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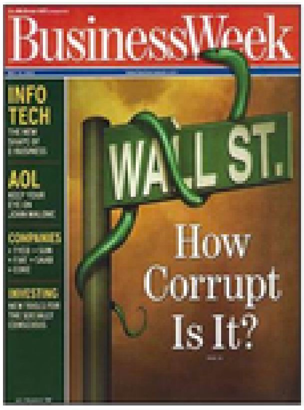
Wall Street – How Corrupt Is It? It's Time for the Justice Department to Finally Answer that Question

By Pam Martens and Russ Martens: December 10, 2021 ~

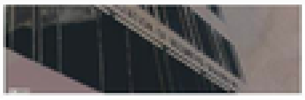


BusinessWeek Cover, May 13, 2002

On May 26 business media reported that the U.S. Department of Justice had opened a probe into the March collapse of the Archegos family office hedge fund. Archegos is believed to have leveraged $20 billion of its own capital into more than $100 billion in stocks and derivative exposure through margin loans tricked up as derivatives by some of the largest banks on Wall Street.

One of the laws that the banks may have fallen afoul of is the Fed's Regulation T. Under Reg T, broker dealers on Wall Street could not have loaned Archegos more than 50 percent to make its stock purchases. To get around this, the banks did not open a margin account for Archegos. Instead, the banks structured derivative contracts where they loaned as much as 85 percent of the money to Archegos to make the trades while claiming to retain ownership of the stock themselves.

This maneuver evaded another important rule that benefits both U.S. corporations and all investors. When an individual or other entity acquires 5 percent or more of a company's stock, they have to make a public filing with the Securities and Exchange Commission – allowing the company and other investors to be aware of who is acquiring the company's stock. But as Sung



The October 1996 Cover of Registered Rep Magazine Dealt with a Decade of Price Fixing by Major Wall Street Firms on the Nasdaq Stock Market; Taped Calls Showed a Wall Street Cartel That Manipulated Market Prices to Make Profits for the House.

company's stock. But as Sung Kook "Bill" Hwang, the man behind Archegos, was amassing his giant stakes in publicly traded stocks like Viacom CBS, the public was deprived of this information because the banks were claiming ownership of the shares on their own 13F filings with the SEC. This denied the company and other investors of the knowledge that a man previously charged by the SEC with insider trading and manipulating stock prices was the dangerously leveraged force behind the runup in the share price of ViacomCBS and a number of other stocks. Those stocks immediately plunged back to earth when Archegos blew up.

In the runup to the Wall Street crash of 1929, Wall Street banks formed "pools," which were actually cartels to drive a bull run or a bear raid in a particular stock. There is a striking similarity between the pools of the late 1920s and what was happening at Archegos — and many other, as yet unnamed, hedge funds.

What makes the situation even more dangerous today than in 1929 is that some of the banks providing these dangerously leveraged loans for stock speculation to Archegos and others are today allowed to own federally-insured commercial banks that are backed by the U.S. taxpayer.

It's now more than six months since the public first learned that the Justice Department had opened an investigation into this matter. And yet, there has been no further information forthcoming on this critical investigation or any announcement by a federal regulator as to whether this type of brazen manipulation of margin rules has been halted on Wall Street.

The public has simply been left in the dark and confidence in Wall Street regulators has further eroded.

Darkness is also what prevails around the trading scandal at the Fed. On September 27 *Wall Street On Parade* published an article outlining the numerous safeguards that are supposed to exist on Wall Street that should have prevented Dallas Fed President Robert Kaplan from trading like a hedge fund kingpin while serving as an official at the Federal Reserve with access to sensitive market-moving information.

It's now been more than two months since the Fed's trading scandal surfaced and yet there has not been a peep from the SEC or the Justice Department about opening an investigation. They have remained silent while the Fed has signaled to the public that it's basically going to investigate itself by turning the matter over to the Fed's Inspector General – which rep[redacted].

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to investigate itself by turning the matter over to the Fed's Inspector General – which reports to the Board of the Fed.

The Fed, in the meantime, is the federal regulator of the largest bank holding companies in the U.S. These are the same mega banks that collapsed the U.S. economy in 2008 through unbridled corruption and have now cooked up derivative contracts to funnel 85 percent margin loans to characters with checkered pasts.

The two magazine covers adorning this article demonstrate that journalists have been attempting to learn just how corrupt Wall Street really is for the past 25 years. It's time for the Justice Department to *finally* do its job and answer that question once and for all.

Editor's Update: Fifty-two minutes after *Wall Street On Parade* published the above article, the Federal Reserve released a document specifically related to the Archegos collapse. The document warned the banks that the Fed supervises "about practices that may be inconsistent with safe and sound banking practices." You can read the full document here. Nothing in this document prohibits the banks from using tricked up derivative contracts as margin loans, nor does it even mention the Fed's Regulation T and its prohibition against providing greater than 50 percent margin loans for stock trades.

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← The Fed Pulls a Dark Curtain Around Former Dallas Fed President, Robert Kaplan, and His Trading in S&P 500 Futures

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