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## Obama On Too-Big-To-Fail Bank Rescues: 'Never Again'

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Charles Dharapak/AP Photo

President Barack Obama flanked by former Federal Reserve Chair Paul Volcker, Rep. Barney Frank and members of the president's economic team, announces proposed new limits on too-big-to-fail banks.

In his continued effort to be on the right side of the populist outrage in the U.S. against bank bailouts, President Barack Obama on Thursday announced plans to limit the operations of the nation's largest banks in order to reduce the systemic risks they pose to the entire financial system and economy beyond.

Obama outlined reforms his administration will propose be added to financial reform legislation currently in Congress.

One reform would require sophisticated and poorly understood financial instruments like credit default swaps that some critics have likened to gambling, to be regulated.

Another would bar large banks from using their own funds to trade financial instruments in the hope of making big profits for their own accounts. They would also be barred from owning hedge funds or private-equity funds.

Paul Volcker, the former Federal Reserve chair who stood next to Obama at the president's White House announcement today, has advocated for such strictures, thus leading to Obama calling the new proposal the "Volcker Rule."

The administration will also seek new size limits of banks to keep their liabilities within certain limits in terms of market share.

Volcker's presence was noteworthy. The one-time central banker had gained hero status for helping to save the economy in the 1980s.

At the start of his administration Obama named Volcker to head Obama's President's Economic Advisory Board then seemed to sideline him as Treasury Secretary Timothy Geithner and National Economic Council Chairman Lawrence Summers appeared to hold more sway.

Volcker has spent his time speaking openly about the need to rein in the superbanks in order to keep them from nearly destroying the global economy again anytime soon. That especially placed him at the periphery of a White House that sought to get along with Wall Street bankers.

But for a president intent on showing Americans he shares their anger at Wall Street, Volcker suddenly has become a useful man to have in a photo op.

Obama's announcement was blamed for depressing the mood of financial markets which were already showing anxious signs even before his remarks since they were expected. At midday, the Dow Jones Industrial Average was down more than 200 points.

A snippet from Obama:

> For while the financial system is far stronger today than it was one year ago, it's still operating under the same rules that led to its near collapse.

> These are rules that allowed firms to act contrary to the interests of customers, to conceal their exposure to debt through complex financial dealings, to benefit from taxpayer-insured deposits while making speculative investments, and to take on risks so vast that they posed threats to the entire system. That's why we are seeking reforms to protect consumers.

> We intend to close loopholes that allowed big financial firms to trade risky financial products, like credit-default swaps and other derivatives, without oversight; to identify system-wide risks that could cause a meltdown; to strengthen capital and liquidity requirements, to make the system more stable, and to ensure that the failure of any large firm does not take the entire economy down with it.

> Never again will the American taxpayer be held hostage by a bank that is too big to fail.

> Now, limits on the risks major financial firms can take are central to the reforms that I have proposed. They are central to the legislation that has passed the House, under the leadership of Chairman Barney Frank, and that we're working to pass in the Senate, under the leadership of Chairman Chris Dodd.

> As part of these efforts, today, I'm proposing two additional reforms that I believe will strengthen the financial system while preventing future crises.

> First, we should no longer allow banks to stray too far from their central mission of serving their customers. In recent years, too many financial firms have put taxpayer money at risk by operating hedge funds and private equity funds and making riskier investments, to reap a quick reward.

> And these firms have taken these risks while benefitting from special financial privileges that are reserved only for banks. Our government provides deposit insurance and other safeguards and guarantees to firms that operate banks.

> We do so because a stable and reliable banking system promotes sustained growth and because we learned how dangerous the failure of that system can be during the Great Depression. But these privileges were not created to bestow banks operating hedge funds or private equity funds with an unfair advantage.

> When banks benefit from the safety net that taxpayers provide, which includes lower-cost capital, it is not appropriate for them to turn around and use that cheap money to trade for profit. And that is especially true when this kind of trading often puts banks in direct conflict with their customers' interests.

> The fact is, these kinds of trading operations can create enormous and costly risks, endangering the entire bank if things go wrong.

> We simply cannot accept a system in which hedge funds or private-equity firms inside banks can place huge, risky bets that are subsidized by taxpayers and that could pose a conflict of interest. And we cannot accept a system in which shareholders make money on these operations if a bank wins, but taxpayers foot the bill if a bank loses.

> It's for these reasons that I'm proposing a simple and common- sense reform, which we're calling the Volcker rule, after this tall guy behind me. Banks will no longer be allowed to own, invest or sponsor hedge funds, private-equity funds or proprietary trading operations for their own profit, unrelated to serving their customers. If financial firms want to trade for profit, that's something they're free to do. Indeed, doing so responsibly is a good thing for the markets and the economy. But these firms should not be allowed to run these hedge funds and private equities — funds while running a bank backed by the American people.