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Illinois Tracks Its Currency Costs

By Jeannette Neumann
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The Wall Street Journal
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English

William Atwood, head of the $11.2 billion Illinois investment board, has taken a crash course in discovering his portfolio's currency-trading costs -- and he doesn't like what he sees.

A consultant said his fund paid $2 million more than the average of other institutional investors on currency transactions during most of last year. When Mr. Atwood tried to figure out the costs on his own, he received a two-foot-high stack of trading documents he didn't know how to interpret.

"If you don't pay attention, you do so at your own peril," says Mr. Atwood, a 49-year-old former money manager.

Now, Mr. Atwood is attempting something few public fund managers have tried: building a paper and financial trail to monitor whether advisers are charging his Illinois fund correct currency costs.

He has drastically pared currency trading through State Street Corp., which executed the majority of the board's currency transactions, and he now requires investment managers to provide time stamps recording when all the trades were made. He also receives quarterly updates on currency costs.

State Street said in a statement it doesn't comment on clients, adding: "Overall our indirect foreign-exchange services continue to be widely used by the investment managers we serve" because of the firm's "ability to efficiently meet their foreign-exchange execution needs."

Mr. Atwood's efforts come amid heightened scrutiny by regulators and investors into the $4 trillion-a-day foreign-exchange market, as custody banks face allegations they have overcharged state pension funds to trade currency, charges the banks deny. His deep dive offers a peek into struggles public pension fund managers could face as they scrutinize financial firms that trade currencies to carry out their securities transactions.

All this is important for custody banks, which historically have acted as custodian for investment firms' securities while handling mundane back-office administrative work. The banks also execute currency transactions for institutional investors.

In a March report, Nomura Securities said custody banks may "need to make serious price concessions and revamp the process in which they execute FX trades for their clients."

U.S. public pension funds have poured into foreign securities, nearly doubling overseas holdings in the past 20 years. Pension managers only now are grappling with currency costs as they also deal with under-funded pension plans.

Three pension plans that Mr. Atwood oversees on behalf of 125,000 Illinois workers and retirees are funded between 26.3% and 37.4%, for instance -- far shy of the 80% level that actuaries recommend.

Inside Mr. Atwood's office, his team scrambled to get records similar to stock transactions that show a date and time a currency is traded.

Mr. Atwood asked Illinois' five investment managers for a month's worth of records detailing the currency traded. That's when he got the two-foot high stack of records. He didn't know what to do with it.

For advice, Mr. Atwood turned to a friend, a former currency trader, who told him foreign-exchange markets are far less regulated than stocks or bonds. He grew more concerned.

Mr. Atwood worked with a consultant to put the data in a digestible format. That is when he spotted the first of what he considers red flags: The fund's investment managers had executed more than 70% of the currency trades through State Street, Illinois' custody bank.

Mr. Atwood was skeptical that one bank could provide the best "execution"-or trades at the best available prices-70% of the time. His fund's investment managers didn't have good answers, he says.

He instructed the fund's investment managers to provide "time stamps" on currency trades, indicating the specific time and price a transaction took place.

The fund also instructed its investment managers to trade through State Street only if the bank could bring the most competitive price. Illinois' investment managers have shifted trading to 20 different banks and now execute nearly 13% of trades through State Street, Mr. Atwood says.

Illinois hasn't alleged wrongdoing or pursued a legal claim. And while it hasn't fired its investment managers, it has put those managers who are driving expenses on notice: If costs don't go down over the next several quarters, their contract could be terminated.

Illinois in January hired Global Trading Analytics, LLC, a Rutherford, N.J-based, transaction-cost analysis consulting firm, to mine its foreign exchange data. In February, Global Trading told Mr. Atwood the fund had paid on average 16.5 "basis points," or hundredths of a percentage point, more than the average of other institutional investors for currency trades in 2010, or about $2 million.

That amount ate into the $266 million in gains Mr. Atwood's fund earned in trading international stocks last year, he says.

The analysis showed that money manager Vontobel Asset Management, primarily exchanging British pounds and U.S. dollars for Illinois, was 0.25% above the consultant's market benchmark over the last three quarters in 2010, according to information obtained from a public-records request.

Among its five managers, Vontobel traded the most on behalf of the Illinois fund -- $822 million over 284 trades, documents show.

A spokesman for Vontobel, a New York unit of Zurich-based Vontobel Holding AG, called the analysis "flawed and misleading" because the firm says the consultant doesn't accurately account for currency hedging, a strategy Vontobel uses. Hedging involves taking opposite trading positions to offset adverse market moves.

"Any conclusion . . . that such hedges have hurt performance over the time we've managed funds for Illinois State Board of Investments is simply false," Vontobel said in a statement.

Global Trading President John Halligan said in a statement that the firm "has been accurately measuring all facets of foreign exchange trading costs, including trading for currency hedging, since 2005."

For his part, Mr. Atwood now requests currency costs every quarter. "We expect to see improvement," he says.

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Markets

Scottrade ETF Plan: Lowest Cost

By Jane J. Kim
305 words
28 March 2011
The Wall Street Journal Online
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English

Discount brokerage Scottrade Inc. is launching a suite of low-cost exchange-traded funds, a move that could put further pressure on fees.

On Wednesday, the closely held firm will introduce proprietary domestic-equity ETFs that will track 15 Morningstar Inc. indexes, covering the U.S. broad market, small-, mid- and large-cap stocks and 11 separate sectors. The firm, which says it aims to offer the lowest-cost ETFs in the industry, will also offer commission-free trades to its clients as well as investment advisers who custody their assets at the firm.

Firms such as Vanguard Group, Charles Schwab Corp. and Fidelity Investments already offer low-cost ETFs and have introduced commission-free ETF trades in recent years. Scottrade's chief executive Rodger Riney says, "We think there's room for another zero-commission family."

Annual fees will range from 0.05% for ETFs that track the broad U.S. market and large-cap stocks to 0.19% for sector-based ETFs. Those fees would be slightly lower than the lowest fees offered by industry leaders Vanguard, Schwab, State Street Corp.'s State Street Global Advisers and BlackRock Inc.'s iShares.

"We have been watching the industry evolve, and it's been growing very, very rapidly," says Mr. Riney, who notes that about 42% of Scottrade's customers are invested in ETFs. Industrywide, assets in ETFs surpassed $1 trillion in January, according to the Investment Company Institute, a trade group.

Scottrade will launch its Focus Morningstar ETFs through its recently acquired FocusShares subsidiary, which will be the ETF sponsor. While Scottrade won't have any fixed-income and international ETFs in the current lineup, it says it is reviewing opportunities to expand.

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Markets
A Guide to Bank Dividends

By David Benoit
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English

The nation's 19 biggest bank holding companies and financial firms are announcing increased dividends, share buybacks and plans to repay their government bailouts, now that the Federal Reserve has given answers to their capital-assessment plans.

The banks have been under strict rules on spending capital, but with the new results the Fed is easing up those rules, allowing banks to go forward with plans to use capital.

So far Friday, 17 of the 19 have issued statements regarding their plans, with MetLife Inc. and Ally Financial the only two which haven't publicly comment. Here's a list of which banks have said what:

• BB&T Corp.—16-cent per-share quarterly dividend, up by a penny per share, plus a one-cent one-time special dividend, which raises the first-quarter dividend to the new rate. In 2008, BB&T paid a 47-cent quarterly dividend.

• J.P. Morgan Chase & Co.—25-cent quarterly dividend, up from five-cent payout, plus a $15 billion share buyback program with $8 billion expected in 2011. The bank paid a 38-cent quarterly dividend as late as 2009.

• Wells Fargo & Co.—12-cent per-share quarterly dividend rate, up from five cents per share, plus a seven-cent one-time special dividend and a plan to repurchase 200 million shares. The new rate remains 22 cents below its early 2009 payouts.

• US Bancorp—12.5-cent quarterly dividend rate, up from five cents, plus a 50-million share-repurchase program.

• Bank of New York Mellon Corp.—No specific rate, but Fed approved plan for "second-quarter capital actions, including a dividend increase and share repurchases."

• American Express Co.—Plans to return, on average and over time, 50% of capital to shareholders. Unlike its peers, AmEx, with quarterly dividends at 18 cents per share, didn't cut its dividend amid the financial crisis. The company isn't likely to buy back shares until it announces first-quarter results.

• PNC Financial Services Group Inc.—Board will consider a dividend increase at April 7 meeting for the second quarter. Shares will be repurchased under an existing program.

• SunTrust Banks Inc.—The Fed approved its plan to pay back $4.85 billion it holds in government bailout funds, the largest bank amount outstanding in the Troubled Asset Relief Program. SunTrust plans a $1 billion stock sale to assist in paying back TARP, though the Treasury still has to approve the plan.

• KeyCorp —Plans to repurchase its $2.5 billion in TARP funds and raise $625 million in common stock to fund the repayment. The bank also expects to raise its dividend in the second quarter to three cents a share from one cent.

• Morgan Stanley—The firm is "comfortable" with its capital position while its "priorities" are the continued investment in its businesses and purchasing the rest of Morgan Stanley Smith Barney.

• Capital One Financial Corp.—The firm maintained its quarterly dividend at five cents a share, and says its capital is strong.

• Goldman Sachs Group Inc.—The giant investment bank will redeem preferred shares held by Berkshire Hathaway Inc., including a one-time preferred dividend of $1.64 billion. The charge, and the acceleration of $24 million of preferred dividends, will reduce Goldman's first-quarter earnings by $2.84 a share. The firm said it could also raise its 35-cent-a-quarter dividend and buy back shares.

• State Street Corp.—18-cent quarterly dividend, an increase of 17 cents a share over the penny dividend it paid as recently as two months ago. The board also approved a $675 million stock buyback for 2011, replacing its previous repurchase program that had been inactive since January 2008.

• Regions Financial Corp—The lender said its proposal didn't include "any immediate capital action" and its position of repaying TARP "remains unchanged." Regions holds $3.5 billion in funds, which would be the largest amount outstanding for a bank following SunTrust's repayment.

• Citigroup Inc.—The giant bank reiterated in a statement it "expects to be in a position to return capital to its shareholders in 2012."

• Bank of America Corp.—The nation's biggest bank by assets said that it didn't request a second-quarter dividend increase and that it will continue to work with the Fed. The bank said it would resubmit this summer a proposal for a modest dividend increase in the second half of the year.

• Fifth Third Bancorp—The lender requested an increase in its quarterly dividend and the possible future redemption of some trust preferred securities. The bank's board will consider the dividend at a meeting Tuesday.

Matthias Rieker, Brett Philbin, Aparajita Saha-Bubna, Corrie Driesbusch, Liz Moyer and Alan Zibel contributed to this article.

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Markets

Analysts Handicap the Dividend Possibilities

By Brett Philbin, Matthias Rieker, David Benoit and Liz Moyer
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English

For the 19 largest U.S. banks, formal notification Friday of stress-test results will mean some—but not all—will be unchained from restrictions on dividends or repaying bailout funds.

Banks can't and the Fed won't disclose the results of the stress tests. But some boards will finally be free of restraints if they are judged to have sufficient capital; some may announce plans Friday or Monday.

Wall Street has been working overtime to figure out which banks will take what actions.

Analysts broadly agree that J.P. Morgan Chase & Co., Wells Fargo & Co. and US Bancorp will be among the first of 19 to announce modest dividend increases after receiving results of capital plans they submitted to the Fed in early January.

Citigroup Inc., on the other hand, has already said it won't reinstall its dividend until next year.

This is the second round of special stress tests by the Fed applying to those banks, which have been deemed systemically important. The first round, in spring 2009, acted as a public confidence-boosting exercise and the beginning point at which banks could repay money they received from the Treasury Department's Troubled Asset Relief Program.

Three big regional banks—KeyCorp, SunTrust Banks Inc., Regions Financial Inc.—still haven't repaid their TARP funds, which they likely must do before boosting dividends. The test is also expected to reveal how much capital they have to raise to be allowed to repay the funds.

KeyCorp, considered by some analysts to have a good chance of paying back its bailout funds, has said its capital plan submitted to the Fed in accordance with the stress test included a proposal to pay back its $2.5 billion outstanding TARP funds. KeyCorp has said it is on more solid footing than some competitors so it shouldn't have to raise much capital to repay the funds.

Fifth Third Bancorp, another large regional bank, has repaid its TARP funds. Fifth Third Chief Financial Officer Daniel Poston said at a conference earlier this month the bank intends to "return in the near term" to a more normal dividend.

Some of the 19 financial institutions likely to be granted permission for a dividend raise, analysts say, include PNC Financial Services Group Inc., American Express Co., Bank of New York Mellon Corp. and State Street Corp.

BB&T Corp. said earlier this month that it should be in the first group approved for a dividend increase.

"By permitting selected banks to increase dividends, the Federal Reserve is signaling the banking industry's capital strength has made a remarkable comeback," Gerard Cassidy, a banking analyst with RBC Capital Markets, said in a note to clients.

Banks are likely to restore dividends to payout ratios of 20% to 30% of earnings, according to analysts. J.P. Morgan CEO James Dimon said he hoped to achieve a payout ratio of 35% eventually, but added "J.P. Morgan won't rush into anything."

For many banks, a dividend boost could be a welcome event for investors knocked down by share-price erosion in the past few years. Bank of America Corp.'s shares are down nearly 60% from June 2008. The bank has slashed its dividend twice since the crisis in the autumn of 2008, cutting it to 1 cent a quarter in March 2009.

Bank of America has said it doesn't plan a dividend increase until the middle of 2011.

Card issuer Capital One Financial Corp. is likely to raise its dividend in mid-2011, analysts say.

Investment banks Goldman Sachs Group Inc. and Morgan Stanley aren't in the same category. Goldman Chief Financial Officer David Viniar recently told analysts the firm is more inclined to buy back its shares. Goldman is looking for a green light from the Fed to pay back a $5 billion investment from Warren Buffett's Berkshire Hathaway Inc. made during the financial crisis.

Morgan Stanley hasn't publicly discussed raising its dividend, but is instead focused on buying from Citigroup the remaining stake of its brokerage joint venture with Smith Barney and reallocating its capital in client businesses.

MetLife Inc., the only insurer to be included in the stress test, has historically paid an annual dividend in the fourth quarter. But Chief Financial Officer Bill Wheeler said at an investor conference in February that the company couldn't move forward on any capital-management actions, including buybacks, until passing the stress test.

Assuming MetLife passes the stress test, Mr. Wheeler said, "I think we'll be more aggressive on sort of an annual dividend now and relatively less aggressive on buyback activity."

The Wall Street Journal reported Thursday that Ally Financial, the auto lender among the 19 largest banks, still on the hook for billions in U.S. aid, won't get a definitive answer from the Fed for some months.

Erik Holm contributed to this article.

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Markets
Some Banks Cut Currency-Trade Fees, Study Says

By Carrick Mollenkamp And Lingling Wei
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English

Some banks have reduced the amount they charge for currency trades amid scrutiny over allegations that some pension funds and other clients have been overcharged, according to a consultant analysis.

The analysis, by FX Transparency of Framingham, Mass., comes as a number of states probe whether state and municipal pension funds are being properly charged for foreign-exchange transactions.

Americans investing globally must convert U.S. dollars into the currencies of the countries where they invest. Institutions known as custody banks facilitate such currency transactions.

In the study, released Monday, FX Transparency said it had identified a significant drop in foreign-exchange costs after California highlighted potential problems when it sued State Street Corp. in 2009, alleging that the custody bank overcharged the state pension fund for currency trades. State Street has denied the allegations and is fighting the suit.

State Street on Monday filed an annual securities filing, in which it reiterated a previous effort to disclose more information to clients about its currency trades. A State Street spokeswoman declined to comment beyond the filing.

FX Transparency, a provider of currency-cost analysis, said that clients in 2010 paid 0.11 percentage point more than an average currency-transparency benchmark cost. That is down from a 0.30 percentage-point difference, on average, from 2000 to 2009.

The analysis was based on a review of some 200,000 "standing-instruction" trades, in which a client like a public pension fund allows its custody bank to handle the currency trades. FX Transparency didn't identify the banks or clients.

In recent weeks, Virginia's attorney general intervened in a whistleblower lawsuit against Bank of New York Mellon Corp. and Florida's attorney general filed a court document to intervene in a whistleblower lawsuit against BNY Mellon.

Both lawsuits allege the custody bank improperly charged for foreign-exchange transactions. An Arkansas public pension fund sued State Street in a similar claim. Mississippi's attorney general has requested foreign-exchange data for that state's retirement system. Those cases mirror the one brought by the California attorney general in 2009 against State Street.

State Street and BNY Mellon, two of the nation's largest custody banks by global assets, have denied the claims and say they will fight the lawsuits.

In its 2010 annual report released Monday, State Street said added disclosure "will address client interests for increased information" but could pressure the bank's revenue and profitability.

At the heart of the pricing concerns in the recent litigation is how rates are set under "standing instruction." A negotiated trade can result in a more-advantageous exchange rate for the client.

BNY Mellon said in its 2010 annual report, also filed Monday, that it offers a standing-instruction program to its clients for handling a high volume of small transactions or difficult-to-execute trades in restricted and emerging-market currencies.

It also said the bank is cooperating with government inquiries about foreign-exchange transactions it provides to certain clients, including public pension plans.

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Global Finance: Some Banks Cutting Fees On Trading Of Currencies

By Carrick Mollenkamp and Lingling Wei
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English

Some banks have reduced the amount they charge for currency trades amid allegations that some pension funds and other clients have been overcharged, according to a consultant analysis.

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Markets
State Street Says It Is Giving More Forex-Pricing Detail

By David Benoit
415 words
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English

State Street Corp. said litigation over its foreign-exchange trading services for clients has led to increased client inquiries on its pricings, and the trust bank reiterated it is releasing more details on pricing.

The bank also reiterated in its annual filing with the Securities and Exchange Commission that the increased disclosures, as well as information on other forex options the bank offers, could ultimately reduce the operation's revenue and profitability.

State Street is among the trust banks that have recently faced questions from pension funds and state attorneys general who allege they overcharge for foreign exchange transactions. California had sued the bank in October 2009 and this year several other states have been investigating. State Street was sued earlier this month by Arkansas.

State Street previously said it believes its "services are consistent with our contractual obligations" and it would "vigorously defend" allegations in the suits.

The states are looking into whether certain banks charged state pension funds the most expensive foreign-exchange price of the day, rather than the rate the bank actually paid.

U.S. investors trading in global stock markets must convert dollars into the currencies of the foreign countries in which they invest. If a pension fund, for instance, buys stock in a South Korean auto maker, it converts U.S. dollars to won, and reverses that exchange when selling the stock. Custodial banks facilitate the foreign exchange.

State Street agreed in October to pay the state of Washington $12 million to settle a dispute over forex pricing. The bank said in its filing that the contracts with Washington "were significantly different" from California's contracts.

As for the increased requests from clients, the bank said it was responding with "more information about the way that we set the rates for this product and the alternatives offered by us for addressing foreign exchange requirements."

The bank believes these disclosures should "address client interests for increased information" but "could result in pressure on our pricing of these services" as clients may choose the other options the bank offers.

For 2010, foreign-exchange trading revenue totaled $597 million, a 12% decrease from 2009, which the bank blamed on lower spreads and a decline in currency volatility. Volume increased. But in the fourth quarter, revenue soared 60% from the third quarter, signaling a rebound as the year ended.

Write to David Benoit at david.benoit@dowjones.com

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Currency Trading

BNY Mellon Faces Forex Suit in New York

Bank of New York Mellon Corp., facing whistleblower lawsuits in Virginia and Florida that it improperly charged pension funds for currency transactions, also has been sued in New York, according to New York County court records.

The New York case, filed by a plaintiff called FX Analytics in October 2009, is under seal and the specific allegations aren't public. A spokesman for the New York State Comptroller's office, which oversees the state's $141 billion Common Retirement Fund, declined to comment. A spokesman for New York attorney general said "we can't comment on potential or ongoing matters before our office."

FX Analytics is a Delaware partnership that is being used to hide the identity of the whistleblowers, according to a person familiar with the situation. A plaintiff by the same name filed whistleblower claims in Virginia and Florida, also in October 2009, against BNY Mellon on behalf of state and local retirement systems.

The lawsuits are part of a growing number of legal cases being brought against BNY Mellon and State Street Corp. relating to foreign-exchange transactions.

State Street and BNY Mellon, which are two of the nation's largest custody banks in terms of global assets, have denied the claims and say that they will fight the lawsuits.

Carrick Mollenkamp and Lingling Wei

Insurance

Santander Sells Americas Insurance Operations

Zurich Financial Services AG entered a deal valued at up to $2.09 billion to buy Banco Santander SA's insurance operations in Latin America, underlining its hopes to generate growth from emerging markets.

The deal gives Zurich access to the Spanish bank's network of 5,600 branches in Latin America, through which its policies will be sold under a 25-year distribution agreement. The deal significantly expands the Swiss insurer's presence in Brazil, Mexico, Chile, Argentina and Uruguay, making it the fourth-largest insurer in Latin America.

Santander's insurance operations will become part of the newly established holding company Zurich Santander Insurance America, which will be based in Madrid. Zurich Financial will own 51% of the new entity; Santander will ownthe remaining 49%. In 2010, Zurich and Santander in Latin America, if combined, would have taken in $3.9 billion in gross written premiums and $2.9 billion in pension contributions.

Anita Greil

Insider Trading

Ex-Disney Assistant Sentenced in Scheme

A former Walt Disney Co. administrative assistant was sentenced to four months home detention Tuesday after admitting last year to engaging in a scheme to sell early access to the entertainment company's earnings.

Federal prosecutors in Manhattan alleged that Bonnie Hoxie, the former assistant to Disney's head of communications, gave her then-boyfriend Yonni Sebbag information about Disney's upcoming results before their public announcement last spring.

Mr. Sebbag then contacted dozens of hedge funds and investment companies anonymously last March in an amateurish insider-trading plot, offering to provide an early glimpse of Disney's results, prosecutors said.

U.S. District Judge Alvin K. Hellerstein ordered Ms. Hoxie to serve three years probation, the first four months of which would be served as home detention. He didn't impose a fine and ordered her to complete 100 hours of community service a year during her probation.

Ms. Hoxie and Mr. Sebbag separately pleaded guilty last year to conspiracy and wire fraud. Mr. Sebbag was sentenced to 27 months in prison in January.

Chad Bray and Terin Miller

Commodities

CFTC Fines Cantor Over Gasoline Trades

The Commodity Futures Trading Commission on Tuesday fined Cantor Fitzgerald & Co. $100,000 for improper trading in the gasoline-futures market.

The CFTC said between March and April 2007, a Cantor trader entered into noncompetitive "wash" trades, instructing two separate floor brokers on the New York Mercantile Exchange to execute identical orders in the gasoline futures pit. The financial-services firm agreed in a settlement with the CFTC to pay the fine and cease and desist from further violations of securities laws. A spokesman for Cantor declined to comment.

Jerry A. DiColo and Jamila Trindle

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Markets
BNY Mellon Faces Forex Suit in New York

By Carrick Mollenkamp And Lingling Wei
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Bank of New York Mellon Corp., facing whistle-blower lawsuits in Virginia and Florida that it improperly charged pension funds for currency transactions, also has been sued in New York, according to New York County court records.

The New York case, filed by a plaintiff called FX Analytics in October 2009, is under seal and the specific allegations aren't public. A spokesman for the New York State Comptroller's office, which oversees the state's $141 billion Common Retirement Fund, declined to comment. A spokesman for New York attorney general said "we can't comment on potential or ongoing matters before our office."

FX Analytics is a Delaware partnership that is being used to hide the identity of the whistle-blowers, according to a person familiar with the situation. A plaintiff by the same name filed whistle-blower claims in Virginia and Florida, also in October 2009, against BNY Mellon on behalf of state and local retirement systems.

The lawsuits are part of a growing number of legal cases being brought against BNY Mellon and State Street Corp. relating to foreign-exchange transactions. A whistle-blower, or qui tam, lawsuit can be brought by an individual or group on behalf of the government, alleging fraudulent activity involving government funds. The government has an option to join the case. Documents are initially filed under seal pending the outcome of the case.

State Street and BNY Mellon, two of the nation's largest custody banks by global assets, have denied the claims and say they will fight the lawsuits. The banks act as custodians for investment firms' securities, handling a number of tasks, including currency trades and back-office work, for institutional investors.

In the suits filed in courts in Fairfax County, Va., and Leon County, Fla., FX Analytics alleges that BNY Mellon profited by pocketing the difference between its cost of currency transactions and the cost it charged to state and local pension funds.

In recent weeks, Virginia's attorney general intervened in the whistle-blower lawsuit against BNY Mellon and Florida's attorney general filed a court document to also intervene in the whistle-blower law suit against BNY Mellon. Both lawsuits allege the custody bank improperly charged for foreign exchange.

An Arkansas public pension fund sued State Street in Massachusetts federal court earlier this month in a similar claim. The cases mirror one brought by the California attorney general in 2009 against State Street.

In Virginia, the attorney general earlier this month issued a request-for-proposal to hire outside counsel to assist in the legal case against BNY Mellon. According to documents reviewed by The Wall Street Journal, the attorney general's office on Feb. 4 issued a request for proposals from law firms to assist Virginia on the case. According to the document, the firm that is hired "will be appointed as special counsel to represent the Commonwealth."

Proposals were due Feb. 15. A spokesman for the attorney general's office said a law firm hasn't yet been hired.

The proposal requests that the firm "have knowledge of the principles of contract, banking, and agency law, and foreign currency exchange in the context of a custodial relationship between a bank and its pension customers."

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THE WALL STREET JOURNAL.

Money
ETFs Improve Their Accuracy

By Ian Salisbury
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NEW YORK—Exchange-traded fund companies generally sharpened their aim in terms of matching market returns last year, but many ETFs still missed by wide margins, according to a study by Morgan Stanley Smith Barney.

Exchange-traded funds, baskets of stocks or bonds that trade on stock exchanges, are typically designed to match the performance of a benchmark like the Standard & Poor's 500-stock index or the Barclays Capital U.S. Aggregate Bond Index. In reality, ETFs almost never precisely accomplish that goal. Investment fees, changes to indexes and tweaks by investment companies to make ETFs cheaper and easier to trade can all play a role.

These performance discrepancies, often called "tracking error," don't necessarily mean investors come out behind, but they can mean ETFs aren't completely living up to marketing promises. Fund companies frequently brag about accuracy in their advertising.

Morgan Stanley Smith Barney said ETFs that target the U.S. stock market missed benchmark returns by 0.57 percentage point on average in 2010, compared with 0.84 percentage point in 2009. Among international funds, which tend to have higher costs and target securities that are harder and more expensive to trade, discrepancies were wider but also narrowed from 2009. On average, international ETFs missed their mark by 1.1 percentage points versus 1.94 percentage points in the prior year.

Such distinctions may seem small, but they can be a big deal to ETF companies, which compete to lure investors by touting performance differences between funds. Those differences can amount to as little as a few hundredths of a percentage point each year.

The recent report didn't address why funds' tracking error improved, and Morgan Stanley Smith Barney didn't immediately respond to requests for comment. Executives at ETF firms BlackRock Inc. and Vanguard Group speculated that declining market volatility or growth in ETF assets, which helps funds to own more stocks and bonds in any given index, may have been contributing factors.

Some ETFs still missed by big margins, with 11 funds off by more than three percentage points. The worst offender: SPDR S&P Emerging Europe ETF, which returned 14.6% in 2010, compared with the 20.5% return of the S&P European Emerging BMI Capped Index that it follows. State Street Corp., which oversees the ETF, said the shortfall reflects the fact that the fund holds just 91 of the 234 stocks in the index. Amid a strong rally, the fund missed out on some of the gains.

In fact, there is an advantage to such skimping, especially for funds that focus on stocks that are difficult or expensive to trade. Funds typically try to make it as easy as possible for dealers that traffic in ETF shares to buy and sell the stocks the funds hold, something the dealers need to do to make sure ETF shares trade at accurate values. If the task becomes too difficult, investors may end up paying big mark-ups, when they themselves trade ETF shares. While those mark-ups won't necessarily be reflected in an ETF's performance numbers, they come out of investors' pockets all the same.

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Business
Currency Charges Weren't Monitored

By Lingling Wei, Katie Martin, Jeannette Neumann and Carrick Mollenkamp
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The Wall Street Journal Online
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Business
English

Public pension funds have ramped up currency trading in the past decade but have failed for years to monitor prices banks charge in making these trades—and in one case, appeared to have ignored a consultant's warnings of being overcharged.

Those alleged failings, described in government and court documents and interviews with consultants and others, are coming to light amid an investigation by state attorneys general about whether banks overcharged some funds for currency transactions to facilitate global stock trades.

In recent weeks, Virginia's attorney general intervened in a whistleblower lawsuit against Bank of New York Mellon Corp. and Florida's attorney general filed a court document to also intervene in a whistleblower lawsuit against BNY Mellon. Both lawsuits allege the custody bank improperly charged for foreign exchange. An Arkansas public pension fund sued State Street Corp. in a similar claim. Mississippi's attorney general has requested foreign-exchange data for that state's retirement system.

Those cases mirror one brought by the California attorney general in 2009 against State Street.

State Street and BNY Mellon, two of the nation's largest custody banks by global assets, have denied the claims and say they will fight the lawsuits.

These banks act as custodians for investment firms' securities, handling a number of tasks, including currency trades and back-office work, for institutional investors.

In 2003, a British currency consultant and former Bank of England economist said he warned California's huge pension system about being overcharged after being hired by the California Public Employees' Retirement System, or Calpers, to analyze foreign-exchange costs.

Neil Record said he told Calpers it was paying uncompetitive rates on foreign-exchange trades and noted in a report at the time that many of the currency trades lacked time stamps recording when the trades were made.

Mr. Record, who declined to name the custody banks that traded for Calpers, said Calpers's reaction was muted. "It was extraordinarily low key," Mr. Record said. "They thanked us and paid the invoice, and that was that."

In a statement, a Calpers spokesman said Mr. Record's report "did not address the conduct alleged" in the 2009 California attorney general's complaint.

More recently, some funds have scrambled to better monitor how pension money is traded, prompted by the California suit.

In November 2009, one month after California's suit was filed, the Illinois State Board of Investment, which manages $10.6 billion in assets, began requiring its advisers to provide time stamps on foreign exchange, a critical way to monitor when money is actually traded, said William Atwood, executive director of the Illinois board.

Illinois hasn't alleged wrongdoing or pursued a legal claim. State Street is the custody bank for the Illinois investment board.

Last year, the Florida State Board of Administration, which manages $154.8 billion, hired two consulting firms to evaluate currency trades, a spokesman said. The board "started evaluating foreign-exchange practices with its external managers in the fall of 2008," the spokesman said. "The California lawsuit validated the work we had already begun in viewing foreign-exchange costs."

Illinois, too, hired a consultant this year for the same task, and the consultant told Illinois it paid on average 0.165 percentage point more than the average of its peer group for currency trades, or about $2 million in 2010.

In Mississippi, Attorney General Jim Hood late last month requested a decade's worth of foreign-exchange data to study how much the state pension fund paid for foreign-exchange moves.

Public pension funds only in recent years increased investments in foreign securities, thus increasing demand for foreign exchange. At the end of 2010, public pension funds had a median of 14.9% of assets invested in international stocks, compared with 7.7% in 1994, according to pension consultant Wilshire Associates.

And the state lawsuits allege that State Street and BNY Mellon took steps to conceal improper pricing and sought to convince funds that they would end up saving money and time, allegations the custody banks deny.

A BNY Mellon spokesman said: "We offer various options to choose depending on a client's objectives, capabilities and the size of their trades. For larger transactions, clients often trade after receiving multiple market quotes via the phone or Internet. Others select 'standing instruction' using our infrastructure, typically for smaller, higher volume and difficult to execute transactions. Our clients make the final decision. It is solely their choice."

"State Street offers clients a range of methods to execute FX transactions," including by phone or electronic platforms, and clients can select the method of execution they believe suits their needs, a spokeswoman said. "While we have leveraged more technology tools to deliver price transparency, our clients have always been able to determine the pricing they received on a FX trade on the day following actual execution."

Today, Calpers continues to employ State Street amid the pending 2009 suit, filed in a Sacramento, Calif., state court. Indeed, Calpers recently agreed to enter into a new contract with State Street.

According to a transcript of a Calpers's investment committee meeting on Dec. 13, 2010, a State Street selling point was that the fund would pay the Boston bank "one-half the estimated annual cost of the next nearest bidder."

In addition, a "new service model" that State Street will attach to Calpers's systems will provide Calpers daily information to "accurately monitor" currency trades, according to the transcript.

During the meeting, Matt Flynn, a chief manager for Calpers, said: "We get complete daily transparency about pricing, sources of pricing, the exact markup," adding "that level of information was just not available previously."

Henry Jones, a Calpers investment committee member, alluding to the pending allegations filed by California state against State Street, asked, according to the transcript: "So you're saying that if that information was available, then what happened could not have happened?" Mr. Flynn responded: "We would have had the tools to monitor those transactions more accurately, yes," according to the transcript.

Messrs. Flynn and Jones declined to comment through a Calpers spokesman.

The spokesman said a final contract with State Street will require "unprecedented transparency around pricing and reporting," and the pension fund supports the state's lawsuit against State Street.

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THE WALL STREET JOURNAL.

Markets

State Street Is Sued by Arkansas Fund

By Jeannette Neumann
710 words
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English

An Arkansas public pension fund filed a lawsuit against State Street Corp., expanding the investigation into whether banks overcharged public pension funds by tens of millions of dollars for foreign-exchange transactions.

The suit, which was filed Thursday in federal court in Massachusetts and which seeks class-action status, alleges that Boston-based State Street for more than a decade violated state law by overcharging many customers for currency trades.

In a statement, State Street said the firm is "firmly committed to providing its clients with quality service and transparency in meeting their FX needs. We will vigorously defend the allegations made in the complaint and we stand by our business practices."

The Arkansas Teacher Retirement System oversees around $11 billion in assets for more than 115,000 retired and active teachers. The suit seeks class-action status on behalf of all "similarly affected" customers of State Street, including public and private pension funds, mutual funds and endowments. Excluded are public pension funds that have already been part of cases against the firm under whistleblower laws or have cases that will be unsealed during the course of the Arkansas litigation.

Thirty states allow whistleblowers to collect as much as 15% to 30% of any government recovery in cases in which they assist. Arkansas has no such statute.

While Arkansas isn't a whistleblower state, the pension fund suing State Street is being represented by a Boston law firm-Thornton & Naumes LLP-which also is a law firm leading the whistleblower cases in California and Virginia.

State Street is the custody bank for more than 40% of U.S. public pension funds, according to the Arkansas lawsuit. The suit alleges that State Street's "unfair and deceptive FX practices" have generated hundreds of millions of dollars in profits annually for the firm.

Custody, or trust, banks historically have acted as custodian for investment firms' securities while handling mundane back-office administrative work.

These banks, in addition to executing currency transactions for institutional investors, also help hedge funds and other sophisticated money managers keep track of trades.

In suing State Street, the Arkansas fund joins a handful of state prosecutors that are looking into whether certain custody banks charged state pension funds the most expensive foreign-exchange price during the day when a trade took place, rather than the rate the bank paid, and when currencies were sold, paid them the lowest price of the day.

A lawsuit by the California attorney general against State Street was unsealed in October 2009, causing many states to take notice.

The Arkansas fund has been investigating foreign-exchange pricing since the fall of 2009, according to minutes of the fund's Feb. 7 board meeting. Board minutes said the Arkansas fund's staff, attorneys and experts hired by the attorneys had been attempting to obtain information from State Street concerning foreign-exchange trades and costs. The minutes said "receipt of information from State Street has been delayed several times."

In addition to the California suit, Virginia joined a suit against Bank of New York Mellon Corp., and Florida said last week it will join a suit against BNY Mellon. State Street and BNY Mellon have denied the claims and say they will fight the lawsuits.

Also, the office of Mississippi Attorney General Jim Hood last month requested currency-transaction records for the past decade from the state's pension system, said Pat Robertson, executive director of the Mississippi Public Employees' Retirement System, in an interview this week.

Last year, a consultant for the Mississippi fund completed an analysis of all of its foreign-exchange transactions in 2009, said Lorrie Tingle, the fund's chief investment officer. The consultant, Russell Investments of Seattle, Wash., approached the fund last year about conducting the audit, Ms. Tingle said. Russell didn't immediately respond to a request for comment.

Ms. Robertson declined to comment on the conclusions of the audit.

BNY Mellon is the custody bank for the state's pension system, which has about $20 billion in assets. The bank declined to comment about the Mississippi fund. Mr. Hood's office confirmed the request for data but declined further comment.

Carrick Mollenkamp contributed to this article.

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By Jeannette Neumann
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Carrick Mollenkamp contributed to this article.

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THE WALL STREET JOURNAL.

Markets

Suit Alleges Mellon Created Fake Trades, Overcharged

By Carrick Mollenkamp, Lingling Wei And Gregory Zuckerman
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4 February 2011
The Wall Street Journal Online
WSJO
English

Bank of New York Mellon Corp. currency traders used a foreign-exchange system called "Charlie" to create fake trades and overcharge Virginia pension funds by at least $20 million, according to allegations in recently unsealed documents in a Virginia court.

The allegations, made by a whistleblower group, are part of a widening probe by state prosecutors into whether custody banks such as Bank of New York Mellon and State Street Corp. shortchanged public pension funds in executing currency trades used to complete financial transactions abroad.

Bank of New York Mellon and State Street deny wrongdoing and said they will vigorously fight legal actions against them. In a statement Thursday, Bank of New York Mellon said: "Money managers transact with us at competitive FX prices and we provide reliable, low-risk service and execution."

Separately, Florida Attorney General Pam Bondi on Thursday intervened in a 2009 whistleblower lawsuit in a claim that alleges Bank of New York Mellon overcharged Florida pension funds for foreign-exchange transactions.

California has intervened in a whistleblower claim against State Street; Virginia has intervened in the whistleblower claim against Bank of New York Mellon.

Shares of Bank of New York Mellon and State Street fell 1.2% and 1.5%, respectively, Thursday in 4 p.m. composite trading on the New York Stock Exchange, following a Wall Street Journal report about the probe.

"Custodian banks make a fair amount of money off of [foreign-exchange] transactions as part of their custody operations," said Giri Cherukuri, head trader at OakBrook Investments in Lisle, Ill. She added that "they may have to change their business practices."

Currency trading is a high profit area for some big banks. According to the Office of the Comptroller of the Currency, U.S. banks generated $5.6 billion in foreign-exchange trading revenue in 2009 and $7.2 billion in the first three quarters of last year, making currency trading one of the largest sources of banks' trading profits.

Bank of New York Mellon generated 2009 revenue of $4.26 billion for its asset-servicing unit, including $757 million from foreign-exchange and other trading activities, the latest full-year figures available. The $4.26 billion figure was more than half of the bank's total 2009 revenue, though the 2009 total included an unusual one-time item. Asset servicing typically accounts for about a third of the bank's revenue.

For some banks, foreign-exchange trading revenue is on the rise. Bank of New York's revenue from foreign-exchange trading for clients jumped about 60% in the fourth quarter of 2010 compared with the third quarter of last year, and they rose 19% from 2009's fourth quarter, according to brokerage firm Guggenheim Securities.

The states are investigating claims that the banks didn't charge the pension funds the currency rates that the banks paid but consistently charged them the highest currency-conversion prices of the day, and pocketed the difference. The suits say the banks similarly overcharged when the pension funds exited the trades.

U.S. investors trading in global stock markets must convert dollars into the currencies of the foreign countries in which they invest. Custody banks facilitate the foreign exchange.

Ms. Bondi's motion to intervene was filed in a Leon County circuit court in a move that enables her to control the case. Ms. Bondi, a trustee of Florida's State Board of Administration, a $154.8 billion pension and fund program for Floridian teachers and employees, will file a formal complaint "in the near future," Thursday's filing said.

The 2009 Florida lawsuit was filed by a Delaware shell company called FX Analytics, which also filed the Virginia case against Bank of New York Mellon. Two lawyers, Michael Lesser at Boston firm Thornton & Naumes LLP and Philip Michael in New York, are handling the claims in California, which is suing State Street, and Virginia, which is suing Bank of New York Mellon. Bank of New York Mellon is one of the nation's largest custody banks. The Virginia suit said the bank touts its "24-hour trading capability" and refers to itself as "foreign-exchange specialists."

The court documents filed by FX Analytics allege that currency traders at Bank of New York Mellon at times waited for hours before cherry-picking prices beneficial to them that they would charge the Virginia state pension fund.

Custody clients typically deal in currencies through two ways, known as "direct" or "indirect" trading. In direct trading, clients trade for themselves by negotiating pricing and ensuring a good foreign exchange.

Public pension funds, often ones that don't want to hire people to negotiate, can opt for indirect execution, also known as "standing instruction" or "non-negotiated," according to the Virginia complaint.

At Bank of New York Mellon, the bank would place currency trades for pension funds seeking to make global securities transactions through an electronic pipeline called "Cash Management System," or CMS. CMS then would route the currency request through a bank foreign-exchange system called Charlie.

Instead of pricing the currency trade for the pension fund at the time it was made, the complaint alleges, the bank identified higher prices if the pension fund was buying currencies, and pocketed the difference.

When the pension fund received a monthly custody report, the suit alleges, it was given only the fake, or "falsified" rate. The reports don't contain time stamps.

In one trade cited in the Virginia lawsuit, the whistleblower alleges that in October 2009, Bank of New York Mellon profited after carrying out a foreign exchange of Canadian dollars for a client at the worst U.S. dollar-Canadian dollar rate of the day.

According to the complaint, the fund, which the lawsuit didn't identify, needed to convert $12.5 million into Canadian dollars. Bank of New York sold $12.5 million of the client's money and bought Canadian dollars in the interbank market when the U.S. dollar bought 1.0795 Canadian dollars. Bank of New York Mellon took possession of C$13.5 million.

The fund, however, received C$13.35 million, based on the lowest rate of the day when one U.S. dollar was at C$1.0682. That allegedly enabled Bank of New York to pocket about C$141,250.

If the pension fund had opted to trade the currency itself, rather than allow the bank to do it, the bank's profit would have been about C$6,250, according to the suit.

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Bank Accused of Fake Trades --- Suit Alleges BNY Mellon Overcharged Virginia Pension Funds by $20 Million

By Carrick Mollenkamp, Lingling Wei and Gregory Zuckerman
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English

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The allegations, made by a whistleblower group, are part of a widening probe by state prosecutors into whether custody banks such as Bank of New York Mellon and State Street Corp. shortchanged public pension funds in executing currency trades used to complete financial transactions abroad.

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THE WALL STREET JOURNAL.

Business
States Widen Currency-Trade Probes

By Carrick Mollenkamp, Lingling Wei And Gregory Zuckerman
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English

State prosecutors are getting help from an organized group of whistle-blowers in a widening investigation into whether banks overcharged public pension funds by tens of millions of dollars for foreign-exchange transactions.

The whistle-blowers, who are using Delaware shell companies to remain anonymous, are helping with investigations into the issue by attorneys general in California and Virginia, according to court documents and people familiar with the matter.

Other states, including Florida and Tennessee, also are conducting probes, according to a spokeswoman for the Florida attorney general and people familiar with the other states.

The investigations could cast new light on an important corner of the $4 trillion-a-day international foreign-exchange market.

The states are looking into whether certain banks charged state pension funds the most expensive foreign-exchange price during the day when a trade took place, rather than the rate the bank paid—and when currencies were sold, paid them the lowest price for the day.

"Custodial banks, when left to execute standing-instruction trades as a principal, are not being policed," says John Galanek, chief operating officer of FX Transparency, a provider of currency cost analysis in Framingham, Mass.

Helping orchestrate the whistle-blower effort is Harry Markopolos, the Boston-based investor who for years warned regulators that Bernard Madoff was running a Ponzi scheme, the people familiar with the matter say. He began looking into the currency markets in 2005, these people say, and subsequently began working with insiders at banks to gather data on the bank's internal practices.

Statutes in about 30 states allow whistle-blowers to collect as much as 15% to 30% of any government recovery in cases in which they assist. California and Virginia are among those states.

In Virginia, an entity called FX Analytics sued Bank of New York Mellon Corp., claiming that the financial giant overcharged a state pension fund in converting currencies for its securities trading. Last month, the Virginia attorney general intervened, or took over the case, which was filed in 2009. The suit, which was unsealed last week, seeks $150 million in damages, according to documents filed in a Fairfax County circuit court.

"A whistle-blower filed a complaint about the manner in which the Bank of New York Mellon handled various Virginia retirement accounts," Virginia Attorney General Kenneth Cuccinelli said.

Bank of New York Mellon said: "We believe the lawsuit is without merit and we intend to defend it vigorously."

In California, an entity called Associates Against FX Insider Trading and the state attorney general sued State Street Corp. in 2008 and 2009. The suit claimed that the Boston-based financial giant, "led by a group of its internal 'risk traders,' raided the custodial accounts of California's two largest public pension funds, in a total amount exceeding $56 million, by fraudulently pricing foreign currency (FX) trades."

That case, which was unsealed in 2009, is no longer viewed as an isolated matter. Bank insiders have provided state investigators with emails and other internal documents.

State Street said Friday: "We believe that our FX services are consistent with our contractual obligations with the California state entities, and we are defending ourselves against the charges made in the complaint."

Mr. Markopolos was involved in setting up shell companies that brought the suits in Virginia and California, according to a person familiar with the matter. Delaware corporate records show that Associates Against FX Insider Trading and FX Analytics were formed as general partnerships shortly before each of the original whistle-blower lawsuits was filed.

U.S. investors trading in global stock markets must convert dollars into the currencies of the foreign countries in which they invest. If a pension fund, for instance, buys stock in a South Korean auto maker, it converts U.S. dollars to won, and reverses that exchange when selling the stock. Custodial banks facilitate the foreign exchange.

The suits claim the banks didn't charge the pension funds the currency rates that the banks paid, but consistently charged them the highest currency-conversion prices of the day, and pocketed the difference. The suits say the banks similarly overcharged when the pension funds exited the trades.

Details about State Street and Bank of New York Mellon contained in the lawsuits suggest that some of the whistle-blowers currently or previously worked at those institutions.

The California case, filed on behalf of funds including the California Public Employees' Retirement System, or Calpers, cites a State Street email in which a senior vice president comments that if "providing execution costs will give (Calpers) any insight into how much we make off of FX transactions, I will be shocked if (a State Street VP) or anyone would agree to reveal the information."

In the Virginia lawsuit against Bank of New York Mellon, a whistle-blower claims to possess "extensive knowledge and experience regarding the defendant's bank offices, businesses and personnel, including personal contact with the employees and executives of BNY Mellon who have committed the alleged violations."

More suits are likely to emerge, according to people familiar with the situation. In October, State Street agreed to pay $11.7 million to the state of Washington's investment fund to settle a case related to alleged overcharging on foreign-exchange transactions.

The State Street spokeswoman said the payment "resolves a contract dispute relating to the manner in which we priced some FX transactions."

According to a preliminary study reported by professors at Brandeis University and Williams College in September, custodial banks generally know the price they charge their clients and the bid-ask spread within a few hours of any transaction. But the customers only learn later about the price they paid, and never the bid-ask, or the gap between what sellers are offering and buyers are willing to pay.

The California and the Virginia cases have sparked interest among fund managers in understanding currency trading and its associated costs.

"We're monitoring our situation," said a spokesman at Florida's State Board of Administration, which manages $154.8 billion in pension and other investment funds for the state's teachers, public employees and others.

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The investigations could cast new light on an important corner of the $4 trillion-a-day international foreign-exchange market.

The states are looking into whether certain banks charged state pension funds the most expensive foreign-exchange price during the day when a trade took place, rather than the rate the bank paid -- and when currencies were sold, paid them the lowest price for the day.

"Custodial banks, when left to execute standing-instruction trades as a principal, are not being policed," says John Galanek, chief operating officer of FX Transparency, a provider of currency cost analysis in Framingham, Mass.

Helping orchestrate the whistle-blower effort is Harry Markopolos, the Boston-based investor who for years warned regulators that Bernard Madoff was running a Ponzi scheme, the people familiar with the matter say.

He began looking into the currency markets in 2005, these people say, and subsequently began working with insiders at banks to gather data on the bank's internal practices.

Statutes in about 30 states allow whistle-blowers to collect as much as 15% to 30% of any government recovery in cases in which they assist. California and Virginia are among those states.

In Virginia, an entity called FX Analytics sued Bank of New York Mellon Corp., claiming that the financial giant overcharged a state pension fund in converting currencies for its securities trading.

Last month, the Virginia attorney general intervened, or took over the case, which was filed in 2009. The suit, which was unsealed last week, seeks $150 million in damages, according to documents filed in a Fairfax County circuit court.

"A whistle-blower filed a complaint about the manner in which the Bank of New York Mellon handled various Virginia retirement accounts," Virginia Attorney General Kenneth Cuccinelli said.

Bank of New York Mellon said: "We believe the lawsuit is without merit and we intend to defend it vigorously."

In California, an entity called Associates Against FX Insider Trading and the state attorney general sued State Street Corp. in 2008 and 2009. The suit claimed that the Boston-based financial giant, "led by a group of its internal 'risk traders,' raided the custodial accounts of California's two largest public pension funds, in a total amount exceeding $56 million, by fraudulently pricing foreign currency (FX) trades."

That case, which was unsealed in 2009, is no longer viewed as an isolated matter. Bank insiders have provided state investigators with emails and other internal documents.

State Street said Friday: "We believe that our FX services are consistent with our contractual obligations with the California state entities, and we are defending ourselves against the charges made in the complaint."

Mr. Markopolos was involved in setting up shell companies that brought the suits in Virginia and California, according to a person familiar with the matter. Delaware corporate records show that Associates Against FX Insider Trading and FX Analytics were formed as general partnerships shortly before each of the original whistle-blower lawsuits was filed.

U.S. investors trading in global stock markets must convert dollars into the currencies of the foreign countries in which they invest.

If a pension fund, for instance, buys stock in a South Korean auto maker, it converts U.S. dollars to won, and reverses that exchange when selling the stock. Custodial banks facilitate the foreign exchange.

The suits claim the banks didn't charge the pension funds the currency rates that the banks paid, but consistently charged them the highest currency-conversion prices of the day, and pocketed the difference. The suits say the banks similarly overcharged when the pension funds exited the trades.

Details about State Street and Bank of New York Mellon contained in the lawsuits suggest that some of the whistle-blowers currently or previously worked at those institutions.

The California case, filed on behalf of funds including the California Public Employees' Retirement System, or Calpers, cites a State Street email in which a senior vice president comments that if "providing execution costs will give (Calpers) any insight into how much we make off of FX transactions, I will be shocked if (a State Street VP) or anyone would agree to reveal the information."

In the Virginia lawsuit against Bank of New York Mellon, a whistle-blower claims to possess "extensive knowledge and experience regarding the defendant's bank offices, businesses and personnel, including personal contact with the employees and executives of BNY Mellon who have committed the alleged violations."

More suits are likely to emerge, according to people familiar with the situation. In October, State Street agreed to pay $11.7 million to the state of Washington's investment fund to settle a case related to alleged overcharging on foreign-exchange transactions.

The State Street spokeswoman said the payment "resolves a contract dispute relating to the manner in which we priced some FX transactions."

According to a preliminary study reported by professors at Brandeis University and Williams College in September, custodial banks generally know the price they charge their clients and the bid-ask spread within a few hours of any transaction.

But the customers only learn later about the price they paid, and never the bid-ask, or the gap between what sellers are offering and buyers are willing to pay.

The California and the Virginia cases have sparked interest among fund managers in understanding currency trading and its associated costs.

"We're monitoring our situation," said a spokesman at Florida's State Board of Administration, which manages $154.8 billion in pension and other investment funds for the state's teachers, public employees and others.

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THE WALL STREET JOURNAL.

Markets
Virginia Files Case Over Forex; State Says Bank of New York Gave It Unfavorable Prices in Currency Transactions

By Carrick Mollenkamp
477 words
31 January 2011
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English

States are stepping up their claims that Wall Street banks overcharged them on foreign-exchange transactions. In the latest case, the Virginia attorney general intervened in a whistleblower lawsuit unsealed last week in which the state contends Bank of New York Mellon Corp. gave it poor prices when it exchanged currencies.

Virginia is saying that Bank of New York charged the state's pension funds the most expensive foreign-exchange price during the day when a trade took place rather than the rate available at the time of the trade, known as the interbank rate. When currencies were sold, Bank of New York allegedly paid the pension funds the least-expensive price.

Virginia Attorney General Ken Cuccineli, who intervened in the lawsuit in Fairfax County circuit court in Virginia on behalf of pension funds, said the bank chose "the most unfavorable price of the day" for the funds. The Virginia retirement fund has $55.1 billion at Bank of New York.

According to the Virginia complaint, Bank of New York kept the difference between the rate charged and the actual rate between 2000 and 2009. Bank of New York "kept these profits a secret from its custodial client, the Commonwealth." In a statement, Bank of New York said, "We believe the lawsuit is without merit and we intend to defend ourselves vigorously."

The whistleblower claim originally was filed by a Delaware firm called FX Analytics. A lawyer for the firm wasn't immediately available for comment. The unsealing of the lawsuit was earlier reported by The Washington Post. A spokesman for the Virginia attorney general declined to discuss the case beyond providing a summary of the complaint.

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THE WALL STREET JOURNAL.

Earnings
The Upshot; U.S. Corporate Profits Surge

By John Shipman And Paul Vigna
972 words
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English

With about 50% of companies already reporting, fourth-quarter profits for the biggest U.S. corporations have been exceptionally strong and 2010 is poised to deliver the third-best full-year gain since 1998—with sharp advances in the telecommunications and energy sectors and a rebound in financial services.

Excluding financial companies, whose losses in 2009 skewed results, weighted earnings for the companies in the Standard & Poor's 500 Index are up 17% on an as-reported basis for companies representing 54% of the group's market value.

Unlike the initial period of the recovery, when cost cutting strongly boosted profits, the results suggest a solid pickup in spending by businesses and consumers. Sales for the group rose about 9% from a year ago, according to S&P. Job cuts continue to be critical under tight expense controls.

Bolstered by exports and consumer spending, overall U.S. fourth-quarter sales excluding inventories jumped by 7.1%, according to a report Friday by the U.S. Commerce Department. The gain far outpaced the 0.9% increase in the third quarter.

Combined with a decline in imports, "we have a healthier mix" ahead in 2011 for economic performance, said Brian Jones, an economist at investment bank Société Générale.

S&P now forecasts fourth-quarter earnings will rise about 32% over a year ago when all 500 companies report, more than three times as fast as its forecast at the outset of this reporting season. Profits then were seen rising 9.8%, with sales expected to be up 6%, according to S&P.

At roughly this point a year ago, about half-way through earnings season, corporate profits excluding the banks were running about 47% higher than the year-earlier period. Sales growth a year ago was about 5.9%. But at that point, the recovery was just beginning and comparisons were off much lower earnings.

For 2010, S&P estimates profit growth will be about 51%, a percentage gain surpassed only by the previous year's record 243% jump and a 77% gain in 2003, according to S&P.

Financial companies are enjoying the biggest jump in profit gains, albeit over a quarter in 2009 where they as a group lost money, according to S&P. Telecommunications companies that have reported so far saw profits rise 58%; materials companies including steel, mining and chemicals are up 45% and energy concerns are up 40%. For instance, Chevron Corp.'s fourth-quarter profit rose 72% on higher oil prices and better refining margins.

Banks benefited this quarter from greatly diminished write-downs, and less cash set aside for loan losses, and in some cases cash actually released from money previously set aside to cover losses. For instance, U.S. Bancorp reported fourth-quarter profit of $974 million, up from $602 million a year ago, as cash it had set aside for loan losses declined by 34%.

The biggest laggards include utilities, down 18%, and health-care companies, down 17%. Columbus, Ohio, utility American Electric Power Co. posted a 26% decline in profit due to a required refund to customers and employee-severance costs. Pharmaceutical companies are facing patent expirations, slowdown in health-care spending, price cuts in Europe and tougher regulatory hurdles for new products.

One trend that marked 2010 results and continues to crop up this year: job cuts. Drug maker Abbott Laboratories last week said it would cut 2% of its work force, or 1,900 jobs, while home-improvement retailer Lowe's Cos. said it is eliminating roughly 1,700 store-management positions and hiring 8,000 to 10,000 part-time hourly employees to man the sales floor during weekends. Boeing Co., struggling to get a new jet into production, said it will lay off 1,100 workers.

Already this year, 11 banks have closed their doors, on top of 157 banks last year, adding to industry unemployment rolls as new owners consolidate. Meanwhile, several big banks, including State Street Corp. and American Express Co., also have recently announced layoffs or intentions to cut jobs.

The sharp rise in energy and raw-materials costs in recent months has only begun to impact results. Companies from Ford Motor Co. to Colgate-Palmolive Co. say rising commodities prices hit their final-quarter performance and are expected to play a bigger role in results this year. Delta Air Lines Inc., stung by higher jet-fuel prices last quarter, said fuel will be its "biggest issue" this year. Industrial equipment maker Parker Hannifin Corp. also cited rising costs "across the board" in its fourth-quarter results.

Procter & Gamble Co. expects rising costs will cut about $1 billion from earnings in its current fiscal year ending June 30, double the impact it expected at the start of the fiscal year. Commodity costs were up 6% from the previous quarter and 20% higher than a year ago, Chief Executive Bob McDonald said Thursday.

Grocery-store operator Supervalu Inc. has been struggling with rising food costs, and finally said it plans to pass price increases along to its customers. At the same time, it's cutting overhead by closing underperforming stores and cutting corporate staff.

Colgate-Palmolive now expects commodities costs will rise between 8% and 10% in 2011; in October, it projected an increase between 4% and 6% this year. To compensate, the company will continue with its "overhead reduction initiatives," and forecasts prices rising between 1% and 2%. Pricing, Chief Executive Ian Cook said on a conference call, will be "consistent with what we see happening in the marketplace."

The Upshot comments on corporate earning trends.

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THE WALL STREET JOURNAL.
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Global Finance: Virginia Files Suit Over Forex --- State Says Bank of New York Gave It Unfavorable Prices in Currency Transactions

By Carrick Mollenkamp
476 words
31 January 2011
The Wall Street Journal
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C3
English

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THE WALL STREET JOURNAL.
ASIA EDITION

Corporate News -- The Upshot: U.S. corporate profits stay surprisingly strong

By John Shipman and Paul Vigna
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AWSJ
18
English

With about 50% of companies reporting, fourth-quarter profits for the biggest U.S. corporations were exceptionally strong and 2010 is poised to deliver the third best year-over-year gain since 1998 -- with sharp advances in telecommunications, energy and a rebound in financial services.

Excluding financial companies, whose losses in 2009 skewed their results, weighted earnings for the companies in the Standard & Poor's 500-Index are up 17% on an as-reported basis for companies representing 54% of the group's market value.

Unlike the initial period of the recovery, when cost-cutting strongly boosted profits, the results suggest a solid pick up in spending by businesses and consumers. Sales for the group jumped about 9% from a year ago, according to S&P. Job cuts continue to be key in expense controls.

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The Upshot comments on corporate earning trends.

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THE WALL STREET JOURNAL.

Earnings
Protecting Profits at a Price

By John Shipman and Paul Vigna
683 words
24 January 2011
The Wall Street Journal Online
WSJO
English

A clear theme is emerging in early fourth-quarter earnings reports: Companies expect a pitched battle this year to protect profit margins from sharply rising costs.

Since the recession's end, businesses largely have avoided price increases, concerned about driving away price-conscious consumers or hoping to hold onto market share. But with commodities and other costs rising, more companies plan to raise prices to protect margins.

There are signs that margins may be hitting a plateau. After bottoming out in 2008, operating margins for S&P 500-Stock Index companies have improved steadily, and are near pre-recession levels again. For the fourth quarter of 2010, operating margins for the S&P 500 companies are expected to be 8.8%, according to S&P, down slightly from the third quarter's level of 8.95%.

Operating margins are expected to average about 9.08% in 2011, according to S&P. But if consumer demand doesn't drive up sales enough to offset the rising costs, and at this point in the recovery that still appears likely, margins will be capped, and so will profit growth. So companies will be forced to raise prices, cut costs, or both.

Adding surcharges to product prices is one move industrial manufacturer Parker Hannifin Corp. is considering, Chief Executive Donald Washkewicz said. "Because we're not going to absorb these increases," he said last week, citing higher raw materials prices. "We can't absorb them, and we're just going to have to pass them on."

In its latest business survey, the Federal Reserve Bank of Philadelphia noted higher costs as well as higher prices companies are now charging for their own manufactured goods "are more widespread."

Companies dependent on raw materials are clearly facing the toughest conditions, but the array of those talking about the challenge of rising costs—and the need to pass them along to customers—includes banks, manufacturers, airlines and food retailers.

Delta Air Lines Inc. executives said the "steep run-up" in fuel prices since September is the biggest issue the carrier faces this year. It expects to hold margins stable in the first quarter, despite a $350 million increase in fuel costs, but more fare rises may be on the way. "Longer term, we must, like any other energy-intensive industry…pass on these higher fuel costs to our customers," CEO Richard Anderson said on a conference call last week.

The other way to mitigate rising input costs is to cut overhead, which often means cutting jobs. Even a year and a half after the recession's end, companies continue to choose this option.

Wells Fargo & Co.'s finance chief suggested last week that staff reductions could be a part of cost-cutting moves this year. American Express Co. recently said it would cut 550 jobs; Synovus Financial Corp. and State Street Corp. also have disclosed layoffs.

Some companies are now seeing benefits from price increases they instituted last year. Union Pacific Corp. said core pricing in the fourth quarter was up 5.5%, helped by "solid demand" for rail transportation and better contract renewal terms. Its ability to raise prices was aided by increased shipments for coal and other energy customers whose businesses have boomed.

PPG Industries Inc., a maker of industrial coatings and glass, started raising prices last year, and "in every one of our businesses today we have additional pricing actions," said CEO Charles Bunch. "In some we have formal price increase announcements out, in others we are actively negotiating with customers to pass these price increases on."

He credited "higher selling prices" for strong fourth-quarter earnings, and "these higher prices offset or minimized margin compression from inflating raw material costs."

Some of those companies, for that matter, are also hiring. Union Pacific said it plans to hire 4,000 new workers in 2011.

The Upshot comments on corporate earnings trends.

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THE WALL STREET JOURNAL.
ASIA EDITION

Corporate News -- The Upshot: Protecting profits at a price

By John Shipman and Paul Vigna
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24 January 2011
The Wall Street Journal Asia
AWSJ
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English

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The Upshot comments on corporate earnings trends.

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THE WALL STREET JOURNAL.

General News
Lenders See Little Choice: Layoffs

By Matthias Rieker
894 words
21 January 2011
The Wall Street Journal Online
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English

The banking industry, racked by the financial crisis and facing slower revenue growth, is starting to cut costs—increasingly at the expense of jobs.

Wells Fargo & Co. and American Express Co. said Wednesday that they would take action to reduce expenses and lay off employees to become leaner. PNC Financial Services Group Inc. and Fifth Third Bancorp said Thursday they too want to become more efficient.

For Synovus Financial Corp., that means cutting jobs. The bank said last week it would eliminate 850 jobs, 13% of its staff, and close 39 branches to save $100 million in expenses a year.

State Street Corp. reiterated Wednesday that it is on track to save as much as $625 million in expenses through 1,400 job cuts to be completed this year. Barclays Capital laid off 600 employees world-wide earlier this year.

Many banks are struggling to put their bad loans behind them, adjust to a raft of costly regulations and increase revenue in challenging economic conditions.

It all amounts to cost cutting. Analysts expect banks will reduce operating costs by as much as 20% over the next three years. Compared with the third quarter of 2007, profits of all U.S. banks in the third quarter of 2010 were still down nearly 48%; employment is down 9% to 2.04 million jobs from 2.22 million in the fall of 2007, according to the Federal Deposit Insurance Corp.

Especially at weaker banks, “the only meaningful way to cut expenses is to cut jobs,” said bank analyst Gerard Cassidy of RBC Capital Markets. He estimates that 75% of expense cuts will be head-count reductions. “Candidly, I [already] expected more announcements” like the one from Synovus, Mr. Cassidy said.

Some banks, such as J.P. Morgan Chase & Co. and Wells Fargo, emerged from the crisis bigger than ever and may continue to grow. Citigroup Inc., the most troubled among the surviving big banks, this week said it had expanded its work force by 2,000 employees in the fourth quarter. Even smaller banks say they want adequate staff to grow.

But some analysts think revenue growth rates may never return to precrisis levels. That means bankers will have to focus on cost cutting more seriously than they have in the past.

“In the next five years, there will be anemic growth for all but the winners. I think [bankers] haven’t fully come to terms with the harsh reality,” said Laurent Desmangles, retail banking consultant at Boston Consulting Group Inc.

For many banks, that reality means a struggle to improve their efficiency ratios, expenses as a percentage of revenue. Typically, a healthy ratio should hover around 50%. In the throes of the financial crisis in December 2008, efficiency ratios averaged 65%. As of September of last year, that ratio was 57%, according to the FDIC.

Lending growth is still relatively sluggish, and new laws limit bank fees, so the only way to improve the ratio is to lower costs. Yet some banks’ efficiency ratios remain stubbornly high. Fifth Third, for example, has long been known for its tight expense management, but its efficiency ratio was 63% in the fourth quarter.

Chief Financial Officer Daniel Poston said he expects to get it “back into the 50s,” where it was before the financial crisis. At Fifth Third, that ratio had climbed to more than 70% during the crisis.

“Our bias right now would not be for extensive cost cutting,” Mr. Poston said. Instead, Fifth Third wants to take market share and take advantage of the recovering economy, he said. “We will continue to focus on efficiencies, but it probably wouldn’t manifest itself in a head-count reduction that has a big headline associated with it.”

In the wake of the financial crisis, banks were keenly focused on survival and trying to maintain or restore capital. Costs weren’t the primary focus. Now they are.

“There is a lot to be done, across the board,” in expense management, said James Rohr, chief executive of PNC Financial Services Group. “We’ll take another round of costs out,” he said. But Mr. Rohr was quick to add that job cuts won’t be a major factor at his Pittsburgh bank. Consolidating real estate alone can save millions, he said.

American Express Co., for example, is consolidating call centers, which it expects will save $70 million a year. The company said it doesn’t need as many call centers anymore because customers use their credit cards less and go online rather than call in.

But the move will also affect 3,500 employees from North Carolina to Madrid and Sydney. The card lender said it would eliminate 550 positions and offer relocation packages for others. But its total head count might not shrink, because it is hiring in other areas, like technology.

Wells Fargo has cut about $5 billion in expenses since the acquisition of Wachovia Corp. in early 2009. “What we are really trying to do now is taking the next step, and make sure our processes are as streamlined as possible, and be more competitive,” Chief Financial Officer Howard Atkins said. “I don’t think there will be any branch closings, but there could be staff reductions.”

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THE WALL STREET JOURNAL.

Today's Markets
Today's Markets
Bank Results Push Down Stocks; S&P 500 Posts Biggest Drop in 2 Months; Dow Nearly Flat

By
Jonathan Cheng
1,053 words
19 January 2011
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The Wall Street Journal Online
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English

Stocks suffered their steepest one-day drop in nearly two months, but you wouldn't have known it by looking at the blue-chip Dow Jones Industrial Average.

That index fell a mere 12.64 points, or 0.11%, to 11825.29. But the broader Standard & Poor's 500-stock index tumbled 13.10 points, or 1.01%, to 1281.92. That was the biggest one-day drop for the S&P 500 since Nov. 23 and comes after a seven-week run that saw the markets trickle steadily 7.8% higher.

The difference was the product of the two index's different constituents. The Dow, which tracks 30 of the biggest blue-chip stocks in the U.S., doesn't include some of the day's biggest losers—including Ford Motor, Office Depot, steelmakers U.S. Steel and AK Steel Holding and financial institutions Northern Trust, Regions Financial, State Street and Goldman Sachs. Each of those stocks tumbled 4% or more on Wednesday, as weak earnings from big banks sent investors into safer assets.

The Dow, in contrast, saw only limited declines, thanks in part to the heavy weighting of International Business Machines in calculating the Dow's performance. IBM soared 3.4% after a strong earnings report to claim the top spot among both Dow and S&P 500 components.

"I can't really remember the last time the Dow and the S&P 500 have been this far apart," said Bob Auer, portfolio manager of Auer Growth Fund.

According to Birinyi Associates, the last time the gap between the S&P 500 and the Dow was this wide was in June 2009, when Boeing pulled the Dow down while the S&P 500 outperformed by 0.93%, far more than the long-term average gap of 0.21%.

Even with Wednesday's gap between the two indexes, it was clear stocks were under pressure. Only one in five stocks listed on the New York Stock Exchange advanced, while 88% of trading happened in declining stocks.

Small-cap stocks fared particularly badly, with the Russell 2000 Index sliding 2.6%, its biggest one-day fall since August.

As investors dumped stocks, they sought refuge in Treasurys, which rose across the board to push the yield on the benchmark 10-year note down to 3.339%.

"This was due; for the past four months, the market has almost gone straight up," Mr. Auer said. "Four months without even shaking the tree? I don't think this is too bad."

Wednesday's declines were led by financial giants Bank of America and American Express, the Dow's two weakest components. Amex lost 2.4% after the card company projected fourth-quarter earnings slightly below Wall Street estimates and said it will cut about 550 jobs as it consolidates some facilities. BofA fell 4.2% ahead of its earnings results on Friday, amid general gloominess around the country's largest banks.

A crop of disappointing bank earnings soured the market's mood on financials, one of the biggest beneficiaries of the recent rally on the stock market.

The biggest letdown came from Goldman Sachs, which saw its fourth-quarter earnings narrowly beat Street estimates but fall short on revenue. Shares of Goldman fell 4.7%, while rival Morgan Stanley sank 3.5%.

Northern Trust sank 5.7% after its fourth-quarter earnings dropped 22% as persistently low interest rates constrained the trust-and-custody bank's interest income and trust fee levels. State Street fell 4.1% after fourth-quarter profit plunged 84% on charges, and the money manager said it would reduce its work force by 1,400 employees and trim its real-estate holdings.

Wells Fargo fell 2.1% after its fourth-quarter earnings just met expectations, though the bank posted stronger-than-expected revenue. J.P. Morgan Chase fell 2.3%, while Citigroup was off 0.8%.

Materials also lagged behind as commodity prices sagged, with U.S. Steel off 5.9% and AK Steel Holding falling 4.4%. Monsanto was also down 4.6%. Copper fell 1.3%, while crude-oil prices slipped to below $91 a barrel. Gold futures edged up.

Technology stocks were also a drag, with the tech-heavy Nasdaq Composite falling 40.49 points, or 1.46% to 2725.36.

Shares of Apple finished down 0.5% in choppy trading after the consumer-electronics company said first-quarter net income jumped to $6 billion, or $6.43 a share from $3.38 billion, or $3.67 a share, for the same period last year. Revenue jumped more than 70% to $26.74 billion on strong holiday sales of the iPhone and iPad. The declines add to Apple's 2.2% drop on Tuesday, after the company announced Chief Executive Steve Jobs would be taking another medical leave.

The day's U.S. economic data was mixed. Housing starts fell 4.3% in December to a seasonally adjusted annual rate of 529,000 from a downwardly revised 553,000 a month earlier, the Commerce Department reported. Economists had expected overall housing starts to fall only slightly in December to a rate of 554,000. However, building permits, a gauge of future construction, surged 16.7% to an annual rate of 635,000.

The dollar weakened against both the euro and the yen. The euro traded at $1.3469, up from $1.3385 late Tuesday in New York. The U.S. Dollar Index, which tracks the currency against a basket of others, fell 0.5%.

The market decline came on a day when the Investment Company Institute reported net inflows of $3.77 billion into domestic equity for the week ended Jan. 12, compared to net outflows of $4.23 billion the week before that.

"The market went up before the retail investor came in, and it can come down after they join," Mr. Auer said. "It's basically an institutional market, and if institutions are worried about China, Steve Jobs getting sick, that's going to override what Joe Public's trying to do."

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THE WALL STREET JOURNAL.

Earnings
Northern Trust Profit Falls 22%

By Drew FitzGerald
222 words
19 January 2011
12:36 PM
The Wall Street Journal Online
WSJO
English

Northern Trust Corp.'s fourth-quarter earnings dropped 22% as persistently low interest rates constrained the trust-and-custody bank's interest income and trust-fee levels.

Shares dropped 3% to $53.95 in early premarket trading as the results fell short of estimates.

Meanwhile, peers Bank of New York Mellon Corp. and State Street Corp. both reported better-than-expected adjusted earnings as assets under management grew.

Northern Trust, which provides investment management and other services to affluent people and institutions, reported a profit of $157.1 million, or 64 cents a share, down from $200.3 million, or 82 cents a share, a year earlier. Absent a benefit related to a settlement with Visa, earnings were 59 cents a share.

Revenue dropped 5% to $906.4 million.

Analysts polled by Thomson Reuters had most recently forecast earnings of 71 cents on $922 million in revenue.

Total assets under management rose to $643.6 billion from $627.2 billion a year earlier but fell from $657.2 billion in the third quarter. The provision for credit losses was $40 million in both periods. Nonperforming loans as a percentage of total loans and leases increased to 1.18% from 1% a year earlier.

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THE WALL STREET JOURNAL.

Business

Trust Banks Boosted by Market Action, Hurt by Low Rates

By David Benoit
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19 January 2011
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The Wall Street Journal Online
WSJO
English

Bank of New York Mellon Corp. and State Street Corp., two trust banks reporting fourth-quarter earnings Wednesday, showcased that their services remained in high demand, while third competitor Northern Trust Corp. failed to keep up with falling interest income.

At the trust banks, which act as the banks and servicers for corporations and Wall Street, higher stock-market values and increased volatility help boost their fee collections. Clients increased action in areas like foreign-exchange trading.

But with interest rates at depressed levels, the banks' margins remained pressured; moreover, they earned less on their interest-paying operations.

Both BNY Mellon and State Street said assets under management and revenue increased enough to offset the interest income declines. Northern Trust, however, blamed the low rate environment for missing Wall Street's expectations.

Bank of New York Mellon

BNY Mellon's fourth-quarter profit climbed 15% to $679 million, or 54 cents a share, from $593 million, or 49 cents a share a year earlier. Excluding items such as amortization of intangible assets and restructuring charges, earnings rose to 65 cents from 60 cents, beating the 57-cent average estimate of analysts polled by Thomson Reuters.

The bank reported assets under management rose 5% to $1.17 trillion, a record level for BNY Mellon.

Revenue from fees climbed to $2.97 billion, up 16%. But its net interest margin, which measures how much a bank makes on its investments and loans compared to its deposits and debts, still slumped to 1.54% from 1.77%.

BNY Chairman and Chief Executive Robert P. Kelly said interest income will probably continue to be muted, but that BNY Mellon concentrates more on its fee revenues which continued to show "good performance."

Mr. Kelly also said BNY Mellon is waiting for regulators' permission to return more capital to shareholders but doesn't yet know when that will happen. BNY Mellon, and the other trusts, have higher capital cushions than most financials. BNY Mellon has a Tier 1 common ratio of 11.8%.

State Street

At State Street, based in Boston, fourth-quarter net profits were hit by restructuring moves and real-estate changes, part of a longer-term plan to transform how the bank operates. The trust bank sold mortgage- and asset-backed securities and plans to cut 1,400 employees, among other moves, which in total cost the bank 67 cents per share in profit.

Excluding those items, State Street would have reported operating earnings per share of 87 cents, compared with 71 cents a year earlier and the 86 cents analysts expected.

Operating revenue rose 9.6% to $2.28 billion, also more than the $2.14 billion Wall Street had forecast.

State Street's assets under management were up 3% from the prior year and servicing fees were up 19%. But its net interest margin fell to 2.07% from 2.35%.

Northern Trust

At Northern Trust, profit fell 22% to $157.1 million, or 64 cents a share, compared with $200.3 million, or 82 cents a share, a year earlier. Absent additional income from a settlement with Visa Inc., earnings would have fallen to 59 cents a share, missing the 71 cents analysts had expected.

Revenue fell 5% to $906.4 million, also short of the $941 million expected.

Northern Trust did report higher assets under management, of $643.6 billion, but the figure was down over the last three months.

Its net interest margin fell to 1.3% from 1.43% as the bank said the "prolonged low interest rate environment" meant the amounts it was making on its securities were down, and older securities that were maturing were having to be replaced by new, lower rate paying investments.

All three banks said foreign-exchange trading was a positive area for revenue growth, as market volatility and volume picked up in the past three months. Mr. Kelly said higher customer activity drove those gains as financial markets improve.

Drew Fitzgerald and Matt Jarzemsky contributed to this article.

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THE WALL STREET JOURNAL.

Earnings
State Street Net Plunges on Charges

By Matt Jarzemsky
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WSJO
English

State Street Corp.'s fourth-quarter profit plunged 84% on charges, but adjusted results topped analysts' expectations.

Impacts related to the sale of mortgage- and asset-backed securities and plans to reduce its work force by 1,400 employees and consolidate its real estate through moves such as lease terminations and sublease arrangements walloped its latest result. The moves are seen by the firm as helping it over the long term.

But the institutional money manager has seen results improve of late even as it's under pressure from historically low interest rates. Rival Bank of New York Mellon Corp. earlier Wednesday reported its bottom line beat analysts' views, while results from Northern Trust Corp. fell short of expectations.

State Street reported a profit of $81 million, or 16 cents a share, down from $498 million, or $1 a share, a year earlier. Excluding items such as the securities sale and workforce cuts, earnings rose to 87 cents from 71 cents. Analysts polled by Thomson Reuters most recently expected an 86-cent profit.

Revenue dropped 10% to $2.04 billion but was up 9.6% at $2.28 billion on an operating basis, topping analysts' $2.14 billion average estimate.

Assets under management increased 3% to $2.01 trillion and were up 2.6% from the prior period.

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THE WALL STREET JOURNAL.

Ahead of the Tape
Ahead of the Tape
For Banks, Dividends Are a Matter of Trust

By Kelly Evans
417 words
19 January 2011
The Wall Street Journal Online
WSJO
English

Can't wait for financial companies to start paying dividends again? You don't have to.

At a time when others are anxiously awaiting approval to raise or restore their dividends, Northern Trust Corp. already boasts a 2% yield. It is a testament to the company's stability through the credit crunch. Only it and M&T Bank, among the 20 largest U.S. banks, were able to avoid cutting their dividends during the crisis. So while trust banks may not be the sexiest businesses in the world, their reliability and income remains appealing.

On Wednesday, Northern Trust and the two other main U.S. trust banks—Bank of New York Mellon Corp. and State Street Corp.—are due with fourth-quarter results. They are expected to show improvement from the fourth quarter of 2009, but with some soft spots, illustrating that the Federal Reserve's super-low interest rates are both a blessing and a curse. The blessing: Stock-market gains help trust banks' asset-management business and have stopped downward earnings revisions among analysts. The curse: Low rates erode interest income and hurt the money-market fund business.

Fortunately, the trust banks also have some structural factors working in their favor this year. For one, the flight to quality triggered by the financial crisis has helped them win market share from smaller rivals. They also have fairly chunky capital buffers, potentially allowing for an easier transition to new international capital standards. That in turn may also allow them to increase dividends.

Still, the trust banks are hardly a homogeneous group. Only Northern Trust emerged from the financial crisis more or less unscathed thanks to what some criticize as an excessive aversion to risk. Of course, the company's shares are no bargain. Trading at about 17 times estimated 2011 earnings, they are at a premium both to rivals and the broader market. And plodding earnings this year may not do much more for the stock, which is already up more than 20% since late August.

Bank of New York and State Street took more lumps during the crisis and cut their dividends. Both trade at valuations below the market multiple of nearly 14 times. That arguably gives them more room to run, especially if interest-rate pressures ease and the economic recovery picks up pace.

Write to Kelly Evans at kelly.evans@wsj.com

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Personal Finance
Index Funds Cut Their Fees

By Jonathan Burton
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18 January 2011
The Wall Street Journal
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C9
English

A price war is cutting expenses to the bone on index-tracking exchange-traded funds and mutual funds. And that suits Harold Evensky fine.

"It's great," said the Coral Gables, Fla., financial adviser, who makes those funds a mainstay in his portfolios. "My clients get the benefit."

For a long time, traditional index funds were the vehicle of choice for cost-conscious investors, but now the ETF marketplace holds the lowest fees and most intense cost competition. Industry giants including Vanguard Group, BlackRock Inc., Charles Schwab Corp. and State Street Corp. are racing to see who can cut expenses the fastest, vying for investors who have become sensitive to costs after years of subpar results.

The fight is still in the early rounds. Further cuts are likely among popular broad-market ETFs and funds, as well as on products in niches such as emerging markets and industry sectors.

Take Vanguard, which has been cutting fees. Some of its ETFs are likely to get even cheaper in the near future, said Joel Dickson, a senior investment strategist at the firm. One possible candidate for a cut, he said, is the Vanguard Emerging Markets ETF (trading symbol: VWO).

"Given that asset returns have grown faster than costs, I would expect some further downward pressure on expenses," he said.

On the surface at least, the battle is over basis points, or "bips" in industry jargon -- tiny slivers of a fund's expense ratio, equal to one-one hundredth of 1% of fund assets a year. It may not seem like much, but in this market every bit helps. "Every basis point counts," Mr. Evensky said. "In a low-return environment, fees can have a huge impact."

For ETF and mutual-fund providers, reducing points is a way to gather assets, build market share and retain customers.

In October, Vanguard cut fees for investors in many of its index mutual funds by dropping the minimum investment required to buy its reduced-fee Admiral class of shares. On broad stock-market index funds, that minimum dropped to $10,000 from $100,000. Vanguard automatically shifted qualifying investors to the cheaper shares.

How much did investors end up saving? Qualifying Vanguard 500 Index Fund (VFINX) investors, for instance, saw expenses fall to 0.07 percentage point, or seven cents on every $100 invested, from 0.18 point in their previous Investor-class shares.

The ETF version of Vanguard 500, Vanguard S&P 500 ETF (VOO), charges even less: 0.06 percentage point. The nearest-priced ETFs that also track the Standard & Poor's 500-stock index -- BlackRock's iShares S&P 500 Index (IVV) and SPDR S&P 500 ETF (SPY) from State Street Global Advisors, a unit of State Street -- each run 0.09 percentage point.

Schwab, meanwhile, cut fees on six of its most popular ETFs last year in a direct challenge to Vanguard. Schwab U.S. Broad Market ETF (SCHB) now charges 0.06 percentage point. Its closest-priced rival is Vanguard Total Stock Market ETF (VTI) at 0.07 point.

"We are very competitively priced," said Tamara Bohlig, a Schwab vice president who oversees the firm's ETF business.

Those fees amount to real money, especially when compared with the average 1.38% expense ratio of actively managed diversified U.S. stock funds and the 0.62% average cost of all diversified U.S. stock-index funds, as reported by investment researcher Morningstar Inc. Pricing has become a game of inches, where one provider trumpets charging one-one hundredth of 1% less than another.

"It's a marketing race," said Matt Hougan, editor in chief at IndexUniverse.com, a website that covers the ETF and index-fund business. "Where there are big differences, investors reward the low-cost funds."

Look at what happened to iShares Gold Trust (IAU) last year. Gold buyers had largely favored the ETF's larger rival, SPDR Gold Trust (GLD), even though each charged 0.40%. In late June, iShares cut its ETF's expenses to 0.25%, and over the next five months the fund took in about $875 million in new money, while the SPDR product saw a net exodus of more than $1.2 billion, according to Morningstar.

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DEALS & DEAL MAKERS

State Street Wins Contract

For Australia Pension Fund

U.S. financial-services firm State Street Corp. received a contract to provide custodial services for Australia's largest pension fund by membership, taking the business from rival J.P. Morgan Chase & Co.

Boston-based State Street said it will add staff to handle all custody, fund accounting and complex tax services for the 18 billion Australian dollar (US$17.94 billion) REST Industry Super, which has 1.9 million policy holders.

"We've got over 400 people in global services in Australia, and we'll certainly be continuing to expand our headcount now," Greg O'Sullivan, head of sales for State Street Global Services, said Monday.

-- Geoffrey Rogow

NEW TO THE MARKET

Nielsen Sets Price Range

Of $20 to $22 for IPO

Media company Nielsen Holdings BV said it expects to sell shares at $20 to $22 as part of its initial public offering.

Nielsen, which tracks consumer behavior ranging from what people watch on television to what they buy in stores, said in a preliminary prospectus filed with the Securities and Exchange Commission that it intends to sell 71.4 million shares. At the top of that range, the offering would be worth $1.58 billion, excluding any overallotment option to deal with strong demand.

It wants to list the shares on the New York Stock Exchange under the symbol NLSN.

-- Matt Jarzemsky

WHO'S NEWS

Harbinger Director

To Launch Hedge Fund

Lawrence M. Clark Jr., a director of investments for Harbinger Capital Partners, has left the hedge-fund firm and plans to launch his own fund, he said.

Mr. Clark, who resigned Friday, joined Harbinger in 2002 as a vice president. A senior analyst, Mr. Clark reported to Harbinger founder Philip Falcone and had been a partner since 2005.

"This is the right time for me. I'm very comfortable with taking on the risk. This is entirely about what's right for me and reflects in no way on Phil or Harbinger," Mr. Clark said in an interview Monday.

"I am very supportive of Larry's decision and also very happy for him," Mr. Falcone said in a note to investors.

The new fund, which hasn't been named, will invest through an "event-driven" strategy, meaning it will buy securities of companies going through mergers, restructurings and other events, Mr. Clark said.

-- Jenny Strasburg and Steve Eder

FEDERAL RESERVE

Official Sees Extension

Of Bond-Buying Unlikely

The Federal Reserve is unlikely to extend its plan to buy $600 billion in Treasury bonds, said Dallas Fed President Richard Fisher, who this month joins the central bank's policy-making committee as a voting member.

In an interview Monday, Mr. Fisher -- an early opponent of the Fed's plan to buy billions of dollars in Treasury debt by this summer -- said he expects the program "to be carried through" to its planned end but not beyond.

Last year, the Fed began purchasing longer-dated Treasury debt in a bid to lower borrowing costs and stir economic activity. That in turn, policy makers hoped, would lower the unemployment rate and push inflation pressures back toward levels that central bankers consider consistent with stability.

-- Michael S. Derby

FINANCIAL REGULATION

St. Joe Discloses

An Informal SEC Probe

St. Joe Co. said late Monday that the Securities and Exchange Commission is conducting an informal inquiry into the real-estate development company's practices concerning impairment of investment in real-estate assets.

St. Joe's revelation comes months after hedge-fund manager David Einhorn of Greenlight Capital questioned the company's real-estate accounting, claiming its holdings of Florida land are worth nowhere near where St. Joe says they are.

In a filing Monday, Jacksonville, Fla.-based St. Joe said the SEC's notification of the inquiry doesn't indicate any allegations of wrongdoing and isn't an indicator of federal securities law violations. The company said it intends to fully cooperate with the SEC.

-- Caitlin Nish

CREDIT RATINGS

Janus Capital Gets a Lift

To Investment Grade

Standard & Poor's Ratings Services upgraded Janus Capital Group Inc. into investment-grade territory, saying the asset-management firm is in "a stronger financial position than a year ago."

The ratings service boosted Janus to BBB-, the rung above junk level, from its previous BB+ rating, citing the company's deleveraging of its balance sheet. S&P also noted that it expects the company to keep debt at current levels and to continue pursuing "a conservative fiscal posture."

-- Nathan Becker

CARLYLE GROUP

China Pacific Stake Sale

Raises $1.79 Billion

Carlyle Group raised $1.79 billion by selling part of its stake in China Pacific Insurance Co. at the top of a placement range, according to a person familiar with the deal Monday.

In Carlyle's second sale of the company's shares in two weeks, the U.S. private-equity firm sold 415.2 million shares, or 17.9% of China Pacific's Hong Kong-listed H shares, at 33.45 Hong Kong dollars (US$4.30) a share, their closing price Friday, when the deal was launched.

-- Nisha Gopalan and Jeffrey Ng

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Deals & Deal Makers

State Street Wins Contract

For Australia Pension Fund

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Boston-based State Street said it will add staff to handle all custody, fund accounting and complex tax services for the 18 billion Australian dollar (US$17.94 billion) REST Industry Super, which has 1.9 million policy holders.

"We've got over 400 people in global services in Australia, and we'll certainly be continuing to expand our headcount now," Greg O'Sullivan, head of sales for State Street Global Services, said Monday.

The deal is a coup for State Street in Australia, where the market is dominated by National Australia Bank and J.P. Morgan.

Geoffrey Rogow

New to the Market

Nielsen Sets Price Range

Of $20 to $22 for IPO

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Nielsen, which tracks consumer behavior ranging from what people watch on television to what they buy in stores, said in a preliminary prospectus filed with the Securities and Exchange Commission that it intends to sell 71.4 million shares. At the top of that range, the offering would be worth $1.58 billion, excluding any overallotment option to deal with strong demand.

Nielsen plans to use proceeds from the company to pay down debt, of which it has about $8.57 billion on its balance sheet.

It wants to list the shares on the New York Stock Exchange under the symbol NLSN.

Matt Jarzemsky

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"This is the right time for me. I'm very comfortable with taking on the risk. This is entirely about what's right for me and reflects in no way on Phil or Harbinger," Mr. Clark said in an interview Monday afternoon.

"I am very supportive of Larry's decision and also very happy for him," Mr. Falcone said in a note to investors. "I have no doubt that he will have continued success and I am confident that we will maintain our close relationship as he travels down this new path."

Mr. Clark, who doesn't have a noncompete agreement with Harbinger, said he hopes to open his hedge fund in the next six months. The new fund, which hasn't been named, will invest through an "event-driven" strategy, meaning it will buy securities of companies going through mergers, restructurings and other events, Mr. Clark said. It will invest in companies across sectors including industrials and agriculture, he added.

Jenny Strasburg and Steve Eder

New to the Market

Mapletree Has Designs

On a Singapore Offering

Mapletree Commercial Trust is aiming for a Singapore initial public offering in March, a transaction that could raise up to one billion Singapore dollars (US$772 million), people familiar with the situation said Monday.

Two people said Mapletree Commercial Trust plans to list through a real-estate investment trust either in late March or early April on the Singapore Exchange. The trust's portfolio of Singapore properties is valued at about S$2.5 billion.

The trust's parent, Mapletree Investments, a unit of state-investment company Temasek Holdings, didn't respond to requests for comment.

P.R. Venkat and Sam Holmes

South Korea

Financial Regulator Eyes

'Foreign-Exchange War'

The Financial Supervisory Service said it will increase its monitoring of the flow of foreign capital to guard domestic financial markets from risks posed by speculation.

"Greater volatility in capital flows in and out of the country stemming from excessive liquidity, as well as a foreign-exchange war between key states, remain as risk factors for the global financial market," South Korea's financial watchdog said Monday.

The FSS said it will focus on how financial companies get foreign-currency-denominated funding and how they manage foreign-currency capital.

Se Young Lee

Credit Ratings

Janus Capital Gets a Lift

To Investment Grade

Standard & Poor's Ratings Services upgraded Janus Capital Group Inc. into investment-grade territory, saying the asset-management firm is in "a stronger financial position than a year ago."

The ratings service boosted Janus to BBB-, the rung above junk level, from its previous BB+ rating, citing the company's deleveraging of its balance sheet. S&P also noted that it expects the company to keep debt at current levels and to continue pursuing "a conservative fiscal posture."

Nathan Becker

Carlyle Group

China Pacific Stake Sale

Raises $1.79 Billion

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Nisha Gopalan and Jeffrey Ng

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THE WALL STREET JOURNAL.

Business

Stress Test Redux: Return of Bank Dividends

By Ronald D. Orol
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WASHINGTON—Nineteen big banks that underwent government stress tests in 2009 were to submit new capital plans to the Federal Reserve by Friday to be eligible to raise their dividends or repurchase stock.

The Fed, after a review of the plans that is expected to take about three months, is likely to permit a large group of these financial institutions to raise their dividends, analysts say.

"This stress test is going to provide the Fed the political cover to say it's OK for some banks to issue dividends. The Fed will allow the stronger banks such as Morgan Stanley and Wells Fargo & Co. to issue new dividends," said Nancy Bush, financial industry consultant at NAB Research.

"There may be some in the next tier down where you have had progress on earnings but they are not back to a normal earnings environment, where the Fed will want to have a second look before approving dividend hikes."

Jaret Seiberg, analyst at MF Global Inc., said he expects that most healthy banks will boost dividends by the end of the second quarter.

All of this is raising competitive concerns with those financial institutions worried they won't be permitted to raise dividends.

"It may have a greater impact than just the dividend issue," said Dwight Smith, partner at Alston & Bird LLC, in Washington. "Some banks may be perceived as unhealthy."

During the financial crisis that shook the economy to the brink of disaster in Sept. 2008, dividends were suspended or reduced to minimal levels. The new stress tests set in place a mechanism so that, if institutions pass the tests, they can raise their dividends to as much as 30% of their post-tax net income.

However, participating institutions such as Suntrust Banks Inc., KeyCorp and Regions Financial Corp. that haven't repaid taxpayer-funded capital injections from the crisis-response Troubled Asset Relief Program are unlikely to be permitted to raise their dividends.

The Fed said in a statement that big banks must repay TARP funds and satisfy other conditions related to TARP before the central bank can consider letting them take other capital actions.

However, TARP investment or not, all 19 banks are expected to submit capital plans to the Fed. The financial institutions that still have TARP investments are expected to submit plans for how they will repay the money. They can also explain how they will reinstate a larger dividend once TARP is paid back.

Officials from KeyCorp and Regions declined to comment on their capital plans. SunTrust spokesman Michael McCoy said the Atlanta-based institution will be submitting capital plans to the Fed explaining how it is willing, and able, to repay the government's investment in the company "at the appropriate time."

The other financial institutions expected to submit capital-raising plans are J.P. Morgan Chase & Co., Citigroup Inc., Wells Fargo, Goldman Sachs Group Inc., GMAC LLC, Fifth Third Bancorp, Bank of America Corp., Morgan Stanley, PNC Financial Services Group Inc., U.S. Bancorp, BB&T Corp., American Express Co., MetLife Inc., Bank of New York Mellon Corp. and State Street Corp.

Banks with TARP funds must limit dividend payments to one cent per common share.

Alston's Mr. Smith agreed that the Fed will likely approve some dividend increases. "I don't think the Fed would have gone through this exercise unless they would approve some dividends."

Bank of America has paid back its TARP investment and Charles Noski, the institution's chief financial officer, said that the Fed has confirmed that the company has fulfilled its final TARP commitment, which was to increase its equity by $3 billion through asset sales.

NAB Research's Ms. Bush says that the Fed's approval of Bank of America's asset sales puts the company one step closer to being permitted to raise its dividend payout. However, she said, the bank must still be evaluated on its capital levels and ability to absorb other types of losses.

Once the plans are submitted, the Fed plans to evaluate each institution based on how they plan to fulfill Basel III capital requirements, under which banks must eventually hold top-quality capital totaling 7% of their risk-bearing assets.

The Fed said banks must take into account risks on the horizon, such as their ability to absorb losses on litigation and other costs, including suits from investors seeking to force banks to repurchase or "put-back" bad mortgages the banks sold them. Bank of America, for example, is being sued by investors including the New York Fed that demand the lender purchase $47 billion worth of mortgages.

The Fed is expected to privately let the 19 big banks know whether they can raise their dividends by March 22.

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THE WALL STREET JOURNAL.
U.S. EDITION

The Property Report
California Dream Is Reality For Development Group

By Robbie Whelan
782 words
5 January 2011
The Wall Street Journal
J
C6
English

In the latest sign that financing is starting to trickle back into California's property market, a group of investors is pumping cash into a huge, but stalled, $1.4 billion master-planned community being developed on the site of a former military base.

Under terms of the investment, Boston-based State Street Bank & Trust Co., a unit of State Street Corp., and a group of investors that includes several private-equity funds and pension funds will provide $400 million in cash and credit to the project, called Heritage Fields at El Toro. The project, in Irvine, Calif., is being developed by Five Point Communities Inc., a company that is majority-owned by home builder Lennar Corp.

The transaction represents a significant step forward for Five Point, which like other developers has struggled to find financing for horizontal development, or the work that goes into building roads, sewers and other infrastructure that needs to be laid before homes and commercial buildings can be built.

By the end of 2010, the company had invested more than $1.3 billion in the project, and needed at least $400 million to get the development moving again. Emile Haddad, Five Point's chief executive and controlling partner, said construction of the first homes should begin in 2012.

The transaction also shows how nontraditional sources of capital are starting to migrate into California's housing market, one of the few markets in the country that is showing pockets of strength. Hedge funds, in particular, have emerged as a go-to source for the financing of land ventures.

"If you look at the folks in the housing industry who are actually putting construction dollars back to work for horizontal and vertical development, you can count them on one hand," said Tom Reimers, a Southern California land broker with Land Advisors Inc. "We're going to need private equity to move things along. It's new blood, new money."

Heritage Fields at El Toro calls for 5,000 new homes, 5.2 million square feet of commercial space and a public park twice the size of New York's Central Park. The development is being built on the site of a former naval air base in Orange County, which once was used by President Richard M. Nixon, who often flew on Air Force One to his home in nearby San Clemente.

Lennar purchased El Toro from the Navy at the height of the housing boom in 2005, borrowing $775 million from Lehman Brothers Holdings Inc. to finance the purchase of the land. Lennar added about $700 million more in equity from its own funds and from investors, including two affiliates of private-equity company Cerberus Capital Management LP, investment firm Rockpoint Group LLC, and computer tycoon Michael Dell's MSD Capital LP.

Under a separate agreement, Lennar will buy out Cerberus's stake in the project, although Mr. Haddad declined to provide details on the stake. "This is definitely one of the most complicated deals I've ever worked on," Mr. Haddad said.

An overleveraged Lehman, burdened by a number of huge commercial real-estate investments like the El Toro project, filed for bankruptcy protection in September 2008. In December 2010, a federal bankruptcy judge in New York approved the sale of the $775 million Heritage Fields mortgage note to State Street for $153 million.

After what Mr. Haddad described as several months spent crisscrossing the country for meetings in Boston, New York and California, Five Point closed on the restructuring deal two days before New Year's Eve. State Street agreed to reduce the outstanding debt balance on the deal to $210 million, then gave the developers a $180 million line of credit to complete land development.

By putting more money into the deal, State Street is taking a big bet that Mr. Haddad can get the project up and running in short order, and start producing strong cash flows from selling home sites and land for commercial buildings to builders, who will then construct and build homes and office and retail properties.

But the project isn't a slam dunk. The economy remains weak and while the California housing market has improved, it isn't clear that the market can support such a project.

"Everyone is talking about residential land deals as if they are all the same. My view on this is simple. Not all deals are the same. Not all locations are the same. And not all management is the same," Mr. Haddad said. "This is the right deal, in the right location."

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THE WALL STREET JOURNAL.
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BANKS

State Street Selling

$11 Billion of Securities

State Street Corp. said it sold $11 billion of mortgage- and asset-backed bonds from its investment portfolio, reducing its risk and strengthening its capital ratios as U.S. banks prepare to meet new capital standards.

Barclays PLC's Barclays Capital and Goldman Sachs Group Inc. bought most of the securities, according to people familiar with the transactions. Barclays bought at least some of the asset-backed securities in the deal and Goldman Sachs bought about $6 billion in nonagency mortgage-backed securities in the sale, almost all of which were below triple-A-rated and containing Alt-A, prime and subprime home loans, according to the people.

Spokesmen for Barclays and Goldman declined to comment.

Boston-based State Street, one of the largest asset custodians and money-management firms with $20.2 trillion of assets under custody or administration, is expected to take a $350 million loss in the fourth quarter.

-- Liz Moyer and Prabha Natarajan

THE MADOFF FRAUD

Natixis Denies Madoff

Trustee Claims

French bank Natixis denied allegations made in the latest of a series of lawsuits by a trustee seeking to recover assets for victims of Bernard Madoff's investment fraud.

A lawsuit filed late Wednesday is seeking about $1.4 billion from seven U.S. and European banks, including Natixis. The trustee, Irving Picard, said the suits, filed under seal, accuse the banks of overlooking warning signals about Mr. Madoff's fraud while receiving transfers of money from his firm through "feeder funds" that invested most or all of their assets with him. The complaints accuse the banks of helping sustain the fraud by creating derivative investment products linked to the performance of feeder funds.

Natixis said it hasn't received the complaint filed by the Bernard L. Madoff Investment Securities LLC trustee, adding it plans to take all steps to defend itself against the claims. "Natixis has acted in good faith at all times and has not benefited from, nor did it assist in or have knowledge of, the fraud carried out by Bernard Madoff," the bank said in a statement.

-- Elena Berton and Maarten van Tartwijk

INVESTIGATIONS

Three Ex-UBS Bankers

Indicted in Muni Probe

Three former UBS AG bankers were indicted for participating in a bid-rigging conspiracy to defraud government entities that sought to invest proceeds raised through municipal bonds.

The former UBS bankers indicted are Peter Ghavami, Gary Heinz and Michael Welty, according to court documents filed in a New York federal court. Mr. Ghavami was arrested at a New York airport last week.

Thursday's indictment alleges the former UBS bankers and co-conspirators at other institutions secretly manipulated the bidding process on contracts to manage money for local governments.

The indictments are the latest in a flurry of recent developments in the Justice Department's investigation into the municipal-securities market. U.S. Assistant Attorney General Christine Varney, the Justice Department's antitrust chief, this week said the public would see "a lot more activity" in coming weeks and months. A UBS spokeswoman declined to comment on the indictments. The bank said in its most recent quarterly report that it is cooperating with the antitrust investigation.

-- Brent Kendall

U.S. MINT

Silver Coins to Be Released

On Friday Following Delay

The U.S. Mint said it would relaunch the sale of 2010 "America the Beautiful" five-ounce silver coins to its authorized purchasers on Friday, and authorized purchasers would have until Dec. 17 to place their new orders.

Under revised terms and conditions, authorized purchasers who wish to participate in the offering must agree to charge their customers a price no higher than 10% above the price at which they acquire the coins from the Mint and must establish and enforce an order limit of one coin of each design for each household.

-- Alejandro J. Martinez

GLOBAL BANKING

Costs Rise at StanChart

Standard Chartered PLC said it is on track to achieve record income and profit in 2010, but analysts expressed concerns over rising costs and questioned the speed of the investments that the bank is making. The bank's shares fell 4.1% to 1,801.5 pence ($28.48).

-- Patricia Kowsmann

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THE WALL STREET JOURNAL.

Business
Financial Briefing Book: Dec. 10

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9 December 2010
05:22 PM
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Spokesmen for Barclays and Goldman declined to comment.

Boston-based State Street, one of the largest asset custodians and money-management firms with $20.2 trillion of assets under custody or administration, is expected to take a $350 million loss in the fourth quarter.

The sale confirms two trends that are combining to create increased appetite for riskier assets. Banks holding tainted assets will have to increase their net margins and their reserve capital under new capital guidelines called Basel III. To avoid this, many banks are expected to start selling their assets rated below triple-A. At the same time, low interest rates are encouraging yield-starved investors and money managers sitting on cash to snap up riskier, higher-yielding securities.

The sale included $4.1 billion of U.S. nonagency mortgage-backed securities and $3.7 billion of asset-backed securities, plus non-U.S. securities of $2.5 billion and $600 million, respectively.

State Street affirmed its 2010 earnings projections on an operating basis.

Liz Moyer and Prabha Natarajan

THE MADOFF FRAUD

Natixis Denies Madoff Trustee Claims

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Elena Berton and Maarten van Tartwijk

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Brent Kendall

CREDIT CARDS

MasterCard to Buy Travelex Prepaid Business

MasterCard Inc. has agreed to acquire the prepaid-card program management operations of foreign-exchange group Travelex for at least £290 million ($458.4 million), bolstering its prepaid-business assets and increasing its presence outside the U.S.

Large U.S. banks see prepaid cards as a possible way to make up revenue that will likely be lost from federal restrictions on debit cards. That is because prepaid cards, which are preloaded with funds and used like debit cards, are exempt from restrictions in the Dodd-Frank financial-overhaul bill.

The Travelex arm makes prepaid cards that can be used at cash machines or to make purchases. It also manages cross-border payroll, per-diem and expense-management prepaid cards for corporations.

Matt Jarzemsky

GLOBAL BANKING

Costs Rise at StanChart

Standard Chartered PLC said it is on track to achieve record income and profit in 2010, but analysts expressed concerns over rising costs and questioned the speed of the investments that the bank is making. The bank's shares fell 4.1% to 1,801.5 pence ($28.48).

The London-based, Asia-focused bank said costs are expected to rise faster than revenue this year, as it continues to invest in its businesses, open new branches and hire more staff, particularly in Asian markets where competition for talent is high.

Finance Director Richard Meddings said on a conference call Thursday that the bank is taking advantage of a decline in its bad-debt charges to increase investments, particularly in countries such as China, where the bank sees high growth prospects.

The bank said it expects double-digit growth in profit before tax for 2010. It reported a $5.15 billion pretax profit for 2009.

Patricia Kowsmann and Chester Yung

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THE WALL STREET JOURNAL.

Earnings
Goldman, Barclays Big Buyers of State Street Bond Dump

By Liz Moyer And Prabha Natarajan
538 words
9 December 2010
11:03 AM
The Wall Street Journal Online
WSJO
English

State Street Corp. said it sold $11 billion of mortgage- and asset-backed bonds from its investment portfolio, reducing its risk and strengthening its capital ratios as U.S. banks prepare to meet new capital standards.

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Spokesmen for Barclays and Goldman declined to comment.

Boston-based State Street, one of the largest asset custodians and money-management firms with $20.2 trillion of assets under custody or administration, is expected to take a $350 million loss against its fourth-quarter results.

The sale confirms two trends that are combining to create increased appetite for riskier assets. Banks holding tainted assets will have to increase their net margins and their reserve capital under new capital guidelines called the Basel III Accords. To avoid this, many banks are expected to start selling their assets rated below triple-A. At the same time, low interest rates are encouraging yield-starved investors and money managers sitting on piles of cash to snap up riskier, higher-yielding securities.

Next year is expected to be a big year for sales of toxic assets by banks, said Frederick Cannon, the co-director of research and chief equity strategist for Keefe Bruyette & Woods. Banks have increased their capital bases and reserves enough to absorb some losses on the sales, he said.

Two years after the worst of the credit crisis, prices for nonagency mortgage securities have vastly recovered, fetching anywhere from 70 cents to more than 100 cents on the dollar compared to the 10 cents on the dollar prices being quoted in late 2008, according to Paul Norris, a portfolio manager with Dwight Asset Management, Burlington, Vt., with more than $65 billion in fixed income assets.

"We will see more of these portfolio sales as banks look to adopt Basel III," Mr. Norris said.

Gerard Cassidy, an analyst at RBC Capital Markets, said the deal will help State Street improve the risk profile of its portfolio, which had $80 billion available for sale at the end of the third quarter. Unrealized losses in the portfolio peaked at $6.3 billion in the fourth quarter of 2008. As of the third quarter this year, those unrealized losses had declined to $281 million.

State Street said the concentration of triple-A-rated and double-A-rated issues in its portfolio will rise six percentage points to 88% as a result of the sale.

The sale included $4.1 billion of U.S. nonagency mortgage-backed securities and $3.7 billion of asset-backed securities, plus non-U.S. securities of $2.5 billion and $600 million, respectively.

State Street affirmed its 2010 earnings projections on an operating basis.

Write to Prabha Natarajan at prabha.natarajan@dowjones.com

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THE WALL STREET JOURNAL.
ASIA EDITION

Abreast of the Market
Upbeat data give stocks a surge into December

By Jonathan Cheng
481 words
2 December 2010
The Wall Street Journal Asia
AWSJ
25
English

U.S. stocks kicked off the last month of the year with a strong advance, driven by strong economic data from the U.S., China and the euro zone.

The Dow Jones Industrial Average was up 242.32 points, or 2.2%, at 11248.32 in early-afternoon trading, more than offsetting November's 1% loss. The Standard & Poor's 500-stock index climbed 2.1% to 1205.84, and the Nasdaq Composite added 2.2% to 2554.26.

The advances were broad and deep, with all 30 of the Dow's component stocks and all 10 of the S&P 500's sectors in positive territory. The Nasdaq's move, meantime, puts that index on track for its biggest one-day gain in nearly two months.

The U.S. added 93,000 private-sector jobs in November -- the 10th consecutive month of gains and the largest one-month gain in three years. Separately, productivity rose more than previously thought in the third quarter.

"There's a growing recognition that the economy may not be in anywhere as bad shape as people thought," said Brian Gendreau, market strategist with Financial Network, a financial-advisory firm. "We were talking about a double dip just two months ago when the news was mixed, but now the news isn't even mixed, and I think the market is pricing that in accordingly."

Elsewhere, a British manufacturing survey registered its highest reading in 16 years and Germany's retail sales jumped higher than expected in October. Two separate gauges of manufacturing activity in China posted increases in November.

State Street gained 4% after the firm said late Tuesday it would lay off 1,400 employees, or about 5% of its work force, as part of a long-term restructuring plan.

Starbucks gained 3.9% as the coffee chain said it would more than triple the number of stores it has in mainland China to more than 1,500 within the next five years, which would make China the Seattle company's second-largest market outside the U.S.

European stocks

European stock markets rose, led by a recovery in some of the region's most battered markets.

Investors picked up financial stocks, which had slumped in recent days on worries about the financial health of some euro-zone governments, and mining stocks, which rose on the economic data.

The Stoxx Europe 600 index ended up 2% at 267.11. The U.K.'s FTSE 100 gained 2.1% to 5642.50, Germany's DAX climbed 2.7% to 6866.63 and France's CAC-40 rose 1.6% to 3669.29.

BBVA surged 7.3% and Banco Santander soared 7.2%, both in Madrid.

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THE WALL STREET JOURNAL.

Business
Government Programs Accepted Low-Rated Assets

By David Benoit
510 words
1 December 2010
03:54 PM
The Wall Street Journal Online
WSJO
English

NEW YORK—Two of the government's special lending programs for financial institutions took low-level investment-grade securities as collateral on a high percentage of the loans, data released Wednesday show.

The programs, the Term Auction Facility and the Term Securities Lending Facility, were created as a way of getting liquidity into the hands of banks during the financial turmoil that started in 2007. The Federal Reserve released Wednesday piles of data on which institutions used the programs and included what types of collateral those institutions delivered to the Fed in exchange for the loans.

While the data show the loans were all backed by investment-grade securities, about 40% of the loans under the Term Auction Facility had some collateral that was rated "BBB," a group of three ratings just above "junk" grades. In the Term Securities Lending Facility, about half the loans had at least some BBB securities backing them.

The Term Auction Facility allowed banks to bid for loans without the stigma associated with the Fed's discount window. In TAF, a $3.5 billion loan from Germany's Commerzbank AG from December 2009 was backed partially with $4.88 billion in BBB-rated collateral. The bank used the program 18 times in total, and every time at least some of its collateral was rated BBB.

Switzerland's UBS AG unit also used BBB-rated securities every time it tapped the TAF, including partially backing a $4 billion loan in January 2009 with $4.64 billion in BBB-rated securities.

Allied Irish Banks PLC, Deutsche Bank AG and Toronto-Dominion Bank were other frequent foreign-based banks that provided some backing to TAF in BBB securities. Foreign banks made up a high percentage of banks offering the Fed BBB-rated collateral.

Domestically, Boston-based State Street Corp., Fifth Third Bancorp, Citigroup Inc. and Wells Fargo & Co. all also posted some BBB-rated collateral to TAF.

In the Term Securities Lending Facility, Credit Suisse Group provided huge amounts of BBB-rated collateral for its loans. In one loan, which was for $4.9 billion, Credit Suisse provided $6.6 billion in BBB-rated securities as collateral. Credit Suisse provided the 31 largest amounts of BBB-rated collateral in the TSLF program.

In 2008, Credit Suisse had taken a unique step when it announced it would pay investment bankers bonuses in illiquid assets. Those professionals received a large portion of their annual compensation with an illiquid group of junk bonds, mortgage-backed securities and corporate loans. Previously, they received about half of their payouts in cash and the rest in stock.

Barclays PLC, Goldman Sachs Group Inc., Bank of America Inc. and J.P. Morgan Chase & Co. all also provided BBB-backed securities as part of the TSLF.

Spokesmen at several banks said the government's emergency facilities strengthened financial markets during a time of crisis, and emphasized that borrowings had in most instances been repaid.

Write to David Benoit at david.benoit@dowjones.com

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THE WALL STREET JOURNAL.

Business

Fed to Let Banks Increase Dividends; Move Would Be the First Since the Financial Crisis; Bank Stocks Already Up 11.6% on the Year

By Deborah Solomon
747 words
5 November 2010
The Wall Street Journal Online
WSJO
English

WASHINGTON—The Federal Reserve is poised to allow healthy banks to increase dividend payments for the first time since the financial crisis, an anxiously awaited set of instructions that could provide a boost to bank stocks.

According to people familiar with the matter, regulators as soon as next week are expected to give guidance outlining the standards banks must meet to increase dividend payments. The Fed is expected to take a conservative approach that would require banks to demonstrate their ability to meet tough new international capital standards and any requirements stemming from the U.S. financial-regulatory overhaul.

Many U.S. banks are itching to boost payments to shareholders, citing improved profits, because they have long relied on a steady stream of dividends to lure investors. But they have been in a holding pattern as regulators across the globe hashed out new rules requiring banks to hold more capital as a buffer against future losses. Moreover, in the wake of the crisis, regulators have closely scrutinized banks' use of capital, essentially freezing their ability to increase dividends.

The Fed isn't expected to approve dividend payments en masse but will look at an individual institution's ability to meet the criteria it outlines, according to people familiar with the matter. It is likely, however, to approvals in batches within the same quarter, to avoid putting any one firm at a competitive disadvantage.

A big part of the Fed's thinking are lessons learned from Japan, where prolonged uncertainty about the health of Japanese banks stymied that country's economic recovery. Regulators want healthy banks to get credit from the markets for increasing their capital bases.

Banking analysts said allowing firms to increase dividends would telegraph to the markets that the financial sector is continuing to stabilize. "It signals that the health of the system has improved and will continue to improve going forward," said Todd Hagerman, an analyst with Collins Stewart.

Wells Fargo & Co. Chief Financial Officer Howard Atkins said Thursday that returning capital to investors is a "high priority" for the fourth-largest U.S. bank in assets once regulators approve doing so.

Wells Fargo shrank its quarterly payout by 85% last year. Citigroup Inc. hasn't paid a quarterly dividend since February 2009. Regulators allowed J.P. Morgan Chase & Co., Goldman Sachs Group Inc. and some other financial firms to buy back their own stock recently, suggesting federal officials were softening their resistance to dividend increases.

James Dimon, CEO of J.P. Morgan Chase, said recently on an earnings conference call that he hoped the bank could boost dividend payments in the first quarter of 2011.

Dividend payments are especially important for banks now that the financial industry's outlook is clouded by the sluggish economy, toughened regulation and looming capital requirements. But as profits have rebounded, a big-bank stock index from Keefe, Bruyette & Woods Inc. is up 11.6% so far this year after Thursday's rally, surpassing the Dow Jones Industrial Average's gain of 9.7%.

While the banks were waiting for the green light to restore their payouts, other companies have been boosting dividends in recent months, making their shares more attractive, especially given the slow growth in the economy. Financials on average yielded 4.4% in 2008, making them one of the highest-yielding sectors, according to Standard & Poor's. Now they yield 1.1%, making them the second-lowest yielding sector in the market, according to S&P.

Only a handful of banks are expected to meet the Fed's test, said Frederick Cannon, co-director of research at KBW. Among those with strong enough capital ratios are J.P. Morgan Chase, US Bancorp, State Street Corp. and Bank of New York Mellon Corp., he said.

Banks, nonetheless, are unlikely to return to precrisis payout ratios, which in some cases reached 50% of earnings. Analysts said banks are more likely to return to 5% to 10% levels for the near future.

In Washington, increasing dividends could arouse the ire of lawmakers and the White House, which has complained that banks aren't lending enough. KBW's Mr. Cannon said increased payouts shouldn't crimp lending because banks are "sitting on plenty of excess liquidity."

Write to Deborah Solomon at deborah.solomon@wsj.com

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THE WALL STREET JOURNAL.

Money

Invest Like Warren Buffett, And Maybe Even Do Better

By Andrew Bary
411 words
31 October 2010
The Wall Street Journal Online
WSJO
English

Warren Buffett has compiled an awesome investment record over 45 years as CEO of Berkshire Hathaway, but he's not infallible.

Mr. Buffett has made several equity purchases for Berkshire in recent years that now trade below the company's cost, including U.S. Bancorp (USB), ConocoPhillips (COP), Kraft Foods (KFT), Wells Fargo (WFC) and French drug maker Sanofi-Aventis (SNY).

All of these are financially strong companies with reasonable price/earnings multiples. Assuming Mr. Buffett hasn't made a mistake, these stocks are attractive now, and investors can buy them for less than what Berkshire paid. (Berkshire has two classes of shares, the famously expensive A shares, BRKA, sell for about $120,000 each; B shares, BRKB, are about $80.)

U.S. Bancorp, for instance, trades around $24, below Berkshire's cost of $31. Sanofi's U.S.-listed shares change hands for $33, while Berkshire paid an average of about $40. Mr. Buffett has added to Berkshire's sizable holdings of Wells Fargo in recent years and paid around $32. The bank's shares currently fetch about $26.

Mr. Buffett declined to discuss his stocks with Barron's. But he has viewed Wells Fargo as one of the country's best-run major banks with an enviable, low-cost deposit base. U.S. Bancorp historically has generated high returns. ConocoPhillips has been selling assets and seeking to boost returns after some major acquisitions. Conoco, at $61, trades for 10 times projected 2010 profits.

There are several notable winners in Berkshire's famed $55 billion equity portfolio, including Coca-Cola (KO), Procter & Gamble (PG) and American Express (AXP).

Berkshire last week made headlines by hiring a little-known investment manager, Todd Combs, setting him up to succeed the 80-year-old Mr. Buffett as the company's chief investment officer. Mr. Combs initially will manage a small part of Berkshire's investments. Mr. Combs has shown a preference for financial stocks, including Mastercard (MA), U.S. Bancorp and State Street (STT).

Many pros think that, after performing poorly over the past 10 years, U.S. blue-chip stocks may be one of the best investments in the world during the next 10 years. Investing in stocks with Mr. Buffett's imprimatur could be a good way to execute that strategy.

For more stories, see barrons.com.

Write to Andrew Bary at Andrew.Bary@dowjones.com

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Barron's Insight
Invest Like Warren Buffett, And Maybe Even Do Better

By Andrew Bary
411 words
31 October 2010
The Wall Street Journal Sunday
SNJR
2
English

Warren Buffett has compiled an awesome investment record over 45 years as CEO of Berkshire Hathaway, but he's not infallible.

Mr. Buffett has made several equity purchases for Berkshire in recent years that now trade below the company's cost, including U.S. Bancorp (USB), ConocoPhillips (COP), Kraft Foods (KFT), Wells Fargo (WFC) and French drug maker Sanofi-Aventis (SNY).

All of these are financially strong companies with reasonable price/earnings multiples. Assuming Mr. Buffett hasn't made a mistake, these stocks are attractive now, and investors can buy them for less than what Berkshire paid. (Berkshire has two classes of shares, the famously expensive A shares, BRKA, sell for about $120,000 each; B shares, BRKB, are about $80.)

U.S. Bancorp, for instance, trades around $24, below Berkshire's cost of $31. Sanofi's U.S.-listed shares change hands for $33, while Berkshire paid an average of about $40. Mr. Buffett has added to Berkshire's sizable holdings of Wells Fargo in recent years and paid around $32. The bank's shares currently fetch about $26.

Mr. Buffett declined to discuss his stocks with Barron's. But he has viewed Wells Fargo as one of the country's best-run major banks with an enviable, low-cost deposit base. U.S. Bancorp historically has generated high returns. ConocoPhillips has been selling assets and seeking to boost returns after some major acquisitions. Conoco, at $61, trades for 10 times projected 2010 profits.

There are several notable winners in Berkshire's famed $55 billion equity portfolio, including Coca-Cola (KO), Procter & Gamble (PG) and American Express (AXP).

Berkshire last week made headlines by hiring a little-known investment manager, Todd Combs, setting him up to succeed the 80-year-old Mr. Buffett as the company's chief investment officer. Mr. Combs initially will manage a small part of Berkshire's investments. Mr. Combs has shown a preference for financial stocks, including Mastercard (MA), U.S. Bancorp and State Street (STT).

Many pros think that, after performing poorly over the past 10 years, U.S. blue-chip stocks may be one of the best investments in the world during the next 10 years. Investing in stocks with Mr. Buffett's imprimatur could be a good way to execute that strategy.

For more stories, see barrons.com.

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THE WALL STREET JOURNAL.

Business

UBS Names Lofts CEO of Americas

By Katharina Bart And Goran Mijuk
782 words
22 October 2010
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The Wall Street Journal Online
WSJO
English

ZURICH—UBS AG on Friday said its chief risk officer will become chief executive of its Americas business in a move meant to strengthen the Swiss bank's activities there.

The Zurich-based bank said Philip Lofts, risk head since just after UBS's government-led rescue in 2008, will become CEO of its Americas region effective from Jan. 1. Former State Street Corp. chief risk officer Maureen Miskovic replaces Mr. Lofts in Zurich in the risk role, reporting to UBS CEO Oswald Grübel.

Robert Wolf, a high-profile investment-banking friend of U.S. President Barack Obama, will remain chairman of the Americas and president of the investment bank but will step down from the UBS group executive board.

UBS's decision to split the role of chairman and CEO for the Americas reflects the growing importance of the region, and in particular the U.S. market, for the bank.

"Given the importance of the Americas region, which has the largest concentration of UBS employees and is the world's largest wealth-management market and investment-banking fee pool, we decided to broaden our senior leadership team to provide the momentum necessary to develop key areas in the U.S., Canada and Latin America," Mr. Grübel said.

It also comes as the U.S. puts in place far tougher regulation of Wall Street banks in the U.S., including the so-called Volcker rule, which discourages banks from engaging in risky trades with their own money, in the hope of preventing bets that led to the downfall of Bear Stearns Cos. and Lehman Brothers Holdings Inc.

The Volcker rule limits banks' total investments in private equity and hedge funds to 3% of their core Tier-1 capital and individual investments in a fund to 3% of the funds' assets. Tier 1 is a measure of capital banks set aside as a cushion against losses. The Volcker rule also phases out proprietary trading where banks trade equities, fixed income and derivatives for their own gains.

Seen against this backdrop, the move by UBS—the worst-hit bank in Europe with more than $50 billion on mortgage-related investments during the financial crisis—to shift Mr. Lofts to the U.S. makes sense, Bank Sarasin said.

"I see this as very favorable as a sort of corrective measure of past mistakes, that UBS is trying hard not to step in it again with this additional safety line," Sarasin analyst Rainer Skierka said.

Mr. Wolf, meanwhile, will focus full-time on client relationships and business transactions in the Americas in his role as chairman. He will also continue to lead the firm's efforts in public policy in Washington, D.C., as well as community affairs and diversity initiatives in the region, UBS said.

His relationship to Mr. Obama has raised some eyebrows in the U.S., given that Mr. Wolf works for a foreign bank that has admitted to aiding wealthy Americans in evading and cheating the Internal Revenue Service. The bank paid $780 million last year in a deferred prosecution agreement to criminal charges, and handed over huge amounts of data on U.S. clients this fall to settle civil charges. U.S. authorities are expected to withdraw the civil litigation against UBS shortly.

Mr. Wolf told The Wall Street Journal early this year the spat between UBS and the U.S. hadn't strained his friendship with Mr. Obama. The two met in 2006, when then-Sen. Obama was preparing to raise cash on Wall Street for his presidential run. Mr. Wolf wasn't immediately available for comment Friday.

The management changes also highlight UBS's U.S. brokerage business, which is gaining more independence since former Merrill Lynch & Co. executive Robert McCann took the helm roughly one year ago.

There has long been speculation that UBS might sell or spin off its U.S. unit at some point, but UBS has insisted repeatedly this isn't the case.

Mr. McCann, who a UBS spokeswoman said Friday will continue to report to overall bank CEO Mr. Grübel, has set lofty unit goals, including an annual pretax profit of about $1 billion within three to five years. While he has a long way to go considering the $106.6 million profit for the first half of this year, excluding about $154.2 million in restructuring costs, client outflows and adviser attrition have decreased while average adviser production has increased, according to quarterly statements. UBS reports third-quarter earnings Tuesday.

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THE WALL STREET JOURNAL.

Business
Custody Banks' Earnings Improve

By Tess Stynes
369 words
20 October 2010
The Wall Street Journal Online
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English

State Street Corp.'s third-quarter earnings jumped 65% and its counterpart, Bank of New York Mellon Corp., rebounded from a year-earlier loss.

State Street, a trust-and-custody bank, which holds investments for other institutions, benefited from strong servicing-fee revenue growth and cost controls that resulted in a 12% decline in overhead costs.

Trust-and-custody banks have seen historically low interest rates weigh on their results lately, though a rising stock market has boosted assets under management.

Firms like State Street may benefit as corporate pension managers search for less-risky returns. State Street in August was one of two investment firms chosen by The Retiree Medical Benefits Trust for the United Auto Workers union to handle $6 billion of its investments. The money was split evenly with BlackRock Inc.

State Street reported a profit of $540 million, or $1.08 a share, up from $327 million, or 66 cents a share, a year earlier. Analysts polled by Thomson Reuters most recently forecast 83 cents a share.

Assets under management rose 9.7% from a year earlier to $1.9 trillion, gaining 6.8% during the quarter amid a surging stock market.

Bank of New York Mellon, which reported a prior-year third-quarter loss caused by $4.8 billion in investment losses, said fee revenue and assets under management improved in the latest quarter.

The bank reported a profit of $622 million, or 51 cents a share, compared with a prior-year loss of $2.46 billion, or $2.05 a share. The latest quarter included 4 cents of restructuring and other charges, while the prior year included $4.8 billion in investment losses as it dealt with risky investments on its books.

Analysts polled by Thomson Reuters most recently expected earnings, excluding charges, of 54 cents.

Fee revenue increased 2% to $2.66 billion as net interest revenue fell 0.6% to $718 million.

Amid a recent stock market surge, BNY Mellon's assets under management rose 18% on year to $1.141 trillion as of Sept. 30. They were up 9% during the quarter.

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THE WALL STREET JOURNAL.
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Global Finance: Custody Banks' Earnings Improve

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C3
English

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THE WALL STREET JOURNAL.

Markets

exchange-traded funds; Uncertain Future for Tiny ETFs; Small fund sponsors face tough decisions when their portfolios don't attract a lot of investors

By Ari I. Weinberg
1,041 words
4 October 2010
The Wall Street Journal (Online and Print)
WSJO
Markets
English

Things are getting rough for some companies that sponsor exchange-traded funds.

On the surface, ETFs seem to be showing solid growth. Since the banner year of 2007—when 270 new ETFs hit the market—more than 100 new funds have been introduced annually. What's more, the funds as a whole are continuing to attract investors.

Yet there's another trend at work that's offsetting some of that growth. Some companies, particularly smaller entrants to the field, haven't been able to pull in enough investor money to break even on their funds—so they're pulling the plug on their portfolios.

So far this year, 129 new ETFs have hit the market, and a few already have more than $100 million in assets. Over the same period, though, sponsors have liquidated or announced the closing of 37 portfolios, according to Ron Rowland of the newsletter Invest With an Edge.

In 2008 and 2009, sponsors closed 50 and 51 ETFs, respectively. Prior to 2008, only 10 ETFs had closed in 15 years.

A Tough Field

For investors, being in an ETF that is liquidated can be a hassle. If you liked the vehicle, you'll have to find a replacement. And if the investment was profitable for you, liquidation may mean a tax hit.

Meanwhile, the closures highlight the challenges facing companies that sponsor ETFs. ETF companies, particularly small ones, must contend with a handful of well-known companies that dominate the industry—and they must pull in a daunting amount of money to cover their expenses. Small companies simply can't afford to eat the losses for very long.

"The business is so competitive that there's never a chance to relax," says David Abner, director of institutional sales and trading for ETF sponsor WisdomTree Investments.

WisdomTree is a prime example of how tough the business can be for a small operator.

The only publicly traded pure-play ETF sponsor, WisdomTree recently eclipsed $7.5 billion in ETF assets under management across 43 current products. For all of those assets, WisdomTree collected just under $10 million in revenue in the three months through June and recorded its first quarter of positive operating income since entering the ETF business in June 2006.

What's more, in March WisdomTree closed 10 funds, representing 3% of its ETF assets under management.

The company says it was in the best interest of customers and shareholders to "dedicate our resources to areas of greater client interest and in order to create capacity for future growth initiatives."

A Tricky Proposition

There are a number of reasons why it's tough for small companies in the ETF field. For one thing, there's some formidable competition out there.

The ETF business is currently dominated by three large companies: BlackRock Inc.'s iShares, State Street Corp.'s State Street Global Advisors, and Vanguard Group. The first two were the earliest into the business, and Vanguard lists most of its ETFs as a publicly traded share class of its popular mutual funds.

Together, the three companies oversee 85% of ETF assets—51.4%, 17.9% and 15.8%, respectively—according to BlackRock's ETF research.

Because of the tough competition, the newcomers that have made a splash in ETFs have mostly had big names themselves or wielded considerable marketing muscle. Bond giant Pacific Investment Management Co. has collected over $500 million in assets on two of its 12 ETFs since jumping into the business in June 2009, says Tom Lydon, president of Global Trends Investments and editor of the ETFTrends.com newsletter.

Then there's discount brokerage Charles Schwab Corp., which has launched 11 ETFs since November 2009. Its big lure: offering free brokerage trades when its customers buy and sell its ETFs. Fidelity Investments and Vanguard have employed similar strategies to attract ETF investors.

These promotions have only steepened the uphill climb for smaller ETF sponsors such as Paul Hrabal, president of U.S. One. That firm's One Fund, which invests in a mix of other ETFs, launched in May and recently had just $4.7 million in assets.

Slim Margins

Smaller ETF sponsors that get their products to market face a daunting economic reality. Companies offering ETFs, like traditional mutual funds, pay a variety of upfront costs to launch their funds. "As an issuer, we bear the costs of everything beforehand," says Mr. Abner of WisdomTree.

The companies then aim to make money over time from the funds' management fees. But some ETFs, like other funds, never get to the point of being profitable for the sponsor.

At what asset size does an ETF become a viable product for an issuer? Mr. Lydon pegs break-even as high as $100 million in assets. Mr. Rowland of Invest With an Edge believes the number is more in the $20 million to $50 million range.

While ETF companies generally decline to say what their break-even is, it's clear that companies keep some smaller ETFs open because they want to provide a wide choice of funds or for competitive reasons. BlackRock's iShares, for example, which currently offers 215 ETFs in the U.S. with over $368 billion in assets under management, as of August had 67 funds with less than $100 million each in assets.

Currently, says Rick Genoni, head of ETF products at Vanguard, 26% of all ETFs outstanding are less than 3½ years old and have less than $30 million in assets. That's significant because 96% of all ETFs which have closed never hit $30 million over that time span.

And while some new funds can gather money very quickly, Mr. Genoni points out that some "hot money" funds can shrink just as quickly as they grow if a competitor comes in with lower costs, better marketing or simply a better product. Of course, they could also contract because of market conditions and shifting interest in asset classes.

Mr. Weinberg is a markets editor for The Wall Street Journal Online. He can be reached by email at ari.weinberg@wsj.com.

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THE WALL STREET JOURNAL.

Law
SEC Charges Ex-State Street Employees

By Nathan Becker
222 words
30 September 2010
11:43 AM
The Wall Street Journal Online
WSJO
English

The Securities and Exchange Commission charged two former employees of State Street Corp. with misleading investors about their exposure to subprime investments.

The money manager agreed earlier this year settle similar allegations by repaying investors more than $300 million. State Street also paid nearly $350 million to investors to settle private lawsuits.

The SEC alleged Thursday that John P. Flannery and James D. Hopkins marketed one of State Street's bond funds as an "enhanced cash" investment strategy that was an alternative to a money-market fund. However, by 2007 the fund was "almost entirely invested" in subprime residential mortgage-backed securities and derivatives. They continued to describe the fund as less risky than a typical money-market fund, and didn't disclose the extent of the investments in subprime offerings.

State Street said it "has resolved this matter, both in terms of addressing client concern and settling with the SEC."

Mr. Flannery was a chief investment officer at State Street, while Mr. Hopkins was a product engineer. Neither work for the company now. The SEC contends the duo "played an instrumental role in drafting a series of misleading communications to investors."

The two men couldn't immediately be reached for comment.

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Heard on the Street / Financial Analysis and Commentary

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The Wall Street Journal Asia
AWSJ
32
English

Pakistan's central banker passes first test

It's difficult not to feel for Pakistan's new central-bank governor.

Just two weeks into his new position, Shahid Kardar was facing an acid test: making the right interest-rate decision in an environment of extremes. Inflation is out of control, and Pakistan's already fragile economy has lately been hammered by severe flooding.

Moreover, for Mr. Kardar, it's a decision he had to make with incomplete information. Assessments of the damage to Pakistan's economy from floods that began in July are still pending.

He chose right. The State Bank of Pakistan on Wednesday raised its policy rate by half a percentage point to 13.5%.

Holding off would have meant a risky delay of action against a worsening inflation problem. Consumer prices in Pakistan have been rising too fast for three years, with gincreases close to a 12% rate throughout 2010. The floods will amplify the problem, having damaged about 10 million tons of crop, which Credit Suisse values at about $1.9 billion.

But floods aren't the only source of a price shock in Pakistan. Islamabad is under pressure from the International Monetary Fund to increase electricity tariffs and raise general sales taxes and import duties -- all of which would add fuel to the inflation problem. Not taking these steps could have the country miss out on a $3.2 billion IMF payment due by the end of this year. Pull it all together and economists at Standard Chartered expect inflation to average 15% in the fiscal year that began in July.

Then there's the fragile state of Pakistan's economy. Flood damage means Pakistan's critical agriculture sector will contract 1.7% this fiscal year, the sector's first decline in a decade, Credit Suisse predicted. It means economic growth could slow to 2.5%, much slower than last year's 4.1%, and a crawl by Pakistan's standards. Add to this the infrastructure damage, and industrial growth, too, will suffer. The International Labor Organization estimates 5.3 million people will lose their jobs because of the flood.

Raising rates, and promising to keep doing so, in such an environment is certainly not going to win Mr. Kardar any friends in the business community.

But inflation is the more frightening of Pakistan's economic challenges. Price stability is far more critical to Pakistan's long-term growth. Foreign aid and remittances from overseas Pakistanis will ensure money flows into the economy.

His work has just begun, but Mr. Kardar has passed this first test of his mettle.

-- Harsh Joshi

Superlow interest rates

torture financial firms

The financial-services industry is built for speed. But while superlow interest rates are meant to be high-octane fuel for the economy, they are gumming up financial engines.

The problem for many banks, insurers and fund managers is that their cost of funding can't fall below zero.

Yet returns from a number of businesses or products continue to decline with already near-record-low bond yields. That compresses margins and threatens to make some business lines uneconomic.

While firms have dealt with falling yields for 30 years, this is the first time they have faced a zero floor on funding costs. Adding to the painful mix, the pressure on margins comes at a time of tighter regulation and a moribund U.S. economy.

Signs of angst are emerging. One senior investment banker recently talked in private of rock-bottom rates "decimating" the business if they continue for a number of years. No wonder there is talk of layoffs on Wall Street.

During Northern Trust's second-quarter earnings call, Chief Financial Officer Bill Morrison said that "the extremely low-interest-rate environment reduced second-quarter revenues by about $70 million when compared with historical averages." He went on to add that low rates "mean that our money-market mutual funds cannot generate sufficient yield to cover the management fees."

Persistently low rates could force firms to rethink or even exit from businesses. Consider fixed-rate annuities and life-insurance products that offer a guaranteed minimum payout.

If insurers, when selling products, didn't match that liability with assets generating similar income, losses could ensue.

Firms usually hedge much of that risk. But they also face the prospect of declining business for some new products offering lower guaranteed payouts. Sales of fixed-rated, deferred annuities, for example, fell 45% in the second quarter of 2010 from the same period a year earlier, according to insurance-industry group Limra.

Insurers also can expect to generate lower income from their huge investment portfolios.

Brokers such as Charles Schwab and TD Ameritrade Holding; banks with big brokerage or asset-management operations, such as Bank of America and Morgan Stanley; and trust banks, such as Northern Trust and State Street, face threats, Sanford C. Bernstein analyst Brad Hintz notes. One is the greatly reduced returns firms can generate from cash in so-called sweep accounts that hold customer funds between trades, as well as money-market accounts. Another is the falloff in securities lending margins and activity.

So while low rates may be seen as a panacea for the economy, they could prove to be a form of Chinese water torture for plenty of financial firms.

-- David Reilly

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THE WALL STREET JOURNAL.

Heard on the Street
Heard on the Street
Banks and Insurers Face the Killing Yields

By David Reilly
676 words
28 September 2010
The Wall Street Journal Online
WSJO
English

The financial-services industry is built for speed. But while superlow interest rates are meant to be high-octane fuel for the economy, they are gumming up financial engines.

The problem for many banks, insurers and fund managers is that their cost of funding can't fall below zero. Yet returns from a number of businesses or products continue to decline with already near-record low bond yields. That compresses margins and threatens to make some business lines uneconomic.

While firms have dealt with falling yields for 30 years, this is the first time they have faced a zero floor on funding costs. Adding to the painful mix, the pressure on margins comes at a time of tighter regulation and a moribund U.S. economy.

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Insurers have similar concerns. "A prolonged period of historically low rates is not healthy for our business fundamentals," Lincoln National Chief Financial Officer Fred Crawford said on his firm's second-quarter call.

That is another reason why the Federal Reserve is so keen to avoid deflation setting in and is considering a return to large-scale money printing to stoke inflation.

Persistently low rates could force firms to rethink or even exit from businesses. Consider fixed-rate annuities and life-insurance products that offer a guaranteed minimum payout. If insurers, when selling products, didn't match that liability with assets generating similar income, losses could ensue.

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Insurers also can expect to generate lower income from their huge investment portfolios. Analysts at Keefe, Bruyette & Woods estimated that U.S. life insurers could see a 2% reduction in 2011 earnings and 4% in 2012 if yields stay at currently low levels.

Banks, too, are feeling the pinch. Many have already taken deposit rates close to zero and have converted high-yielding certificates of deposit to lower rates. That gives them less room to cut funding costs. The amount they can earn from lending or investing, though, is under continued pressure, shrinking banks' net interest margins.

If rates stay at current levels, U.S. regional banks could see net interest margins decline from an average of about 3.54 percentage points in the third quarter to some 3.44 percentage points this time next year, according to Credit Suisse analyst Craig Siegenthaler. That compares with margins well above four percentage points before the crisis.

Brokers such as Charles Schwab and TD Ameritrade Holding; banks with big brokerage or asset-management operations, such as Bank of America and Morgan Stanley; and trust banks, such as Northern Trust and State Street, face threats, Sanford C. Bernstein analyst Brad Hintz notes. One is the greatly reduced returns firms can generate from cash in so-called sweep accounts that hold customer funds between trades, as well as money-market accounts. Another is the falloff in securities lending margins and activity.

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Fund Track
ETFs Duke It Out Over Bond Investors --- Once-Quiet Corner Draws More Cash

By Ian Salisbury
441 words
22 September 2010
The Wall Street Journal
J
C17
English

A sharp-elbowed competition has taken hold as billions of dollars pour into fixed-income exchange-traded funds. The result: more choices and lower costs for investors.

Not long ago this was a quiet corner of the fund business. But since the financial crisis soured investors on the stock market, assets in bond ETFs have surged to more than $130 billion from as little as $20.5 billion at the end of 2006, according to fund researcher Morningstar Inc.

While that growth may slow when investors regain an appetite for riskier assets, one change is likely to remain. In 2006, just one ETF firm, iShares, offered investors bond ETFs of any stripe. Today a dozen do.

IShares, acquired last year by BlackRock Inc., still dominates the market, holding about $7 of every $10 in bond ETFs. But funds started by its largest ETF-market competitors, such as Vanguard Group and State Street Corp., have collected hundreds of millions or even billions in assets. That means for all but the largest institutional investors, these funds have the critical mass to allow investors to buy them and sell them without worrying that thin trading volumes might translate into outsize trading costs such as bid-and-ask spreads, the small premiums investors pay to market-makers when they buy or sell.

Russell Wild, an Allentown, Pa., investment adviser who specializes in ETFs, has begun using a handful of Vanguard funds in addition to iShares ETFs because of their low investment fees and Vanguard's strong reputation with index funds, which he calls "a cut above" the typical mutual fund provider.

Among the ETFs in his portfolio is the $9 billion Vanguard Total Bond Market ETF (trading symbol BND). Designed to give investors the broadest exposure to bond markets, it appeared in 2007, more than three years after the roughly equivalent iShares Barclays Aggregate Bond ETF (AGG), which holds $12.5 billion. Daily trading for the Vanguard fund is smaller -- about $51 million compared with $77 million for its more-established iShares rival.

Investment fees are much lower, however, for Vanguard Total Bond Market than for the iShares fund: 0.12% of assets annually versus 0.2%. That cost advantage appears to have helped the Vanguard fund slightly outperform over the past three years, posting an average annual return of 7.4%, about 0.14 percentage point better than its rival. "Keeping costs down in this yield environment is essential," Mr. Wild says, referring to razor-thin interest rates.

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THE WALL STREET JOURNAL.

Earnings
Asset Sale Lifts Intesa Sanpaolo Results

By Sabrina Cohen
356 words
27 August 2010
08:34 AM
The Wall Street Journal Online
WSJO
English

MILAN—Intesa Sanpaolo SpA said Friday that second-quarter net profit soared as capital gains from asset sales outweighed a trading loss and lower net interest income.

Italy's largest retail bank said net profit rose to €1 billion ($1.27 billion) in the three months to June 30 from €513 million a year earlier. The latest results include a €648 million gain from the sale of its depositary bank to U.S. State Street.

Net interest income fell 11% to €2.46 billion from €2.76 billion, while its trading loss was €3 million compared with a profit of €439 million. Impairments on loans and provisions fell 23% to €934 million from €1.22 billion a year earlier, but rose 12% from the €845 million posted in the first quarter.

The Milan-based bank said it expects "to register an improvement in net income for the year compared to 2009, due in particular to a reduction in operating costs, cost of credit and integration charges and to capital gains" from the sale of noncore assets already announced.

In July, Intesa Sanpaolo passed a European Union-wide stress test with the strongest result among its domestic peers but lower than many other European banks.

The bank has been trying to strengthen its capital ratios for the last 12 months. In September 2009, the bank decided not to use expensive government-sponsored bonds aimed at strengthening the core Tier-1 ratios of Italian banks, but instead announced a multibillion plan that included the sale or listing of its asset-management unit Banca Fideuram. In June, the bank postponed the listing of Fideuram because of unstable market conditions.

Intesa Sanpaolo said Friday that at the end of June its core Tier-1 ratio was 7.7%, while Tier 1 stood at 8.9%. Taking into account its capital strengthening plan, Intesa Sanpaolo said its pro forma Tier-1 ratio at the end of June would be 10.6%.

Shares of Intesa Sanpaolo fell 1.1% to €2.28.

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THE WALL STREET JOURNAL.
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Deals &Deal Makers
State Street, BlackRock to Manage $6 Billion UAW Fund

By Matthew Dolan
560 words
27 August 2010
The Wall Street Journal
J
C3
English

An independent health-care trust for retired auto workers will place $6 billion in the hands of two investment firms, one of the first steps in the trust's move to shift part of its billions of dollars into more-passive investing.

The Retiree Medical Benefits Trust for the United Auto Workers union will divide the $6 billion equally between Boston-based State Street Corp. and BlackRock Inc. of New York, according to Eric Henry, the trust's chief investment officer. The trust selected the money-management firms from a group of several competing proposals.

Mr. Henry said in an interview in his Ann Arbor, Mich., office this week that the money overseen by the investment firms would be placed into global equity index funds by year-end. The trust, known as a VEBA for voluntary employee beneficiary association, was created through union contract concessions about three years ago.

The managers news comes as the trust could play a major role in the initial public offering for General Motors Corp. that could come later this year.

To create the UAW trust, GM, Ford Motor Co. and Chrysler Group LLC transferred $45.4 billion in assets to fund the effort for 800,000 retired auto workers and their spouses. But when GM and Chrysler slid into bankruptcy last year, the funding structure changed, allowing the trust to assume ownership stakes in the auto makers.

In addition to the $45 billion, the trust now owns 17.5% of GM common stock plus warrants for an additional 2.5%. It also holds 68% of Chrysler common stock, but the stake will decline to 55% as Fiat SpA, Chrysler's partner, hits certain milestones.

Leaders at the UAW and board members of the independent trust have said they hope to divest themselves of their stakes as soon as reasonably possible.

The decision on the stock is controlled by an independent fiduciary and won't necessarily mirror any decision by the U.S. government over its controlling stake in GM, according to Mr. Henry. Nell Hennessy, president and CEO for Fiduciary Counselors, didn't return phone calls and emails seeking comment.

Mr. Henry said the goal is to make the retiree health-care trust fund more conservative because its funding stream is finite. It is already scaling back its original investments, which started with $2 billion in five hedge funds of funds, $380 million in equity real estate and $375 million in private equity.

Next month, the trust expects to receive $500 million from a redemption request to a fund of hedge funds managed by Promark Global Advisors Inc., which also manages GM worker pensions funds, Mr. Henry said.

The trust's long-term plan is to put half of its funds in global stocks, 25% in core fixed income and 12.5% each in Treasury Inflation-Protected Securities and long-duration fixed income.

"We are very pleased to expand our existing relationship with the United Auto Workers and look forward to working together in the future," State Street spokeswoman Alicia Curran Sweeney wrote in an email. BlackRock declined to comment.

Mr. Henry declined to detail fees charged by BlackRock and State Street, calling them a "relevant but not deciding factor."

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THE WALL STREET JOURNAL.

Commodities

Hedge Funds Tap ETF for Gold Bets as Stock Correlation Rises

By John Spence
695 words
19 August 2010
The Wall Street Journal Online
WSJO
English

BOSTON—Hedge funds managed by George Soros, John Paulson and other high-profile investors are using a $50 billion exchange-traded fund to buy gold, recent filings show, even as the ETF's growing clout may be chipping at gold's role as an asset that moves to its own beat.

Eton Park Capital Management LP earlier this week showed it had joined a list of hedge funds that own SPDR Gold Shares, an ETF backed by about 1,300 metric tons of the precious metal. Eton revealed a roughly $800 million stake in the ETF. Paulson & Co., Mr. Paulson's firm, kept its stake in the gold ETF steady at 31.5 million shares, meaning its position was close to $4 billion at the end of the second quarter. Soros Fund Management had about $600 million in the gold fund, filings show.

This stamp of approval from some of the world's most respected money managers may attract other investors. Yet there are signs gold is acting less as a portfolio diversifier, one of gold's key attractions. For one, gold at times has been moving in tandem with stocks.

"Many analysts seem to be bullish on gold because of concerns over possible weakness in equities, but we would point out that there are two flaws there," said Waverly Advisors in a strategy note Tuesday. "Future equity-market direction is anything but certain," while the correlation between gold and stocks is "unstable at best," it said. "Recent market data shows periods of very strong positive correlation between the two."

Indeed, investment demand for gold has been rising in recent years as investors seek disaster protection. Gold is also seen as an inflation hedge as central banks take on more debt in the economic downturn and spark fears of currency debasement.

"Gold and silver, traditionally delinked relative to equities, saw their correlations to stocks rise" in July from the previous month, says Nicholas Colas, ConvergEx Group chief market strategist.

Signs that more investors are flocking to gold and gold-backed ETFs raise the question of what could happen if stocks or gold—or both—crash. In a meltdown, investors could be forced to unwind winning bets like gold to meet margin calls on other falling assets, the theory goes.

Certainly, ETFs have changed the dynamics of buying and selling gold, Mr. Colas said in an interview. "Gold has not been very correlated with financial asset prices, historically," he said.

In the past, gold would be bought from a dealer, perhaps in coins, and stored in a safety-deposit box or home safe. Now, Mr. Colas pointed out, investors can easily buy or sell gold in their brokerage accounts with ETFs. This "dramatic shift" may lower gold's appeal as a hedge to financial assets, although the strategist noted that the gold/stock correlation tends to vary a lot over time.

Although some claim other large ETFs tracking stocks and commodities futures may be impacting their underlying markets, SPDR Gold Shares is often singled out. This is because the ETF controls such a large portion of the gold market; its stash ranks it among the world's largest central banks. China's sovereign wealth fund has disclosed a stake in the ETF.

SPDR Gold Shares, which is sponsored by a unit of the World Gold Council, traded higher Wednesday afternoon and is up 12% year to date, while the S&P 500-stock index is slightly negative this year.

"We've definitely seen an increase in long-term strategic users," such as institutional investors, said Tom Anderson, head of ETF strategy and research at State Street Global Advisors, the marketing agent for SPDR Gold.

There are several other exchange-traded funds and notes that track gold prices and other precious metals. Some allow investors to make leveraged bets, profit from lower gold prices or take positions in miner stocks.

Sprott Physical Gold Trust holds bullion and has a unique feature that allows large investors to take physical possession of gold.

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THE WALL STREET JOURNAL.

Management

Goldman Hires Wise From Morgan Stanley

By Liz Rappaport
237 words
10 August 2010
The Wall Street Journal Online
WSJO
English

Goldman Sachs Group Inc. hired Michael Wise from Morgan Stanley to run the financial-institutions group in Goldman's equity capital-markets group, according to an internal memo.

Mr. Wise spent 13 years at Morgan Stanley, where he mostly recently was chairman of the New York company's equity capital-markets division and a co-head of equity capital markets in the Americas.

Mr. Wise also is becoming a Goldman partner, meaning that he is among more than 400 employees who can share in the New York firm's profits. Mr. Wise succeeds Stuart Bernstein, who is moving to Goldman's investment-banking group to head its clean technology and renewable-energy companies group.

A Goldman spokeswoman confirmed that the memo was sent to employees Monday but declined to comment further. The two companies are frequent rivals for the top spot in quarterly rankings of underwriters for initial public offerings and other equity sales.

During roughly the past year, Mr. Wise worked on large equity offerings from financial institutions, such as State Street Corp., Bank of New York Mellon Corp. and Verisk Analytics Inc, a risk-assessment firm based in Jersey City, N.J., that went public last September.

Mr. Wise will report to Stephen Pierce, who leads Goldman's equity capital markets group in the Americas.

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THE WALL STREET JOURNAL.

Large Stock Focus
Earnings Divergence: IBM Falls but Goldman Gains

By Kristina Peterson
832 words
21 July 2010
The Wall Street Journal Online
WSJO
English

NEW YORK—Quarterly reports from International Business Machines, Texas Instruments and Goldman Sachs Group sent stocks tumbling early on concerns over slowing revenues, but a late rally erased the losses as investors looked expectantly to Federal Reserve guidance and approaching earnings.

The Dow Jones Industrial Average wiped out a triple-digit decline Tuesday to close up 75.53 points, or 0.7%, at 10229.96. Investors said the market reversed its earlier declines amid speculation that Federal Reserve Chairman Ben Bernanke will assuage worries of a second recession in his two-day congressional testimony that starts Wednesday. And optimism mounted for companies reporting earnings later in the week, including Apple, after Tuesday's closing bell, and financials including Morgan Stanley and Wells Fargo on Wednesday.

The Nasdaq Composite gained 24.26 points, or 1.1%, to 2222.49. The Standard & Poor's 500-share index rose 12.23, or 1.1%, to 1083.48.

All three benchmark indexes traded in the red for much of the session. The Dow had wobbled close to the 10000 level in early trading as investors worried that second-quarter reports showed slowing growth in top-line revenue.

"We've seen earnings generally come in positively, but coupled with the message that revenue growth has been much more challenging in this environment than analysts were expecting," said Jim Baird, partner and chief investment strategist at Plante Moran Financial Advisors. "Companies can only cut so far in order to enhance their bottom line."

IBM spent most of the session as the Dow's worst performer. Shares fell $3.24, or 2.5%, $to 126.55, after the company reported a 9% gain in second-quarter profit, but sales fell short of Wall Street expectations. Texas Instruments slid 78 cents, or 3.1%, to 24.77, after second-quarter profit tripled, but revenue came in a bit below guidance.

Investors initially retreated from Goldman Sachs after its second-quarter earnings slid 82%. The giant investment bank was socked by its settlement with the Securities and Exchange Commission and the U.K.'s payroll tax. But adjusted results beat Wall Street forecasts, and shares closed up 3.23, or 2.2%, to 148.91.

All but one of the S&P 500's sectors closed in the black. Health-care stocks lagged behind, weighed by a disappointing outlook from health-care products giant Johnson & Johnson. Shares dropped 99 cents, or 1.7%, to 58.58, after the company's second-quarter earnings rose 7.5% amid slightly higher sales, but Johnson & Johnson cut its 2010 earnings forecast, citing the continuing recalls of various over-the-counter medicines.

Appliance maker Whirlpool shed 2.66, or 2.9%, to 88.70, after its second-quarter earnings more than doubled, handily topping analysts' estimates, as higher volume boosted sales and margins. But analysts worried about slower quarter-over-quarter revenue growth in all segments and noted that operating profit gains are slowing.

Regional bank Zions Bancorp (Nasdaq) tumbled 1.91, or 8.9%, to 19.51, after its second-quarter loss widened more than expected on a prior-year gain as the bank reported its seventh straight quarter in the red.

Food-and-beverage company PepsiCo gained 2.68, or 4.3%, to 64.73, even after its second-quarter profit fell 3% on declines in its Quaker food business and costs to integrate its newly acquired bottlers, but sales in the U.S. got a leg up from the launch of a new line of Gatorade drinks.

Motorcycle maker Harley-Davidson jumped 3.22, or 14%, to 26.83, after its second-quarter profit soared. The company's struggling financial-services operations swung to the black.

Regional bank Marshall & Ilsley's second-quarter loss narrowed as the company said credit quality was improving and its loan-loss provisions declined. But the bank's earnings missed analysts' estimates and its total outstanding loans—a source of current and future revenues—fell again, down 14% in the last year. Shares slid 61 cents, or 7.9%, to 7.10.

Institutional money-management company State Street gained 2.18, or 5.8%, to 39.53, after rebounding from a year-earlier loss caused by mortgage-backed securities. The company reported stronger fees and assets under management.

UAL (Nasdaq), the parent of United Airlines, jumped 1.02, or 4.8%, to 22.20, after the airline saw a 28% increase in second-quarter revenue and strong cost-containment. Earnings beat analysts' estimates.

Tupperware Brands slid 3.29, or 7.6%, to 39.98, after its second-quarter earnings jumped 75% following prior-year write-downs, but core profit fell short of expectations. The personal-products maker cut its 2010 earnings outlook and provided a weak third-quarter view. The company also disclosed accounting errors in its Russian operations.

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THE WALL STREET JOURNAL.
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Deals &Deal Makers
In Brief

549 words
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C3
English

Two Banks Post

Stronger Results

Bank of New York Mellon Corp.'s second-quarter earnings nearly quadrupled to $658 million, or 54 cents a share, from $176 million, or 15 cents a share, a year earlier as the New York bank recovered from prior-year securities losses and TARP-related charges. Fee revenue rose to $2.56 billion from $2.51 billion. Nonperforming assets fell 12% to $406 million. The stock fell 14 cents, or 0.6%, to $25.50 on the New York Stock Exchange.

State Street Corp., of Boston, rebounded to post net of $432 million, or 87 cents a share, from the prior-year loss of $3.31 billion, or $7.12 a share. Revenue increased 9% to $2.3 billion. The stock rose $2.15, or 5.8%, to $39.50 on the Big Board.

Zions and M&I

Record Losses

Zions Bancorp and Marshall &Ilsley Corp. reported losses and disclosed their books of risky commercial real-estate loans improved only slightly over this year's first quarter. Zions reported a loss of $135 million after the market closed Monday. The Salt Lake City-based lender's $1.96 billion in nonperforming loans fell modestly over the first quarter, but still remain higher than three quarters ago. The bank's core revenue also shrunk as total loans fell for the fourth straight quarter.

Milwaukee-based M&I reported a net loss of $174 million and said its troubled loans continued to improved, a key issue for a bank that made big bets on construction loans and has now reported a loss in eight of the nine last quarters.

TD Ameritrade

Profit Rises 5.2%

NEW YORK -- TD Ameritrade Holding Corp.'s fiscal third-quarter profit climbed 5.2%, as the stock market's May 6 "flash crash" led to the online brokerage's highest quarter of trading volume to date. However, in a conference call with analysts, TD Ameritrade Chief Executive Fred Tomczyk warned that investors now are "taking a breather" from trading. Profit rose to $179.4 million from $170.5 million a year earlier. Per-share earnings held steady at 30 cents. Revenue jumped 13% to $691.8 million. Analysts polled by Thomson Reuters most recently forecast earnings of 28 cents a share on $682 million in revenue. Shares of TD Ameritrade fell 59 cents, or 3.7%, to $14.23 on the Nasdaq Stock Market.

MGIC Posts Profit

On Cautious Note

MGIC Investment Corp., the largest mortgage insurer in the U.S., sounded a cautious note after recording its first profitable quarter in nearly three years, warning investors the positive trends that fueled the company's latest result could wane in coming months. MGIC said Tuesday that new notices of default dropped for the third quarter in a row and declining claims costs helped the Milwaukee-based company earn $24.6 million in the second quarter. But claims in the mortgage-insurance business can be seasonal, and company executives said on a conference call that the costliest part of the year may still lie ahead. MGIC rose 9.3% to $8.55, its biggest gain in two months. Shares of rival insurers also were up.

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THE WALL STREET JOURNAL.

Earnings
Bank of New York Mellon, State Street Earnings Recover

By Tess Stynes
565 words
20 July 2010
10:03 AM
The Wall Street Journal Online
WSJO
English

Bank of New York Mellon Corp.'s second-quarter earnings nearly quadrupled as the financial-services company recovers from prior-year securities losses and TARP-related charges.

Another custodial bank, State Street Corp., rebounded from a year-earlier loss caused by mortgage-backed securities as the institutional money-management company this time reported stronger fees and assets under management.

Bank of New York Mellon has been expanding its wealth-management business and in June unveiled plans for a unit that will handle futures and swap trades by major customers. The moves come as financial-services firms seek to tap into investors' appetite for clearing transactions and in anticipation of regulatory changes regarding collateral requirements in the U.S. and Europe.

The asset manager and securities adviser, formed in July 2007 when Bank of New York acquired Mellon Financial Corp., reported a profit of $658 million, or 54 cents a share, matching analysts' expectations, according to Thomson Reuters, up from $176 million, or 15 cents a share, a year earlier. The prior year included a $236 million charge related to the repayment of $3 billion it received from Treasury's Trouble Asset Relief Program. Meanwhile, the latest quarter has $13 million of net securities gains, compared with prior-year losses of $256 million.

Fee revenue rose 1.8% to $2.56 billion as net interest revenue rose 3.1% to $722 million. on revenue of $3.34 billion.

Assets under management rose 19% on year to $1.047 trillion as of June 30 but fell 5.2% during the quarter amid declines in the stock market. Net inflows were $12 billion in the quarter

Credit-loss provisions tumbled to $20 million from $61 million a year earlier and $35 million in the first quarter. Nonperforming assets fell 12% to $406 million during the quarter.

Shares were recently down 0.6%.

State Street, which earlier this month said it would report a second-quarter operating profit well above analysts' forecasts, said it earned a profit of $432 million, or 87 cents a share, compared with a prior-year loss of $3.31 billion, or $7.12 a share. The latest period included net investment losses of $50 million and a $10 million provision for loan losses related to its commercial real-estate holdings. The prior year included $3.68 billion in losses related to conduits--instruments used to buy asset-backed and mortgage-backed securities.

Revenue increased 9% to $2.3 billion as total fee revenue jumped 12% and net interest revenue was up 13%.

On an operating basis, revenue increased 2.2% to $2.16 billion as trading revenue jumped 35%.

The company earlier this month projected earnings of 93 cents, excluding investment losses and other charges, above analysts views at the time, on $2.2 billion in revenue.

Assets under management rose 15% to $1.782 trillion but fell 7.6% during the quarter amid the falling stock market.

Shares climbed 2.7% in recent trade.

The firm had turned in lackluster results in the first quarter as trading revenue dropped 10%. The decline came while some big Wall Street banks posted frothy increases as investors returned to stock and bond markets.

Custodial banks generally holds investments and securities for other investors.

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THE WALL STREET JOURNAL.

Business

Social Media Draws a Crowd; Start-Ups and Established Agencies Look to Carve a Niche in Online Action

By Suzanne Vranica
824 words
18 July 2010
The Wall Street Journal Online
WSJO
Media &Marketing
English

As more and more advertising dollars flow into social media, some Madison Avenue firms are seeking to grab a piece of the action. But it will be a tough fight as the space is overrun with companies seeking to own the segment, from start-ups to public-relations firms.

Universal McCann, the media-buying firm owned by Interpublic Group of Cos., is bolstering its social-media offering by launching a practice this week called Rally. The division will help marketers develop campaigns, track online chatter about their brands and measure how those campaigns perform. Headed by Heidi Browning, a former MySpace executive, Rally will house several new social-media hires. MySpace, like The Wall Street Journal, is owned by News Corp.

Publicis Groupe's digital umbrella organization, Vivaki, says it also will open a social-media consulting practice by the end of the year. The new group will pool Publicis' social-media tools and experts and use them to beef up the social-media practices that many of Publicis' agencies have already established. Rishad Tobaccowala, chief strategy officer at Vivaki, says he is willing to use his mergers-and-acquisitions budget to bolster the practice if needed.

The push to form a more formidable presence in social-media advertising is being fueled by the increasing number of marketers who are eager to figure out how they can use sites such as Facebook Inc., which has almost 500 million users, and Twitter, with more than 120 million registered users, as a marketing weapon.

"Social media is now part of all our clients' plans; we can't not be in this space," says Matt Seiler, chief executive of Universal McCann.

Ad spending on social networks world-wide is expected to rise 14% this year to $2.5 billion, according to research firm eMarketer. Although social media represents only a fraction of the $55 billion online-ad market, it is one of the fastest-growing segments.

Some corporations have taken a hands-on role in crafting their efforts: PepsiCo Inc.'s Gatorade, for example, recently created its "Mission Control Center," which is set up like a broadcast-television control room and is charged with monitoring the sports drink around the clock across social-media networks.

But as marketers look to make bigger commitments, they are increasingly seeking experts to navigate the burgeoning space.

Earlier this year, Chrysler Group LLC tapped New Media Strategies, a unit of publisher Meredith Corp., to handle its social-media tasks. In March Kraft Foods Inc. hired 360i, a digital ad agency owned by Japan's largest ad company, Dentsu Inc. The agency has been tasked with monitoring the social-media sites for some of its brands such as Oreo and Jell-O. It also develops campaigns. The agency recently created the "World's Fan of the Week" promotion that appears on Oreo's Facebook page.

Microsoft Corp. is currently searching for a social-media firm to handle duties for its Xbox videogame system, work that is now handled by several of Xbox's agencies, according to people familiar with the matter. Asset-management firm State Street Corp. also has begun looking at firms. A spokeswoman for Microsoft declined to comment.

"We have talked to some PR firms that appear to have established valid expertise over the years, and we are also interested in the new social-media firms that are bubbling up," says Hannah Grove, State Street's head of global marketing.

Creative ad agencies, digital ad firms, social-media boutiques, public-relations outfits and publishing companies are all clambering to offer advice, all claiming to be best suited to handle the task.

"You can't walk out your house without bumping into a social-media expert today, says Sean Corcoran, an analyst at Forrester Research. "The reality is the space is still very much a Wild West."

Analysts say many marketers are more interested in hiring smaller firms that have expertise in the field. Last year Domino's Pizza Inc. hired New Media Strategies, a word-of-mouth marketing firm, as its agency of record for social media.

"A lot of companies right now that specialize in PR or advertising are trying to do this on the side and the thing we liked in NMS is they specialize in social media," said Chris Brandon, a spokesman for the pizza chain.

Analysts and ad executives say the space won't be dominated by small competitors for long because advertising holding companies and bigger public-relations firms will likely ramp up acquiring the smaller boutique firms, much like they have done with other digital areas such as search advertising.

"I do think this is the year for consolidation in social media," says Ms. Browning, president of Universal McCann's Rally unit.

Write to Suzanne Vranica at suzanne.vranica@wsj.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Citi Miscue Helps Mask Debt Risks From Public

By Michael Rapoport
847 words
16 July 2010
The Wall Street Journal
J
C1
English

Citigroup Inc. for the first time has publicly detailed one way it dressed up its balance sheet and incorrectly hid risk from the public.

In a filing made public Thursday, Citigroup explained how it made an accounting mistake that hid billions of dollars in debt from investors by misclassifying certain short-term trades as "sales" when they should have been classified as borrowings.

Citi had acknowledged in a securities filing in May that it had misclassified as much as $9.2 billion of short-term repurchase agreements, or "repos," at times over the past three years, but it had provided few details.

The disclosure highlights one of the ways banks can engage in Wall Street "window dressing." The traditional way banks have done this is by temporarily shedding debt just before reporting their finances to the public at the end of quarterly periods.

In this case, Citigroup went further by improperly booking repos as sales and not borrowings. Both types of window dressing hide from investors the true risk banks are taking on.

Though window dressing isn't illegal, intentionally masking debt to deceive investors violates regulatory guidelines. Citigroup said its incorrect accounting wasn't intentional.

The Citi letter -- dated April 13, 2010, but made public Thursday -- said the improperly-accounted-for trades were structured to help some of its overseas trading units meet balance-sheet limits set by the bank. Citi says it should have booked the trades as borrowings because the bank demanded additional collateral from trading partners when it wasn't supposed to.

Citi said in a statement that "a very limited number of our business units used this type of transaction in very small amounts. The impact of these transactions was never large enough to have a material impact on Citigroup's financial statements or our published regulatory capital ratios, including our leverage ratios."

Repos are short-term financing arrangements that allow banks to take bigger risks on securities trades. Classifying the transactions as sales instead of borrowings allows a bank to take assets off its balance sheet and thus reduce its reported leverage, or assets as a multiple of equity capital.

The disclosures stem from an SEC inquiry into banks' repo-accounting practices, prompted by a bankruptcy-court examiner's report in March that said Lehman Brothers Holdings Inc. had used improper repo accounting to make itself look healthier before it collapsed.

The SEC also is considering stricter disclosures and a clearer rationale from banks, and possibly other companies, about quarter-end window dressing.

The Wall Street Journal reported in April that Citi was one of the banks most active in the traditional form of window dressing by temporarily reducing its borrowings at some quarter-ends.

Citi's April letter to the SEC included figures showing significant declines from average repos to period-end repos in many quarters over the past three years, in accordance with what the Journal reported.

"The level of repurchase agreements accounted for as financings by Citi varies significantly from time to time along with trading volume, market share and other external variables," the bank said in the letter.

Bank of America Corp., another bank active in traditional window dressing, also has acknowledged repo-accounting errors similar to those of Citi.

On Thursday, the SEC also released letters from several other major banks who said they properly accounted for their repo trades, including Goldman Sachs Group Inc., Morgan Stanley, J.P. Morgan Chase &Co., Wells Fargo &Co. and State Street Corp.

Insurer American International Group Inc. said in a letter that it had accounted for some of its repos as sales, but properly so. AIG said it didn't structure the trades to be treated as sales, but in the wake of its government bailout in 2008, some of the company's trading partners demanded better collateral terms to enter into repo agreements, thus requiring them to be classified under accounting rules as sales. AIG said it hasn't had any accounting error or change.

"AIG did not use repurchase agreements for the purpose of moving assets off of its balance sheets," the company said in a statement. "Its use of repurchase agreements was proper and fully disclosed."

Bank of New York Mellon Corp. said in its letter that it had some different types of small repo-accounting errors that the bank had previously disclosed in its quarterly report in May.

In its letter, Citi said it had designed some repo trades, primarily in the U.K. and Japan, to be accounted for as sales instead of secured borrowings to assist those trading desks "in complying with internal limits" on the amount of the bank's balance sheet made available to the global trading desks.

Because of internal changes at the bank, Citi said in the letter, it inadvertently collected collateral on some U.K. repo trades when it wasn't allowed to, thus voiding the sale treatment. The bank now classifies all such transactions as borrowings.

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THE WALL STREET JOURNAL.

Earnings
Citi Explains How It Hid Risk From the Public

By Michael Rapoport
851 words
14 July 2010
The Wall Street Journal Online
WSJO
English

Citigroup Inc. for the first time has publicly detailed one way it dressed up its balance sheet and incorrectly hid risk from the public.

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THE WALL STREET JOURNAL.

Business
Returns on U.S. TARP Investments May Decline

By Marshall Eckblad And Erik Holm
992 words
7 July 2010
08:52 PM
The Wall Street Journal Online
WSJO
English

NEW YORK—The softening market for bank stocks threatens to cool the TARP program's hot returns.

As U.S. banks have returned to health following the worst financial crisis in decades, the U.S. Treasury has shared in their gains. Banks that have exited the government's Troubled Asset Relief Program, or TARP, have on average earned taxpayers 10.3% in annualized returns for their investments, according to Keefe Bruyette & Woods. Wall Street firms Goldman Sachs Group Inc. and Morgan Stanley, which each repaid their $10 billion in government investments last summer, generated returns of nearly 20% and 16%.

Now, with financial stocks sliding, the Treasury and taxpayers are facing the prospect of diminishing returns as more companies repay their public support.

The government is "still going to make a nice return," said Fred Cannon, co-director of research at Keefe Bruyette & Woods. "But I'm not sure the 10% will hold up."

Here's why: While the government got a 5% dividend on preferred stock it received under TARP, its ultimate return depends in part on where that company's stock is trading when the government gets paid for warrants that were also part of the TARP investments. And lately, the market for bank stocks has belonged to skeptical buyers.

Financial stocks in the Standard & Poor's 500 have fallen about 18% since April, threatening the size of proceeds from the government's sales of the stock warrants. (Volatility and term also influence the pricing of options.)

Nearly two years ago, as the financial crisis threatened to implode the U.S. economy, the Treasury used TARP to make hundreds of billions of dollars in investments in private companies in order to stabilize the U.S. financial system. As the healthiest of those companies exit the program, U.S. taxpayers have been compensated for crisis-hour rescue.

In July, as economic fears faded and bank stocks rallied, the government started selling its warrants--in some cases, back to the companies themselves. When companies didn't buy at the government's price, Treasury sold the warrants at auction. By the end of May, the Treasury had raked in $6.8 billion just from warrants tied to the 14 biggest banks to exit TARP.

For the roughly 60 financial firms that have exited the program—including much smaller institutions like First Manitowoc Bancorp Inc. and Old Line Bancshares Inc.—the Treasury has collected proceeds of $6.98 billion on the warrants and $5.55 billion on the dividends on the preferred shares, KBW said in an analysis released Tuesday. That is an average annualized return of 10.3% on the $131.8 billion that the government initially invested in those companies, according to KBW.

The government has yet to sell warrants tied to insurer Hartford Financial Services Group Inc., credit-card lender Discover Financial Services and lender Webster Financial Group, among others.

Hundreds of companies in the TARP program, of course, have yet to repay their investments, including Detroit-based auto makers General Motors Co. and Chrysler Holding Co.

Moreover, the rescued giant insurer American International Group Inc., along with nearly 100 smaller banks, have missed dividend payments to the government due to their poor financial condition. And the government has taken permanent losses from a handful of TARP participants, including CIT Group Inc., which filed for bankruptcy.

The government's $3.4 billion stake in American Express Co. produced the best return, at 23.3%.

Government officials used the TARP funds, which were authorized by Congress, to stabilize a wide range of firms, ranging from small banks to car companies. Only a handful of the selected companies have so far repaid the investments, but some of those that did have paid handsomely for the help.

Goldman and Morgan Stanley each received investments of $10 billion, and the government collected returns on those investments of 19.9% and 16.3%, respectively.

The nation's three big trust banks, Bank of New York Mellon Corp., State Street Corp. and Northern Trust Corp., also accounted for solid gains for taxpayers. From its $3 billion investment in BNY Mellon, the government returned 10.1%. The $2 billion in State Street produced returns of 9% and the $1.6 billion that Northern Trust accepted returned 11%.

The Treasury's investments in more traditional banks, like J.P. Morgan Chase & Co. and Bank of America Corp., have turned in smaller returns.

The $25 billion investment in Bank of America returned 8.3%, while identical investments in J.P. Morgan and Wells Fargo & Co. returned 6.2% and 5.8%, respectively.

The government's investment in strong U.S. regional banks have also produced solid returns. A $6.6 billion investment in U.S. Bancorp returned 7.7%, and the Treasury's $7.6 billion investment in PNC Financial Services Group Inc. returned 7.3%. Capital One Financial Corp.'s $3.6 billion returned 6.7%, while BB&T Corp.'s $3.1 billion returned 7.5%.

Warren Buffett's investment in Goldman has so far soared past those returns, with an annualized return of 36%, according to Dr. Linus Wilson, a finance professor at University of Louisiana at Lafayette who has authored a paper about Berkshire's Goldman investment.

In September 2008, shortly before the government took its stake in Goldman, Warren Buffett, the billionaire chairman of Berkshire Hathaway Inc., agreed to buy $5 billion in preferred shares from Goldman. He negotiated a hefty 10% dividend and demanded, as a bonus, warrants to buy $5 billion of Goldman stock at $115 a share.

That means that the Oracle of Omaha's eventual return, just like some of the government's, depends in part on the future price of a single stock.

Matthias Rieker contributed to this article.

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THE WALL STREET JOURNAL.

Today's Markets
Today's Markets
Dow Roars Past 10000 Again

By Jonathan Cheng
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English

Stocks rallied, reversing a three-week slide and pushing the Dow Jones Industrial Average through the 10000 mark as investors grew hopeful for the approaching earnings season.

The Dow climbed 274.66 points, or 2.82%, to close at 10018.28, the 33rd time it has risen across the 10000 threshold at the close. The Dow's gain was its largest point and percentage gain since late May and all 30 components ended in the black.

The Standard & Poor's 500-stock index added 3.13% to 1060.27, while the Nasdaq Composite rose 3.13% to 2159.47.

Wednesday's gains added more conviction to Tuesday's modest advance, a strong rebound that comes after a rough losing streak that pushed stocks to their lowest point all year. Stocks, which are still down more than 10% from their recent highs, have been pushed down on worries about slowing global economic growth and European government's debt loads, but investors are growing hopeful that the earnings season, which begins next week, can propel the market out of the slump.

Boosting expectations for the second-quarter reports, custodian and money-manager State Street projected second-quarter profit well above analysts' forecasts, citing improving revenue. State Street leapt 9.9%, and pulled most big banks along. Among the financial sector's other gainers, American Express climbed 5%, J.P. Morgan Chase advanced 5% and Bank of America rose 4.6%.

"It's a good sign for earnings," said John Butters, director of U.S. earnings research at Thomson Reuters, predicting investors would watch third-quarter guidance closely.

Also helping financials was European banking regulators' release of details on stress tests for 91 European banks. Regulators said they would publish results July 23—a signal that stress-test uncertainties will soon be lifted.

The technology sector was also strong ahead of an expected solid earnings season, with Cisco Systems adding 5.3% and Hewlett-Packard up 4.2%.

American depositary shares of BP climbed 4% after chief executive Tony Hayward met with officials in Abu Dhabi, including executives from its sovereign-wealth fund.

"The market was really oversold," said Paul Zemsky, head of asset allocation at ING Investment Management. "There's all kinds of concerns about exposure to the European countries, and all that uncertainty that gets factored in probably overshoots."

Mr. Zemsky said that the market had fallen so far, so fast that even a hint of positive news was enough to cause people to reverse some of their bearish bets.

The stock-market rally was accompanied by a jump in crude-oil futures, which snapped a six-day losing streak to soar $2.09 per barrel, settling at $74.07. Copper also rose.

Gains for oil and other commodities also fueled demand for currencies closely tied to global growth, such as the Australian dollar, which rose about 1.4% against the greenback.

The euro also had a strong day—rising to a six-week high against the U.S. dollar.

Meantime, investors moved out of safe-haven Treasurys. The yield on the 10-year note, which rises as prices fall, rose to 2.980%, remaining below the key 3% threshold.

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THE WALL STREET JOURNAL.

Large Stock Focus
Pop Is 11% for AES; Cree Rises

By Donna Kardos Yesalavich
869 words
8 July 2010
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English

NEW YORK—Stocks rallied broadly Wednesday in the third-biggest one-day gain of the year, pushing the Dow Jones Industrial Average back above the 10000 level.

Financial stocks, including J.P. Morgan Chase and Bank of America, led the climb, boosted by a rosy earnings forecast from State Street and as details on euro-zone bank stress tests removed some uncertainty.

The Dow climbed 274.66 points, or 2.8%, to 10018.28, its biggest one-day gain since May 27 and highest close since June 28. The measure is now up 2.5% for the month but still down 3.9% for the year.

All 30 of the measure's components rose. Cisco Systems (Nasdaq) was the measure's top performer with a jump of 1.14, or 5.3%, to $22.48.

The Dow's financial components were also strong, with J.P. Morgan up 1.82, or 5%, at 38.15, and Bank of America up 65 cents, or 4.6%, at 14.71.

The sector was boosted by a projection from money-manager State Street for second-quarter profit well above analysts' forecasts. State Street, which isn't a Dow component, leapt 3.29, or 9.9%, to 36.63.

Also lifting financials, Europe's banking supervisor named the 91 banks that it will test for resilience to further market and credit risks and laid out the key features included in the tests. The banks are being tested individually but following a common set of criteria. The results will be made public July 23. Investors found it encouraging to learn more of the details about the test, as uncertainty about it had been weighing on financial stocks in Europe as well as in the U.S.

U.S. financial stocks "have been under a lot of pressure with what's going on in Europe," said Pete Kwiatkowski, director of growth and income Strategies at Fifth Third Asset Management. "The more transparency that comes out in Europe, and as people get a little bit more comfortable with things in Europe, that's certainly going to help the financials."

The Nasdaq Composite rose 65.59, or 3.1%, to 2159.47.

The Standard & Poor's 500-stock index climbed 32.21, or 3.1%, to 1060.27. All of the measure's categories rose, led by the financial sector, which leapt more than 4%.

Family Dollar Stores tumbled 3.18, or 8.1%, to 36.26. The discount retailer's fiscal third-quarter earnings increased 19% on higher sales and margins, but it gave somber indications that its customers are being overwhelmed by the country's lingering economic weakness and forecast fiscal fourth-quarter earnings below analysts' estimates. The results weighed on other discounters, including Dollar Tree (Nasdaq), which slid 1.32, or 3.1%, to 41.61.

American depositary shares of BP rose 1.28, or 4%, to 33.19. Chief Executive Tony Hayward met with Abu Dhabi's powerful Crown Prince Mohammed bin Zayed Al Nahyan during a visit to the oil-rich sheikdom, and said that he would be happy to see the city-state's sovereign wealth fund buy a stake of as much as 10% in BP, a person with knowledge of the meeting told Zawya Dow Jones.

Cree (Nasdaq) rose 5.11, or 8.4%, to 66.07, and American depositary shares of Philips Electronics edged up 90 cents, or 2.9%, to 31.55, after the companies said they have signed a patent cross-license agreement as part of a joint effort to accelerate the growth of light-emitting diodes.

American depositary shares of CRH fell 96 cents, or 4.5%, to 20.50, after the building-materials group said it expects first-half earnings to fall 20% on a weaker economic outlook.

EMC Corp. rose 95 cents, or 5.2%, to 19.11, after the global storage leader said it agreed to acquire Greenplum Inc., a privately held data-warehousing company that specializes in analyzing large amounts of information. The acquisition will give EMC, which also has majority ownership in virtualization-leader VMware, a foothold in a fast-growing market for large data warehouses. VMware added 4.88, or 7.5%, to 69.69.

New Gold shed 67 cents, or 12%, to 5.13, after the Canada-based miner said a district court in Mexico denied the company's appeal over the cancelled environmental impact statement at its Cerro San Pedro Mine. New Gold said it hasn't received the full court decision, but plans to appeal following a full review of the documents.

Sirius XM Radio (Nasdaq) edged up six cents, or 6.4%, to 1.00. The satellite-radio company expanded its subscriber base by 6% from a year ago to a record 19.5 million at the end of the second quarter, leading the company to raise its 2010 forecast for subscriber growth by nearly 50%.

AES jumped 96 cents, or 11%, to 9.86, after the power producer said its board approved a $500 million stock-buyback program.

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THE WALL STREET JOURNAL.

Business

State Street Sees Quarterly Profit Topping Expectations

By Melissa Korn
657 words
8 July 2010
The Wall Street Journal Online
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English

State Street Corp. said it will report a second-quarter operating profit well above analysts' forecasts, putting the company on track to hit its full-year guidance.

The money manager and custodial firm said that on an operating basis, which typically excludes charges as well as investment gains and losses, it expects to earn 93 cents a share and post $2.2 billion in revenue. Analysts polled by Thomson Reuters most recently forecast earnings of 72 cents on $2.21 billion in revenue.

State Street President and Chief Executive Joseph Hooley said the company's results were helped by "momentum in our servicing fee revenue as well as improvement in trading-services fee revenue."

State Street will officially report earnings on July 20. The bank's shares surged $3.29, or 9.9%, to $36.63 in 4 p.m. composite trading.

The positive preannouncement prompted Janney Capital Markets to upgrade the stock to "buy" from "neutral."

Janney wrote in a note to investors that the projected second-quarter results ease a "significant" overhang on its shares because State Street had forecast full-year earnings of $3.32 a share but reported a weak first quarter that, if repeated, would leave the company far short of expectations.

"Going into the quarter, there was a lot of skepticism about their ability to achieve full-year guidance," Janney analyst Thomas McCrohan said in an interview.

Fellow trust banks Northern Trust Corp. and Bank of New York Mellon Corp. also traded higher Wednesday, as they are seen as similarly exposed to foreign-currency fluctuations that, Mr. McCrohan said, helped boost State Street's revenue in the second quarter. Northern Trust was recently up 5.9% to $48.68, while BNY Mellon gained 5.4% to $26.08.

State Street said it recorded a charge of $251 million, or 50 cents a share, as it seeks to boost net asset values and loosen limits on investor redemptions at some funds similar to money-market funds that engaged in securities lending and struggled during the financial crisis.

State Street settled with the Securities and Exchange Commission in February on allegations it misled investors about its exposure to subprime mortgage securities and said last fall the SEC was investigating its cash-collateral pools, among other areas. Wednesday, it said it "continues to cooperate with the Securities and Exchange Commission in its investigation, and to address civil litigation, with respect to State Street's securities lending programs."

The bank's State Street Global Advisors investment-management unit curbed redemptions in 2008 in some trust funds, after investors ramped up withdrawals. State Street said it will begin removing restrictions in August.

State Street contributed $330 million in cash to bring the net asset value of the funds to $1 per unit as of June 30, restoring a crucial mark of liquidity. According to a May 7 SEC filing, the net asset value of the funds has remained below $1 since 2008.

Also, in its agency-lending program, State Street said it will seek to allow clients to more easily withdraw money by separating the lending pools in two, with one pool having complete liquidity and the other maintaining some redemption restrictions. That program also tightened its withdrawal policy in 2008. The weighted average net asset value of those pools was $0.989 as of June 30.

"Today's announcement demonstrates our commitment to resolving the challenges resulting from the market turmoil over the past several years," Mr. Hooley said.

Hedge-fund manager John Paulson's Paulson & Co. bought two million State Street shares during the second half of 2009, and still owned those shares as of March 31, the most recent securities filings available. A call to Paulson seeking comment wasn't immediately returned.

Nathan Becker and Joseph Checkler contributed to this article.

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THE WALL STREET JOURNAL.
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Deals &Dealmakers: State Street Raises View For Profits

By Melissa Korn
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8 July 2010
The Wall Street Journal
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C3
English

State Street Corp. said it will report a second-quarter operating profit well above analysts' forecasts, putting it on track to hit its full-year guidance.

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THE WALL STREET JOURNAL.
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Options Report
Seeking Heat, Traders Drawn to Southwest

By Brendan Conway
362 words
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The Wall Street Journal
J
C6
English

NEW YORK -- Strong airline-traffic figures and a rosy forecast from State Street appeared to send bullish options traders running for contracts on airlines and several financial companies, mirroring Wednesday's optimistic trading in stocks.

Delta Air Lines' 4.2% traffic increase highlighted the strong June airline figures, prompting shares of several carriers to soar.

Options traders took a particular shine to Southwest Airlines. Interactive Brokers identified a large sale of August $10 put contracts that crossed the tape. Puts convey the right to sell stock, amd selling a put is a vote of confidence in the stock's current valuation.

Pocketing 25 cents a contract, investors are signaling they see little chance the stock will fall under $9.75 by the middle of next month. The airline reports earnings July 29. At a minimum, the expectation is for no significant bad news. Southwest stock rose 66 cents, or 6.2%, to $11.29.

State Street appeared to put the wind in investors' sails by announcing it expects to report a second-quarter profit well above analysts' forecasts. Financial stocks were the S&P 500's top gainers as the index surged more than 3%.

Here, traders zeroed in on SunTrust Banks and Charles Schwab. SunTrust has been the subject of intermittent takeover rumors, which were again circulating. A spokesman declined to comment.

As SunTrust shares rose $1.86, or 8.2%, to $24.48, trading was heavy in the bank's near-term July $24 and August $24 calls. Call contracts convey the right to buy stock. At closing prices, the first contracts make money if SunTrust adds another 2% by July 16, while the second ones require a rise of 5.2% by mid-August.

In Schwab, what appeared to be more bullish trading took place, with investors picking up a few thousand near-term July $15 calls.

Paying the afternoon premium of 15 cents, buyers need the stock to surmount $15.15 by July 16 to make money. Schwab shares rose 11 cents, or 0.8%, to $14.24.

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THE WALL STREET JOURNAL.
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Large Stock Focus: Pop Is 11% For AES; Cree Rises

By Donna Kardos Yesalavich
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8 July 2010
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English

NEW YORK -- Stocks rallied broadly Wednesday in the third-biggest one-day gain of the year, pushing the Dow Jones Industrial Average back above the 10000 level.

Financial stocks, including J.P. Morgan Chase and Bank of America, led the climb, boosted by a rosy earnings forecast from State Street and as details on euro-zone bank "stress" tests removed some uncertainty.

The Dow climbed 274.66 points, or 2.8%, to 10018.28, its biggest one-day gain since May 27 and highest close since June 28. The measure is now up 2.5% for the month but still down 3.9% for the year.

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The Dow's financial components were also strong, with J.P. Morgan up 1.82, or 5%, at 38.15, and Bank of America up 65 cents, or 4.6%, at 14.71.

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Family Dollar Stores tumbled 3.18, or 8.1%, to 36.26. The discount retailer's fiscal third-quarter earnings increased 19% on higher sales and margins, but it gave somber indications that its customers are being overwhelmed by the country's lingering economic weakness and forecast fiscal fourth-quarter earnings below analysts' estimates. The results weighed on other discounters, including Dollar Tree (Nasdaq), which slid 1.32, or 3.1%, to 41.61.

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THE WALL STREET JOURNAL.

World Stock Markets
Bank Rally Brings Gain in Europe

By Andrea Tryphonides And Matthew Allen
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7 July 2010
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English

European stocks reversed early losses as banks led a late, sharp rally that helped major measures finish in positive territory despite worries over the strength of the global economic recover.

As news about the looming European financial-system stress tests began to trickle into the market, bank stocks marched higher. The Committee of European Banking Supervisors is expected to outline its methodology for the tests on Thursday.

Investors welcomed the prospect of additional transparency about the health of the banking system and cheered indications that the tests won't be excessively rigorous. The final results of the stress tests are due on July 23.

Earlier in the session, the European Parliament backed rules to limit bankers' bonuses and reinforce capital requirements. The stricter rules on capital would take effect in 2012.

The pan-European Stoxx 600 index ended up 1.4% at 246.06.

In LONDON, the FTSE 100 index finished up 1.0% at 5014.82, pushing it above the 5000 level. Barclays closed up 6.2% and Royal Bank of Scotland gained 4.7%. Investors also appeared to welcome news that State Street forecast that its second-quarter earnings would be higher than expected.

Like banks, major oil and gas companies rose. BP gained 4.8% after speculation increased that a sovereign-wealth fund might take a stake in the company. Tony Hayward, BP's chief executive officer, has engaged in meetings with officials in Abu Dhabi, including the Crown Prince Mohammed bin Zayed Al Nahyan.

In PARIS, the CAC 40 index closed up 1.8% at 3483.44. Société Générale shares rose 7.1% and Total gained 1.6%. PSA Peugeot Citroen shares rose 2.9%. Sales of its new vehicles soared nearly 17% to a record 1.86 million units in the first half.

Before the bank rally, slumping metals prices and uninspiring economic data depressed shares. German manufacturing orders were weaker than expected. The final figures on first-quarter gross domestic product in the euro zone showed growth of 0.2% from the fourth quarter of 2009, as expected.

In FRANKFURT, the DAX gained 0.9% to 5992.86. Deutsche Bank surged 3.8%, but HeidelbergCement fell 3.1%.

Most Asian markets closed lower. Technology shares dropped despite news that Samsung Electronics forecast a record operating profit.

"It's the same story from before; the market can't free itself from recent worries about slowing growth in the U.S. and China," said Samsung Securities analyst Oh Hyun-seok.

In SEOUL, the Kospi fell 0.6% to 1675.65. Samsung Electronics projected a record operating profit of five trillion Korean won ($4.09 billion) for the second quarter, but concern over a possible oversupply in the memory-chip market pressured the stock. The shares fell 0.8%.

In TOKYO, the Nikkei Stock Average fell 0.6% to 9279.65, after rising the previous three sessions. Investors turned cautious on exporters, which are to a large extent held hostage to moves in the foreign-exchange market. Honda Motor gave up 1.6%, Nissan Motor fell 2.5% and Sony dropped 1.7%.

In SYDNEY, the S&P/ASX 200 lost 0.5% to 4254.57. The market reversed course after opening higher as weakness in financial issues outweighed modest gains in some mining stocks.

National Australia Bank dropped 1.3% and Australia & New Zealand Banking Group lost 1.3%.

The resource sector added to gains achieved on Tuesday, aided by news of Chinese plans to move forward spending on infrastructure. BHP Billiton gained 0.8% and Rio Tinto advanced 1.1%.

In SHANGHAI, China's benchmark stock index, the Shanghai Composite, ended 0.5% higher after a choppy trading session. Gains in consumer and cement stocks offset broad declines in banks. Anhui Conch Cement Co. rose 1.3% and Hebei Taihang Cement jumped 3.4%. Chongqing Brewery added 1.9%. and Bright Dairy & Food climbed 2.4%.

"The index is consolidating after enormous falls in recent weeks. The market should be starting to reverse its risk-averse trading approach," said Wang Junqing from Guosen Securities.

Chinese banks declined in Hong Kong and performed weakly in Shanghai as investors worried about liquidity in the market ahead of Agricultural Bank of China's listing and after Bank of China announced plans for a rights issue last week. Adding to the concern, the Chinese-language newspaper Ming Pao reported that Industrial & Commercial Bank of China—the mainland's biggest lender by assets—might raise up to 45 billion yuan ($6.6 billion) in a rights issue. ICBC dropped 0.5% and Bank of China ended flat.

In HONG, KONG, the banks fell 1.4% and 1.3%, respectively. The Hang Seng index slipped 1.1%.

Sarah Turner and Nikhil Lohade contributed to this article.

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Fund Track
Vanguard Planning An ETF for S&P 500 --- Competition Is Ready to Heat Up

By Nathan Becker &John Spence
697 words
25 June 2010
The Wall Street Journal
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C11
English

Mutual-fund giant Vanguard Group plans to introduce an exchange-traded fund based on the S&P 500-stock index and 19 new index funds with corresponding ETFs, as it attempts to build on momentum in its ETF business.

The new ETF sets up a competitive battle. Vanguard's S&P fund will be the third in the U.S. to track that stock index -- State Street Corp.'s State Street Global Advisors provides its SPDR S&P 500 ETF that tracks the price and yield performance of the index, and BlackRock Inc.'s ETF is iShares S&P 500 Index Fund.

The new S&P fund will be in the form of an ETF share class for the $91.1 billion Vanguard 500 Index Fund, which tracks the S&P.

Meanwhile, among the other new offerings announced Thursday, Vanguard said it plans to introduce funds based on benchmarks from Russell Indexes, and has filed to launch three municipal-bond index funds and a real-estate fund, all with matching ETF share classes.

"We recognize that institutional investors and financial advisers may have a preference for certain benchmarks, and our goal is to offer them best-in-class funds and ETFs based on a choice of leading index providers, including FTSE, MSCI, Russell and S&P," said Bill McNabb, Vanguard's chief executive officer, in a news release.

Vanguard and S&P have a contentious past. In the early 2000s, a complex legal spat between Vanguard and S&P, a McGraw-Hill Cos. unit, resulted in Vanguard being barred from launching ETFs based on some S&P indexes. Vanguard ultimately scrapped its plans for S&P-index ETFs and switched to new indexes from MSCI Inc.

The spat clearly has been patched up, as S&P has licensed the S&P 500 to Vanguard. Financial terms of the deal weren't disclosed.

Dan Culloton, associate director of fund analysis at investment researcher Morningstar Inc., said in a report Thursday on the company's website that Vanguard was able to renegotiate with S&P on index-licensing after an exclusivity agreement expired.

"Though cheaper, it's not clear the Vanguard S&P 500 ETF will incite a stampede out of its iShares and SPDR rivals," Mr. Culloton said. "The latter ETFs have been on the market for 10 and 17 years, respectively, have considerable trading volume, and narrow bid-ask spreads, factors that are important to many retail and professional ETF investors."

The difference among the three competing S&P indexes will come down to expense ratios. A Vanguard spokesman said its ETF's proposed expense ratio is 0.06%.

The ratio for State Street's fund is 0.0945%, while iShares' expense ratio is 0.09%, according to company websites.

Another issue among the ETFs is how closely they track the index. For example, if the S&P is up 20% on the year, an index-tracking ETF could be up 19.99% or 20.01%, the Vanguard spokesman said.

The deal with S&P also allows Vanguard to launch eight new stock funds and ETFs that target the growth and value segments of the S&P 500, MidCap 400 and SmallCap 600.

The agreement comes after S&P last month said it had licensed seven European ETF sponsors to develop and list S&P 500 ETFs on exchanges in major cities. The company also recently licensed the National Stock Exchange of India to set up and list Indian rupee-denominated futures contracts on the S&P 500.

More firms have been entering the fast-growing ETF business and something of a price war has emerged as competitors vie to attract clients.

Earlier this month, Charles Schwab Corp. cut expense ratios for six of its proprietary ETFs, including a fee cut to 0.06% from 0.08% at Schwab U.S. Broad Market ETF.

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THE WALL STREET JOURNAL.

Politics
Move to End Debate Hinged on Last-Minute Deal

By Damian Paletta And Greg Hitt
674 words
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The Wall Street Journal Online
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English

WASHINGTON—The Senate's decision to end debate over its financial regulations overhaul bill turned on a last-minute deal that won the backing of Sen. Scott Brown (R., Mass.), who sought to protect the interests of mutual fund and asset management companies in his state.

Mr. Brown provided the key 60th vote Thursday that cleared the way for lawmakers to end debate and vote to pass the bill Thursday night. Ahead of the discussions with Mr. Brown, Democrats also struck other deals to help win support for the bill, including an agreement Wednesday with Sen. Olympia Snowe (R., Maine).

Democrats' "view of bipartisanship is all of them and a couple of us," complained Sen. Bob Corker (R., Tenn.). "That's not my view of bipartisanship."

Mr. Brown had voted against "cloture," on Wednesday, which essentially prevented lawmakers from closing debate. Mr. Brown was concerned that companies such as State Street Corp., Fidelity Investments, and Massachusetts Mutual Life Insurance Co., because of the large amount of assets they manage, could face restrictions similar to the curbs placed on big Wall Street banks.

Sen. Brown wanted assurances from someone that his concerns would be addressed before the bill became law.

On Wednesday night, House Financial Services Committee Chairman Barney Frank (D., Mass.) was on the elliptical machine at the House of Representatives gym when Mr. Brown called.

"'Can you assure me you are going to fight for this?'" Mr. Brown asked Mr. Frank, according to Mr. Frank. "I said 'Sure.'"

Mr. Frank's support was key because he would be central to any negotiations aimed at reconciling differences between the House and Senate bills. Mr. Brown, aware that he would lose leverage after switching his vote to support cloture, wanted the assurances in writing.

Mr. Frank early Thursday sent a letter to Senate Banking Committee Chairman Christopher Dodd (D., Conn.) and House Majority Leader Harry Reid (D., Nev.) making clear that financial companies would not be subject to more regulation because of their size alone.

"A decision to subject a firm to further regulation will be based on a review of its systemic importance and the degree to which its activities pose a potential risk to the entire system," Mr. Frank wrote.

The two-page letter went into detail about other issues, but Mr. Brown wanted it to say more. Mr. Frank wrote a second letter later on Thursday, addressing additional specifics.

Just after 2:30 p.m., Mr. Brown walked onto the Senate floor and to the desk where votes are tallied. He voted yes.

"Our concern has been that some financial regulatory reform proposals will have unintended consequences and restrict well run entities in Massachusetts and elsewhere," said Vin Loporchio, a spokesman for Fidelity Investments. "We are hopeful that the final legislation will avoid a "one size fits all" approach to regulation."

A spokesman for MassMutual said the company was "appreciative of the efforts" of Massachusetts lawmakers "to strike the right balance between needed reform and the ability of Massachusetts companies to continue to best serve their customers."

Democrats also needed the support of Ms. Snowe, who on Wednesday had voted against ending debate of the bill. Senate Majority Leader Harry Reid (D., Nev.) approached her on the Senate floor while other lawmakers voted. They huddled for close to 10 minutes before she signaled to people counting votes that she was changing her position and would support ending debate of the bill.

Several minutes later, Democrats and Republicans unanimously passed an amendment by Ms. Snowe that would require the new Consumer Financial Protection Bureau authorized by the bill to gauge how any new regulations it drafted would affect small businesses. Her amendment passed despite objections from consumer groups, which argued it would make it more difficult for the new regulator to pass tough restrictions on potentially abusive practices.

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THE WALL STREET JOURNAL.

Politics

Wooing GOP, Geithner Gets an Earful; Senators Bring Up Lobstermen and NASA in Talks on Financial Bill, Not Just Fears of More Bailouts

By Deborah Solomon
836 words
24 April 2010
The Wall Street Journal Online
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English

WASHINGTON—Treasury Secretary Timothy Geithner is learning that all politics is local.

During more than a dozen private meetings with Republican senators in the past two weeks, Mr. Geithner has made a concerted effort to win their support for the financial-overhaul bill. He has gotten an earful from lawmakers, often about the bill's core substance—but sometimes not.

Massachusetts Sen. Scott Brown raised concerns about the legislation's impact on his state's mutual-fund industry, specifically Liberty Mutual, MassMutual, Fidelity Investments and State Street Corp. Sen. Olympia Snowe of Maine raised concerns about provisions that could hamper lending for the lobster industry. Sen. Susan Collins sought to ensure Maine banks weren't hurt by the sweeping financial bill.

Utah Sen. Orrin Hatch raised concerns about the bill's impact on community banks—before asking Mr. Geithner to convey his concerns to the White House about the cancellation of a National Aeronautics and Space Administration project in Utah.

Interviews with dozens of lawmakers, aides and administration officials portray a series of cordial but disparate discussions that don't hew to a central theme. That, in itself, is an indication of the difficulties Republicans are having in maintaining a unified opposition to the White House's proposed overhaul.

So far, the meetings haven't led to a firm commitment from any Republican to vote for the package, which would be the most sweeping overhaul of the U.S. financial regulatory system since the 1930s. An early test vote could come as soon as next week, and Democrats need at least one Republican vote to proceed.

At a recent meeting with Ms. Snowe, Mr. Geithner asked: "Olympia, what are your problems with the bill?" according to people with knowledge of the meeting.

Ms. Snowe launched into a detailed explanation of how the proposed Consumer Financial Protection Agency, a regulatory body that would write and enforce rules governing consumer finance, could harm Maine's lobstermen and innkeepers. Many depend on customized financing for the seasonal businesses, which take the form of home-equity lines of credit that allow for low payments in the off-season.

Ms. Snowe worried such loans could be deemed "unfair and deceptive" by regulators, because of their unique structure.

Mr. Geithner, scribbling on note cards as the senator spoke, has asked the Treasury Department to find a way to resolve the issue, according to people familiar with the matter.

After the meeting, Ms. Snowe indicated she could vote for a Democratic motion to begin debating the bill. "I'm always willing to be the only Republican if it's the right thing," she told reporters.

The Treasury secretary is using the meetings in an effort to undercut Republican arguments that Democrats aren't including them in the discussions. He is pitching the bill by detailing provisions that have won Republican support, and explaining the legislation's impact, particularly to senators who may just be tuning in to the debate.

"There wasn't any point where he said, 'Don't you worry, I can help you,' nor should he. I'm sure he wants to negotiate a final deal with the leadership," said Nebraska GOP Sen. Mike Johanns, who met with Mr. Geithner earlier this week.

Among the concerns that Mr. Johanns raised is a proposed $50 billion fund to pay for the orderly breakup of failing financial firms, which would be financed by the country's largest financial institutions. Mr. Geithner heard a similar refrain from other Republican senators, who say the fund would in essence create a permanent bailout for firms that run into trouble.

Mr. Geithner didn't say he agreed with the concerns, but reminded lawmakers the provision wasn't in the original legislation the Treasury sent to Capitol Hill. Some have taken that to mean he supports jettisoning the provision.

After her meeting with Mr. Geithner, Ms. Collins told reporters, "The secretary told me that he agreed with my concerns." She added, however, that she couldn't vote for the bill until other issues were addressed, including banks that are "too big to fail."

Mr. Brown of Massachusetts said he raised several concerns with Mr. Geithner last week, including his concern that the mutual-fund industry would somehow be harmed by the legislation.

"This bill would count them like banks and prohibit them from doing things they have done for 100-plus years," Mr. Brown said that he told Mr. Geithner.

Mr. Geithner objected, according to Mr. Brown, saying the bill didn't apply to these companies.

"I know, but where does it say that in the bill?" Mr. Brown said he responded. "Where is the exclusion?"

Since that discussion, Mr. Brown said, those drafting the overhaul legislation have been looking to amend the bill to explicitly exclude the mutual-fund industry.

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Deals &Deal Makers
For Regional Banks, News On Credit Stays Mixed

By Kerry Grace Benn
310 words
21 April 2010
The Wall Street Journal
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English

NEW YORK -- First-quarter earnings heightened divisions among regional banks, as some continued to struggle with credit woes, but others were able to lower their loan-loss provisions and net charge-offs.

Marshall &Ilsley Corp., considered to be one of the banks with the poorest credit quality, emerged with better credit results for the quarter. U.S. Bancorp also showed credit strength, but Regions Financial Corp. continued to struggle.

Marshall &Ilsley reported a loss of $115.4 million, or 27 cents a share, compared with a prior-year loss of $92 million, or 44 cents.

Loan-loss provisions fell to $458.1 million from $477.9 million a year earlier and $639 million in the fourth quarter.

U.S. Bancorp said its credit-loss provisions fell to the lowest level since the fourth quarter of 2008 and reported a profit of $669 million, or 34 cents a share, up from $529 million, or 24 cents, a year earlier.

Regions Financial boosted its provision for loan losses by 81% as it swung to a first-quarter loss of $196 million, or 21 cents a share, compared with a prior-year profit of $77 million, or 4 cents a share.

Among custody banks, Northern Trust Corp. reported a profit of $157.2 million for the quarter, as fees from trust and investment services remained strong.

State Street Corp. earned $495 million in quarterly profits, up 11% over a year ago.

A third large custody bank, Bank of New York Mellon Corp., said earnings rose 74% on improved fee revenue and investment gains.

Separately, Jefferies Group Inc. said first-quarter earnings jumped 93%, beating analysts' estimates.

Jodi Xu, Nathan Becker and Tess Stynes contributed to this article.

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THE WALL STREET JOURNAL.

Business
Northern Trust, State Street Stumble; BNY Mellon Fares Better

By Marshall Eckblad And Jodi Xu
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Banks that serve wealthy individuals and large institutions don't usually face troubles with bad loans, but Northern Trust Corp.'s first quarter was a glaring exception.

The Chicago bank-and-trust, whose stock fell less during the financial crisis than almost any other U.S. lender, said its levels of troubled loans and assets rose sharply during the first quarter, to $365.2 million. The disclosure was a reversal from last quarter, when the bank's number of souring loans appeared to be tapering. A year ago, Northern Trust had troubled loans, called nonperforming assets, of $172.1 million.

Northern Trust's Boston-based competitor, State Street Corp., marked another custody bank to post lackluster earnings on Tuesday. A third large custody bank, Bank of New York Mellon Corp., turned in better results than its two competitors.

State Street earned $495 million in quarterly profits, up 11% over a year ago. Its revenues of $2.3 billion were up 14.7% over a year ago. But the company said some clients had moved assets out of State Street's management.

State Street also turned in trading revenues of $242 million, down 10% over last quarter, even though some big Wall Street banks, like Bank of America Corp. and J.P. Morgan Chase & Co., have recently reported frothy first-quarter revenues from trading stocks and bonds.

The 120-year-old Northern Trust nonetheless turned in profits of $157.2 million for the quarter as fees from trust and investment services, Northern Trust's core business, remained strong, as compared to year ago. Net income fell 3% over a year ago amid higher expenses and slower profits tied to enduringly low interest rates.

But investors were rattled by the state of the Northern Trust's loan books, which suggest higher losses could be coming in future quarters.

William Morrison, Northern Trust's chief financial officer, said during the company's conference call that "half of the increase" in nonperforming loans "is related to residential real estate." He said the bank's holdings of real estate collateral from failed loans grew sharply, "principally related to two commercial real estate properties."

Earnings at Bank of New York Mellon rose 74% on improved fee revenue and investment gains.

Enduringly low interest rates have weighed on earnings at custody banks, which typically make more money when rates rise and the yield curve steepens.

Despite the low-rate market environment, BNY Mellon continued to grow its revenues, this time modestly, up 1% over last quarter, to $3.3 billion. The bank also set aside $164 million, or ten cents a share, for future litigation costs.

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Business
Mixed Bag

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Settled

February 2010:Bank of America agrees to pay $150 million in a civil settlement with the Securities and Exchange Commission, resolving claims the bank should have disclosed billions in losses at Merrill Lynch before the acquisition. Federal Judge Jed S. Rakoff, who rejected an earlier proposed settlement, reluctantly signs off on the deal.

February 2010: Money manager State Street agrees to pay back $313 million to investors misled about their exposure to subprime mortgages, in a settlement with the SEC.

Pending

December 2009: The SEC files civil charges against three former executives at the now-defunct New Century Financial, which was at one time the nation's third-largest subprime mortgage lender. The three are accused of overstating profit to hide a weakening financial condition; they deny the charges.

June 2009: SEC charges Countrywide Financial co-founder Angelo Mozilo with fraud, saying he warned internally about "toxic" mortgages while misleading investors with optimistic statements. Mr. Mozilo denies the civil charges and says the SEC took statements out of context. Countrywide was once the nation's largest mortgage lender before hitting trouble and getting acquired by Bank of America.

Defeated

February 2010:Federal judge throws out SEC civil fraud claims against a brokerage that worked closely with Bernard Madoff. Judge calls case against Cohmad Securities "speculative and flimsy."

November 2009: Two former Bear Stearns hedge-fund managers are acquitted of securities fraud in criminal case. Justice Department had accused the two of misleading investors with overly optimistic statements.

U.S. authorities have a mixed record so far in cases connected to the financial crisis.

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THE WALL STREET JOURNAL.

Law
Banks Winning When Investors Sue

By Ashby Jones
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English

Banks are on a winning streak in their battle against investor lawsuits stemming from the financial crisis, a trend that is good news for firms accused of understating the risks of securities that tanked during the financial crisis.

The banks, including major Wall Street players, have won dismissals of lawsuits with variations of a "global financial catastrophe defense," arguing that the blame should be placed on collapsing markets rather than any actions on their part.

The bulk of these lawsuits accused financial firms of misrepresenting the risks of a variety of financial products, including mortgage-backed securities and auction-rate securities.

Judges across the country who dismissed the suits generally concluded the investors fell short in making specific allegations of fraud.

"Judges realize that not every massive loss of investor capital is caused by fraud," said Joseph Grundfest, a former SEC commissioner and professor at Stanford Law School. "They're recognizing that while the financial system went astray, and that much should be done to fix it, there are differences between fraud and mistake."

Since mid-February, federal judges have dismissed securities-fraud lawsuits against Oppenheimer & Co., Canadian Imperial Bank of Commerce, Fremont General Corp., Morgan Stanley, the Merrill Lynch division of Bank of America Corp., State Street Corp. and Bank United Corp. In each of the cases, judges ruled that plaintiffs failed to adequately allege that fraud, rather than other forces, caused losses.

The dismissal rate for these credit-crisis-era suits exceeds the historical rate for securities-fraud suits generally, according to people who follow such cases.

About 40 securities-fraud cases filed since the end of 2007 have been dismissed in early stages, compared with about 20 in which some claims were allowed to move to the evidence-gathering phase, according to statistics compiled by the D&O Diary, a widely followed industry repository that tracks securities-fraud suits. In some cases, judges have left the door open for lawyers to refile their suits with stronger allegations.

Kevin LaCroix, author of the D&O Diary, pegs the usual dismissal rates for securities-fraud cases between 33% and 40%. Typically, plaintiffs need to allege a company knowingly made false statements in connection with the sale of a security and that the investors relied on that statement in making the purchase. By his estimates, about a dozen cases have settled. None has gone to trial.

Some on the plaintiffs' side are voicing frustration, contending judges' dismissals are letting banks off the hook before investors have time to gather evidence. "Frequently, the large Wall Street financial institutions have escaped accountability even though those institutions fueled the subprime-market collapse," says Robert Wallner, a plaintiffs' lawyer with Milberg LLP, who represents shareholders in subprime-related securities litigation.

Plaintiffs lawyers have a lot at stake. They often drive securities-fraud lawsuits and take them on a contingency basis—earning a significant payout with a settlement or victory but gaining nothing short of that.

Last month, Manhattan Federal Judge William Pauley dismissed a case in which the lead plaintiff, the Plumbers & Steamfitters Local 773 Pension Fund, alleged that in 2007 and 2008, Canadian Imperial Bank of Commerce executives misled shareholders about the bank's mortgage-backed securities exposure. Judge Pauley ruled that the plaintiff failed to allege facts indicating the losses were the result of fraud.

"CIBC, like so many other institutions, could not have been expected to anticipate the crisis with the accuracy plaintiff enjoys in hindsight," he wrote. The plaintiff's lawyer didn't respond to requests for comment, and a CIBC spokesman didn't respond to a request for comment.

James Cox, a securities-law professor at Duke University, is sympathetic to the banks' position. "Look, every financial institution was affected by what was going on in the credit markets," he said. "How does a plaintiff know that a financial loss is the result of a misleading statement or just world-wide macroeconomic events?"

Plaintiffs have reached some significant settlements in credit-crisis-related cases. Early last year, Merrill reached a $475 million settlement with a proposed class of plaintiffs who had alleged Merrill had understated its subprime-debt exposure. The settlement ranked among the largest securities class-action settlements ever. At the time, shortly after Merrill was acquired by Bank of America, Merrill said it wanted to avoid uncertainty and litigation costs.

Last month, a federal judge in Illinois approved a $15 million settlement between executives of General Growth Properties Inc. and a proposed class of General Growth shareholders.

Both Merrill and General Growth denied wrongdoing.

Judges have allowed a handful of other plaintiffs' claims to go forward, including claims against Lehman Brothers Holdings Inc., Credit Suisse Group AG, and iStar Financial Inc. Earlier rulings involving suits against Countrywide Financial Corp. and Washington Mutual Inc. also allowed lawsuits to move forward; they are still pending.

"There's still a long way to go on many of these suits," said Adam Savett, the director of securities class-action services for RiskMetrics Group, a risk-management and research firm. While Mr. Savett acknowledges plaintiffs have struggled in recent weeks, unknowns remain in a lot of cases, like whether defendants who lost motions to dismiss will try to settle or take their chances at trial, he says. "On many of these cases, the Magic 8-Ball is saying, 'Ask again later.' "

Mr. LaCroix points out that in several cases in which the plaintiffs have been allowed to go forward, they were able to point to specific questionable acts within a company, like alleged insider trading. But without the help of a whistle-blowing former company insider, this type of information can be hard to obtain early in a case, he says.

Nathan Koppel contributed to this article.

Corrections & Amplifications An earlier version of this article incorrectly referred to the Plumbers & Steamfitters Local 773 Pension Fund as the Plumbers & Steamfitters Local 373 Pension Fund.

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THE WALL STREET JOURNAL.

Special
Critics Say Funds Should Do More to Police Corporate Pay

By Ian Salisbury
1,542 words
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In-Depth Reports
English

To the millions of Americans wondering how Wall Street's compensation culture got so brazen, one part of the answer may come as a surprise: It's your mutual fund.

Many Main Street investors have fumed at the huge bonuses paid to Wall Street executives and traders following a government bailout of the financial industry. Yet directors at companies such as Goldman Sachs Group Inc. and Morgan Stanley are mostly expected to sail to re-election in proxy voting this month and next—and among the parties casting the most votes will be fund-management companies.

Over the past 30 years, as retirement plans such as 401(k)s replaced pension funds as the retirement engine for millions of Americans, mutual funds became the largest shareholders at most big U.S. corporations. Eighteen of the top 20 shareholders at Morgan Stanley and Bank of America Corp. are asset-management companies, as are 19 of the top 20 at Goldman Sachs, according to FactSet Research Systems Inc. That clout has given fund firms a central, if sometimes overlooked, role in overseeing public companies and policing corporate pay practices.

Not only do they and other corporate shareholders get to vote on company directors, who approve executive-compensation deals, they sometimes have a nonbinding say on pay matters as well. Because funds' annual proxy votes are cast by fund-management companies—Vanguard Group for the Vanguard funds or BlackRock Inc. for the BlackRock and iShares funds—and not individual investors, the market, at least in theory, is relying on fund firms to use their power to vote out directors who approve exorbitant pay packages. But for a range of complicated reasons—from passive-minded investment strategies to insider-trading rules to funds' own close ties to Wall Street—funds rarely muster the will to challenge corporate chiefs, critics say.

"Directors are asleep at the switch because mutual funds are asleep," says Jack Bogle, retired founder of Vanguard Group, one of the largest mutual-fund groups, and a frequent critic of Wall Street. "If mutual funds got together and said, 'We're not going to stand for it anymore,' the world would change."

The Securities and Exchange Commission in 2003 began requiring funds to issue formal proxy-voting policies as well as to disclose their votes in individual corporate elections. The move, partly in response to that era's corporate-governance scandals, was made over objections from the fund industry, which argued disclosure could make it a target of special interests.

Individual investors can find mutual funds' votes through form "N-PX" on the SEC Web site. Watchdogs such as the Corporate Library and Web sites like Proxydemocracy.org help investors keep tabs on the behavior of individual fund families. Fund firms' proxy-voting guidelines, meanwhile, can usually be found on their Web sites.

Among the fund families the Corporate Library calls "pay enablers," consistently failing to use their voting power to rein in executive pay, are AllianceBernstein LP; Barclays Global Investors, now owned by BlackRock; and Ameriprise Financial Inc. Among those it ranks as more aggressive are T. Rowe Price Group Inc. and Franklin Resources Inc.'s Templeton Funds. BlackRock and AllianceBernstein say they strive to cast votes in shareholders' best interests. Ameriprise declined to comment.

The benefit of SEC disclosure has limits, however. Investors are confronted with so many variables when purchasing funds, it may be a reach to assume voting records will play a big role in their decisions. Further, while proxy elections are held in the spring, often in April and May, mutual funds don't disclose their votes until much later, usually August.

"By the time shareholders get a picture of what a fund is doing, it's long past the time when it's relevant," says Stephen M. Davis, executive director of Yale University's Millstein Center for Corporate Governance and Performance.

Red Herring?

For its part, the Investment Company Institute, the mutual-fund industry's trade group, says the notion that mutual funds reflexively bow to management in proxy contests is false. In 2007, for example, funds voted in favor of proposals offered by shareholders almost 40% of the time, the ICI says.

Moreover, there is a long-standing argument that voting records are essentially a red herring and that market forces shape the way companies are governed because funds that don't like how a firm is managed can sell shares and invest elsewhere. But Wall Street's case is unusual. For years, these firms' shareholders overlooked lavish compensation packages on the assumption that the financial wizardry of executives and traders was what made the companies wildly profitable. Now that those profits seem largely driven by risk-taking, it may be time to strike a new bargain, some critics say.

Some observers say that although mutual funds are the largest shareholders of most big corporations, individual funds rarely amass large enough stakes to make it worth their while to lead expensive proxy battles over directors or give them power to dictate business strategy from the background.

For example, J.P. Morgan Chase &Co., the largest Wall Street firm, has a market value of about $178 billion. BlackRock, the largest fund manager by assets, is J.P. Morgan's largest shareholder, but it owns only about 5.6% of the company.

"I've never heard of a major proposal put up by a mutual fund that had bite or substance," says Russ Wermers, a finance professor at the University of Maryland's Smith School of Business who studies mutual funds. "It isn't worth their while to stir the pot."

Size isn't the only thing that makes it difficult for fund firms to challenge company managers. SEC rules designed to guard against insider trading prevent funds from using tactics often employed by activist investors, such as demanding board seats.

Either sitting on a company's board or amassing a stake of more than 10% triggers strict limits on when an investor can trade shares. Such limits would pose huge risks for mutual funds, which need constant flexibility to unload shares because their own investors can cash out on a single day's notice, says Glenn Booraem, Vanguard's head of proxy voting and corporate governance.

"We've tried to communicate our perspective through proxy voting," Mr. Booraem says. Still, independence on an issue like pay "is easy to assert on paper, but difficult to evaluate in real life, especially if you are not in the boardroom."

Challenging company management also doesn't mesh well with many funds' investment philosophies.

Index funds, for example, buy stocks based simply on market values. Employing platoons of analysts to research and possibly challenge management arguments—much less wage costly proxy campaigns—would undermine their main mission, which is keeping investing and trading costs as low as possible.

Indexers such as Vanguard, BlackRock and State Street Corp., which rank among the largest holders at many companies, say they work hard to fulfill governance duties despite making these trade-offs. Vanguard, for example, says it talks to hundreds of companies a year about its concerns.

Ties That Bind

Mutual funds' business and cultural ties to the companies in which they invest also may make them less than ideal at policing management.

Some analysts say that because retirement plans such as 401(k)s are a key source of investment dollars for mutual funds, some fund firms may be reluctant to anger company managers by getting into disagreements with them over issues such as pay.

A frequently cited 2007 study by Gerald Davis and Han Kim at the University of Michigan concluded that mutual-fund firms with extensive 401(k) businesses tend to have the most management-friendly voting habits. "The more a fund family relies on pension-plan business, the bigger suck-ups they are," Mr. Davis says.

The finding is particularly significant because handling 401(k) plans gives some of the largest fund firms—like Fidelity Investments, Vanguard and T. Rowe Price—a lot of extra clout at the corporate ballot box.

Fidelity and T. Rowe Price say employees that handle 401(k) clients don't mix with those that cast proxy votes. Vanguard says the University of Michigan study focuses too narrowly on certain shareholder votes and overlooks areas like director elections.

Finally, although mutual-fund companies are supposed to represent the interests of millions of Americans at the corporate ballot box, they may have more in common with Wall Street than with the average investors. Portfolio managers' careers, much like those of Wall Street traders, hinge on their skill in valuing various securities. If anyone is likely to think this skill is worth millions of dollars a year, it is people whose own livelihood also depends on it.

"They all drank the same Kool-Aid," says Simon Johnson, a former chief economist of the International Monetary Fund, who has been critical of the financial-services industry's ability to police itself. "I wouldn't hold my breath for them to be the ones to weigh in on pay."

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THE WALL STREET JOURNAL.

Fund Track
Nuveen, State Street Team Up on Munis; ETF Move the Start of Something Big?

By Daisy Maxey
351 words
31 March 2010
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English

Nuveen Investments will become the subadviser to five municipal-bond SPDR exchange-traded funds and other municipal-bond strategies managed by State Street Global Advisors, an alliance that will likely lead to future joint product launches.

Timothy Ryan, head of State Street Global Advisors' municipal bond group who now manages the ETFs, will move to Nuveen Investments as senior vice president to serve as lead portfolio manager for the SPDR ETFs, which now have assets of nearly $2 billion. State Street Global Advisors is the investment management business of State Street Corp.

The five funds, which will be rebranded as SPDR Nuveen municipal ETFs, are: SPDR Barclays Capital Municipal Bond ETF (trading symbol TFI); SPDR Barclays Capital California Municipal Bond ETF (CXA); SPDR Barclays Capital New York Municipal Bond ETF (INY); SPDR Barclays Capital Short Term Municipal Bond ETF (SHM); and SPDR S&P VRDO Municipal Bond ETF (VRD).

The subadvisory agreement has been approved by the board of trustees and shareholders for each ETF, and is effective April 1.

Combining Nuveen's experience in managing municipal bond portfolios with State Street's expertise in ETFs creates an unmatched offering in muni bond portfolios, said Jim Ross, senior managing director at State Street.

It puts the two companies in a strong position "to develop and launch joint products" in the future, he said.

"From an investor's point of view, we think the tie-up will be quite powerful," he said.

Bill Huffman, chief operating officer and co-head of Nuveen Asset Management, said Nuveen looks forward to developing passively managed ETF products with State Street Global Advisors in the future. Actively managed products are "always a possibility," Mr. Huffman said.

As of Dec. 31, Nuveen managed nearly $70 billion in municipal-bond securities.

State Street Global Advisors is one of the largest ETF providers globally, with SPDR ETF assets of more than $204 billion under management as of Dec. 31.

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Fund Track
Nuveen, State Street Team Up on Munis --- ETF Move the Start of Something Big?

By Daisy Maxey
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The five funds, which will be rebranded as SPDR Nuveen municipal ETFs, are: SPDR Barclays Capital Municipal Bond ETF (trading symbol TFI); SPDR Barclays Capital California Municipal Bond ETF (CXA); SPDR Barclays Capital New York Municipal Bond ETF (INY); SPDR Barclays Capital Short Term Municipal Bond ETF (SHM); and SPDR S&P VRDO Municipal Bond ETF (VRD).

The subadvisory agreement has been approved by the board of trustees and shareholders for each ETF, and is effective April 1.

Combining Nuveen's experience in managing municipal-bond portfolios with State Street's expertise in ETFs presents an unmatched offering in muni-bond portfolios, said Jim Ross, senior managing director at State Street.

It puts the two companies in a strong position "to develop and launch joint products" in the future, he said.

"From an investor's point of view, we think the tie-up will be quite powerful," he said.

Bill Huffman, chief operating officer and co-head of Nuveen Asset Management, said Nuveen looks forward to developing passively managed ETF products with State Street Global Advisors in the future.

Actively managed products are "always a possibility," Mr. Huffman said.

As of Dec. 31, Nuveen managed nearly $70 billion in municipal-bond securities.

State Street Global Advisors is one of the largest ETF providers globally, with SPDR ETF assets of more than $204 billion under management as of Dec. 31.

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THE WALL STREET JOURNAL.

Foreign Exchange
Euro Drawing Flood of Negative Bets

By Katie Martin
709 words
16 February 2010
The Wall Street Journal Online
WSJO
English

LONDON—Dumping of the euro is reaching new extremes, as negative bets on the currency ratchet up to fresh records and analysts warn of further losses ahead.

Euro sales by market participants such as funds have charted records for two weeks in a row on the Chicago Mercantile Exchange's futures-trading system.

Meanwhile, Swiss bank UBS, the world's second-largest currencies dealer, said its clients are now selling the euro against the dollar on a "massive" scale that "surpasses anything we have seen since August 2007."

It seems that the typical safety net that protects major currencies from overly sharp moves may fail to appear. Usually, rapid shifts such as this lead to pullbacks as momentum wanes, but this time around, with the structure of the currency itself under question as euro-zone officials continue to debate assistance for Greece, further losses seem all but certain.

"Yes, [negative bets] are large," said Monica Fan, a currencies portfolio manager at investment firm State Street Global Advisors in London. "But does that mean they can't get larger? Absolutely not," she added.

The net number of negative bets among noncommercial or speculative traders using the CME leapt to 57,000 in the week up to last Tuesday. That marks an increase of one-third over levels in the previous week, which were already a record.

The fresh figures, released on Friday, don't cover the whole of the $3 trillion-a-day currencies market, but they are a well-regarded guide to speculative flows as a whole, and the results are mirrored elsewhere.

Monday, UBS noted that its clients had already sold the euro for 22 of the last 26 weeks, and they have now built up huge negative positions. Asset managers were the biggest net sellers, with hedge funds "a distant second," the bank said. Negative euro bets are now the most extensive of any among the major currencies, it added.

This wave of selling explains why the 16-country European currency has tumbled down to around $1.36, a fall of nearly 10% since the start of December.

The reason for the recent rapid decline, of course, is Greece, a euro member struggling to convince investors it can repay its huge debts. Last week, European Union officials pledged moral, but not necessarily financial, support to the country.

This week, bond and currencies investors are braced to see whether a meeting of finance ministers Monday and Tuesday can produce concrete measures to restore confidence. Any failure could make a bad run for the euro even worse.

One key problem for the currency is that political bickering within core euro-zone countries, or successful moves by Greek unions to block austerity measures, could derail the chance of a bailout, leaving a Greek debt default as a significant risk.

The other problem, ironically, is that if a rescue deal is struck, it would slap a hefty bill on Germany, the bloc's strongest member, while also raising the risk that other indebted nations could ask for help.

In addition, the cutbacks that Greece will have to make in order to qualify for financial help will be brutal, crimping growth there.

In sum, this implies low growth and low interest rates in the euro zone for a long period—a toxic mix for any currency, particularly as the U.S. appears to be tentatively moving toward an exit from extraordinarily loose monetary policy.

"The longer-term implications of the Greek crisis are starting to dawn on us," said David Woo, chief currencies analyst at Barclays Capital in London.

Extremely negative market positioning does create the possibility of a short-term euro boost. Under normal market conditions, this might be expected to push the euro back toward $1.40. However, many analysts doubt that it will have the usual effect.

"We would be very careful this time around," said analysts at Commerzbank in Frankfurt. "There is proper reason for the negative sentiment against the euro...and the longer the uncertainty about the concrete shape and form of aid measures for Greece continues, the more difficult the situation for the country becomes."

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THE WALL STREET JOURNAL.

Business
SEC Charges State Street Over Subprime Mortgage Investments

By Larry Light, Jane J. Kim and Amir Efrati
473 words
5 February 2010
The Wall Street Journal Online
WSJO
English

Money manager State Street Corp. agreed Thursday to pay back $313 million to investors misled about their exposure to subprime mortgages—one of the strongest sanctions yet for behavior during last decade's credit boom.

The Boston-based fund company has a reputation as a staid provider of investment advice. In charges filed by the Securities and Exchange Commission, the firm is accused of telling fund investors the assets were "diversified" when they were actually concentrated in money-losing subprime loans.

The firm also attracted the ire of the SEC and Massachusetts regulators for warning a group of elite clients about the fund problems, while keeping the information from other clients. State Street's own pension fund was one of those the firm advised to redeem, regulators said.

"We believe this settlement is in the best interests of our clients and our business," said Hannah Grove, a State Street spokeswoman. The firm said it has replaced managers involved in the subprime case. As is typical in such settlements, it neither admitted nor denied the allegations.

The $313 million includes a fine of $50 million. State Street had already paid $350 million to investors through settlement of private lawsuits, bringing its total tally to roughly $663 million.

Despite large losses and many civil lawsuits, there has been relatively little established about legal culpability during the market boom of 2005 to 2007.

Last November, two former Bear Stearns hedge-fund managers were acquitted of making optimistic statements about two investments funds. An SEC civil lawsuit is pending. MassMutual Financial Group's OppenheimerFunds Inc. has also reached settlements with states including Illinois, New Mexico and Oregon over big losses in a bond fund that held risky mortgage-backed securities in the states' "529" college-savings plans.

Over the past year, the SEC made civil-fraud allegations against numerous former executives of collapsed subprime lenders such as New Century Financial Corp. and American Home Mortgage Investment Corp. for allegedly misleading investors about the companies' performance. The defendants have denied wrongdoing and the cases remain unresolved.

Citigroup Inc. has been in negotiations with the SEC to settle an investigation into whether it misled investors by not making proper disclosures to investors about its mortgage assets, people familiar with the matter have said. The commission and federal prosecutors are also investigating whether insurer American International Group Inc. misled investors about the value of derivatives contracts that were tied in part to subprime mortgages. AIG has said it is cooperating with investigators.

In a statement, SEC enforcement chief Robert Khuzami said that potential violations arising from the credit crisis remain a "high priority."

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THE WALL STREET JOURNAL.
U.S. EDITION

Subprime Fallout: State Street Settles for $300 Million

By Larry Light, Jane J. Kim and Amir Efrati
568 words
5 February 2010
The Wall Street Journal
J
C1
English

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Ronald E. Logue, State Street's chairman and chief executive officer, said in a statement: "We value our reputation as a trusted fiduciary to institutions around the world and we recognize the critical importance of fulfilling our fiduciary obligations.

"As such, we were determined to work with our regulators and with our customers to resolve their concerns around investments in certain of [State Street Global Advisors]'s active fixed-income strategies in 2007. We remain committed to building on [State Street Global Advisors]'s comprehensive organizational and infrastructure changes implemented over the past 24 months to ensure that our practices not only meet but exceed industry standards."

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THE WALL STREET JOURNAL.
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Large Stock Focus: Alcoa's Fall Hits Dow But Trust Banks Rise

By Donna Kardos Yesalavich
680 words
21 January 2010
The Wall Street Journal
J
C6
English

Stocks fell broadly as worries over monetary tightening in China weighed on the shares of commodities-related companies including Alcoa and Chevron, while investors were disappointed with the 2010 earnings forecast from International Business Machines.

The Dow Jones Industrial Average fell 122.28 points, or 1.14%, to 10603.15, marking its biggest one-day drop so far this year. IBM was its worst performer, off $3.89, or 2.9%, to $130.25. The tech giant's fourth-quarter profit rose 8.7% as margins improved and revenue inched up. However, its profit outlook for 2010 implies year-over-year growth of 10%, which looks conservative to investors after a 13% increase in 2009.

Kraft Foods also weighed on the Dow, with a drop of 63 cents, or 2.1%, to 28.78, after Warren Buffett gave a big thumbs-down to the U.S. food giant's deal to buy Cadbury for $19.44 billion. Shareholders don't get to vote on the deal. American depositary shares of Cadbury, which isn't a Dow component, slipped 72 cents, or 1.3%, to 54.37.

The Dow was also pulled lower by its commodities-related components. Alcoa tumbled 39 cents, or 2.5%, to 15.23, while Chevron dropped 1.53, or 1.9%, to 78.15 and Exxon Mobil fell 1.24, or 1.8%, to 68.03. The declines came after a report the China Banking Regulatory Commission asked several banks to stop issuing loans. China is a major source of demand for commodities.

Still, Howard Ward, portfolio manager of the Gamco Growth Fund, said the declines across commodities-related stocks in response to the report may have been overdone.

"Clearly the economic story in China and growth in China is important to us, but sometimes we exaggerate the importance," Mr. Ward said.

Bank of America was one of the Dow's few gainers. The banking giant posted a loss of $194 million in the fourth quarter after its mammoth consumer loan books showed signs of stabilizing, although its once-frothy revenue from trading fell sharply. Still, the results were an improvement over a year ago, which prompted Bank of America's shares to climb 17 cents, or 1%, to 16.49.

The technology-heavy Nasdaq Composite fell 29.15, or 1.26%, to 2291.25 while the Standard &Poor's 500 index dropped 12.19, or 1.06%, to 1138.04. All the S&P 500's sectors ended the session lower, with its energy and materials categories seeing the biggest declines.

CSX dropped 3.16, or 6.3%, to 47.35. The rail operator's fourth-quarter profit rose 24% on prior-year losses from discontinued operations. While its earnings topped analysts' estimates, the company's revenue fell short of Wall Street's expectations, weighing on its own shares as well as those of other railroad companies. Union Pacific dropped 1.79, or 2.7%, to 63.73, while Norfolk Southern fell 1.30, or 2.5%, to 51.75, and Kansas City Southern slipped 59 cents, or 1.8%, to 32.19.

Morgan Stanley fell 53 cents, or 1.7%, to 30.63. The brokerage, still struggling to rebound from the credit crisis, reported a steep drop in trading revenue that damped fourth-quarter profits. Its earnings fell shy of analysts' projections.

However, trust banks' shares got a boost as a turnaround in their fee income helped earnings come in above expectations across the board. State Street climbed 3.08, or 7.1%, to 46.28, while Bank of New York Mellon rose 1.43, or 4.8%, to 30.96, and Northern Trust added 3.01, or 5.7%, to 55.44.

Cree jumped 9.38, or 17%, to 63.59, on the Nasdaq. The semiconductor and light-emitting-diode company's fiscal second-quarter profit tripled as it continued to benefit from surging demand for LEDs.

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THE WALL STREET JOURNAL.

Alcoa's Fall Hits Dow But Trust Banks Rise

By Donna Kardos Yesalavich
680 words
21 January 2010
The Wall Street Journal Online
WSJO
English

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THE WALL STREET JOURNAL.

Bank of New York Mellon, State Street Net Surge

By Joan E. Solsman And Joel Stonington
524 words
21 January 2010
The Wall Street Journal Online
WSJO
English

Trust banks' fourth-quarter results came in above expectations across the board amid a turnaround in fee income, as the companies made continued progress in portfolio restructuring.

The solid results from the likes of State Street Corp., Bank of New York Mellon Corp. and Northern Trust Corp. sent their shares sharply upward.

State Street's profit more than doubled to $498 million, or $1 a share, from $234 million, or 54 cents a share, a year earlier as revenue from servicing and management fees strengthened. Analysts surveyed by Thomson Reuters expected a 97-cent profit. Revenue fell to $2.28 billion from $2.67 billion. Unrealized mark-to-market losses at State Street's investment portfolio dropped 64% from the previous quarter.

Chairman and Chief Executive Ronald E. Logue, who is leaving the the institutional money-management firm in March, on Wednesday highlighted that the company's momentum of improvement in its core business continued, saying servicing-fee and management-fee revenue grew. His successor, Chief Operating Officer Joseph L. Hooley, added the company is increasingly confident about increasing revenue this year because of the strength servicing and management, but he sees market-based revenue lagging behind.

Meanwhile, Bank of New York Mellon's earnings soared as the money manager and security adviser freed itself of the securities losses that hobbled it in past quarters.

In the third quarter, Bank of New York Mellon sold or restructured billions of dollars in risky investments, a move that hurt its bottom line at the time but set it up for fewer one-time charges or losses. The company struggled last year with investment write-downs and securities losses, and weakness in fee revenue.

But in the most recent period, total fee revenue jumped 43% to $2.58 billion, while net securities gains were $15 million, after $1.24 billion in losses a year earlier.

Chief Executive Robert Kelly said the continuation of low interest rates continued to challenge net interest and fee revenue. But he noted the company saw "excellent growth" in asset and wealth management revenue during the quarter.

Bank of New York posted a profit of $594 million, or 49 cents a share, from $66 million, or two cents a share, a year earlier. Excluding restructuring charges and other costs, the latest quarter's earnings were 60 cents a share. Analysts polled by Thomson Reuters, on average, anticipated a 51-cent profit.

Separately, Northern Trust's fourth-quarter profit fell a less-than-projected 41% as the company reported "significant" new business from personal and institutional clients for the year.

Northern Trust reported a profit of $200.3 million, or 82 cents a share, down from $342.3 million, or $1.47 a share, a year earlier. Revenue decreased 17% to $950.2 million. In total, fee-related income increased 12% to $706.2 million, or 74% of total revenue. Analysts surveyed by Thomson Reuters expected earnings of 66 cents a share on revenue of $924 million.

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THE WALL STREET JOURNAL.

Business
Treasury Makes Banks Pay a TARP Premium

By Michael R. Crittenden
720 words
20 January 2010
The Wall Street Journal Online
WSJO
English

WASHINGTON—The Treasury Department persuaded some big banks to pay more than market estimates to repurchase warrants issued to the government during the financial crisis, suggesting that taxpayers could ultimately benefit from some aspects of the government's costly financial-rescue programs.

Hundreds of banks issued warrants to the government in return for government aid under the $700 billion Troubled Asset Relief Program, after a credit crunch caused financial markets to seize up in 2008. But, with the economy starting to recover, many banks are seeking to repurchase the warrants—which give the holder a right to purchase stock at a future date—as part of the process of extricating themselves from government intervention.

According to a draft report prepared by the Treasury and reviewed by The Wall Street Journal, agency officials have been able to drive a hard bargain with some firms, particularly major banks such as Goldman Sachs Group Inc. and Morgan Stanley, rejecting bids that were in line with, or above, internal and external estimates.

In all, the Treasury has received $2.9 billion in gross proceeds from the 31 warrant repurchases through the end of last year, according to the report, which Treasury is set to release on Wednesday. That is higher than the value of market, third-party and internal estimates, which had put the total at between $2.2 billion and $2.7 billion, according to the report. The department has also received $1.1 billion in gross proceeds from three warrant auctions it conducted.

"This report makes clear that Treasury's process for selling these warrants has been consistent, transparent and has delivered strong returns for taxpayers," said Herb Allison, assistant treasury secretary for financial stability.

The report could ease criticism that the Treasury has been too eager to let banks leave TARP, instead of holding on to the billions of dollars of warrants provided by the banks to the government in return for taxpayer aid.

The report suggests that officials have used a sometimes uneven and evolving process to determine an acceptable "fair value" for the warrants that Treasury holds. Officials have varied the way they weigh internal models against market quotes or third-party estimates, and have at turns accepted lower or higher payments from banks in relation to those estimates.

Banks have taken different approaches towards the repurchase of warrants. Many provided initial bids that were well below estimates collected by Treasury officials, according to the report. Some increased their bids slowly, keeping down the eventual price they paid. Others responded to early Treasury rejections by raising their bids significantly.

Goldman Sachs made the single biggest repurchase, agreeing in July to pay $1.1 billion to the government to repurchase its warrants—well above any of the estimates of "fair value" that Treasury officials had gathered. According to the report, the Treasury had rejected a $900 million bid from the bank, even though it was in line with the agency's own estimate and at the high end of market quotes provided to the Treasury. Goldman Sachs's initial bid was $600 million for the warrants.

"We paid the full price requested by the Treasury because we felt it was the right thing to do," Goldman Sachs spokesman Samuel Robinson said.

Treasury officials also rejected three bids by Morgan Stanley, even though the third was in line or above all of the estimates the agency had received, according to the report. In successive days last August, the bank's bids of $800 million and $900 million were rejected. Treasury officials eventually approved its offer to pay $950 million, a figure above the estimates collected by officials.

State Street Corp., a Boston-based bank, submitted a single, $60 million bid to repurchase its warrants, a value that was at the high end of internal and third-party estimates and which Treasury accepted, according to the report.

The Treasury approved BB&T Corp.'s fourth bid to repurchase its warrants, after the Winston-Salem, N.C.-based firm roughly tripled its offer price. It ultimately paid $67 million, after making an initial bid of $20.9 million.

A spokeswoman for Morgan Stanley declined to comment. Spokesmen for State Street and BB&T couldn't be reached for comment.

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THE WALL STREET JOURNAL.
U.S. EDITION

U.S. News: Cuomo Seeks Data On Bonuses

By Chad Bray
294 words
12 January 2010
The Wall Street Journal
J
A4
English

New York Attorney General Andrew Cuomo said Monday that his office has requested information from the nation's largest banks and Wall Street firms on their compensation and bonus plans for fiscal-year 2009.

On a conference call with reporters, Mr. Cuomo said his office sent letters Monday to eight banks and Wall Street firms that received bailout funds in 2008 under the U.S. government's Troubled Asset Relief Program, or TARP. The TARP money has since been repaid.

The attorney general said he is seeking details on the compensation paid by the banks for 2009, as well as information on how the compensation and bonus plans were determined and the scope and magnitude of lending by those firms.

Compensation and bonuses should "be based on incentives that build strong institutions, not built on incentives that bring the nation to its knees economically and are based on short-term, fictional profits," Mr. Cuomo said.

He requested that the information be delivered by Feb. 8.

The banks and Wall Street firms are Bank of America Corp., Bank of New York Mellon Corp., Citigroup Inc., Goldman Sachs Group Inc., J.P. Morgan Chase &Co., Morgan Stanley, State Street Corp. and Wells Fargo Corp.

A spokeswoman said Wells Fargo is reviewing the letter. "We're accountable to and in compliance with all rules as they pertain to TARP companies," she said. A Bank of America spokesman said the company will study the request and provide a response by the deadline.

J.P. Morgan Chase, Goldman Sachs, Citigroup and Morgan Stanley declined comment. A spokesman for Bank of New York Mellon didn't immediately have a comment.

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THE WALL STREET JOURNAL.

Fund Track
In ETFs, iShares Builds Its Share; BlackRock Brand Holds 50.1% of Assets

By Ian Salisbury
706 words
5 January 2010
The Wall Street Journal Online
WSJO
English

Even for the ETF industry's dominant player, maintaining a big lead on rivals isn't easy when the field is growing. But that is exactly what iShares did in 2009.

This exchange-traded-fund brand—which was sold to BlackRock Inc. by Barclays PLC last year—not only maintained but also increased its market share in the ETF business in 2009, the first time it has done so since 2006. At year-end, iShares ETFs held about $373 billion, or about 50.1% of the assets in all U.S. ETFs, according to fund researcher Morningstar Inc. In 2008, iShares had 47.7% of ETF assets in 2008.

The gain, while relatively small, is impressive considering how intense competition is getting. Companies like State Street Corp. and Vanguard Group have been trying hard to grab investors' ETF dollars with low-cost funds and big marketing campaigns. Two other well-known firms, Charles Schwab Corp. and Pacific Investment Management Co., a unit of Allianz SE, got into the ETF business in 2009. T. Rowe Price Group Inc. and Goldman Sachs Group Inc. seem likely to join in coming months.

The overall number of ETFs competing for attention has swelled to almost 800 from about 150 five years ago, according the Investment Company Institute, the fund industry's trade group. (ETFs are baskets of securities that are traded on exchanges daily.)

In this context, iShares' dominance is "truly remarkable," says Matt Hougan, editor of IndexUniverse.com, a Web site for passive investors. "It's a big market, and it's generating a lot of money."

Certainly, iShares enjoys some natural advantages. Nearly all ETFs are index funds, passively managed investments that mirror returns of a benchmark. So it can be difficult for new products to differentiate themselves.

Also, a momentum factor is at work here. Since investors trade ETFs on the market like a stock, they like to buy established funds with heavy trading volume—thus they know they will always be able to sell quickly and cheaply. That puts new players at a disadvantage.

As a result, Mr. Hougan thinks iShares faces its biggest threat from Vanguard, the Malvern, Pa., company known for popularizing index funds decades ago.

Vanguard didn't launch its first ETF until years after iShares, and the $92 billion in its ETFs still represents a fraction of what the iShares funds hold. But low investment fees and Vanguard's famous brand name mean it has been able to increase its ETF roster quickly in the past several years, building off of a small base.

State Street, an ETF pioneer, has seen its market share shrink steadily over the past decade, even as a small handful of its funds, notably the Standard & Poor's 500-tracking SPDR (trading symbol: SPY), remain wildly popular.

In 2009, iShares benefited especially from a strong lineup of fixed-income funds, one of the fastest growing areas of the ETF business, where assets more than doubled since November 2008. In 2002, iShares launched the first bond ETF, five years before its major competitors, and holds roughly $8 out of every $10 in these funds.

Investors' renewed interest in developing-country stocks this year also benefited iShares. Its $39 billion emerging-markets fund is the third largest ETF on the market.

Success in those two areas helped offset lost ground in one place iShares didn't prove a winner in 2009. Its gold ETF took in about $450 million in new money from investors through November.

That isn't bad, but the total was meager compared to the $14 billion investors poured into a competing fund, SPDR Gold Shares (GLD).

The dynamic highlights the importance to ETF companies of offering a broad array of funds to investors, says Standard & Poor's ETF analyst Tom Graves.

Long the largest ETF family, iShares has nearly 190 different funds, targeting assets from oil- and gas-exploration stocks to Treasury Inflation-Protected Securities.

Diversification "helps them out, if they're not strong in one hot area" at any given moment, Mr. Graves says.

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THE WALL STREET JOURNAL.
EUROPE EDITION

Intesa sells its services business

By Sabrina Cohen
264 words
23 December 2009
The Wall Street Journal Europe
WSJE
19
English

MILAN -- Intesa Sanpaolo SpA has sold its securities-services business to U.S. financial-services company State Street Corp. for 1.75 billion euros ($2.5 billion).

In a statement sent to the Italian stock exchange on Tuesday, the Milan-based lender said it has sold its global custody, fund administration, depository bank and correspondent bank.

As part of the agreement, State Street has signed a long-term investment-servicing arrangement with Intesa Sanpaolo to service all of its investment-management affiliates, including Eurizon Capital, the largest fund manager in Italy with approximately 135 billion euros.

Intesa Sanpaolo, Italy's largest retail bank with more than 6,000 branches, said it will book a gross capital gain of around 740 million euros and the deal will boost its Tier 1 ratio by 0.37 percentage point.

Intesa Sanpaolo announced a plan in September to strengthen its capital ratio without taking any government aid. As part of that plan, the bank said it would sell noncore assets, including the securities-services business.

Analysts said details of the deal are in line with expectations.

"Today's acquisition represents a significant milestone in State Street's strategy to become a truly global provider," State Street Chairman and Chief Executive Ronald E. Logue said.

The U.S. company expects to close the acquisition by the second quarter of 2010.

State Street established its investment-servicing presence in Milan in 2003 with its acquisition of Deutsche Bank AG's global securities-services business.

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THE WALL STREET JOURNAL.
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International Finance: In Brief

By Sabrina Cohen
397 words
23 December 2009
The Wall Street Journal
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C2
English

State Street Seals

Deal for Intesa Unit

Intesa Sanpaolo SpA has sold its securities-services business to State Street Corp. for 1.75 billion euros ($2.5 billion). In a statement sent to the Italian stock exchange on Tuesday, the Milan-based lender said it has sold its global custody, fund administration, depository bank and correspondent bank. As part of the pact, State Street has signed a long-term investment-servicing arrangement with Intesa Sanpaolo to service all of its investment-management affiliates, including Eurizon Capital, the largest fund manager in Italy with about 135 billion euros. "Today's acquisition represents a significant milestone in State Street's strategy to become a truly global provider," State Street Chairman and Chief Executive Ronald E. Logue said.

Hong Kong's Yam

Joins Think Tank

Former Hong Kong Monetary Authority Chief Executive Joseph Yam has been named executive vice chairman of the China Society for Finance and Banking, a think tank backed by the People's Bank of China. Mr. Yam, who retired as head of Hong Kong's de facto central bank in September, said Tuesday at a forum in Beijing co-organized by the think tank that he hopes to contribute to the development of China's financial sector using his experience at the monetary authority. He said after his speech that he isn't being paid for his services at the think tank, whose chairman is PBOC Gov. Zhou Xiaochuan.

Mr. Yam, 61 years old, headed the Hong Kong Monetary Authority since its 1993 founding.

EU to Investigate

WestLB's Bailout

The European Commission temporarily cleared the setting up of a "bad bank" for WestLB, one of Germany's public-sector Landesbanken, and a capital injection of 3 billion euros ($4.29 billion), but said it will open an in-depth investigation into the measure as it is concerned that the plans may breach European laws on state subsidies. WestLB's bad bank will take over a portfolio of toxic and nonstrategic assets with a nominal value of 85.1 billion euros. WestLB is receiving a capital injection of 3 billion euros from the German financial market stabilization fund. Despite having doubts about the design of the bad bank, its temporary approval "is necessary for reasons of financial stability," the commission said.

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THE WALL STREET JOURNAL.

Intesa Sanpaolo Sells Security Services to State Street

By Sabrina Cohen
340 words
22 December 2009
09:43 AM
The Wall Street Journal Online
WSJO
English

MILAN -- Intesa Sanpaolo SpA said Tuesday it has sold its securities-services business to U.S. financial services company State Street Corp. for €1.75 billion ($2.5 billion).

In a statement sent to the Italian stock exchange, the Milan-based lender said it has sold its global custody, fund administration, depository bank as well as correspondent bank. Intesa said local custody isn't for sale as this activity is part of the intermediation services offered to its customers.

As part of the agreement, State Street has signed a long-term investment servicing arrangement with Intesa Sanpaolo to service all of its investment management affiliates, including Eurizon Capital, the largest fund manager in Italy with approximately €135 billion.

Intesa Sanpaolo, Italy's largest retail bank with over 6,000 branches, said it will book a gross capital gain of around €740 million and the deal will boost its Tier 1 ratio by 0.37 percentage point.

Intesa Sanpaolo in September announced a plan to strengthen its capital ratio without taking any government aid. As part of that plan, the bank said it would sell noncore assets, including the securities services.

Analysts Tuesday said details of the deal are in line with expectations. Equita SIM analysts said Friday they expected the deal to be worth around €1.2 billion.

"Today's acquisition represents a significant milestone in State Street's strategy to become a truly global provider," State Street Chairman and Chief Executive Ronald E. Logue said Tuesday in a statement. The U.S. company expects to close the acquisition by the second quarter of 2010.

State Street first established its investment servicing presence in Milan in 2003 with its acquisition of Deutsche Bank AG's global securities-services business.

Rothschild SpA and Banca IMI advised Intesa Sanpaolo, Goldman Sachs and Mediobanca SpA advised State Street. Legal advisors of the operations were Pedersoli and Associati for the Milan lender and Freshfields for State Street.

Paola Longo contributed to this article.

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Fund Track
Capital-Gains Pains Lurk in Unusual Spot --- Some Bond ETFs Will Cause a Tax Hit

By Ian Salisbury
706 words
22 December 2009
The Wall Street Journal
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C9
English

One of the best things about exchange-traded funds is they rarely pass out year-end capital gains to shareholders. But for some bond ETFs this year, that is painfully not the case.

For investors in standard open-end mutual funds, a longstanding gripe is getting hit with a cap-gains tax bill when the fund sells holdings at a profit and passes the tax liability along. Such "gains" often exist only in accounting terms, and may show up even if the fund lost money.

ETFs, though, seldom do this because they can swap securities in a clever way that avoids such capital gains.

But this year, bond funds from top ETF firms including BlackRock Inc., State Street Corp. and Vanguard Group are found with trading profits, which will now have to be accounted for on investors' tax forms. Investors with capital gains may end up paying rates of 15% on long-term gains and 35% on short-term gains.

This comes at a time when bond ETFs are growing in importance, with about $105 billion in assets, more than double what they held at the start of the year, according to the National Stock Exchange.

Some types of ETFs, especially leveraged or inverse funds that let investors magnify bets or bet against the market, haven't always lived up to the promise of no cap-gains surprises for investors.

BlackRock's iShares unit, which has by far the biggest family of bond ETFs by assets, has indicated eight of its bond funds are passing out capital gains to investors for 2009, in part because of a quirk in the way some funds are designed.

A number of iShares fixed-income funds target a range of maturities, such as one- to three-year bonds or seven- to 10-year bonds. That means as bonds in the funds' portfolios creep toward maturity, the funds need to sell them to make sure portfolios remain true to their investing goals.

Usually the process can be accomplished without recognizing significant capital gains, says Robert Nestor, managing director of iShares product management.

But as panicked investors drove up Treasury prices amid the recent financial crisis, that proved difficult.

IShares' main ETF rival, State Street, announced that 12 ETFs are passing out gains for 2009, eight of which are bond funds.

Vanguard, the third-largest ETF firm by assets, says only three of its ETFs will give investors capital gains, although one of them is a whopper: Vanguard Extended Duration Treasury Index ETF (trading symbol EDV) will generate a gain equal to about 12% of the value of each share.

The move reflects the unusual way Vanguard has designed its ETFs, as subdivisions of its conventional mutual funds. ETFs usually are stand-alone investment vehicles. Tying conventional funds and ETFs together is supposed to help shareholders of the conventional funds benefit from ETFs' special tax efficiency. This time it backfired.

Large investors in the conventional fund wanted to cash out their shares earlier this year, and Vanguard was forced to sell some of the fund's holdings at a profit, says a Vanguard spokeswoman. Because the fund and the ETF are yoked together, both ETF and fund holders must now share the gain.

The Vanguard spokeswoman says she believes relatively few small investors were affected because Vanguard Extended Duration Treasury Index ETF mostly caters to large, tax-advantaged investors such as pension funds.

Mutual-Fund Industry

Backs Ratings Proposal

The mutual-fund industry says it favors a Securities and Exchange Commission proposal for more disclosure about credit ratings in connection with securities offerings.

While some major credit-rating providers have criticized the proposal, the Investment Company Institute said in a comment letter to the SEC that more information about each rating should add to investors' knowledge.

The ICI also praised a proposal for disclosure of information related to potential conflicts of interest, such as fees. This would give investors "a better understanding of the relationship between the issuer and the rating agency," its letter said. Mutual funds are big buyers of securities.

-- Daisy Maxey

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17 December 2009
The Wall Street Journal
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Intesa Sets Pact

With State Street

Intesa Sanpaolo SpA, Italy's largest retail bank, has reached a deal to sell its custodian business unit to financial-services holding company State Street Corp. in a deal valued at up to 1.8 billion euros, people with knowledge of the situation said Wednesday. A State Street spokeswoman said the firm doesn't comment on rumors. Rothschild is advising Intesa on the deal, while Goldman Sachs Group Inc is advising State Street.

Hong Kong Weighs

Possible Rusal IPO

The listing committee of the Hong Kong Stock Exchange will once again review the initial-public-offering application of Russian aluminum producer United Co. Rusal Thursday, people familiar with the situation said Wednesday. The committee has yet to grant an approval amid questions about a US$4.5 billion loan provided by Russian state-owned Vneshekonom Bank, or VEB, in 2008, other people familiar with the situation said.

Nomura to Buy

U.K.'s Tricorn

Flush with capital from its recent equity offerings, Nomura Holdings Inc. said it is buying London-based firm Tricorn Partners LLP, a move that could significantly bolster its British corporate finance advisory business. Tricorn founding partners Guy Dawson and Justin Dowley will be joining the Tokyo-based bank. Tricorn advises on mergers and acquisitions, corporate fund-raising and other services.

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THE WALL STREET JOURNAL.

Business
Intesa Sets Pact With State Street

By Sabrina Cohen
92 words
16 December 2009
05:13 PM
The Wall Street Journal Online
WSJO
English

Intesa Sanpaolo SpA, Italy's largest retail bank, has reached a deal to sell its custodian business unit to financial-services holding company State Street Corp. in a deal valued at up to €1.8 billion, people with knowledge of the situation said Wednesday. A State Street spokeswoman said the firm doesn't comment on rumors. Rothschild is advising Intesa on the deal, while Goldman Sachs Group Inc is advising State Street.

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THE WALL STREET JOURNAL.
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State Street Buys Mourant

By Kevin Kingsbury
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2 December 2009
The Wall Street Journal
J
C5
English

State Street Corp. said plans to increase its alternative-investment presence with the proposed acquisition of the Channel Islands' Mourant International Finance Administration.

The cash transaction, the size of which wasn't disclosed, is slated to close in the first quarter and "slightly" add to State Street's earnings next year, excluding one-time costs, the Boston company said on Tuesday.

Mourant has $170 billion of assets under administration and 650 employees. It provides fund administration services, particularly for alternative investments such as private equity, real estate and hedge funds. State Street said that with Mourant, it will rank No. 1 in alternative-asset servicing globally while also expanding its reach in Europe and Asia.

"As alternative asset classes have become more mainstream, our institutional customers plan to continue to expand their use of this asset class," said State Street President Jay Hooley.

The company in 2002 acquired International Fund Services, a provider of hedge-fund administration services, and in 2007 significantly expanded with two other purchases.

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THE WALL STREET JOURNAL.

Business

State Street to Buy Mourant

By Kevin Kingsbury
231 words
1 December 2009
07:35 AM
The Wall Street Journal Online
WSJO
English

State Street Corp. said it plans to increase its alternative-investment presence with the proposed acquisition of the Channel Islands' Mourant International Finance Administration.

The cash transaction, the size of which wasn't disclosed, is slated to close in the first quarter and "slightly" add to State Street's earnings next year, excluding one-time costs, the company said.

Mourant has about $170 billion of assets under administration and 650 employees. It is called a leading provider of fund-administration services, particularly for alternative investments such as private equity, real estate and hedge funds.

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"As alternative asset classes have become more mainstream, our institutional customers plan to continue to expand their use of this asset class," said State Street President Jay Hooley.

The company in 2002 acquired International Fund Services, a leading provider of hedge-fund administration services, and in 2007 State Street significantly expanded in the space with two other purchases. State Street had more than $420 billion of alternative assets under administration as of Sept. 30, a small portion of the $17.9 trillion in assets under custody and administration it had as of then.

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THE WALL STREET JOURNAL.

Markets

A Custody Battle in the Currencies Market; Pension Funds Look at Transaction Costs After Calpers Lawsuit

By Katie Martin
695 words
11 November 2009
The Wall Street Journal Online
WSJO
A24
English

LONDON -- A lawsuit filed by two major California pension funds is sparking a move by funds world-wide to figure out their currency-trading costs and potentially demand a better deal from their banks.

Poor rates for pension funds have been an open secret in the $3-trillion-a-day currencies business for some time, with non-custody bankers, consultancies and even a few banks that handle the safekeeping and day-to-day management of funds' assets, known as custody banks, trying to draw pension funds' focus to the issue.

"Every professional in the industry knows that the custodial route of doing [foreign currency] is not the best. It's like buying your foreign currency at the airport," said Jimmy McGeehan, a co-founder of FX Transparency, which specializes in measuring funds' currencies costs, and a former currencies salesman.

The California Public Employees' Retirement System, also known as Calpers, and the California State Teachers' Retirement System, or CalSters, last month sued State Street Corp. for $56 million, alleging that the Boston-based bank transacted tens of thousands of foreign-exchange deals over eight years at rates that were artificially marked up or down to the disadvantage of the funds. State Street has denied any wrongdoing.

Foreign-exchange deals generally don't carry any commission, which makes it tricky for those who are unfamiliar with the business to measure costs. Instead, dealing banks make their money by imposing a gap, known as a spread, around the benchmark rates that they use in trades with one another. The wider the spread, the more profit the bank makes.

The tightest spreads go to other banks and creditworthy clients such as central banks. The widest go to ordinary people picking up their cash for foreign trips. Companies, funds and other market participants fall somewhere in the middle.

Traditionally, many pension funds haven't really considered themselves active in the currencies market. But every time a fund buys or sells a foreign security, or receives dividends or coupons on those securities, it needs a foreign-exchange deal. For years, most pension funds have let their custody banks carry out those transactions. Few funds went through the relatively taxing process of figuring out how much those trades cost.

Yet specialist firms and consultancies have run a series of studies over the past five years or so, consistently showing that pension funds routinely receive wider spreads on their deals than could usually be expected for clients of their size. They tend to buy currencies close to the high of the day and sell close to the low, according to those studies.

Among funds, the least advantageous rates often go to the pension funds that passively leave their deals to be executed by their custodians, consultants say.

The tradeoff for wider spreads on foreign-exchange trades often is lower fees on other parts of a fund's custody business, consultants say. Still, many industry insiders have long griped at what they see as a poor and opaque deal for funds.

"Inertia" from funds and an urge to avoid the "operational pain" of shifting currencies deals to a different bank have helped to lock funds into traditional practices, said Zar Amrolia, global head of currencies at Deutsche Bank AG, the world's largest currencies bank.

"This [Calpers and CalSters] case is enormously important for the industry, as it's going to force pension funds to think about their execution costs, particularly at a time when their returns have not been great," he said.

However, custody banks are keen to retain their clients' highly lucrative currencies flows.

Data from the U.S. Comptroller of the Currency show that U.S. banks' revenue from foreign-exchange trading stood at more than $2 billion for just the second quarter of this year.

That figure includes banks that don't have custody businesses. Nevertheless, these revenues generally beat the amounts that banks make from other businesses such as trading in stocks, commodities, bonds and other interest-rate products.

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THE WALL STREET JOURNAL.

Law

State Street Adds to Reserves

By Nathan Becker
209 words
7 November 2009
The Wall Street Journal Online
WSJO
B4
English

BOSTON -- State Street Corp. added $250 million to its legal reserve to address legal exposure related to losses by investors in some strategies managed by State Street Global Advisors.

The company also said it recently entered into a proposed $89.8 million deal involving a lawsuit seeking class-action status regarding investors in active fixed-income funds. The accord is subject to court approval.

The reserve increase reduced the money manager's previously reported third-quarter earnings to $327 million, or 66 cents a share, down from $516 million, or $1.04 a share. State Street said the reserve, which now totals $443 million, should cover the potential resolution of proceedings by the Securities and Exchange Commission and other authorities, as well as the suit.

California filed a lawsuit against State Street on Oct. 20, claiming the bank secretly overcharged the state's retirement system and the state's teachers' retirement system by more than $56 million in currencies trades since 2001. State Street has denied any wrongdoing.

State Street shares fell $1.36, or 3.2%, to $41.45 apiece on Friday in New York Stock Exchange composite trading.

Write to Nathan Becker at nathan.becker@dowjones.com

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The Buzz
State Street Adds to Reserves

By Nathan Becker
207 words
7 November 2009
The Wall Street Journal
J
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English

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California filed a lawsuit against State Street on Oct. 20, claiming the bank secretly overcharged the state's retirement system and the state's teachers' retirement system by more than $56 million in currencies trades since 2001. State Street has denied any wrongdoing.

State Street shares fell 81 cents, or 1.9%, to $42 apiece on Friday in New York Stock Exchange composite trading.

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THE WALL STREET JOURNAL.

European Business News
Calpers Knew of Foreign-Exchange Trading Hits

By Katie Martin
467 words
6 November 2009
The Wall Street Journal Online
WSJO
C3
English

LONDON -- U.S. pension-fund giant the California Public Employees' Retirement System, or Calpers, was told by a consultant that it was paying uncompetitive rates on foreign-exchange trades some six years before the state of California filed a lawsuit against State Street Corp. over forex pricing, according to the consultant.

The state of California lodged a suit against State Street on Oct. 20, claiming the Boston-based bank secretly overcharged Calpers and sister fund California State Teachers' Retirement System by more than $56 million in currency trades conducted since 2001, court documents show.

State Street has responded to the lawsuit by denying any wrongdoing. It said it will defend itself against any litigation.

Neil Record, the chairman and chief executive of U.K.-based investment firm Record Currency Management, said Calpers hired his firm to look into its forex rates back in 2003. Poor rates and a lack of "time stamps" on transactions were brought to Calpers's attention then, he said.

"We were hired in the third quarter of 2003 by Calpers to write a report on FX pricing from their custodians," said Mr. Record in a telephone interview. "We submitted that report at the end of 2003...and we found uncompetitive pricing."

Mr. Record declined to name the banks audited by his firm, so it is unclear whether the study involved State Street. Court documents state that State Street "has served as master custodian over Calpers' assets since 1992."

California's suit alleges that State Street "raided" the two funds without their knowledge over several years, conducteding tens of thousands of trades at rates that were artificially marked up or down to skew them against the funds' favor.

The suit alleges that the bank concealed these manipulated prices and failed to provide time stamps on transactions, so the funds couldn't check the times and rates at which their deals were completed.

Mr. Record, a former economist at the Bank of England, said, "We did note at the time that most or all of the trades did not have time stamps." He added, "We were thanked by Calpers, and they paid us a fee, and then they made no more contact with us."

Calpers declined to comment specifically on this issue. A spokesman said, "We have been cooperating with the California Attorney General's Office and...we support the investigation."

State Street declined to comment on this study.

Mr. Record's research isn't cited in the state of California's suit. A number of studies for other funds have all generated similar results, Mr. Record said.

Marshall Eckblad in New York and Lynn Cowan in Washington contributed to this article.

Write to Katie Martin at katie.martin@dowjones.com

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THE WALL STREET JOURNAL.
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Deals &Deal Makers
Calpers Knew of Foreign-Exchange Trading Hits

By Katie Martin
466 words
6 November 2009
The Wall Street Journal
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English

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Marshall Eckblad in New York and Lynn Cowan in Washington contributed to this article.

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