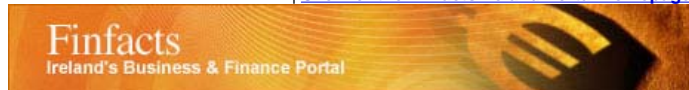




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**US Financial Reform: Republicans retreat on implacable opposition in response to Goldman Sachs fraud charge**

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By Michael Hennigan, Founder and Editor of Finfacts  
Apr 21, 2010 - 5:57:07 AM



President Barack Obama waits backstage to be introduced by Senator Barbara Boxer in Los Angeles, California, Tuesday April 19, 2010.

US Financial Reform: A week after Mitch McConnell, the Republican leader in the Senate, promised implacable opposition to a Senate bill which the Democrats plan to table on the Senate floor within days, McConnell remarked on Tuesday: "We are all optimistic that this can be fixed."

A week ago, McConnell was seeking to paint the bill that was prepared by Senate Banking Committee chairman, Senator Chris Dodd, as a taxpayer bailout charter for big banks while at the same time responding to Wall Street lobbying seeking to minimise the role of an exchange system for so-called derivative products. In times past, such products as crop futures enabled a farmer to buy a derivative for a portion of the underlying crop price that would guarantee a set price for crops and thereby protect against big swings between planting and harvest.

However, the financial crisis revealed that the unregulated multi-trillion dollar market for a wide range of exotic derivative products had mushroomed in the past decade and insurance was traded by speculators without any interest in the underlying product. Once for example junk mortgages became worthless, the derivative also became worthless but this business



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still generates big income for the large banks. The galling aspect of the mortgage products for non-Wall Streeters was that a big name issuer could buy protection against failure of dodgy products, use its premium reputation of trust to sell the product and leave an ultimate investor carrying the loss. The charge of fraud by the Securities and Exchange Commission (SEC) last Friday against investment bank, Goldman Sachs, focused public attention again on these products which investor Warren Buffett had termed "weapons of mass destruction" in 2003.

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While the SEC will have a challenge in legally proving fraud against Goldman Sachs, there is no doubt that in the court of public opinion, on an ethical basis, Wall Street peddling so called synthetic CDOs (collateralized debt obligation) - - a derivative instrument that enables arsonists to buy fire insurance - - is an Exocet against Goldman's credibility despite the bluster and synthetic outrage. In an election year, despite Senator McConnell's wish to deny President Obama another major legislative victory, he knows that he cannot rely on all of his senators to be seen to side with Wall Street rather than Main Street.

Jamie Dimon, the chief executive of JPMorgan Chase, recently signalled why Wall Street has more than 1,500 lobbyists, executives, bankers and others trying to influence the Senate Agriculture Committee, which today will take up legislation to rein in derivatives.

"It will be negative," he said. "Depending on the real detail, it could be \$700 million or a couple billion dollars."

**Goldman reports huge Q1 earnings amid SEC fraud charges and insight on how much financial regulation should limit derivatives, with Peter Morici University Of Maryland; David Goldman, First Things First Magazine and CNBC's Michelle Caruso-Cabrera:**

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Senator Blanche Lincoln, the Arkansas Democrat who is the Agriculture Committee's chairwoman last week introduced the bill that would prevent banks from trading derivatives directly.

Lincoln, who is facing a tough primary challenge in May, said in an interview that she was not sure why the administration did not fully agree with her derivatives approach.

*"We are preparing a bill that will certainly provide regulation in the forex market," Lincoln told Dow Jones Newswires after emerging from a meeting on the issue with top US Treasury officials and the head of the federal futures regulator. "This is the second-largest part of this \$600 trillion marketplace, and it's completely unregulated right now. I think you are going to find us working hard to put together a bill that will have the type of regulation that is appropriate for that portion of the marketplace."*

*"The Lincoln language that has been brought forward ... I think it will undermine the effective functioning of markets," Judd Gregg, the Republican senator from New Hampshire, told the FT. "I do believe that if you're trying to force all the derivatives contracts on to exchanges it's an idea whose time has not come."*

Senate majority leader, Harry Reid of Nevada, said that the Lincoln's bill and the broader legislation sponsored by Senator Dodd, could be combined easily and that a first procedural vote could be held either late this week or early next. To open debate, he will require the support of 60 senators but Democrats control 59 votes.

Reid said Republicans were faced with a stark choice. *"You either believe we need to strengthen oversight of Wall Street or you don't,"* he said at a news conference, *"You either believe we need to strengthen protections for consumers or you don't."*

Senator Reid said that Democrats would not be lured into lengthy negotiations after struggling for months to reach a deal first with Republican Senator Richard Shelby, the ranking member on the Senate Banking Committee and later with Senator Bob Corker of Tennessee, also a member of the banking committee.

*"Everyone remembers the never-ending meetings between Senators Dodd and Shelby -- that didn't go anywhere - - and then the never-ending meetings, it seemed, with Corker and Dodd."*

Democrats are reported to be prepared to drop a proposal in the Dodd bill for \$50bn fund designed to pay costs associated with winding down a failing systemically important institution. A provision could be substituted providing for a levy on the financial industry post- a failure.

#### Lobbying

Last year, Senator Dick Durbin of Illinois said in a radio interview in Chicago: *"Hard to believe in a time when we are facing a banking crisis, that many of the banks created, that the banks are still the most powerful lobby on Capitol Hill. They frankly own the place."*

The Wall Street Journal reports today that of the \$34 million given by the securities and investment industry in the 2010 election cycle, 62% has gone to Democrats and 37% to Republicans, according to the nonpartisan Center for Responsive Politics. This year, major Wall Street firms have begun giving a larger share of their donations to Republicans. In

January and February, political-action committees run by Citigroup Inc., Goldman Sachs, JP Morgan and Morgan Stanley donated twice as much money to Republicans than Democrats, a shift from 2009.

The Journal also report today that Goldman Sachs has hired one of Washington's most prominent Democratic lawyers as it gears up to defend itself from civil charges of defrauding investors.

Greg Craig, a former aide to the late senator Edward Kennedy, was White House counsel under President Barack Obama until January

Money talks in Washington and under an ethics executive order issued by President Obama and federal law, Craig is barred from lobbying before any part of the executive branch for two years. That doesn't cover Congress. Under the terms of the ethics order, Craig could lobby lower-level SEC career officials but couldn't contact senior people at the SEC, such as the five commissioners, who are political appointees.

In an article in Tuesday's Journal titled , [Economy of Liars](#) (Cato Institute link), Irish American Gerald P. O'Driscoll, a former vice president of Citigroup, writes: "*Congressional committees overseeing industries succumb to the allure of campaign contributions, the solicitations of industry lobbyists, and the siren song of experts whose livelihood is beholden to the industry. The interests of industry and government become intertwined and it is regulation that binds those interests together. Business succeeds by getting along with politicians and regulators. And vice-versa through the revolving door.*"

*We call that system not the free-market, but crony capitalism. It owes more to Benito Mussolini than to Adam Smith."*

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