereign
- Complaints by foreign governments lack merit & are truly astonishing: trying to weaken a US law designed to protect the US & its citizens so that foreign debt trading <u>might</u> be a little more liquid
- Detailed rebuttal of these requests are also on our website: www.bettermarkets.com

Wall Street's War on Volcker & Reform

- The Volcker Rule prohibits one of the most lucrative activities of the biggest Wall Street banks: they HATE it
- Wall Street has and continues to fight financial reform with unlimited resources
  - Thousands of lobbyists, lawyers, PR-spinners, etc.
- Wall Street has a comprehensive attack plan:
  - Kill, gut or put loopholes in the legislation
  - Weaken or make legally infirm the rulemaking
  - Sue in court over rules they don't like
  - Lobby Congress to repeat the law (piece by piece), harass the regulators & cut their budgets
  - Try to elect anti-financial reform politicians

Wall Street largely caused the crisis & is now leading the fight against reform

- It would be viewed as crazy if it weren't true
- The very industry & often the very same people from that industry that caused the crisis, required massive bailouts so that the financial system didn't collapse, almost created a Second Great Depression, are now given an open door in the legislative & regulatory process to re-regulate the industry and prevent all that from happening again
- Under-funded, over-worked and constantly attacked regulators plus some brave elected and public officials are all there is between that industry onslaught & protecting society's interests
- Better Markets stands with them fighting for financial reform and to protect the public
  - The Volcker Rule banning proprietary trading is a key part of that