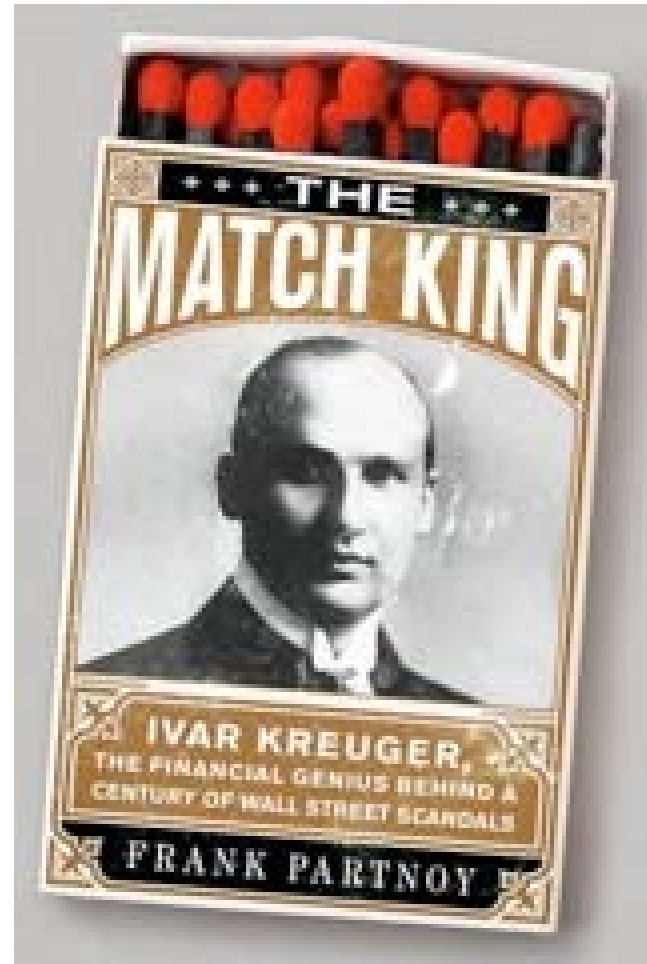


Blame the Match King



Frank Partnoy, George E. Barrett Professor of Law and Finance,
University of San Diego School of Law

Grant's Spring Investment Conference, New York, NY, April 7, 2009

Six Years Ago at *Grant's* ...

Title:

“Credit Derivatives”

Subtitle:

**“Be Afraid,
Be Very Afraid”**

Date:

April 2003

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Be Very Afraid”**

Date:

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Six Years Ago at *Grant's* ...

“‘Be very afraid’ of the hidden risks, particularly of collateralized debt obligations. Credit derivatives are going to double in size during the next year. There will be spectacular losses disclosed. And risks will shift to progressively less sophisticated parties. We all are going to be watching a bad horror film. This one is unlikely to have a happy ending.”

TIME

The Weekly Newsmagazine



Volume XIV

T. V. P. KREUGER

*It's not in words
—but in facts—*

Number 18

More than a Quarter of a Million Circulation

TIME

The Weekly Newsmagazine



Volume XIV

TÄNDSTICK-KÖNIG KREUGER

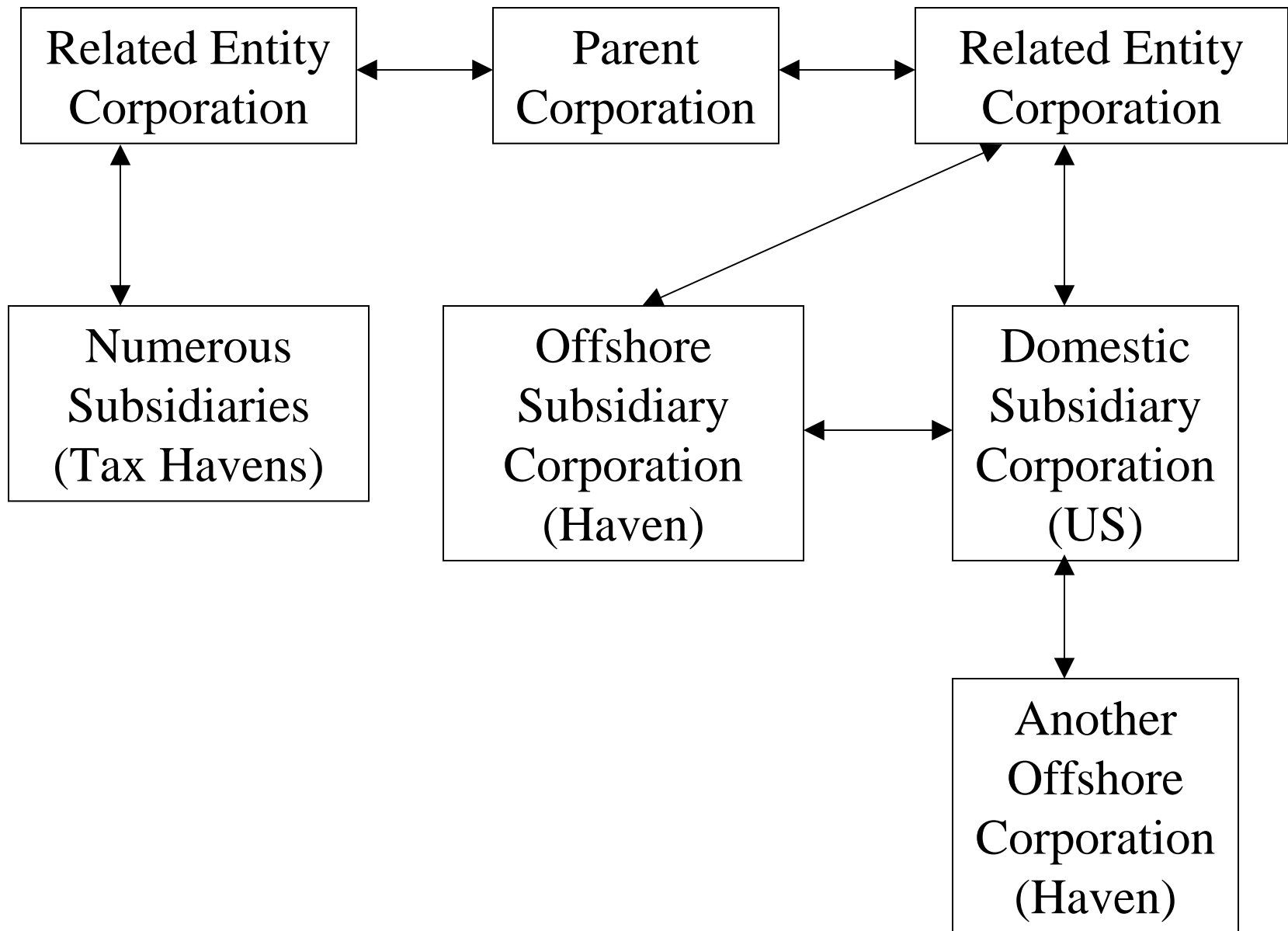
*It made its mark
in 1923.*

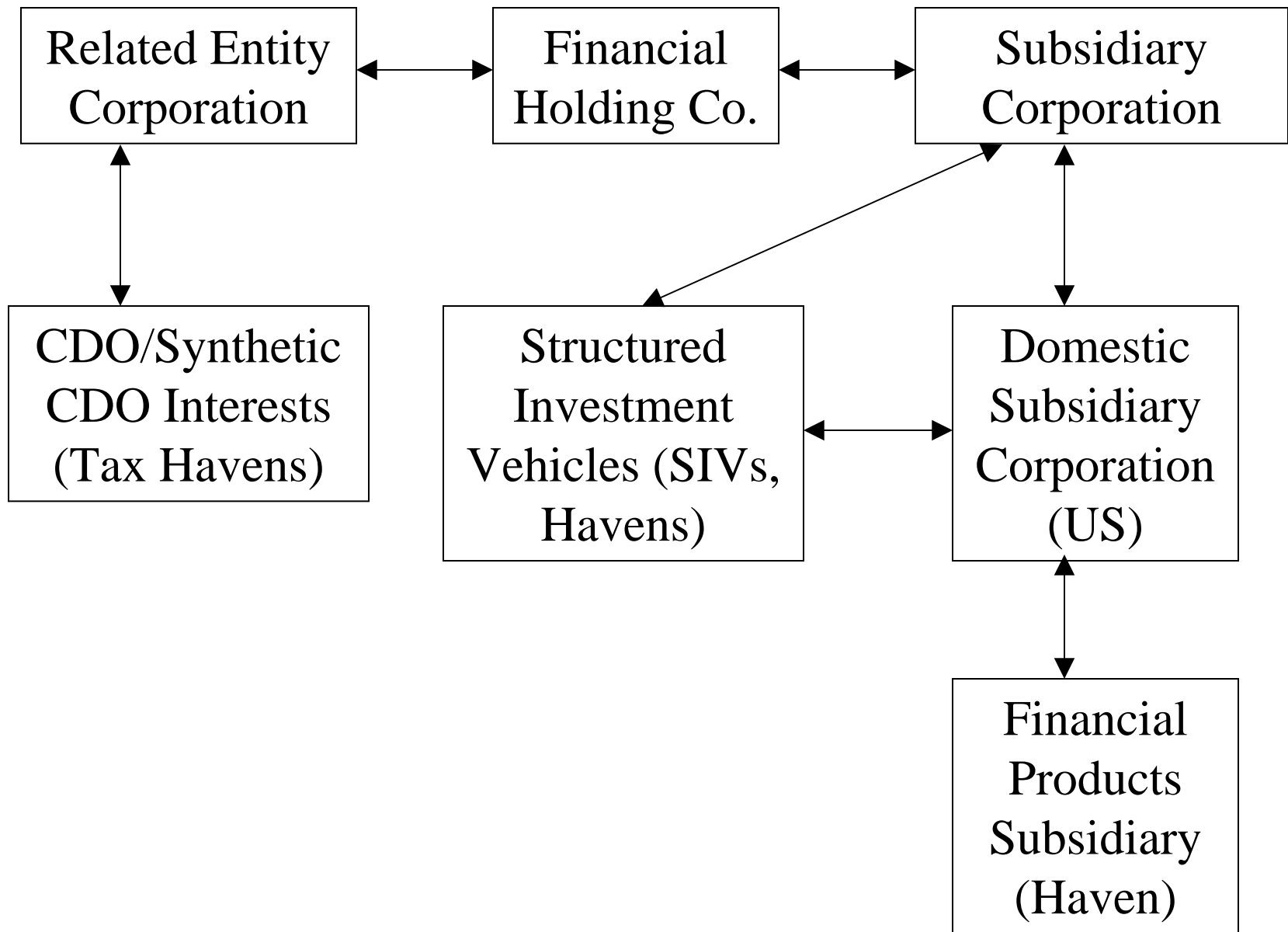
Number 18

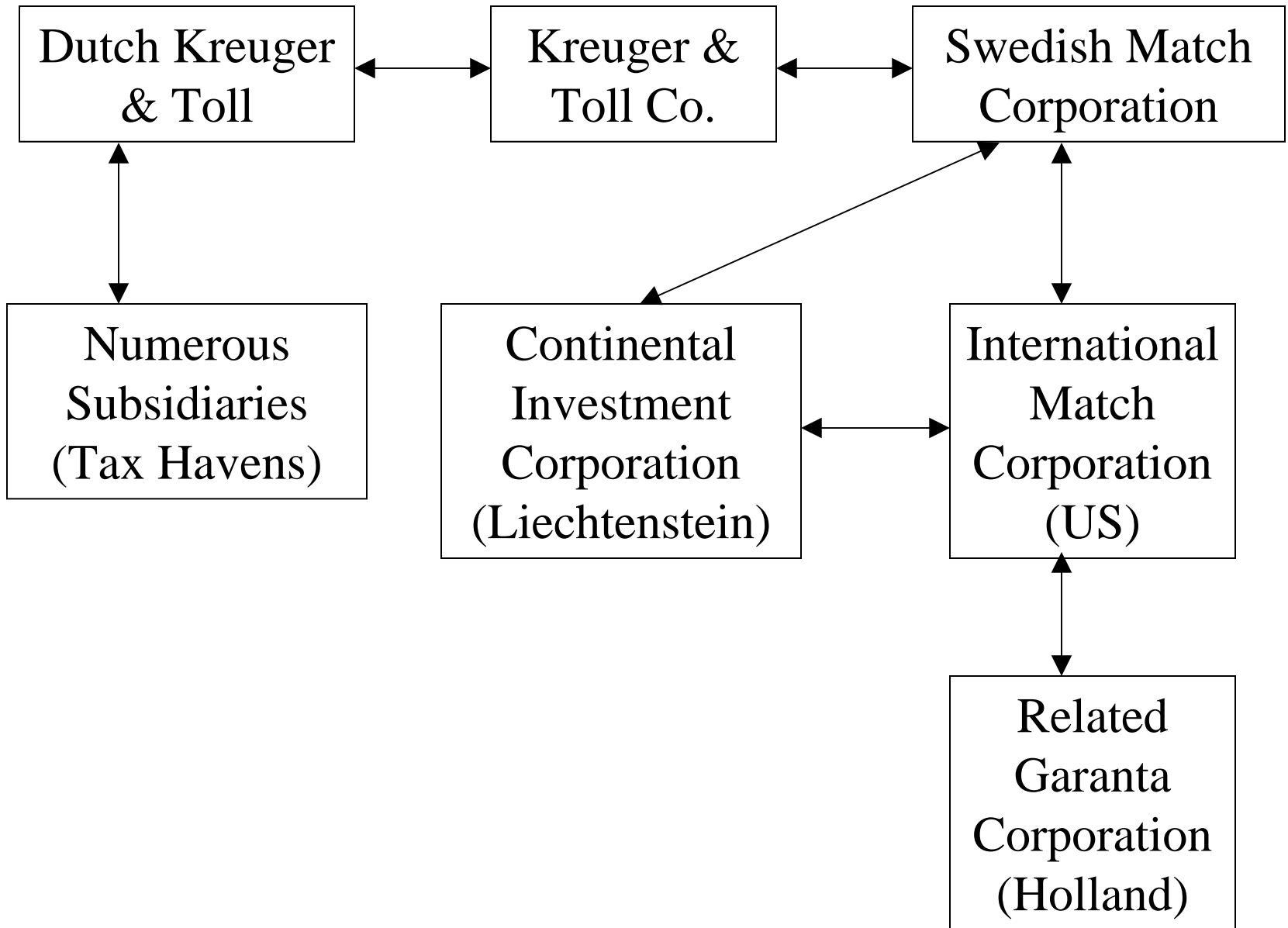
More than a Quarter of a Million Circulation











ROE

9.2%

8.1%

9.9%

10.9%

10.0%

9.4%

10.2%

10.7%

Kreuger

ROE

1923	9.2%
1924	8.1%
1925	9.9%
1926	10.9%
1927	10.0%
1928	9.4%
1929	10.2%
1930	10.7%

	Kreuger	Madoff
	<u>ROE</u>	<u>ROE</u>
1923	9.2%	11.7%
1924	8.1%	11.5%
1925	9.9%	13.0%
1926	10.9%	13.0%
1927	10.0%	14.0%
1928	9.4%	13.4%
1929	10.2%	14.2%
1930	10.7%	11.6%

Source: Hildebrand (1985); Fairfield Sentry Performance Data
(2005)

TIME

The Weekly Newsmagazine



Volume XIV

T. S. ARONSON

*It's not in words
—but in action.*

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TIME

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Volume XIV

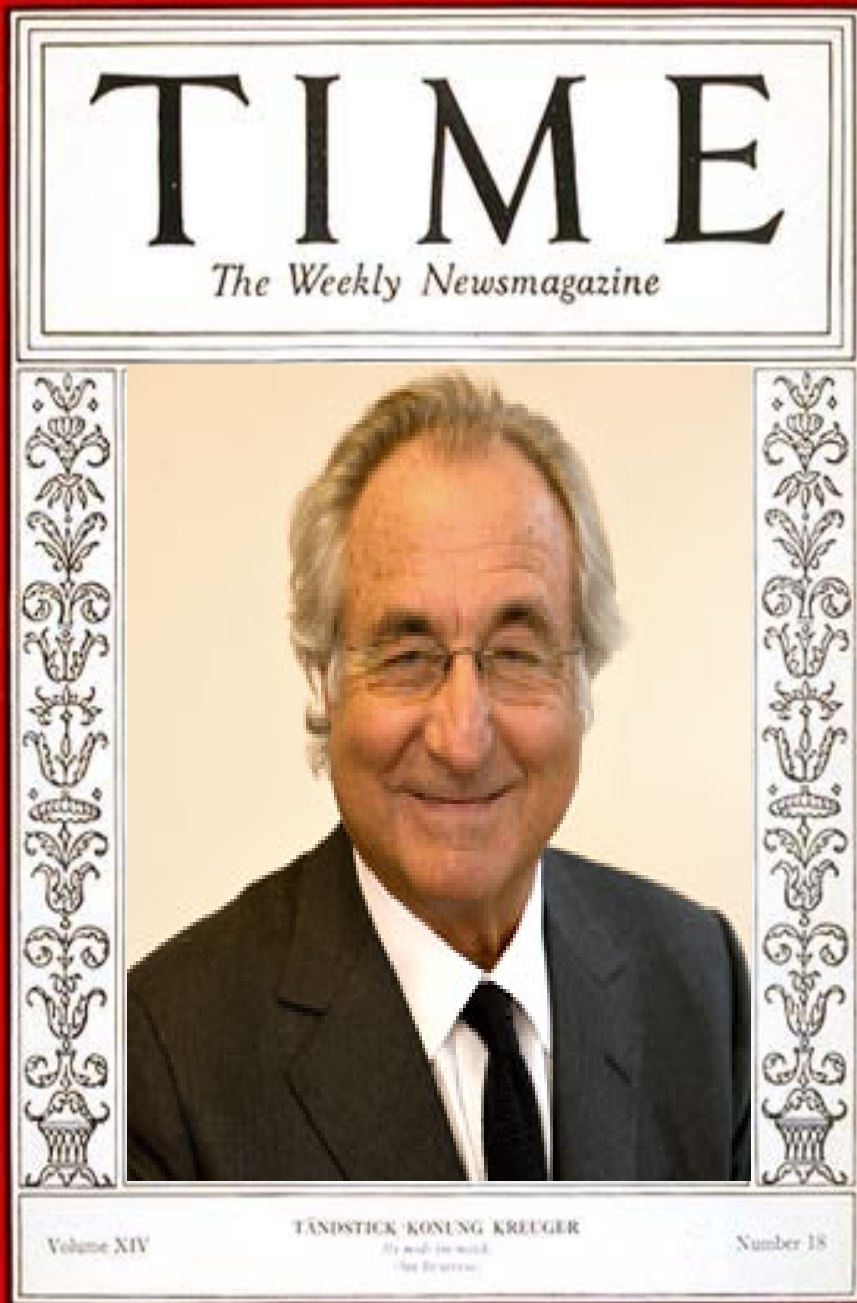
T. V. PABST

*He made us what
we drink*

Number 18

More than a Quarter of a Million Circulation





“In an era of faceless organizations owned by other equally faceless organizations, Bernard L. Madoff Investment Securities LLC harks back to an earlier era in the financial world.”

The New York Times.

LATE CITY EDITION * 2CENTS

NEW YORK, MONDAY, MARCH 14, 1932

THE MATCH KING IS DEAD



Ivar Kreuger, "The Match King"

PANIC HITS LEADING BANKS

Following Ivar Kreuger's suicide, the world's leading bankers nervously await news on some forged Italian bonds.

Ivar Kreuger was discovered today by his personal assistant, a bullet through his heart and a gun by his hand. The financier and popular hero, whose empire was built on his international match monopoly, had shot himself in his Paris hotel.

WIELDING POWER IN SECRET

For long reported to be one of the richest men alive, the noted industrial organization, the financier to whom Government inspectors resorted when bankruptcy stared them in the face, for whose goodwill they would risk their very existence—Kreuger wielded his enormous power in secret.

The people's acquaintance, he was limited, with all the capitals of the world, but was known personally only to a few people in each—those who trusted him. He visited these regularly, driving down, as to the other international, almost invariably.

"Silence, silence," was his motto. When he was not abroad, he was at Stockholm, the headquarters of the Svenska Svenska Match Company which he had formed, working for the furtherance of that enterprise, head, or of the equally powerful Swedish corporation of Kreuger and Toll, which operated in other countries.

There, in a closely guarded room, he brought to fruition some of the greatest schemes of international finance the modern world had seen.

Always he worked; always he slept. For even the social occasions or the distractions of social intercourse he had no time. The limitation might well have been there, for his few intimate circle in passing the circle, breakable circle, were important in all his personal relations.

ENDS LIFE IN PARIS

Letters Tell of His Plan to Die Because of Poor Health and Reverses.

ASSOCIATES AWAITED HIM

Body Is Found Fully Clothed on Bed With Pistol Wound Under Heart.

HIS STOCKS SOLD HERE

A FAMOUS MATCH MAGNATE

EFFECT IN SWEDEN

FROM OUR OWN CORRESPONDENT

PARIS, March 13.

M. Ivar Kreuger, the Swedish financier, managing director of the Swedish Match Company, Kreuger and Toll, Limited, and numerous other concerns, shot himself through the heart on Saturday morning in a hotel of which he was the tenant in the Avenue Victor-Basler, Strassbourg 11.

M. Kreuger had recently spent three months in the United States and returned to Europe in the *de France*, which

SWEDEN AUTHORIZES PRIVATE MORATORIA

ACTS TO AID KREUGER FIRMS

Stockholm Stock Exchange to Be Closed Tomorrow and Possibly Longer.





TC-12521-2-40

RECEIVED BY THE CHIEF MANAGER BANK

PAR VALUE \$100 ND452-952

GENERAL MOTORS CORPORATION

REGISTERED UNDER THE LAWS OF THE STATE OF MICHIGAN

THIS IS TO CERTIFY THAT

G. GORDON THOMAS

N 12779

Holder of 100 Shares of \$100.00 each Fully Paid and Non-Assessable Shares of the Common Stock

General Motors Corporation, transferee in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby are subject to all the terms, conditions and limitations of the Certificate of Incorporation and all Amendments thereto and supplements thereto. This Certificate not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the signatures of its duly authorized officers MAY 12, 1981.

Loed M. Loubert SECRETARY

Roscoe B. Smith CHIEF OF THE WORKS

THIS CERTIFICATE IS TRANSMISSIBLE IN NEW YORK, TENNESSEE OR NEBRASKA.

上海縣商會建築公債票

今收到

建築公債票款第貳百柒拾貳號計上海現銀壹百兩正此照

一 本會為購置本會地建築事務所及進出租房之用經呈請政府核准發行公債票壹萬兩由上海現銀陸萬兩為數票面銀兩由本會存款由現任正副會長及會計會董各名號全數定用其時應向本會建築公債

二 此項公債票每份伍拾兩銀票面銀壹百兩正

三 此項公債票每份伍拾兩銀票面銀壹百兩正

四 此項公債票每份伍拾兩銀票面銀壹百兩正

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二十 此項公債票每份伍拾兩銀票面銀壹百兩正

中華民國三十三年七月十五日

會計會董 顧若一 長 姚若若

副會長 姚若若

會計會董 王伯瑛

Theory I: Reputational Intermediaries

Pure Gov't Rater

USDA

Pure Private Rater

Good
Housekeeping

Financial
Publishers

S&P/Moody's?

Theory II: Regulatory Licenses

Pure Gov't Rater

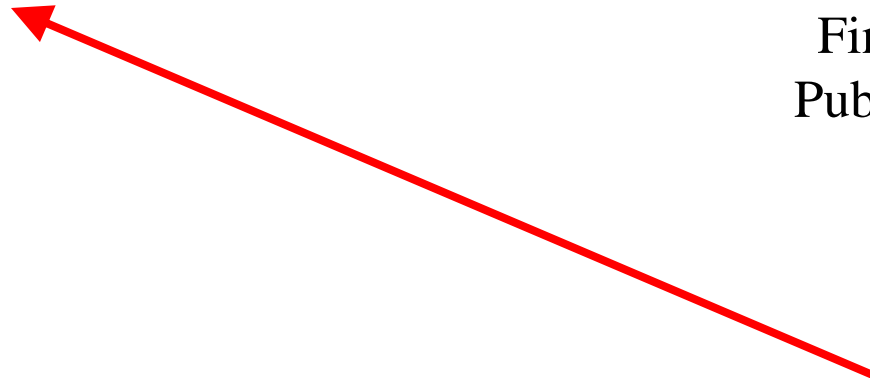
Pure Private Rater

USDA

S&P/Moody's

Good
Housekeeping

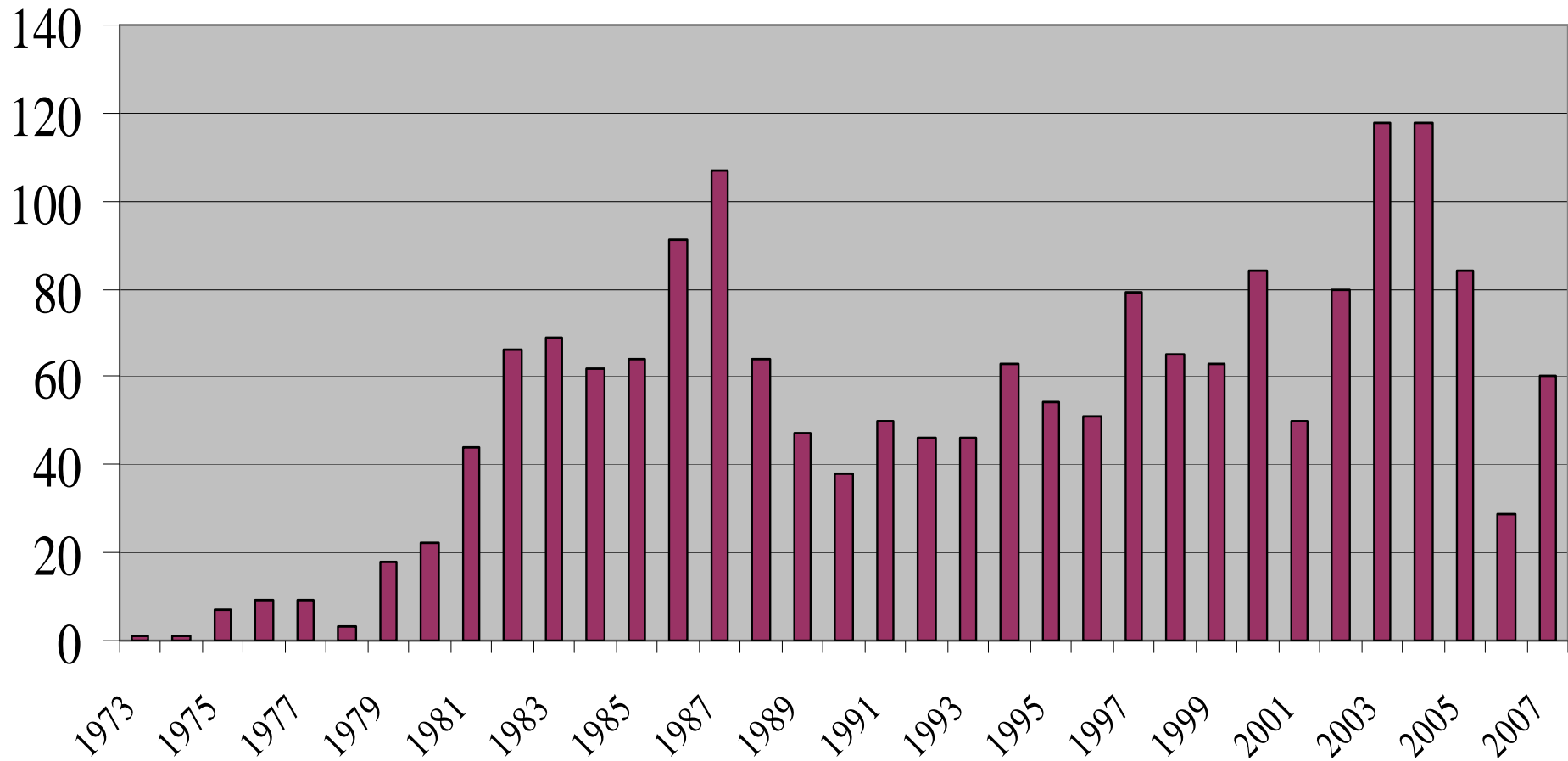
Financial
Publishers



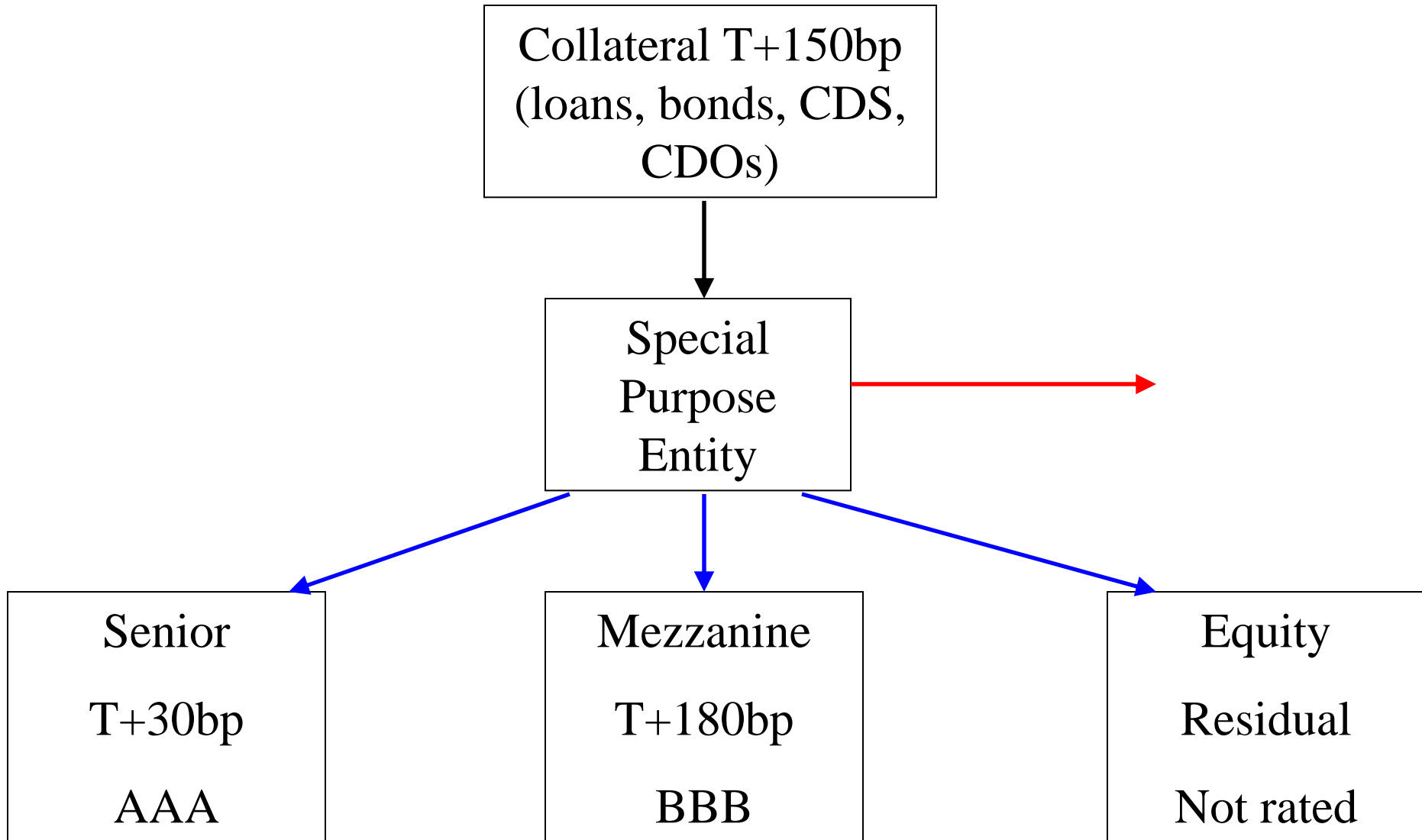
History of “Regulatory Licenses”

- Gustav Osterhus “desirability”
- State “legals”
- Treasury/Comptroller adoption
- SEC broker-dealer rules
- Investment grade cliff
- Expansion

Annual Federal Agency Decisions Based on NRSRO Status



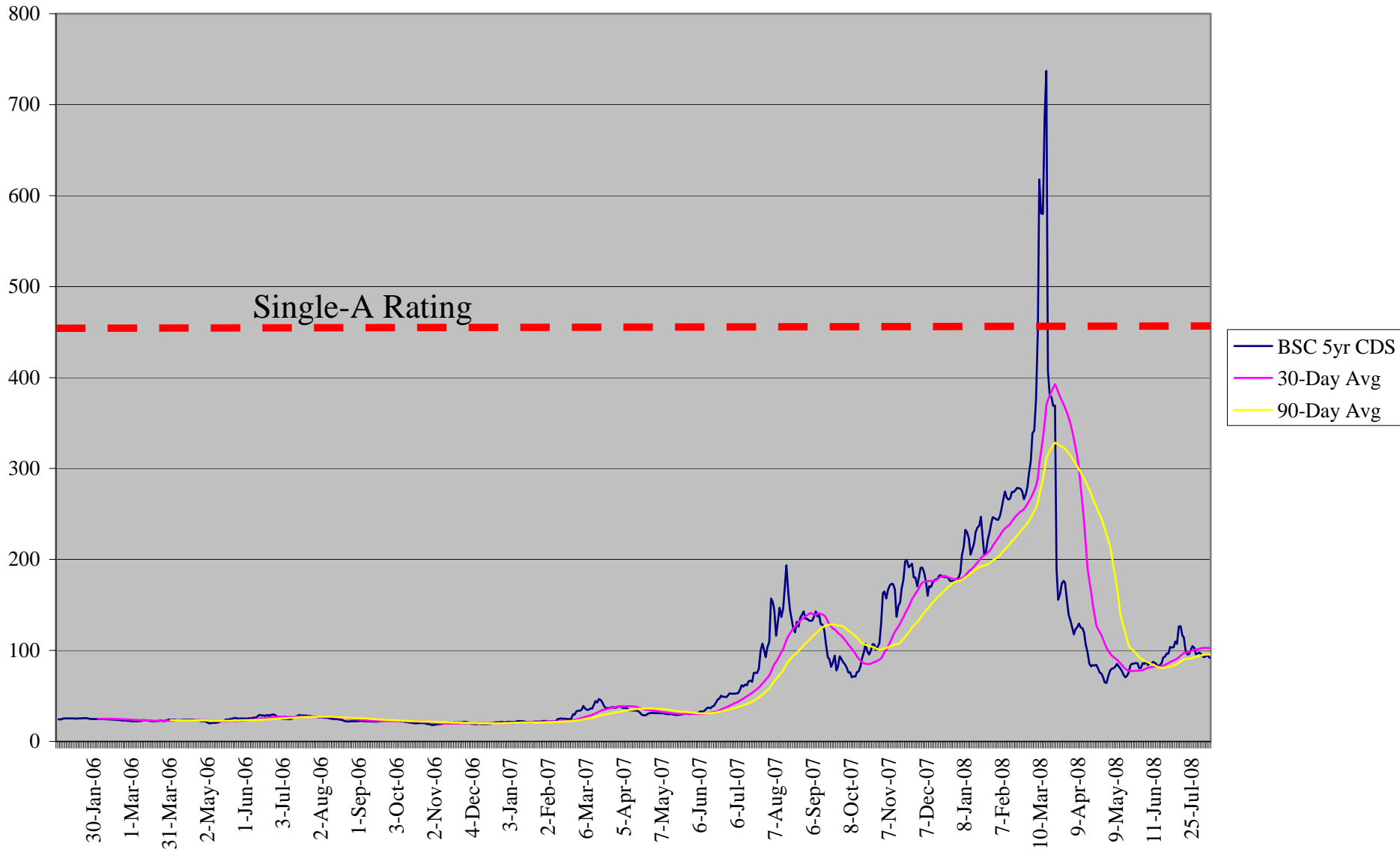
Role of Ratings in the Crisis: CDOs



Spread-for-Rating Comparison

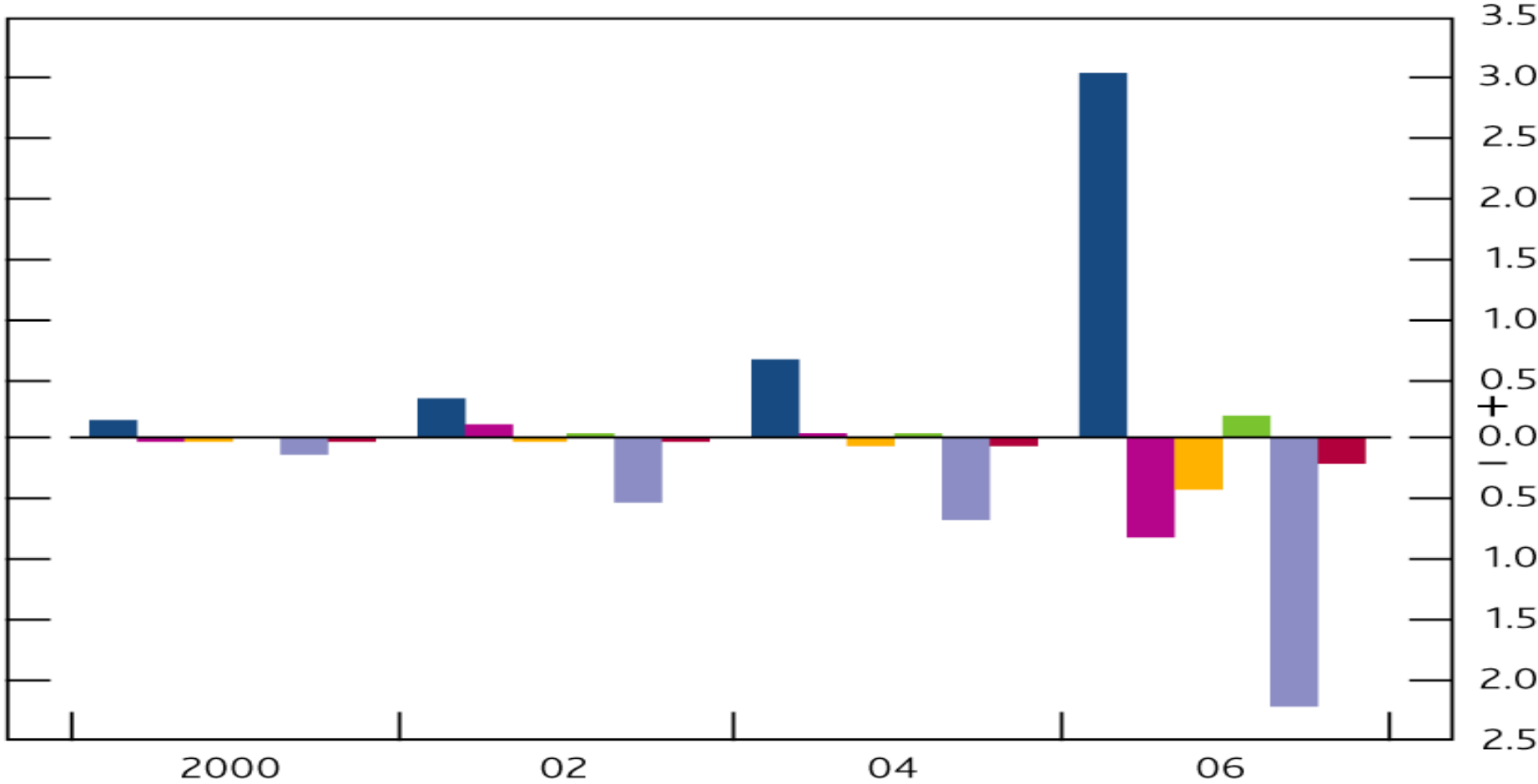
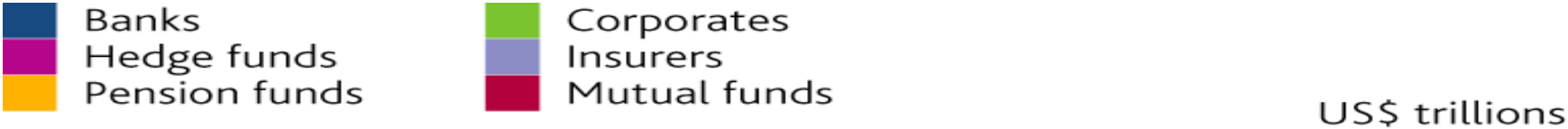
<u>Rating</u>	<u>Underlying</u>	<u>Spread</u>
AAA	Corporate bonds	<5
AAA	Credit card ABS	15
AAA	iTraxx CDS index	22
AAA	CMBS	25
AAA	Cash-flow CDO	32
AAA	CPDO	200

Bear Stears 5-year CDS Market Spreads (bp) (Source: Markit)



Source: Markit Group Limited

Credit Protection by Institution Type



Sources: Bank of England; BBA and Bank calculations, net long and short positions.

Solutions

OVERSIGHT:

-Independent board to transition away from “regulatory licenses”

ACCOUNTABILITY:

-Liability to treat rating agencies like other “gatekeepers”

Litigation – First Amendment

Amendment I. Freedom of Religion, Press, Expression. Ratified 12/15/1791.

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press, or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

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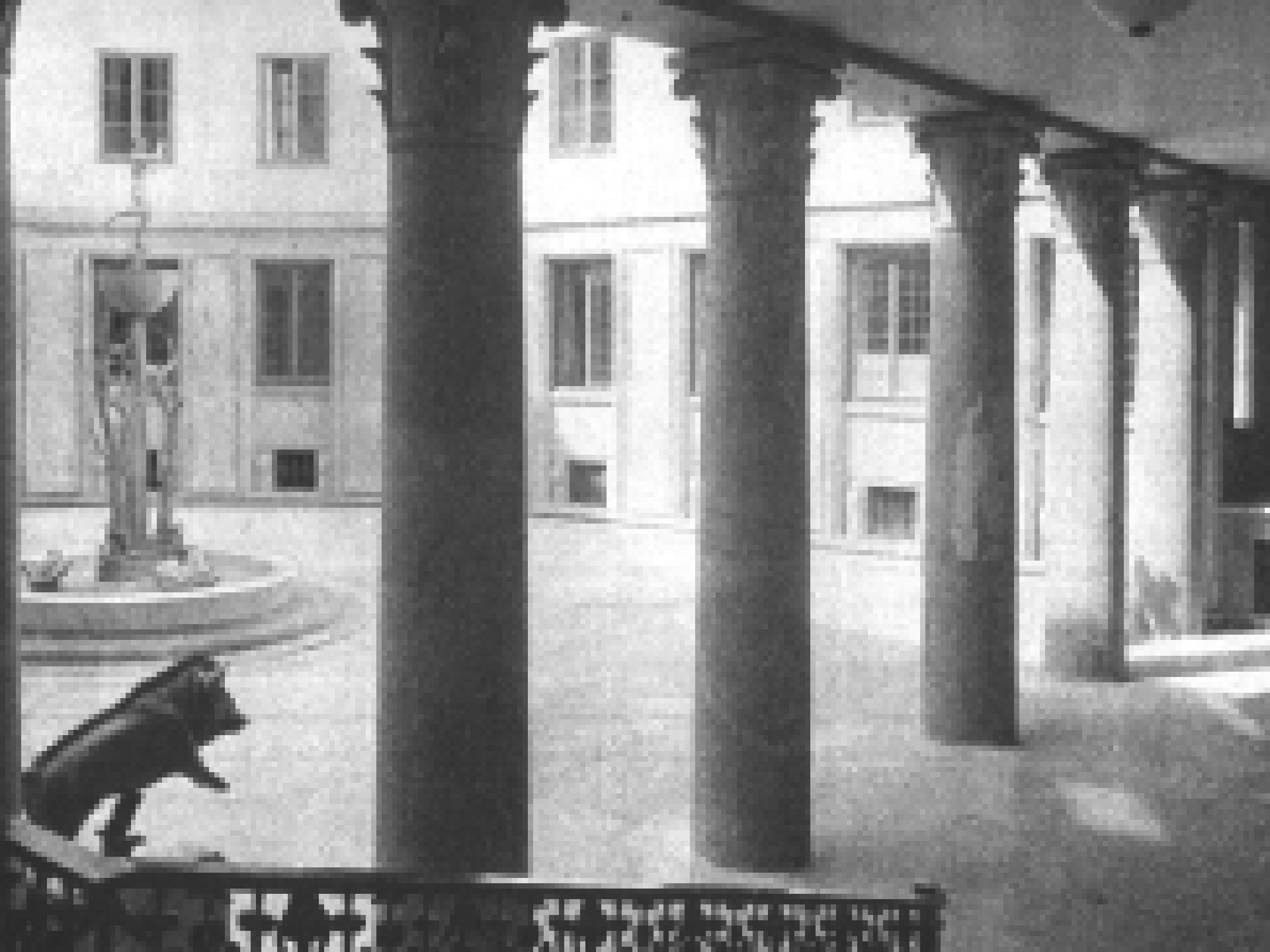
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