

From: Gregory Brown <[REDACTED]>

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Subject: Recent Articles Relating to our efforts on behalf of the TNC

Date: Mon, 19 Sep 2011 19:24:52 +0000

Attachments: SEC_Proposed_Rule_To_Stop_Banks_From_Profitting_At_Investors_Expense_09_19_11.pdf; Libya_ponders_when_to_investigate_corruption_WP_09_17_2011.pdf

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From: S. Mullin <[REDACTED]>

Date: Mon, Sep 19, 2011 at 12:11 PM

Subject: The CDOs That Ate Wall Street

To: Gregory Brown <[REDACTED]>

Below is an article from Thursday's WSJ re CDO probe. This stuff keeps coming.

For the simplest and clearest explanation of CDOs and Credit Default Swaps, check the link to [This American Life](#) podcast which was broadcast on 4/11/10. It is to audio what Michael Lewis' [The Big Short](#) is to print - 42 minutes of clear explanation about market manipulation - both legal and illegal. If you liked [The Big Short](#), you'll love this podcast. It is the response to Ayn Rand and Alan Greenspan's utopian view that markets are always self-correcting, which happens to overlook the benefits to self-dealing and misalignment of incentives where failure is rewarded as well as success.

LINK: [This American Life - Act One: Eat My Shorts](#): <http://www.thisamericanlife.org/radio-archives/episode/405/inside-job>

WSJ SEPTEMBER 15, 2011

SEC Widens CDO Probe

Agency in Talks With Citigroup on Settlement, Examines Mizuho Financial Deals

Securities regulators are stepping up their probe into mortgage-bond deals at the heart of the financial crisis, including by pushing for a settlement of more than \$200 million with [Citigroup](#) Inc., according to people familiar with the matter.

Securities and Exchange Commission officials are in advanced talks with Citigroup to settle civil charges related to a \$1 billion mortgage-bond deal called Class V Funding III and created by the Wall Street company in 2007.

Among other things, SEC officials have been examining what was disclosed to investors in the Citigroup deal, a collateralized debt obligation created from other CDOs backed by subprime mortgages, according to people

familiar with the situation. In particular, officials are looking at allegations that Citigroup may have held short positions that would profit if the housing market fell, the people said.

When the housing bubble burst, investors in subprime-CDO deals were battered by losses. One of the biggest areas of scrutiny by the SEC is whether investors in some deals were properly warned that firms betting against the housing market had a role in choosing what mortgage-linked assets went into the deals, according to people familiar with the matter.

Awry: Deals in the SEC's Dragnet

- **Abacus 2007-AC1:** Goldman Sachs Group Inc. last year paid \$550 million to settle SEC charges that it misled investors by failing to disclose the role played by hedge fund Paulson & Co. in creating the deal.
- **Squared:** J.P. Morgan Chase & Co. in June agreed to pay \$153.6 million to settle SEC charges that it misled investors by failing to disclose the role played by hedge fund Magnetar Capital LLC in creating the deal.
- **Class V Funding III:** Citigroup Inc. is in advanced settlement talks with the SEC over this \$1 billion CDO.

The SEC is negotiating a parallel settlement with Credit Suisse Group AG, which acted as collateral manager on the deal, these people said. A manager typically is responsible for choosing the assets that go into a deal and for some of the disclosures made to investors.

An SEC spokesman declined to comment, as did representatives for Citigroup and Credit Suisse.

In another sign that the SEC has widened its scrutiny of the Wall Street mortgage machine, the agency is looking at whether investors were misled in deals created by [Mizuho Financial Group](#) Inc., according to people familiar with the situation.

The Japanese bank was a late entrant to the CDO market and one of the big losers, suffering billions of dollars in losses from subprime loans when the housing bubble burst.

The SEC's inquiry into Mizuho still is months from completion and might not result in charges being filed against the company. Mortgage-bond deals under scrutiny include Tigris, a collateralized debt obligation that Illinois-based hedge-fund firm Magnetar Capital LLC helped to craft, according to people familiar with the matter.

Mizuho and Magnetar declined to comment.

Magnetar was involved in helping create some of the CDOs scrutinized by the SEC, including a \$1.1 billion deal called Squared that was sold by J.P. Morgan Chase & Co. This summer, J.P. Morgan Chase paid \$153.6 million to settle SEC civil charges related to the Squared deal, in which Magnetar had a short position. The Wall Street bank didn't admit or deny wrongdoing. Magnetar hasn't been accused of any wrongdoing and has said it didn't control the asset-selection process for CDOs it was involved with.

SEC officials are pushing hard to hammer out a string of settlements in the next few months as the agency moves closer to finishing its investigation into mortgage-bond deals. That could happen by next spring, according to people familiar with the matter.

Last year, [Goldman Sachs Group](#) Inc. paid \$550 million to settle civil charges it misled investors in a CDO called Abacus 2007-AC1. Goldman didn't admit or deny wrongdoing. Since then, the agency has continued to broadly examine the Wall Street CDO factory that churned out scores of the mortgage-bond deals before and during the crisis.

Exact terms haven't been reached on any of the settlements now in the works, but the SEC is using earlier agreements on similar mortgage-bond deals as a blueprint, these people said.

Officials are discussing the settlement of more than \$200 million with [Citigroup](#), while Credit Suisse is expected to pay a relatively small penalty of less than \$5 million, reflecting its limited role in the deal, the people said.

The Swiss bank likely won't face any charges related to CDOs it created and marketed, according to a person familiar with the situation.

SEC officials also are moving ahead with their probe of CDOs sold in 2006 to five Wisconsin school districts.

In August, the SEC filed a civil-fraud lawsuit against [Stifel Financial Corp.](#), the broker for the deals, claiming it misled the school districts about the risks of the securities.

Stifel has denied any wrongdoing and is fighting the lawsuit. Now, though, the SEC is weighing civil charges against the [Royal Bank of Canada](#) unit that created the mortgage-bond deals, according to people familiar with the matter.

A final decision on any enforcement action hasn't been made, these people said.

RBC has disclosed in securities filings that it is "subject to regulatory investigation" regarding the investments made by the school districts.

In a statement, an RBC spokesman said Stifel "conceived of this investment program, branded it [and] induced their longstanding school district clients to participate." RBC also said Stifel represented in writing that it "had determined that this type of investment was suitable in light of the districts' objectives."

Stifel alleges that RBC misled it on the riskiness of the deals. A Stifel spokesman said that "if the product had been as represented, it would have been suitable."

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