Morale Hazard. Its another way of saying that Failure should have Pain attached to it. Wall Street is not stupid. While spreadsheets define financial risk, contracts define the personal pain of failure. When the financial rewards disappear or go negative, thats when the contracts get terminated or let expire. At which point any Pain associated with Failure tends to be eliminated. Here are a few steps that need to be taken in order to make sure that Pain remains associated with Failure.

1. Repricing of Options: It wont be long until we see the repricing of options in companies who's stocks have tanked. Its another way to pump up executive compensation. In addition to stopping Golden Parachutes, this Bill should prevent repricing of options for execs that participate.

For the rest of the public company universe, all option repricing should be required to be approved by a super majority of shareholders who actually vote .

2. Closing of Hedge Funds: Everyone is a genius in a bull market. Hedge funds take their 20pct of profits when things are good. When things are underwater, not only do they not get 20pct, they often can't start charging 20pct on profits until they recapture all losses. Rather than working their asses off to get investors back into the black, its not unusual for funds to close up shop. Why work hard to get your investors their money back, when you can close the fund, start another hedge fund and start collecting your 20pct ?

Its particularly enticing after a bear market because the odds of making huge money in the new fund improve dramatically.

The amazing part is often they will take the same investors they lost money for in the old fund, to the new fund. Why would investors follow a hedge fund manager who lost them money ? In the Hedge Fund world in a down market, success is defined by outperforming their peers rather than actually making money. The fund manager may have lost you 20pct, but the market lost 24pct, so this is a good manager and you want to follow him/her. So they take what money they got back in the 1st fund and put it in the new fund.

Hedge Fund Hopping is not necessarily a bad thing, however, it does encourage leverage and greater risk taking. Why wouldn't a hedge fund manager leverage to the hilt and take bigger risks ? If it works, they make great money. If it doesn't , you close up shop, move down the hall and do it all over again.

If we want to keep Risk and Reward, and Pain and Failure attached to inhibit future bubbles and melt downs, there should be a connection between closing a fund that has negative returns to its investors and your obligations to those investors when you start or go to manage a new fund.

If you start a new hedge fund after leaving one where the investors are in the hole within 2 years, some percentage of your profits from the new fund should go to investors of the old.

I will close with a question. Would you give 700 Billion dollars to a company whose CEO is going to leave the job in 4 months and you have no idea who the replacement will be ? Neither would I. The Presidential Candidates have to publicly committ to keeping Sec Paulson on the job (with his agreement of course), or publicly announce who will be running the 700 Billion Dollar fund, so we votes and taxpayers can vett him or her prior to their taking the job

I'm just saying..