GlobalResearch
Center for Research on Globalization

Big Banks Have ALREADY Killed Derivatives Reform

By Washington's Blog
Global Research, May 28, 2009
washingtonsblog.com 26 May 2009

Region: USA
Theme: Global Economy

Many mainstream pundits are claiming that a wave of regulation and reform of the banks and the financial industry is on its way.

On the other hand, some alternative news writers are saying that real reform may never really happen (see this, for example).

Indeed, Obama has appointed to most of the key economic posts the people most responsible for deregulation in the first place.

In fact, in at least one area – one of the most important causes of the financial crisis – reform has already been defeated.

By way of background, the derivatives industry has volunteered (once again) to regulate itself.

As Newsweek noted April 10th, the big boys were using bailout money to aggressively lobby against the regulation of credit default swaps:

> Major Wall Street players are digging in against fundamental changes. And while it clearly wants to install serious supervision, the Obama administration—along with other key authorities like the New York Fed—appears willing to stand back while Wall Street resurrects much of the ultracomplex global trading system that helped lead to the worst financial collapse since the Depression.
>
> At issue is whether trading in **credit default swaps** and other derivatives—and the giant, too-big-to-fail firms that traded them—will be allowed to dominate the financial landscape again once the crisis passes. As things look now, that is likely to happen. And the firms may soon be recapitalized and have a lot more sway in Washington—all of it courtesy of their supporters in the Obama administration…
>
> The financial industry isn't leaving anything to chance, however. One sign of a newly assertive Wall Street emerged recently when **a bevy of bailed-out firms, including Citigroup, JPMorgan and Goldman Sachs, formed a new lobby calling itself the Coalition for Business Finance Reform. Its goal: to stand against heavy regulation of "over-the-counter" derivatives**, in other words customized contracts that are traded off an exchange…
>
> Geithner's new rules would allow the over-the-counter market to boom again, orchestrated by global giants that will continue to be "too big to fail" (they may have to be rescued again someday, in other words). And most of it will still occur largely out of sight of regulated exchanges…

> The old culture is reasserting itself with a vengeance. All of which runs up against the advice now being dispensed by many of the experts who were most prescient about the crash and its causes—the outsiders, in other words, as opposed to the insiders who are still running the show.

And today, Treasury gave the financial giants exactly what they wanted. As Bloomberg writes in an article entitled "Wall Street Derivatives Proposals Adopted in Treasury Overhaul ":

> Wall Street's largest banks are getting what they want in the U.S. Treasury's plan to regulate over-the-counter derivatives by making all market participants adhere to the same capital requirements…
>
> "The banks appear to wish to maintain the intra-dealer market and raise barriers to new entrants to keep the OTC business as compartmentalized as possible and to protect their profitable market conditions," said Brad Hintz, an analyst at Sanford C. Bernstein & Co. in New York. "The Street's lobbyists appear to be asking for a 'club' structure in OTC trading."…
>
> The bank-written plan, titled "Outline of Potential OTC Derivatives Legislative Proposal" and dated Feb. 13, said the systemic regulator "shall promulgate rules" requiring "capital adequacy," "regulatory and market transparency" and "counterparty collateral requirements."
>
> Hintz said Wall Street revenue from trading fixed-income, commodities and currency swaps in the over-the-counter market may be reduced by 15 percent under the Treasury's changes. "Limiting potential competition" in the market "may not be an unreasonable position to take" by the banks due to the potential loss of income, he said…
>
> Investment banks fought regulation of OTC derivatives for more than a decade because the contracts provide a significant portion of bank earnings.

Do you get it?

Instead of "blowing up or burning" over-the-counter CDS – as nobel economist Myron Scholes urged – or making any other real changes which would help the economy and the consumer, the rule changes are mainly a p.r. effort by the derivatives industry itself (like the stress tests were a p.r stunt by the banking industry.) The "changes" will do virtually everything the derivatives industry asked for, including guaranteeing the big banks' profits in selling CDS by keeping out smaller competitors.

Regulation of over the counter CDS has already failed.

The original source of this article is washingtonsblog.com

Articles by: **[Washington's Blog]**