Volcker Rule and JPMorgan’s Big Trades

A London-based trader with JPMorgan Chase has amassed a big position in credit default swaps that is disrupting that part of the derivatives market. The Volcker Rule aims to stop banks that enjoy government backstops from making bets on the movement of stocks, bonds and derivatives.

There is a chance that the trade could be exempt under Volcker. It took place in a unit of JPMorgan, called the Chief Investment Office, where trades are done to balance the assets and liabilities of the bank. Under Volcker, certain “asset-liability management” trades may be allowed. Read more here.

Shareholders Make Their Voices Heard

With spring and corporate proxy statements just around the corner, we are starting to see something that, for the most part, we haven’t before: evidence that shareholders — the people who actually own public companies — are gaining some influence over corporate pay practices.

These straws in the wind appear as a result of the Dodd-Frank law. Rules mandated by the law require companies to put their pay practices to a shareholder vote at least every three years. The say-on-pay rules went into effect in 2011, so this year’s crop of corporate proxies provides the first real glimpse into how companies are, or aren’t, responding when their shareholders express displeasure over CEO pay. The early indications are positive: some companies seem to be listening. Read more here.

MARK YOUR CALENDARS

Events this week:

- "Careers at Technology Companies and Startups," Leah Belsky, Vice President and General Manager, EMEA, Kalnex; Jared Grisdale, General Counsel, Spotify; Sander Daniels, Co-Founder and Director of Business Development, Thumbtack, Inc., 4/10, 4:10 pm, Room 120

- “Asia Opportunities: Building Careers in China, Japan and Beyond,” 4/12, 12pm, Room 111

Events next week:

- "What is Social Entrepreneurship?" A Discussion with Linda Rottenberg ’93, CEO of Endeavor, 4/17, 12pm, Room 129

- "Securities Regulation in a Time of Global Change and Uncertainty: The Perspective of Four Decades of SEC Leadership" presented by Cleary Gottlieb Steen & Hamilton LLP, 4/18, 6:10pm, Room 122

- "Does Cost-Benefit Analysis Still Matter in a Hyper-Partisan Era: Three Stages in the Life of Cost-Benefit Analysis as a Regulatory Tool." Richard L. Revesz, Dean and Lawrence King Professor of Law, NYU School of Law, 4/19, 12:15pm, Faculty Lounge

- NYC Tap to Paulson & Co. and Bloomberg LP, 4/20

The Risk in Clearing-Houses

As The Economist reports, last month European legislators followed their American counterparts in mandating that eligible derivatives must be centrally cleared by a third party. Instead of a single bilateral contract, there will be two—one between a clearing-house and the original seller, and the other between the clearing-house and the original buyer. The reasoning is sound. Among other things, central clearing improves transparency, makes it harder for counterparties to avoid stumping up the right amount of collateral and provides an insurance policy against losses to the non-defaulting party to a trade. But a big surge in the volume of cleared transactions will have two other effects as well. One is to make clearing an area of growth, a rarity in post-crisis finance. Competition suits customers, but it also carries the risk that clearing-houses will water down standards to win deals. That feeds worries about the other effect of lot more clearing: a new concentration of risk.

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With contributions from the YLBS Board and members