

# Pull Back the Curtain on Exchange Traded Funds and Out Pop Wall Street Mega Banks

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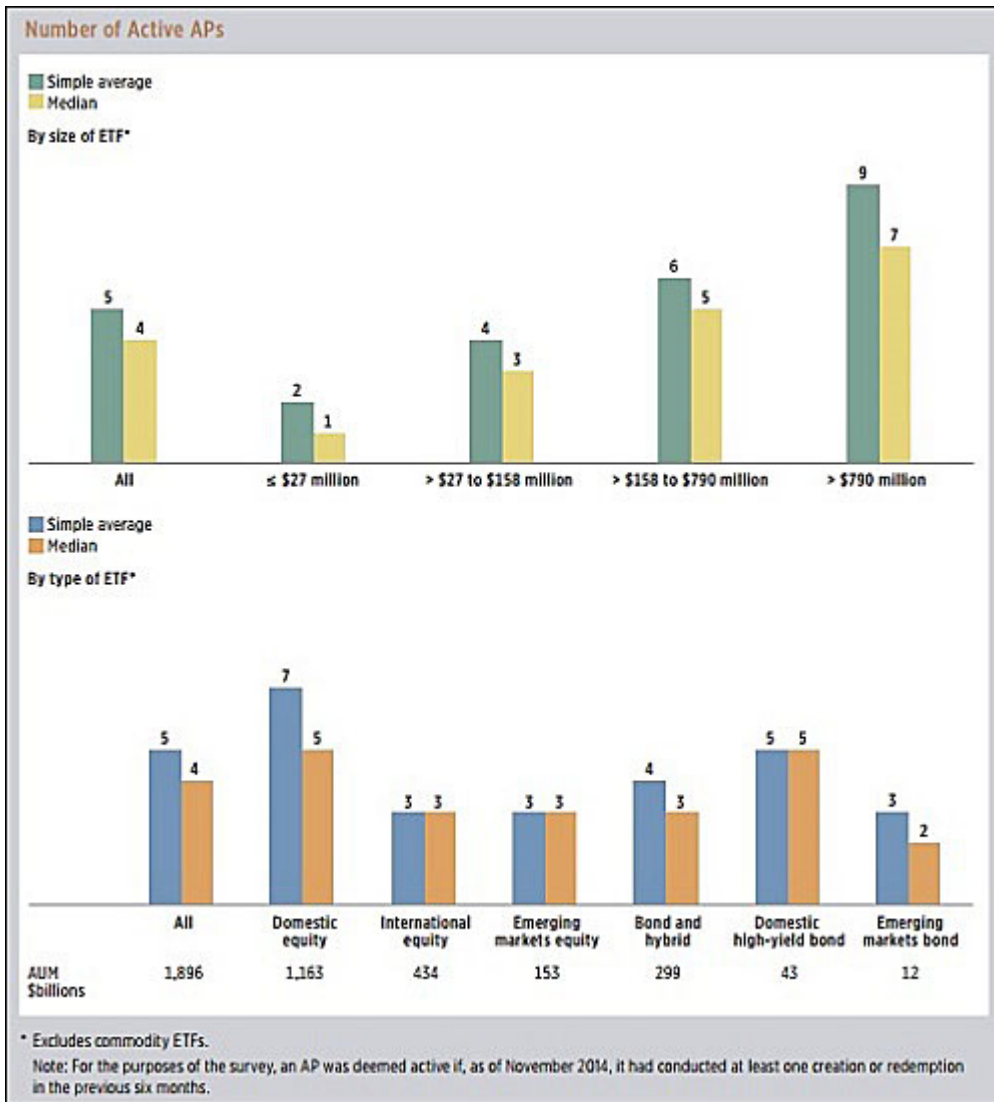
*The selloff in junk bonds has rattled the markets and is raising questions about just who it is that is providing liquidity to the junk bond Exchange Traded Funds (ETFs) — which have magically redeemed billions of dollars in withdrawals from retail investors while the underlying bonds in their portfolio are under severe stress in the broader marketplace. (Both a junk bond mutual fund and a separate hedge fund were forced to [freeze investor withdrawals](#) of their cash last week due to illiquidity in the junk bond market.)*

Unknown to most retail investors is that there is an entity called an “Authorized Participant” hiding behind the curtain of ETFs that is making that liquidity possible.

According to an August 8, 2014 written [question and answer exchange](#) between the National Association of Insurance Commissioners and BlackRock and State Street - two large sponsors of ETFs — the most active Authorized Participants for corporate bond ETFs include “Deutsche Bank, Goldman Sachs, JPMorgan, Bank of America Merrill Lynch, Morgan Stanley and Cantor Fitzgerald.”

Let’s pause for a moment and think about that. JPMorgan Chase is the largest insured depository bank in the United States. Merrill Lynch was teetering toward failure during the crash of 2008 and was taken over by Bank of America, also one of the top four largest insured depository banks in the U.S. Both Goldman Sachs and Morgan Stanley became bank holding companies during the 2008 crash and now have access to the Fed’s discount window for emergency borrowing.

It seems pretty obvious why these so called “Authorized Participants” are hiding behind that esoteric title. Their liquidity to ETFs is actually being backstopped by their too-big-to-fail status which is actually backstopped by the U.S. taxpayer.



Number of Active Authorized Participants in Exchange Traded Funds  
 (Source: Investment Company Institute)

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