Timeline Establishing the Legality of Bail-In – Detailed Proof

Date	Event	Description	Ramifications, Must-Know Facts	Comments, Opinions, References
1913	*Federal Reserve Act*		• See this document's section "What You *Absolutely, Positively Need to Know* about Banking & Your Money" to discover the ramifications of this bill.	• All of this really started when President Wilson signed the Federal Reserve Act. In it the Congressional power to create money was delegated to private bankers.
1999	Repeal of the *Glass-Steagall Act.*	• The original law was passed in 1933 as a result of banker's taking risky investments. The reckless behavior in the 1920's was the prime catalyst of the Great Depression in the 1930's. • The law separated commercial and investment banking and had been in force for 7 decades.	• Glass-Steagall prevented banks from using insured FDIC deposits to underwrite private securities and then dumping them on their own customers. With repeal, the banks were now free to use depositor's money for the bank's own investments.	• The post-repeal years were almost an exact replay of the Roaring Twenties. Once again, banks originated fraudulent loans and once again they sold them to their customers in the form of securities. The bubble peaked in 2007 and collapsed in 2008. The hard-earned knowledge of 1933 had been lost in the arrogance of 1999. • This is widely acknowledged to be one of the major causes of the 2008 financial collapse.
1999	Financial Stability Forum founded.	• G7[13] country's financial authorities such as finance ministries, central bankers, securities regulators, and other international financial bodies create a working group to promote global financial stability. • The Bank for International Settlements (BIS) was chosen as the organization to house the newly created forum.		• The BIS was originally established in May 1930 by bankers and diplomats of Europe and the United States to collect and disburse Germany's World War I reparation payments (hence its name). • It is composed of unelected, member country, financial representatives and other elites. • It is not accountable to any government or financial institution. • It has immunity from any government interference and is free from any taxation. In both peace and war the BIS is guaranteed these privilege by an international treaty signed in The Hague in 1930. • It is the central bank of central banks and is, consequently, the central bank of the world.

[13] The G7 is a group consisting of the finance ministers of seven industrialized nations: the U.S., U.K., France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth ($223 trillion), according to Credit Suisse Global Wealth Report September 2012.

April 2005	Passage of *Bankruptcy Abuse Prevention and Consumer Protection Act,* also known as the *Bankruptcy Reform Act.*	• Creates Super-Priority Status for derivatives holders. This means that when a financial institution is close to bankruptcy, any other bank or financial institution holding derivatives claims against it are given preference over all other creditors and customers for the remaining assets of the failing institution.	• Normally, the FDIC would have the powers as trustee in receivership to protect the failed bank's collateral for payments made to depositors. But the FDIC's powers are overridden by the special status of derivatives in this law. • Rather than banks being put into bankruptcy to salvage deposits of their customers, the customers will now be put into bankruptcy to save the banks. • This super-priority status not only supersedes individuals and companies but also state and local governments. If the city of Newport Beach had its money in bank A and it was failing, and if bank B had derivatives claims against bank A, bank B could take the cash from bank A accounts (assets) before the city could. Operating and pension funds could be wiped out.	• The phrase "derivative counter-parties" is the actual wording the law uses to describe banks or financial institutions. Counterparty is a term commonly used in the financial services industry to describe a legal entity, unincorporated entity or collection of entities to which an exposure to financial risk might exist. • Hailed at the time of the bill's passage as the banking lobby's greatest all-time victory. http://en.wikipedia.org/wiki/Bankruptcy_Abuse_Prevention_and_Consumer_Protection_Act • The 2011 collapse of derivatives broker MF Global resulted in nearly $1.6 billion in potential losses from customer accounts and established a precedent for the super-priority status of other claimants ahead of depositors. Derivatives counterparty JP Morgan Chase received super-priority status against customers for their claims on MF Global assets. While MF Global was not a bank, the legal arguments for super-priority status ensure that derivatives counterparties and large investment firms will structure their agreements to receive priority status during the liquidation of bank (and customer) assets. In a best case scenario, depositors will regain access to their funds after years of litigation[14].
2008	Great Recession	• The financial crisis has enough blame to go around[15]. Borrowers were reckless, brokers were greedy, rating agencies were negligent, customers were naïve, and government encouraged the fiasco with unrealistic housing goals and	• AIG wrote billions of dollars of derivatives "insurance" against the mortgage market without having even a fraction of what it would take to pay off claims in the naked belief that they could collect fees forever and never have to pay out once. When the whole thing collapsed, they were wiped out.	• Derivatives[16] are contracts between parties who want to trade risks, but they aren't market-traded, standardized or vetted by any controlling institution. • In derivatives trading, the counterparties know each other, the contracts are one-off between the parties directly, and

[14] http://dcpublicbanking.org/multimedia-archive/legal-framework-for-big-banks-puts-depositors-at-risk/

[15] Causes of the Financial Crisis, Mark Jickling, Congressional Research Office, April 9, 2010. A copy of the document can be obtained from http://www.fas.org/sgp/crs/misc/R40173.pdf or my website at http://www.randylangel.com/downloads.html

[16] A derivative is a financial product derived from another financial product (for example, a futures contract tied to a stock index). In practice, the term applies to a whole world of financial products that are written on a one-off basis between two entities called "counterparties," as opposed to products that are traded on a broad, well-regulated market. Standard futures contracts are bought and sold on large exchanges, for example, the Chicago Board of Trade (CBOT). If I buy a futures contract — for example, I go long (contract or agree to *buy* in the future) a million bushels of wheat, or barrels of oil, in the expectation that the future price will rise within the time limit of the contract — there will be a counterparty on the short, or selling side, but I have no idea who that is. In fact, in a well-regulated market, the contracts are all standardized; there are thousands of identical contracts in pairs (one on the long or buy side, and one on the short or sell side); and as long as there are the same number of identical contracts on each side, it makes no difference who's on the other side of my personal contract. The exchange just matches up longs with shorts when they liquidate. The contracts, as you can see, are created by the exchanges themselves (for example, by the CBOT); they keep the operation orderly; and there are rules, both by the exchanges and by the government, that prevent things (mostly) from running out of control. For example, I can indeed buy futures contracts on millions and millions of barrels of oil for delivery next July (say), and I *can* put up a tenth of the cost of these contracts, but if the market moves against me, I have to increase my margin (add to my escrow if you will) to protect my counterparties from my inability to pay. The exchange requires that, and if I don't comply, I'm liquidated (at my expense) and kicked out. Futures contracts are gambling — I can bet on the Dow to go down or up, for example — but trading in futures contracts is regulated gambling, in which winners are protected from losers, and in many cases, losers protected from themselves. **Not so, derivatives**, in the usual meaning of the word. Derivatives in that sense are contracts between parties who want to trade risks, but they aren't market-traded. They aren't standardized. And counterparties aren't vetted by any controlling institution. In derivatives trading, the counterparties know each other, the contracts are one-off between the parties directly, and the only guarantee that either party will get paid is trust or the naked belief that they just can't lose on this one.

		unlimited lines of credit at Fannie Mae and Freddie Mac. • The fact that there were so many parties to blame should not be used to deflect blame from the most responsible parties of all—the big banks. Without the banks providing financing to the mortgage brokers and Wall Street while underwriting their own issues of toxic securities, the entire pyramid scheme would never have got off the ground. • *Derivatives, specifically credit default swaps, were the reason that what would otherwise have been a contained subprime crisis, instead turned into a global financial meltdown*	And because their "insurance" was part of the balance sheet of AIG's many counterparties (Goldman Sachs and everyone like them), Goldman Sachs would have been wiped out too by AIG's failure. • *That's* why the government bailed out AIG — and insisted on giving them 100 cents on the dollar — so that they could pay off Goldman et al. AIG was bailed out to bail out all their counterparties.	the only guarantee that either party will get paid is trust or the naked belief that they just can't lose on this one[17]. • The vast majority of US derivatives are Credit Default Swaps[18] (CDS). The Office of the Comptroller of the Currency document, "OCC's Quarterly Report on Bank Trading and Derivatives Activities First Quarter 2013," page 9, puts the CDS's percent of the US derivatives market at 97.2%. • Credit default swaps are pure casino bets. They were originally designed as a form of insurance against bond and other credit defaults ("I'll pay you a monthly fee and you pay me my losses if these bonds default."). It's a simple concept, but CDSs soon evolved. Turns out you don't have to actually hold the bonds to insure them. This means that one guy can sit at a table with a bunch of bonds (or bundles of mortgages), while another guy can insure them. Meanwhile, at 50 other tables, 50 more guys can buy the same "insurance" on the same bonds from anyone who will sell it to them. Keep in mind, only the first guy actually holds the bonds. The other guys just know they exist. That's 50 side-bets on one set of bonds. Do you see the problem? One guy's bonds default and suddenly 51 guys in that room, everyone who sold "insurance," they're *all* wiped out. Why? Because the dirty secret of derivatives bets is that the people offering the "insurance" *rarely have the money to cover the loss*. They're betting that they can collect "insurance" fees forever and the defaults will never come. That's what happened with mortgage-backed bets in 2007, and that's what's happening today. • Banks are placing billions of dollars in casino bets per day with Uncle Sam's money and we are on the hook for the losses. That's a sweet deal for the big banks.
April 2009	Financial Stability Board (FSB) created	• Following the fiscal turmoil of the 2007-2008 worldwide financial collapse, the G20[19] nations at their 2009 London	• The most far-reaching outcome of the summit was that the G20 nations agreed to be regulated by the newly formed FSB and by association the Bank of	• Today, 58 global central banks belong to the BIS, and it has far more power over how the U.S. economy (or any other economy for that matter) will perform over the course of

[17] Derivatives example. Suppose Bank 1 (B1) decides to hedge against the risk that Bank 2 (B2) might fail to repay their debt to B1. To guard against that, B1 might hedge the risk through derivatives. In so doing, B1 might buy a credit default swap (CDS) on B2 debt. The CDS would pay B1 if B2 failed to repay their loan. B1 might also bet on the decline in shares of B2 through a short sale. At that point, any action that B1 might take to boost the odds that B2 might default would increase the value of their derivatives. That possibility might tempt B1 to take actions that would boost the odds of failure for B2. This kind of behavior -- in which hedge funds pulled their money out of banks whose stock they were shorting – contributed to the failures of Bear Stearns and Lehman Brothers.

[18] A good set of product descriptions, definitions and frequently asked questions about derivatives is at http://www.isda.org/educat/faqs.html#1

[19] The Group of Twenty Finance Ministers and Central Bank Governors (also known as the G20 is a group of finance ministers and central bank governors from 20 major economies: 19 countries plus the European Union, which is represented by the President of the European Council and by the European Central Bank. Collectively, the G20 economies account for approximately 80% of the gross world product (GWP), 80% of world trade, and two-thirds of the world population.

		summit formalized a new organization called the Financial Stability Board. • It was the successor of the Financial Stability Forum (created in 1999 – see above) and was to become a sub-committee of the Bank of International Settlements (BIS). • The FSB's stated goal was to identify key weaknesses underlying the current financial instability and recommend actions to improve market and institutional resilience.	International Settlements. • The Bank for International Settlements (BIS) has become the most powerful financial organization in the world, yet few people know of its existence.	the next year than any politician does. • Every two months, the central bankers of the world gather in Basel, Switzerland for another "Global Economy Meeting". During those meetings, decisions are made which affect every man, woman and child on the planet, and yet none of us have any say in what goes on.
Dec 2009	Passage of H.R. 1207 – Audit the Fed Bill	• Congressman Ron Paul (R-Texas), submitted his audit-the-fed bill attracting 320 cosponsors, one hundred of whom flip-flopped to go with Wall Street and the Obama administration at crunch time.	• It passed in the House but Wall Street and the Fed had a strategic ally in the Senate to sabotage Ron Paul's audit: Sen. Bernie Sanders (I-Vt.). Sanders' job was to strip the bill of as much authority as possible, while still making it appear to be authorizing a full, rigorous audit.	• Sanders last-minute "compromise" with the Obama administration had the big banks agreeing to audits of TARP & Term Asset-Backed Securities Loan Facility, but big items — the Federal Reserve's Federal Open Market Committee, discount window operations, agreements with foreign central banks — would remain cloaked.
July 2010	Passage of the *Dodd-Frank Wall Street Reform & Consumer Protection Act.*	• Section 716 bans taxpayer bailouts of most speculative derivatives activities. • It does not in any way limit the swaps activities which banks or other financial institutions may engage in.	• There will be no more $700 billion taxpayer bail-outs. On the surface this appears to be a good thing but where will the banks get the money in the next crisis? And be assured – they will get their money.	• Bankers have figured a way around no government bail-outs and now have Bail-Ins which is confiscation of depositor's funds. That's right – they are going to take your money and as of December 2012 it is now perfectly legal.

July 2011	Publication of General Accounting Office report titled; *Federal Reserve System: Opportunities Exist to Strengthen Policies and Processes for Managing Emergency Assistance.*[20]	• This was the result of the restricted, one-time audit of the Fed that had been pushed through the House by Rep. Ron Paul and then watered down in the Senate. • Gives the American public a partial peek into the colossal scale of the many Fed programs designed to funnel money to the big banks.	• On page 131 of the report, a table titled "Total Transaction Amounts (Not Term-Adjusted) across Broad-Based Emergency Programs" received by various institutions. Here are a few of the listed entries: • Citigroup - received more than $2.5 trillion • Morgan Stanley - received more than $2.04 trillion • Merrill Lynch - received more than $1.9 trillion • Bank of America - received more than $1.3 trillion • Barclays - received more than $868 billion • Bear Stearns - received more than $853 billion • Goldman Sachs - received more than $814 billion • *The total (as July 2011) given by the Fed to the big banks with no requirement to repay was $16,100,000,000,000. ($16.1 Trillion). That's over $50,000 for every man, women and child In America.*	• On January 6, 2014, various news agencies reported that JPMorgan Chase had cut a deal with the U.S. Department of Justice to pay $2 billion in fines and reimbursement to investors for its role in the Bernard Madoff investment scheme, often called "the largest financial fraud in U.S. history." The reported $65 billion in losses is chump change in comparison to the trillions of dollars that the Fed and its favored Wall Street banks have sloshed around. • The Madoff losses, of course, represent tragedy for the 4,800 clients who invested in Madoff's long-running scam, but at least those victims voluntarily placed their funds in his hands. The millions of victims of the Fed's policies are given no choice in the matter. Madoff was sentenced to 150 years in prison and his ill-gotten assets have been confiscated to (partially) reimburse those he fleeced. JPMorgan Chase executives, on the other hand, who were Madoff's partners in crime for many years, have gotten off without any criminal prosecution. That is par for the course. No Wall Street bank executives have been prosecuted by the Obama administration's Justice Department, and there has been no criminal investigation into the enormous, blatantly obvious conflicts of interest among top officials and personnel of the Federal Reserve itself.[21] • How many more trillions have been given between then and now (2014). There is a web site tracking where taxpayer money has gone in the ongoing bailout of the financial system. It accounts for both the broader $700 Billion TARP and the separate bailouts of Fannie Mae & Freddie Mac. For each receiver of funds it provides a "Net Outstanding" amount, which shows how deep taxpayers are in the hole after accounting for any revenue the government has received (usually through interest or dividends). http://projects.propublica.org/bailout/list
Oct 2011	Financial Stability Board (FSB) releases the document, *Key Attributes of Effective Resolution Regimes for*	• Details the core elements the FSB considers necessary for an effective resolution of a future bank failure. • To quote the document, the FSB believes that the "implementation should allow authorities to resolve financial institutions in an orderly manner without	• This is the first mention of the concept of a Bail-In to replace previous Bail-Out resolutions of bank failures. • Key Attribute 3.2 section ix, "Carry out bail-in within resolution as a means to achieve or help achieve continuity of essential functions either (i) by recapitalizing the entity hitherto providing these	• This is the basis for what latter will become the legal right for US big banks to confiscated your money and in return give you equity i.e., a share of stock, in a new recapitalized company formed because of a bank failure.

[20] http://www.gao.gov/products/GAO-11-696

[21] http://www.thenewamerican.com/economy/sectors/item/17623-bank-bailouts-without-end

	Financial Institutions[22]	taxpayer exposure to loss from solvency support, while maintaining continuity of the bank's vital economic functions."	functions that is no longer viable, or, alternatively, (ii) by capitalizing a newly established entity or bridge institution to which these functions have been transferred following closure of the non-viable firm (the residual business of which would then be wound up and the firm liquidated)."	
Nov 2011	The G20 leaders endorse the *Key Attributes of Effective Resolution Regimes for Financial Institutions* at the Cannes Summit.	• "The Key Attributes" are now the international standard for developing bank failure resolution plans.		
Late 2011	Bank of America is downgraded by Moody's. Bank of America moves a large portion of its trillions in derivatives from its Merrill Lynch unit to its banking subsidiary. JP Morgan Chase follows suit moving its trillions in derivatives to its depository arm.	• BofA did not get regulatory approval but just acted at the request of frightened counterparties (BofA investors and other groups with personal financial reasons to keep BofA stable and profitable i.e., stable and profitable at least as far as the public is concerned). • The FDIC opposed the move, protesting that the FDIC would be subjected to the risk of becoming insolvent if BofA were to file for bankruptcy. However, the Federal Reserve favored the move, in order to give relief to the bank holding company, so it overruled the FDIC. • *Remember that the FDIC is a federal government agency acting according to existing federal law. The Federal Reserve*[23] *is not a federal government agency yet it reversed the legal and fiduciarily proper actions of a government agency because the bank's investors, not*	• Moving derivatives contracts to the bank's deposit arm commingles the cash you and I have in the bank with highly-leveraged, extremely risky derivative investments. • If a bank needs to pay off on a derivative (it is after all a contract and some contracts are winners and some losers), the pooled money pot (the bank's derivative gains and our cash) is used to pay the debt. As long as profits from derivatives are greater than losses, our deposits are not affected. • If lots of derivatives go bad such that derivatives profits are less than losses, then using the pooled pot of money to pay off the bank's obligation will result in our deposits (our cash) being eroded. We will not know this is happening since individual deposit accounts will not reflect the decrease in value as long as the bank is solvent. • If lots of derivatives go bad such that the bank is in danger of failing, then the super-priority status granted to derivatives claimants by the 2005 Bankruptcy Reform Act comes into play. Normally,	• Here's how it would work. Let's assume there is a major derivatives bust at BofA. As of 12/31/12 BofA had derivatives with notional values exceeding $42 trillion (see US Comptroller of Currency entry below). A number this large indicates that there would be many financial institutions liens against BofA. As BofA is failing (not after it has failed but while it is failing), all the financial institutions holding BofA derivative contracts call them and take whatever BofA assets are still remaining. After all the banks get done taking their slice of BofA assets the collateral is likely to be gone. With nothing left for the FDIC to take into receivership to pay secured depositors (including state and local governments), the FDIC is now on the hook for it all. This is why the FDIC is so annoyed by this big bank financial maneuver. • <u>This puts the FDIC in a wholly untenable position. They have to do something to protect themselves from billions, maybe trillions, in liabilities</u>. In December 2012 the FDIC, in conjunction with the Bank of England, formulize a solution to handle the next big bank failure. It will colloquially be known as Bail-In, versus the previous way of handling big

[22] A copy of the document can be obtained from http://www.financialstabilityboard.org/publications/r_111104cc.pdf or my website at http://www.randylangel.com/downloads.html

[23] The Federal Reserve System has both private and public components, and was designed to serve the interests of both the general public and private bankers. However, the good intentions of its 1913 formation have been overshadowed so that today the Federal Reserve works almost exclusively for private banking interests. The Fed's structure is considered unique among central banks. It is unusual in that an entity outside of the Fed, namely the United States Department of the Treasury, creates the currency used. According to the Board of Governors, the Federal Reserve System "is considered an independent central bank because its monetary policy decisions do not have to be approved by the President or anyone else in the executive or legislative branches of government, it does not receive funding appropriated by the Congress, and the terms of the members of the Board of Governors span multiple presidential and congressional terms.

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<td>depositors, might be harmed. This is not acting in the public interest[24].</td>
<td>the FDIC would have the powers as trustee in receivership to protect the failed bank's collateral for payments to make to depositors. But the FDIC's powers are overridden by the special status of derivatives claimants.

• In simple language, the big banks are first in line to claim the assets of the failing institution and nothing goes to the FDIC, depositors and state or local governments until the big banks are through getting their share.</td>
<td>bank failures known as Bail-Out.

• http://www.dailykos.com/story/2011/11/02/1032356/-Why-the-FDIC-is-Upset-With-Bank-of-America-s-Derivatives-Transfer-Despite-Dodd-Frank

• http://jonathanturley.org/2011/11/06/bank-of-america-the-great-derivatives-transfer/</td>
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<td colspan="2">The lunacy of giving big banks super-priority status in derivatives by the 2005 Bankruptcy Reform Act was actively supported in an article by Mark J. Roe in 2011. Mr. Roe is a professor at Harvard Law School where he teaches bankruptcy and corporate law. The article was so well received it was published by

1. Harvard Law School Forum on Corporate Governance and Financial Regulation.
2. Stanford Law Review.
3. Harvard Law School, Public Law & Legal Theory.
4. European Corporate Governance Institute.

The article's abstract[25] (see right) provides a concise overview of the ongoing risk brought about by this new law. Two years after the publication of this paper nothing has changed to alleviate the risk exposure. This means that the possibility of a big bank failure and consequently the initiation of a Bail-In and the confiscation of your funds are more probable than ever.</td>
<td colspan="2">"The Derivatives Market's Payment Priorities as Financial Crisis Accelerator," March 6, 2011 - Abstract

Chapter 11 bars bankrupt debtors from immediately repaying their creditors, so that the bankrupt firm can reorganize without creditors shredding the bankrupt's business. Not so for the bankrupt's derivatives counterparties, who unlike most creditors, even most other secured creditors, can seize and immediately liquidate collateral, net out gains and losses, terminate their contracts with the bankrupt, and keep both preferential eve-of-bankruptcy payments and fraudulent conveyances they obtained from the debtor in ways that favor them over other creditors. Their right to jump to the head of the bankruptcy re-payment line, in ways that even ordinary secured creditors cannot, weakens their incentives for market discipline in managing their credits to the debtor; it reduces their concern for the risk of counterparty failure and bankruptcy, since they do well in any resulting bankruptcy. If they were made to account better for counterparty risk, they would be more likely to insist that there be stronger counterparties than otherwise on the other side of their derivatives bets, thereby insisting for their own good on strengthening the financial system. True, because they bear less risk, nonprioritized creditors bear more and thus have more incentive to monitor the debtor or to assure themselves that the debtor is a safe bet. But the repo and derivatives market's other creditors - such as the United States of America - are poorly positioned contractually either to consistently monitor the derivatives debtors' well or to fully replicate the needed market discipline. Bankruptcy policy should harness private incentives for counterparty market discipline by cutting back the extensive de facto priorities for these investment channels now embedded in chapter 11 and related laws. More generally, when we subsidize derivatives and repos activity via bankruptcy benefits not open to other creditors, we get more of the activity than we otherwise would. Repeal would induce the derivatives market to better recognize the risks of counterparty financial failure, which in turn should dampen the possibility of another AIG/Bear/Lehman financial meltdown, thereby helping to maintain financial stability. Re-peal would lift the de facto bankruptcy subsidy.</td>
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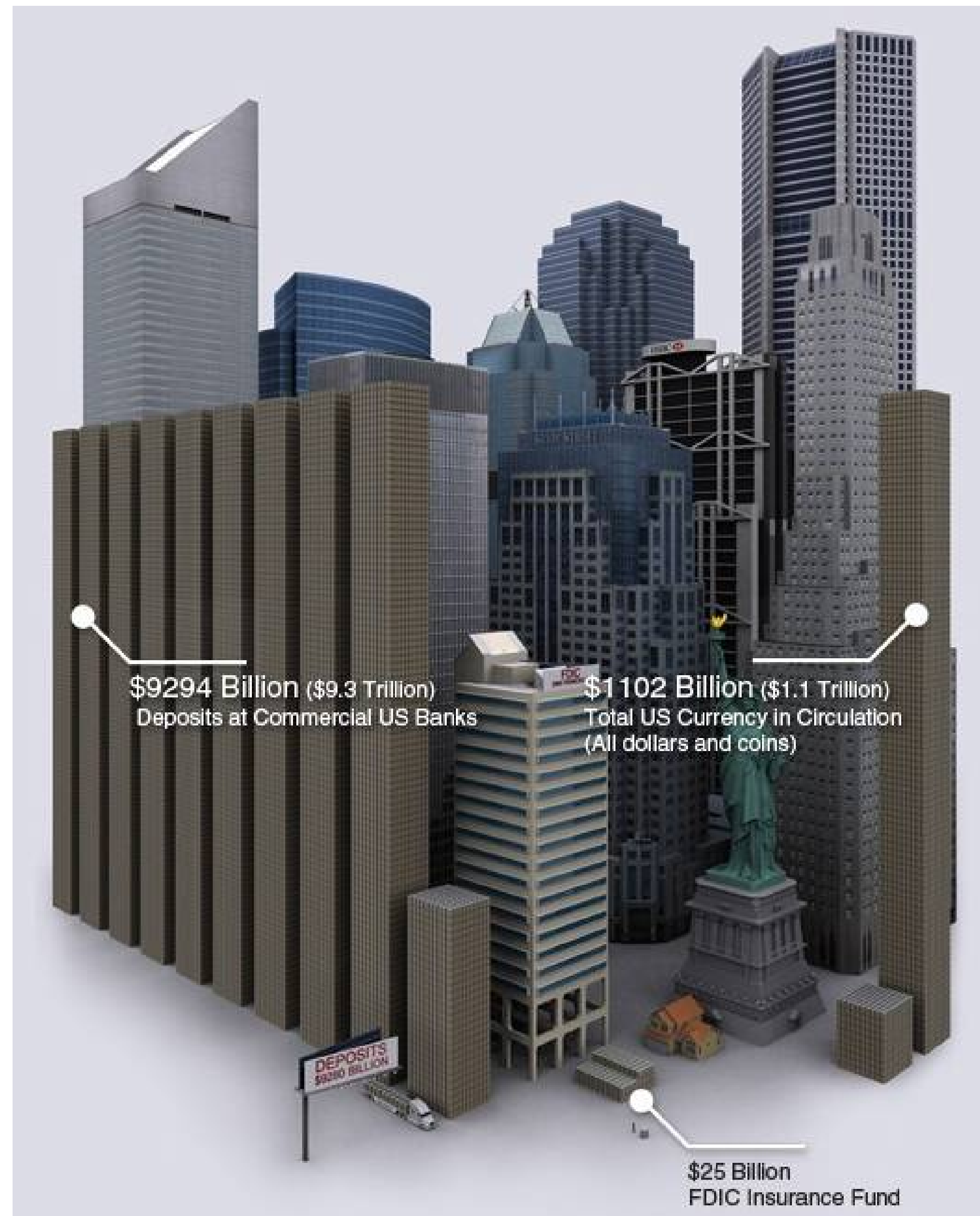
[24] Proof positive, says former regulator Bill Black that the Fed is working for the banks and not for us. "Any competent regulator would have said: 'No, Hell NO!'" http://dailybail.com/home/william-black-not-with-a-bang-but-a-whimper-bank-of-americas.html

[25] A copy of the document can be obtained from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1567075## or my website at http://www.randylangel.com/downloads.html

- Remember that the FDIC can only insure your deposits if it has the money to pay you. Once you realize the amount of deposits in the big banks and the relative pittance in the FDIC coffers, you will understand that Too Big To Fail banks are classified that way because a failure of any one of these institutions will bankrupt the FDIC fund. AND if the fund has no more money and the laws are not changed regarding repaying depositors in a bank failure, then the federal government has to make up the difference. This then becomes another version of a taxpayer Bail-Out of a big bank. (note: I said, "if the laws are not changed regarding repaying depositors," but this has in fact happened with the new Bail-In policies of the FDIC – see below)
- The infographic[26] on the right pictorially shows how the $25 billion FDIC Insurance Fund stacks up to the $9,294 Billion size of deposits at US banks[27]. This means the fund has only 27 cents of insurance for every $100 of deposits.
- The infographic also shows that given there is only $1,102 billion in total US currency in circulation; there aren't physically enough dollars to go around anyway.



[26] The complete infographic is at http://demonocracy.info/infographics/usa/fdic/fdic.html this website is dedicated to pictorially envisioning the huge amount of money being spent by the US.

[27] Third quarter 2012 data taken from H.8 report of the Federal Reserve. The report for August 2, 2013 is at http://www.federalreserve.gov/releases/h8/20130802/

May 2012	Spain's 4th largest bank, Bankia, declares bankruptcy	• Spain's bank reorganization agency, on explicit instructions from the Troika (IMF, European Central Bank, and the EU Commission), imposed a "haircut" (write-down) of 38% on the Bankia "prefered shares," followed by their forced conversion into common stock in Bankia. The victims were promised a per-share value of 1.35 euros, once the market was allowed to resume trading in Bankia stock.	• Over the previous few years, about one million depositors in Spain's major banks (400,000 of them in Bankia) were fraudulently tricked by the bankers into purchasing the bank's "preferred shares"with promises of very high rates of return. Marketed as fixed-term deposits, the reality of the "preferred shares" is that they were bonds that either could never be cashed in, or carried terms as long as 1,000 years. • See May 2013 entry for Bankia further down the paper.	•
Aug 2012	Legal precedent established for the super-priority status of derivative contract holders over depositors[28].	• A US federal appeals court upholds a ruling putting Bank of New York Mellon ahead of former customers of Sentinel Management Group in the line of those seeking the return of money lost in company's 2007 failure.	• The appeals court affirmed an earlier district court ruling that the bank had a "secured position" on a $312 million loan it gave to Sentinel, which turned out to have been secured by customer money at MF Global. • The ruling indicates that brokerages can use customer funds to pay off creditors.	• The ruling indicates that a brokerage company allowing customer money to be mixed with its own is not necessarily committing fraud. • The establishment of this legal precedence makes it virtually impossible for a person to sue a bank that has confiscated their money in a bail-in.
Nov 2012	Financial Stability Board (FSB) releases the document, *Recovery and Resolution Planning: Making the Key Attributes Requirements Operational*[29]	Countries must develop a plan that; 1. Reduces the potential for bank failure 2. Promotes resolvability of failure 3. Creates a resolution process 4. Follows the *Key Attributes* The document provides guidance to country regulators and resolution authorities in the areas of; 1. Recovery triggers & stress scenarios 2. Resolution strategies & operational resolution plans 3. Identification of critical functions & critical shared services	• With this guidance each country is to formulate plans and submit them to the FSB for review and comparison with other country's plans. • A new phrase is created called Global Systemically Important Financial Institutions, G-SIFIs (this means big banks). • The document specifically states, "Banking groups that are G-SIFIs are therefore the main focus of this consultative document."	• Big Banks are being given preferential treatment.

[28] http://www.reuters.com/article/2012/08/10/us-sentinel-appeals-decision-idUSBRE87900T20120810

[29] A copy of the document can be obtained from http://www.financialstabilityboard.org/publications/r_121102.pdf or my website at http://www.randylangel.com/downloads.html

Dec 2012	FDIC & Bank of England jointly publish, *Resolving Globally Active, Systemically Important, Financial Institutions*[30].	• This document provides the legal framework for seizing deposit accounts in failed banks and converting them to stock in the reconstituted bank in order to preserve the soundness of the bank[31]. • Following the guidelines set out by the FSB's *Recovery and Resolution Planning: Making the Key Attributes Requirements Operational*, document (see directly above), the two countries develop a resolution strategy for future bank failures involving G-SIFIs (big banks). • "*The unsecured debt holders can expect that their claims would be written down to reflect any losses that shareholders cannot cover, with some converted partly into equity in order to provide sufficient capital to return the sound businesses of the G-SIFI to private sector operation*." Page ii. • "An efficient path for returning the sound operations of the G-SIFI to the private sector would be provided by exchanging or converting a sufficient amount of the unsecured debt from the original creditors of the failed company into equity. In the U.S., the new equity would become capital in one or more newly formed operating entities…or the equity could be used to recapitalize the failing financial company itself—thus, the highest layer of surviving bailed-in creditors would become the owners of the resolved firm" Paragraph 13, page 3.	• At first blush, the statement that the resolution process will not involve public funds sounds good but further down the document we discover that the bank's customers will be taking the hit to their own accounts. • A person depositing money in a bank is an unsecured creditor of the bank. That means this new Bail-In procedure applies to the deposits of you and me. The big banks can now confiscate our money and its perfectly legal. In a process called "overnight sweeps" depositors could have their savings shaved by the amount needed to keep the bank afloat. • One day you go into your big bank and ask for a withdrawal. Instead of cash they give you a share of stock in new company, formed the night before and capitalized with your money. It will be your responsibility to get that share of stock converted to cash. Of course, since the new company was formed from the failed bank in the first place, it may be difficult to sell it, much less get remuneration equal to the cash you lost when the bank absconded with your money. • Since your account has been converted to equity (stock) from cash, the FDIC is no longer responsible for the deposits. Why? Because the FDIC only insures cash accounts not equity accounts. Cute trick.	• US banks are not legally required to give you cash whenever you request a withdrawal[32]. As soon as you deposit money the funds become the bank's property and you become an unsecured creditor holding an IOU from the financial institution. • A "Bail-In" is a quantum leap beyond a "Bail-out." When governments are no longer willing to use taxpayer money to bail out banks that have gambled away their capital, the banks are now being instructed to "recapitalize" themselves by confiscating the funds of their creditors, turning debt into equity, or stock; and the "creditors" include the depositors who put their money in the bank thinking it was a secure place to store their savings. • The big banks are the only banks that have this capability since they deal with derivatives and in so doing are given super priority status to reclaim assets of a failing institution. • You can't really blame the FDIC because they were forced into action when BofA and JP Morgan Chase moved their trillions of derivatives into their depository arms where the FDIC is supposed to guarantee the deposits. There is no way the government could make up the money lost if one of those giants failed. • The FDIC was set up to ensure the safety of deposits. Now, it seems, its function will be the confiscation of deposits to save Wall Street.

[30] A copy of the document can be obtained from http://www.fdic.gov/about/srac/2012/gsifi.pdf or my website at http://www.randylangel.com/downloads.html

[31] http://dcpublicbanking.org/multimedia-archive/legal-framework-for-big-banks-puts-depositors-at-risk/

[32] In most legal systems, funds deposited are no longer the property of the customer. The funds become the property of the bank, and the customer in turn receives an asset called a deposit account (a checking or savings account). That deposit account is a *liability* of the bank on the bank's books and on its balance sheet. Because the bank is authorized by law to make loans up to a multiple of its reserves, the bank's reserves on hand to satisfy payment of deposit liabilities amounts to only a fraction of the total which the bank is obligated to pay in satisfaction of its demand deposits. The bank gets the money. The depositor becomes only a creditor with an IOU. The bank is not required to keep the deposits available for withdrawal but can lend them out, keeping only a "fraction" on reserve, following accepted fractional reserve banking principles. When too many creditors come for their money at once, the result can be a run on the banks and bank failure.

Mar 2013	**Bail-In Occurs** Cypress is the first nation to experience this new policy of Bail-In & confiscate depositor funds		The confiscation of depositor funds in Cypress was not only approved but mandated by the European Union, along with the European Central Bank and the International Monetary Fund. They told the Cypriots that deposits below €100,000 in two major bankrupt banks would be subject to a 6.75% levy or "haircut," while those over €100,000 would be hit with a 9.99% "fine." When the Cyprus national legislature overwhelming rejected the levy, the insured deposits under €100,000 were spared; but it was at the expense of the uninsured deposits, which took a much larger hit, estimated at about 60 percent of the deposited funds[33]	
Mar 2013	US Comptroller of the Currency office issues quarterly report on derivatives holdings[34].	Total Notional Derivatives[35] US Exposure • JP Morgan Chase ----------- $70.3 Trillion • Citibank----------------------- $58.4 Trillion • Bank of America------------ $44.5 Trillion • Goldman Sachs------------- $42.2 Trillion • Total US banks--------------- $232 Trillion • The 4 largest US banks hold 93% of the total derivatives contracts in the US.	Total Risk Based Capital • JP Morgan Chase ----------- $153 Billion • Citibank----------------------- $139 Billion • Bank of America------------ $141 Billion • Goldman Sachs------------- $22 Billion • The numbers above are supposedly the amount of capital at risk in derivatives. The problem is with the accuracy of these amounts since they are calculated by the banks themselves and do not disclose how they arrived at these estimates. • A recent survey by Barclays Capital[36] found that more than half of institutional investors did not trust how banks measure the riskiness of their assets. When hedge-fund managers were asked how trustworthy they find "risk weightings"—the numbers that banks use to calculate how much capital they should set aside as a safety cushion in case of a business downturn—about 60 percent of those managers answered 1 or 2 on a five-point scale, with 1 being "not trustworthy at all." None of	• In the January/February 2013 issue of The Atlantic an article titled, "What's Inside America's Banks,[37]" by Jesse Eisinger and Frank Partnoy goes a long way in explaining why investors are so skeptical about bank stocks. The pair go through the annual report of Wells Fargo to try to see if even a very careful and close read can produce anything intelligible about the risks the bank is taking, how it is valuing its assets, and even what its assets and liabilities really are. What they discover is that this cannot be done. Banks are black boxes. The public disclosures are nearly useless, collections of overlawyered jargon that obscure more than they reveal. Even when Eisinger and Partnoy attempt to make very detailed inquiries into questions raised by the annual report, they are stonewalled by Wells Fargo. • No one, not even professional investors or bank personnel themselves know how much money is actually at risk in derivatives. If they don't know then a derivatives meltdown can happen at any time. • To put the notional derivatives exposure into perspective let's compare it to secured deposits. On 12/31/12 the FDIC

33 http://www.forbes.com/sites/timworstall/2013/03/31/theres-something-very-strange-about-the-cyprus-bank-haircut-very-strange-indeed/

34 "OCC's Quarterly Report on Bank Trading and Derivatives Activities First Quarter 2013," Office of the Comptroller of the Currency, Table 4. This document can be obtained at http://www.occ.gov/topics/capital-markets/financial-markets/trading/derivatives/derivatives-quarterly-report.html or my website at http://www.randylangel.com/downloads.html

35 A derivative is a financial instrument whose value depends on something else—a share of stock, an interest rate, a foreign currency, or a barrel of oil, for example. One kind of derivative might be a contract that allows you to buy oil at a given price six months from now. But since we don't yet know how the price of oil will change, the value of that contract can be very hard to estimate. (In contrast, it's relatively easy to add together the value of every share being traded on the stock market.) As a result, financial experts have to make an educated guess about the total amount at stake in all these contracts. One method simply adds up the value of the assets the derivatives are based on. In other words, if my contract allows me to buy 50 barrels of oil and the current price is $100, its "notional value" is said to be $5,000—since that's the value of the assets from which my contract derives.

36 http://www.theatlantic.com/magazine/archive/2013/01/whats-inside-americas-banks/309196/?single_page=true

37 Ibid.

			them gave banks a 5. • Consider JPMorgan's widely scrutinized trading loss in 2012. Before the episode, investors considered JPMorgan one of the safest and best-managed corporations in America. But then, in May, JPMorgan announced the financial equivalent of sudden cardiac arrest: a stunning loss initially estimated at $2 billion and later revised to $6 billion. It may yet grow larger as investigators are still struggling to comprehend the bank's condition.	had $33 Billion in the depositor insurance fund and a reserve ratio of .45%[38]. This equates to FDIC insured deposits of $7.3 Trillion. Comparing these two assets we find there are 32 times more notional derivatives ($232 Trillion) than there are total deposits ($7.3 Trillion) while the ratio of gross derivatives to deposit insurance is a disconcerting 7,030-to-1. • Another way of looking at notional derivatives exposure is that the total US economy generates $15.5 Trillion in Gross National Product per year. That equates to 14 years worth of GNP tied up in notional derivatives exposure, with the four main US banks soaking up over 13 years worth of the total. • http://www.forbes.com/sites/halahtouryalai/2013/03/28/risk-is-back-americas-big-banks-are-knee-deep-in-derivatives/

[38] FDIC memo, "Update of Projected Deposit Insurance Fund Losses, Income, and Reserve Ratios for the Restoration Plan," March 28, 2013. This document can be obtained from http://www.fdic.gov/deposit/insurance/memo_2013_03_28.pdf or my website at http://www.randylangel.com/downloads.html

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- This infographic shows what $300 Trillion dollars of notional value the derivatives exposure would look like when compared to big bank assets and currency in circulation. The first infographic, a few pages above, gave some scale to the $25 Billion FDIC insurance fund in proportion to the $9294 Billion of deposits at commercial banks. That infographic is present in this one too, it just so small that it's difficult to discern.
- At http://demonocracy.info/infographics/usa/derivatives/bank_exposure.html there is another infographic that compares the derivatives exposure for each big bank and summarizes them in a different way.

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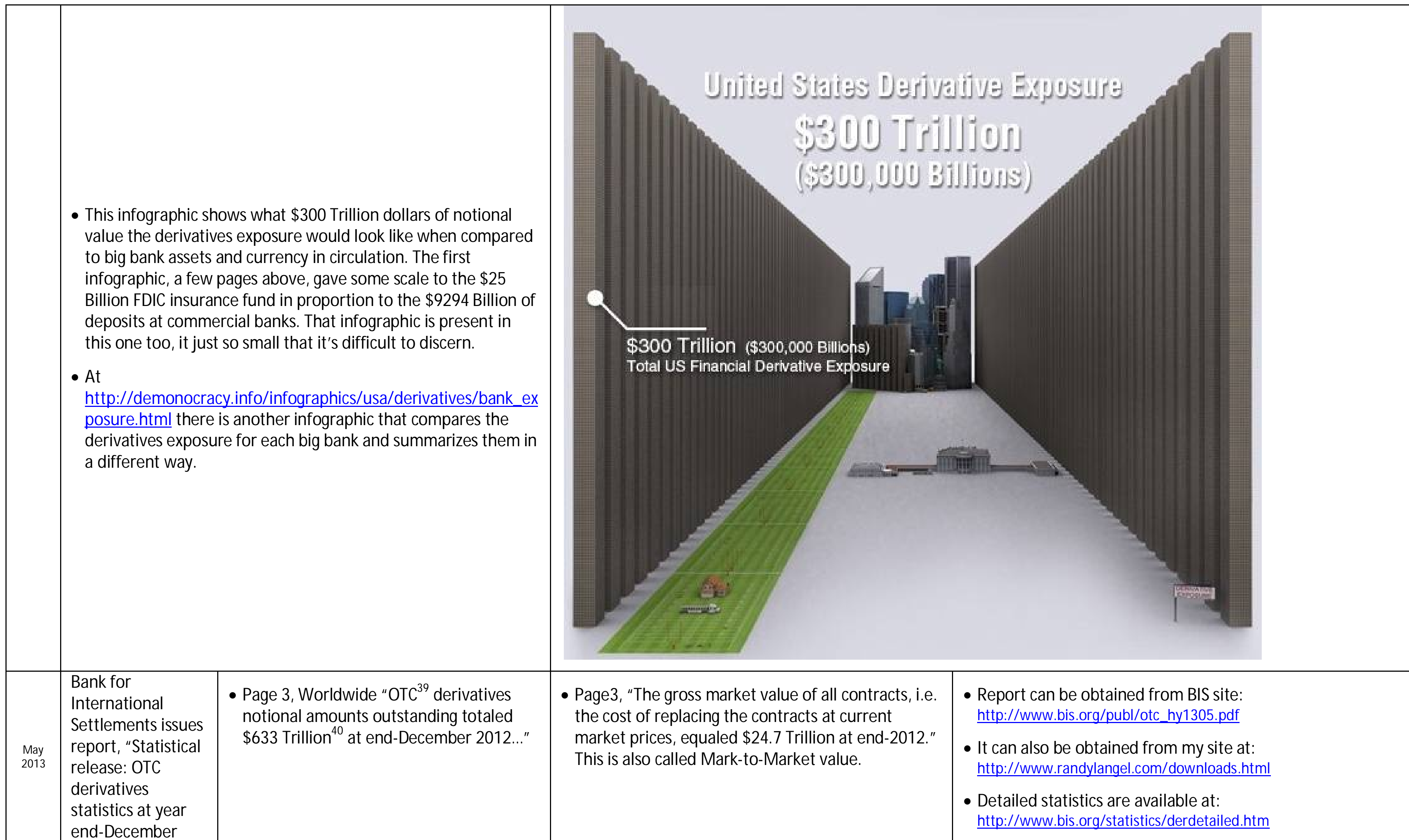

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<td>May 2013</td>
<td>Bank for International Settlements issues report, "Statistical release: OTC derivatives statistics at year end-December</td>
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- Page 3, Worldwide "OTC[39] derivatives notional amounts outstanding totaled $633 Trillion[40] at end-December 2012…"

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- Page3, "The gross market value of all contracts, i.e. the cost of replacing the contracts at current market prices, equaled $24.7 Trillion at end-2012." This is also called Mark-to-Market value.

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- Report can be obtained from BIS site: http://www.bis.org/publ/otc_hy1305.pdf
- It can also be obtained from my site at: http://www.randylangel.com/downloads.html
- Detailed statistics are available at: http://www.bis.org/statistics/derdetailed.htm

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[39] Over the counter (OTC) derivatives refer to contracts that are negotiated between two parties rather than through an exchange.

[40] A derivative is a financial instrument whose value depends on something else—a share of stock, an interest rate, a foreign currency, or a barrel of oil, for example. One kind of derivative might be a contract that allows you to buy oil at a given price six months from now. But since we don't yet know how the price of oil will change, the value of that contract can be very hard to estimate. (In contrast, it's relatively easy to add together the value of every share being traded on the stock market.) As a result, financial experts have to make an educated guess about the total amount at stake in all these contracts. One method simply adds up the value of the assets the derivatives are based on. In other words, if my contract allows me to buy 50 barrels of oil and the current price is $100, its "notional value" is said to be $5,000—since that's the value of the assets from which my contract derives. If you make that same calculation for every derivative and add those numbers together at the end of 2012, you get something around $633 trillion—the "notional value" of the world's over-the-counter derivatives ("over the counter" derivatives refer to contracts that are negotiated between two parties rather than through an exchange), according to the Bank of International Settlements, "Statistical release: OTC derivatives statistics at year end-December 2012" page 3.

	2012			
May 2013	**Bail-In Occurs** Spain's Bankia bank is allowed to begin trading it's shares again, one(1) year after the bankruptcy declaration.	• On May 21, 2013, trading in Bankia stock was finally permitted—but only for large institutional investors, who were allowed to take their money and run. • Small savers, who held about 5 billion of the total 6.85 billion euros in holdings, had to wait another week. Then on May 28, when trading for them was permitted, the share price plummeted from 1.35 to 0.57 euros.[41]	• Losses came to 75-90% of their original deposits.	•
Sept 2013	**Bail-In Occurs** Italy's oldest bank Monte Paschi	• It halted all coupon payments on Tier 1 bondholders, effectively bailing-in $650 million in bondholder's notes to recapitalize the bank.[42]	•	•
Dec 2013	European Parliament reaches agreement on bank bail-in directive.[43]	• Parliament and Council Presidency negotiators reach a political agreement on the draft bank recovery and resolution directive, the first step towards setting up an EU system to deal with struggling banks	• The directive establishes a bail-in system which will ensure that taxpayers will be last in the line to the pay the bills of a struggling bank. In a bail-in, creditors, according to a pre-defined hierarchy, forfeit some or all of their holdings to keep the bank alive. The bail-in system will apply from 1 January 2016. • The bail-in tool set out in the directive would require shareholders and bond holders to take the first big hits. Unsecured depositors (over €100,000) would be affected last. • Supposedly smaller depositors (less than €100,000) would be excluded from any bail-in.	• The EU has been much more transparent in their bail-in plans that the US.

[41] http://www.forbes.com/sites/afontevecchia/2013/05/28/spains-bankia-decimates-savers-as-stock-plummets-police-officer-stabs-banker-who-sold-him-shares/
[42] http://www.reuters.com/article/2013/12/10/us-italy-banks-minister-idUSBRE9B90K420131210
[43] http://www.europarl.europa.eu/news/en/news-room/content/20131212IPR30702/html/Deal-reached-on-bank-%E2%80%9Cbail-in-directive%E2%80%9D

June 2014	**Bail-In Occurs** Bulgarian Central Bank seizes control of the Corporate Commercial Bank	• Corporate Commercial Bank is Bulgaria's 4th largest bank. • Bank operations are shutdown and depositors are blocked from taking out their money.	• Deposits have been frozen even though Bulgarian law provides for a deposit guarantee of up to 100,000 Euros. • The central bank and the finance ministry have sent a letter to the European Commission explaining that they had no legal means to resume payments of guaranteed deposits until possibly after the Oct. 5 elections.[44]	•
June 2014	Big Banks hit with $250 Billion lawsuit from the housing crisis.	• Suit brought by Blackrock, the world's largest asset manager and PIMCO, the world's largest bond-fund manager. • The banks sued are; Deutsche Bank AG, U.S. Bank, Wells Fargo, Citigroup, HSBC Holdings PLC, and Bank of New York Mellon Corp. • The suit is for breach of fiduciary duty as trustees of their investment funds.	• For years, homeowners have been battling Wall Street in an attempt to recover some portion of their massive losses from the housing Ponzi scheme. But progress has been slow, as they have been outgunned and out-spent by the banking titans. • In June, however, the banks may have met their match, as some equally powerful titans strode onto the stage; Blackrock, the world's largest asset manager and PIMCO, the world's largest bond-fund manager.	• Will the BlackRock/PIMCO suit will not help homeowners directly. But it will get some big guns on the scene, with the ability to do all sorts of discovery, and the staff to deal with the results. • Fraud is grounds for rescission, restitution and punitive damages. The homeowners may not have been parties to the pooling and servicing agreements governing the investor trusts, but if the whole business model is proven to be fraudulent, they could still make a case for damages. • In the end, however, it may be the titans themselves who take each other down.
July 2014	**Bail-In Occurs** The Austrian government passes legislation for a bail-in of Hypo Alpe Adria bank (HAA), of about EUR 900 million.	•	• The Austrian government's legislation goes even further than the European standard for bail-in as it does not exempt from the bail-in the first [Euro] 100,000 on accounts.[45] • Previously, the Austrian province of Carinthia had guaranteed the bank deposits, but the new legislation declares that the state guarantee to protect depositor assets up to EUR 100,000 to be invalid retroactively.	• ***This is a very, very bad situation for people depositing money in big banks. Bail-in bank resolution plans have supposedly guaranteed the insured deposits of individuals (in the US it is $250,000) but now we have a national government invalidating the rules and not only taking working people's savings but also making it retroactive!*** • Regular depositor's money is now being taken to make up for the misdeeds of a bank. If it happened in one place, it can happen in another simply by the stroke of a legislature's pen.
Aug 2014	**Bail-In Occurs** Portugal's Banco Espirito Santo shut down and Bail-in is part of the resolution.	• While the Portuguese government will provide most of the money for the rescue in the form of a loan, the heaviest losses will be absorbed by Banco Espírito Santo shareholders and some creditors. The plan will serve as an early test of new European rules intended to make sure that investors, and not just taxpayers, most directly deal with the fallout when banks fail.[46]	•	•

[44] http://www.reuters.com/article/2014/08/11/bulgaria-banking-corpbank-idUSL6N0QH3MG20140811
[45] http://beforeitsnews.com/economy/2014/07/austria-bail-in-invalidates-state-guarantee-2643694.html
[46] http://www.nytimes.com/2014/08/04/business/international/banco-espirito-santo-of-portugal-appears-headed-for-a-bailout.html?_r=0

Sept 3, 2014	The Federal Reserve, the FDIC and the Office of the Comptroller of the Currency, change the liquidity requirements for the nation's largest banks by eliminating Municipal bonds from the list of high-quality liquid collateral.[47]	• The Federal regulators adopted a new rule that requires the country's largest banks – those with $250 billion or more in total assets – to hold an increased level of newly defined "high quality liquid assets" (HQLA) in order to meet a potential run on the bank during a credit crisis. •	• In addition to U.S. Treasury securities and other instruments backed by the full faith and credit of the U.S. government, the regulators have included some dubious instruments while shunning others with a higher safety profile. • Bizarrely, the Fed and its regulatory siblings included investment grade corporate bonds, the majority of which do not trade on an exchange, and more stunningly, stocks in the Russell 1000, as meeting the definition of high quality liquid assets, while excluding all municipal bonds. • Making the Fed's position even more untenable is the fact that the Basel III Revised Liquidity Framework, the global standard that the new rule seeks to address, does not envision gutting municipal bonds from the mix of suitable liquid assets. • The biggest hurdle for the Fed's position is that municipal bonds are readily eligible for loans at the Fed's discount window – trumping any argument that they could not command liquidity in a crisis	• The five largest Wall Street banks control the majority of deposits in the country. By disqualifying municipal bonds from the category of liquid assets, the biggest banks are likely to trim back their holdings in munis which could raise the cost or limit the ability for states, counties, cities and school districts to issue muni bonds to build schools, roads, bridges and other infrastructure needs. • The rule change may not have much effect in a crash, but where it will have a major effect is on the cost of credit, which will increase for municipal governments and decrease for corporate and financial institutions. The result will be to further shift power and financial resources from the public sector to the private sector. • Why would regulators dangerously jeopardize state and local government budgets in this way? Speculation is the intent is to Detroit-ize municipal governments, so that assets can be stripped. The international bankers got away with asset-stripping Greece. Why not make the US itself a wholly-owned subsidiary of private banking interests? • In the US, there is already a trend to force state and municipal governments into austerity measures, if not outright bankruptcy, in order to eliminate labor unions, pension obligations and social services.

[47] http://wallstreetonparade.com/2014/09/the-fed-just-imposed-financial-austerity-on-the-states/