France & Germany Take Lead in EU Debt Crisis

Stock markets rallied this week as France and Germany agreed to help recapitalize banks in the EU at a G-20 meeting. Under the most recent plan, the European Financial Stability Facility (EFSF) will gain the authority to buy sovereign bonds, offer credit lines to governments and grant aid to banks. Treasury Secretary Geithner spoke out in support of the plan.

Goldman Sachs Battles Court Decision from Rakoff of SDNY

Goldman Sachs is appealing a decision issued by Judge Rakoff of SDNY that would enforce an arbitration award of $20.5 million to Bayou Group LLC, a creditor of failed hedge fund that was a client of GS. Bayou argues that Goldman ignored signs of fraud in doing business with the failed hedge fund and that Wall Street brokerages need to do more diligence. GS argues that extra due diligence would slow down business and increase costs.

Raj Rajaratnam Faces Harsh Sentence for Insider Trading

Raj Rajaratnam, co-founder of hedge fund the Galleon Group, was sentenced to 11 years in prison, one of the longest terms ever for insider trading. US District Judge Richard Holwell sentenced Rajaratnam before a packed courtroom in lower Manhattan, explaining his term was enhanced due to his leadership role in the scheme and obstruction of a related SEC probe. Prosecutors argued that Rajaratnam made $64 million from illegal trades based on insider information.

MARK YOUR CALENDARS

Events this week:

- William F. Ruprecht, President and CEO, Sotheby’s, 10/18, 11:45–12:45p.m., GM Room at 55 Hillhouse Ave
- Roberta Romano, YLS, “How to Craft a Career in Corporate Law,” 10/19, 12pm, Faculty Lounge

Events next week:

- Governor Eliot Spitzer, “Corporate Governance on Wall Street,” 10/25, 4pm, 129
- Robert C. Weber, IBM, Senior Vice President, Legal and Regulatory Affairs, and General Counsel, “Becoming a Leader in our Integrated and Interconnected World,” 10/27, 12:10-1pm, Faculty Lounge

SEC Issues Volcker Rule Proposal for Public Comment

The SEC joined three other federal regulators in seeking comment on a rule to enact the Volcker provision in the Dodd-Frank Act, which would bar banks from making short-term trades for their own accounts and limit their ownership of private-equity and hedge funds. The regulators’ 298-page joint proposal raises nearly 400 questions for response from commenters. The SEC specifically asks about how the rule should define “covered banking entities” and how it will affect the banking industry.

The rule has provoked criticism from banks on Wall Street as it has the potential to hurt their profits and to cost them additional money in attempting to comply with all of the rule’s details. Banks made huge profits on proprietary trading in the years leading up to the financial crisis (over $15 billion by some measures). The American Banker Association says its members fear that the rule is too broad and that its complexity will not only make it impossible for banks to comply but also affect their ability to compete globally.

Editors: Marianna B. Ofosu, Jackie Carter, & Taylor Hedrick

With contributions from the YLBS Board and members