A Big Picture Look at Our Major Wall Street Corruption Stories of 2023

By Pam Martens and Russ Martens: December 28, 2023

The year 2023 will go down in U.S. banking history as the year in which the fastest bank runs in U.S. history occurred, producing the second, third and fourth largest banking failures in U.S. history in the span of seven weeks. Losses of more than $32 billion from these failed banks hit the Federal Deposit Insurance Fund (FDIC). Adding to the regulatory hubris, the largest and riskiest bank in the U.S., JPMorgan Chase, was allowed by its compromised regulators to become even riskier by gobbling up the failed First Republic Bank while JPMorgan Chase got an unexplained $50 billion 5-year loan from the FDIC at an undisclosed interest rate to sweeten its purchase of the failed bank.

And, what good is a banking crisis if the Fed can't pony up yet another bank bailout fund, this time with loans of up to an unprecedented one-year term. (Under Federal Reserve statutory legislation, the Federal Reserve Act, the Fed is supposed to make short-term loans. Ignoring statutory legislation has never been a problem at the Fed, however.)

Less than two months after this unprecedented banking chaos occurred, Fed Chair Jerome Powell was back to delivering his Alice in Wonderland narrative to Congress that the "U.S. banking system is sound and resilient." (If it is so sound and resilient, why does it need so many emergency bailout programs from the Fed?)

Attesting to the systemic nature of the banking crisis, the share prices of the four largest banks in the U.S. began to sell off, with both Bank of America and Wells Fargo losing over 20 percent in the span of three weeks. (See chart below.)

Bank Selloff Hits Four Largest Banks in U.S. -- Bank of America (BAC); Wells Fargo (WFC); Citigroup (C); and JPMorgan Chase (JPM).

And, of course, one can't have a real banking crisis without a Global Systemically Important Bank (G-SIB) blowing up. This time it was a Swiss bank, Credit Suisse, with heavy ties to Wall Street mega banks, which might help explain the above chart.

Below, we've broken down our major banking and Wall Street corruption stories of 2023 into a few key categories, hoping that our readers will see the overarching reality that corruption has reached unparalleled levels in the U.S. banking system, fueled by its incestuous relationship with Wall Street trading houses and Big Law, while the Criminal Division of the U.S. Department of Justice and Big Media focus on keeping the American people in the dark.

All Things Crypto

On August 1, 2022, *Wall Street On Parade* published this headline: Brace Yourself for Federally-Insured Bank Failures Caused by Crypto. By March 8, 2023, the federally-insured crypto-involved bank, Silvergate, blew itself up, and decided to voluntarily wind down. By March 10, 2023 another crypto-involved bank, Signature Bank, had blown up and was put into FDIC receivership. Two days later, the U.S. financial system found itself in the full throes of major bank runs when Silicon Valley Bank collapsed into an FDIC receivership. This collapse was followed by First Republic Bank on May 1.

The criminal trial of crypto kingpin Sam Bankman-Fried would likely be considered by mainstream media as one of the key financial stories of 2023. At *Wall Street On Parade*, however, where we take a big picture view of the insidious machinations on Wall Street, it was the intimate involvement of Wall Street's go-to law firm, Sullivan & Cromwell, in the Bankman-Fried and broader crypto matters that caught our eye. See for example:

Two Indicted Masterminds of the FTX Fraud Were Clients of Big Law Firm Sullivan & Cromwell

Sam Bankman-Fried, BlockFi and Sullivan & Cromwell: A Viper's Nest of Conflicts and Intrigue

Bombshell Emails Raise Questions about What Sullivan & Cromwell Knew about Fraud at Sam Bankman-Fried's Crypto Firms

A Sam Bankman-Fried Company Loaned or Invested More than $1 Billion in Clients of its Law Firm, Sullivan & Cromwell

Bankruptcy Law Expert, Senator Elizabeth Warren, Asks FTX Bankruptcy Judge to Boot Sullivan & Cromwell from the Case

Going forward, please notice how rarely the mainstream business press is willing to investigate or even mention a Big Law firm's nefarious relationships with Wall Street.

For more on our crypto-related coverage, see the following:

The U.S. Congress Twiddled Its Thumbs on Crypto while 10 Countries Banned It and 42 Others Placed Heavy Restrictions

Four Crypto-Friendly Banks Are Being Bailed Out with Billions from a Federal Housing Program

Regulators Wake Up to Uninsured Deposits at the Mega Banks

The year 2023 was also the year when federal banking regulators woke up to the frightening reality of how fast bank runs can occur in the digital/social media age. It took only a few social media posts to start an avalanche of digital deposit withdrawals at Silicon Valley Bank. In the span of just 24 hours, $42 billion in deposits had exited the bank with another $100 billion queued up to leave the next day – meaning it was possible for a federally-insured bank to lose 85 percent of its deposits in the span of 48 hours in the digital/social media age. (For a closer look at what was going on at Silicon Valley Bank, see our report: Silicon Valley Bank Was a Wall Street IPO Pipeline in Drag as a Federally-Insured Bank; FHLB of San Francisco Was Quietly Bailing It Out.)

In testimony before the House Financial Services Committee on November 15, FDIC Chair Martin Gruenberg cited "over reliance on uninsured deposits" as one of the key factors in the bank failures this past spring. He added this:

"…we are updating examiner guidance to be more explicit about analyses of uninsured deposit concentrations and have reemphasized to examiners the importance of forward–looking indicators of risk, such as high growth rates and breaches of internal risk limits. Additionally, we have strengthened our instructions for examiners on timely escalation of supervisory responses when management has been unable or unwilling to effect corrective action, or when financial conditions deteriorate rapidly, or both…."

Despite this pledge from the FDIC Chair of more attention to "uninsured deposit concentrations," *Wall Street On Parade* reported the following:

November 14, 2023: The Deposit Insurance Fund Has a Balance of $117 Billion to Protect Deposits at 4,622 Banks. But One of Those Banks Has $1.4 Trillion in Uninsured Deposits

May 11, 2023: At Year End, 4,127 U.S. Banks Held $7.7 Trillion in Uninsured Deposits; JPMorgan Chase, BofA, Wells Fargo and Citi Accounted for 43 Percent of That

Former Dallas Fed President Robert Kaplan's Trading Scandal Remains Behind a Dark Curtain for the Second Year in a Row

The other big story that should have made the front pages of newspapers across America this year was how the investigation of former Dallas Fed

President Robert Kaplan (who made million dollar trades in S&P 500 futures while sitting at the helm of the Dallas Fed and being privy to inside information as a voting member of the FOMC in 2020) was resolved by law enforcement. Instead, there was no announcement by law enforcement despite a two-year probe into the matter.

On October 31, 2023, *Wall Street On Parade* provided an update to our readers. See: After Two Years, There's Still No Law Enforcement Report on Former Dallas Fed President Robert Kaplan's Trading Like a Hedge Fund Kingpin.

Kaplan, for his part, appears to be attempting to resuscitate his scandalized reputation with the willing help of Maria Bartiromo and Fox Business news. (See here and here.) Despite Kaplan triggering the biggest trading scandal in the 110-year history of the Fed, he now has the audacity to actually be giving advice to the Fed on how it should conduct its monetary policy.

Wall Street On Parade's Award for the Slimiest Story of the Year Goes to Jamie Dimon and His Five-Count Felon Bank, JPMorgan Chase

JPMorgan Chase is not just the largest and riskiest bank in the U.S., it is also the most frequently charged with felony counts by the U.S. Department of Justice. (See: JPMorgan's Board Made Jamie Dimon a Billionaire as the Bank Rigged Markets, Laundered Money, and Admitted to Five Felony Counts.)

Given the bank's unprecedented rap sheet, that reads more like that of an organized crime family than a federally-insured bank, one would think that the Criminal Division of the U.S. Department of Justice would be all over the bank after the Attorney General of the U.S. Virgin Islands introduces evidence into a federal court that credibly alleges that JPMorgan Chase was "actively participating" in Jeffrey Epstein's international sex trafficking of minors for more than a decade.

Instead, the bank was allowed to settle the case (and a related case) for $365 million with nary a whimper from Judge Jed Rakoff, despite 17 Attorneys General objecting to the settlement on the basis that it usurped their rights.

The tricked up settlements were the handiwork of another Big Law firm, WilmerHale, which represented JPMorgan Chase.

See part of our coverage below of this unprecedented long-term relationship between the largest federally-insured bank in the United States and the multi-decade sex trafficker Jeffrey Epstein. (Epstein died in a Manhattan jail cell in 2019 while awaiting trial on federal sex trafficking charges. His death was ruled a suicide by the New York City Medical Examiner.)

New Court Documents Suggest the Justice Department Under Four Presidents Covered Up Jeffrey Epstein's Money Laundering at JPMorgan Chase

Janet Yellen's Treasury Department Hires 5-Count Felon JPMorgan Chase to Look for Fraud

JPMorgan's Settlements Reach $365 Million Over Civil Claims It Banked Jeffrey Epstein's Sex Trafficking of Minors; Criminal Charges Could Lie Ahead

Former FBI Agent Prepared to Testify that JPMorgan Had Jeffrey Epstein Account for 28 Years – Not 15 Years – and "Impeded" Criminal Investigation of Epstein

Gary Gensler's SEC Is Drawing a Dark Curtain Around Child Sex Trafficker Jeffrey Epstein, His Money Man Leslie Wexner and Their Ties to JPMorgan

Jamie Dimon Faces an Uphill Battle Convincing a Jury He Didn't Know that Child Sex-Trafficker, Jeffrey Epstein, Was Financing His Operation Out of JPMorgan

NYS Regulator Fined Deutsche Bank $150 Million Over Ties to Jeffrey Epstein but Says It Doesn't Have a Scrap of Paper on JPMorgan and the Sex Trafficker

Court Filing: JPMorgan Chase "Actively Participated in Epstein's Sex-Trafficking Venture"

JPMorgan Listed a "Lolita's Closet" on the New York Stock Exchange for Jeffrey Epstein's Money Man, Les Wexner

JPMorgan/Jeffrey Epstein Cases Are a Cross Between the Bank's Chinese Princeling Scandal and Madoff Fraud, Using Sex with Minors as a Bribe

JPMorgan Is Alleged to Have Used Its Hedge Fund's Private Jet to Engage in Sex-Trafficking for Jeffrey Epstein

72 Hours Before JPMorgan Offered $290 Million to Make Epstein Claims Go Away, a Lawyer Disclosed that the Bank Had Withheld 1500 Documents

Jamie Dimon's Deposition in Epstein Case Reveals Email Stating that Dimon Was to Be Treated to "Heavy Snacks" at Epstein's Home

JPMorgan Chase and Jeffrey Epstein Were Both Involved in a Strange Offshore Company Called Liquid Funding

The DOJ Took More than Two Years to Answer a FOIA on Its Criminal Division Head

Three Days Before Christmas 2023 We Got a Troubling Disclosure

On July 20, 2021 the U.S. Senate voted 56-44 to confirm Kenneth Polite (pronounced Po-leet) to head the most powerful criminal law enforcement office in the United States, the Criminal Division of the U.S. Department of Justice. The vetting of this candidate immediately raised red flags at *Wall Street On Parade*.

Despite Polite owing more than $1.5 million in debts according to his financial disclosure form and public mortgage records; paying over 18 percent interest on an outstanding balance on a credit card; 19.99 percent interest on a personal loan; and then accepting a job where his income was going to be slashed by approximately 77 percent – not one Senator on the Senate Judiciary Committee asked a single question about Polite's unusual financial obligations during his confirmation hearing on May 26, 2021.

In addition, Polite was coming from the law firm of Morgan, Lewis & Bochius, which had plenty of red flags itself. Polite was a partner there earning approximately $877,500 in 2020. His job at the Justice Department was to pay less than $200,000 annually. Morgan, Lewis has, for decades, provided legal representation to the Wall Street mega banks. Polite's financial disclosure form revealed that JPMorgan Chase was one of his clients over the prior 12 months.

JPMorgan Chase is a recidivist lawbreaker on Wall Street with an unprecedented five felony counts brought by the Justice Department and admitted to by the bank. Having a recidivist felon that is the largest bank in the United States as a recent client and then moving into the job as a potential prosecutor of that bank is not good optics, so Polite signed an Ethics Agreement (EA) that read in part:

"he will be required to recuse from particular matters involving specific parties involving his former employer or former clients for a period of two years after he is appointed…."

During the time that Polite was ostensibly recusing himself from matters involving JPMorgan Chase, the Attorney General of the U.S. Virgin Islands brought a civil case in federal court in Manhattan against JPMorgan Chase for "actively participating" in Jeffrey Epstein's international sex-trafficking ring where Epstein and his wealthy pals were sexually assaulting underage girls.

According to documents released in the lawsuit, the bank was alleged to have laundered more than $5 million in hard cash for Epstein over the span of a decade without filing the legally-required Suspicious Activity Reports with law enforcement. In addition, various employees of the bank were making visits to Epstein's Manhattan mansion where sexual assaults of minors were alleged to have occurred.

The Criminal Division of the Justice Department has yet to bring a criminal case against JPMorgan Chase for either willfully participating in and/or covering up Epstein's crimes for more than a decade. (See our report: Former FBI Agent Prepared to Testify that JPMorgan Had Jeffrey Epstein Account for 28 Years – Not 15 Years – and "Impeded" Criminal Investigation of Epstein.)

The number of red flags swirling about Polite's vetting to become the top criminal cop in the United States and supervise a department of some 1400 prosecutors and staff, prompted *Wall Street On Parade* to file a Freedom of Information Act request for documents with the Office of Government Ethics (OGE) on July 26, 2021. We requested "all electronic correspondence from November 6, 2020 through July 20, 2021 that relates to the nomination or confirmation or vetting of Kenneth A. Polite for the position of Assistant Attorney General at the Criminal Division of the Department of Justice."

We received a response from OGE dated September 30, 2021, more than two months from the date of our inquiry. The cover letter said the OGE was "enclosing 96 pages of responsive records" subject to various redactions. The 96 records were anything but responsive. Most of the 96 pages were simply clerical emails between staff members that shed zero light on how all of the red flags on Polite's financial disclosure form and work history had been ignored. The relevant documents, it turns out, were withheld and sent over to the Justice Department for more stalling. The OGE cover letter explained as follows:

"In searching for responsive records, OGE located 58 (some partial) pages of records that originated at the Department of Justice. We are therefore sending these responsive materials, along with a copy of your request, to the Department of Justice…We are asking the Department of Justice to review the material and respond directly to you." This past Friday, December 22, *2023* – more than *two years* after we first filed our FOIA, the Justice Department finally got around to looking at those 58 documents and sent us only a portion of those, with heavy redactions.

One electronic document did, however, raise more deeply troubling concerns about how candidates for the U.S. Department of Justice are vetted. The email was from Cynthia (Cindy) K. Shaw, the Director of the Departmental Ethics Office at the Justice Department. Shaw noted in a previous email that she would be the "reviewer" working with the OGE in the vetting of Polite. But in this email dated April 14, 2021, Shaw appears to be seeking the opinion of the man being vetted as to whether her suggested wording of his Ethics Agreement might raise questions. (See document below. Redactions were made by the DOJ.)

On Wed, Apr 14, 2021 at 5:43 PM Shaw, Cynthia K. (JMD) <Cynthia.K.Shaw@usdoj.gov> wrote:

Hello,

Attached is today's draft of your Ethics Agreement. Would you please take a look at this and tell me if it raises questions.

Also, couple of follow-up questions:
--What day and month does MLB's fiscal year end?
--Is the end of the fiscal year when you expect to be paid the lump-sum payment or do you expect that payment to be made shortly after

(b) (5), (b) (6) [redacted]

Thank you!
Cindy

Cynthia K. Shaw
Director
Departmental Ethics Office
U.S. Department of Justice
(b) (6) [redacted]

Is it the legitimate job of an ethics reviewer to make sure no questions are raised by others?

After being put in charge of the Criminal Division under an understanding that he would recuse himself for two years in matters involving his prior clients at Morgan, Lewis & Bochius, Polite ended up resigning his position at the Criminal Division of the Department of Justice after just two years and two months in the job.

Polite headed for another big paycheck at corporate law firm Sidley Austin, where he is the "global co-leader of Sidley's White Collar Defense and Investigations practice."

Polite, like so many before him, has gone from head honcho in the top federal division mandated to root out and prosecute criminals to dramatically elevating his income by defending corporate executives against government-alleged crimes.

There is now no Senate-confirmed head of the Criminal Division of the DOJ. The woman Polite hired in May of 2022 to be his Chief of Staff, Nicole Argentieri, has stepped into the role of acting head of the Criminal Division.

Immediately prior to joining the Justice Department, Argentieri had been a partner in the White Collar Defense & Corporate Investigations department at corporate law firm O'Melveny & Myers.

These Are the Bank Bailout Charts the Fed Hopes You'll Never See in One Place

Jerome Powell became the Chairman of the Federal Reserve on February 5, 2018 after being nominated by then President Donald Trump and passing his Senate confirmation. Powell was sworn in again on May 23, 2022 for a second term as Chair. His second term runs until May 15, 2026.

Unlike most Fed Chairs, Powell has no economics degree. He has a law degree from Georgetown University. For more background on Powell, see our May 18, 2020 article: The Fed's Chair and Vice Chair Got Rich at Carlyle Group, a Private Equity Fund with a String of Bankruptcies and Job Losses.

Powell's tenure as Fed Chair has been mired by the biggest trading scandal in the Federal Reserve's 110-year history. That scandal has yet to be resolved in a manner that meets the test of accountability. See our October report: After Two Years, There's Still No Law Enforcement Report on Former Dallas Fed President Robert Kaplan's Trading Like a Hedge Fund Kingpin.

But the biggest Fed scandal hiding in plain sight involves the trillions of dollars in bailout loans that the Fed has funneled to Wall Street trading houses during the tenure of Powell as Fed Chair.

Despite Powell sticking to the same refrain in his Congressional testimony throughout his tenure as Fed Chair — that the U.S. banking system is operating in a safe and sound manner — the second, third and fourth largest bank failures in U.S. history occurred in a seven week span between March 10 and May 1 this past spring. Thus far, those failures have cost the Federal Deposit Insurance Corporation $32 billion in losses.

On June 21 of this year, Powell sat before the House Financial Services Committee and told its members that “The U.S. banking system is sound and resilient.” He told the U.S. Senate’s Banking Committee the same thing the next day.

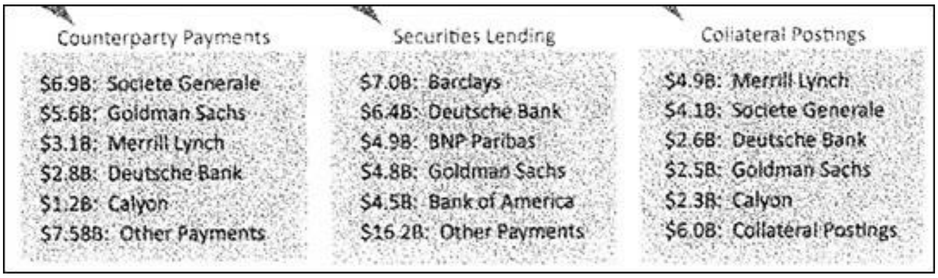
But the charts below, using data directly from the Fed, show a banking system in need of regular life support in the form of trillions of dollars in cumulative loans from the Fed. That is proof that there is a structural problem in the U.S. banking system, where exorbitant risk is concentrated among a handful of highly interconnected mega banks.

Largest Recipients of $19.6 Trillion in Federal Reserve Bailout Funds, 2007 to 2011

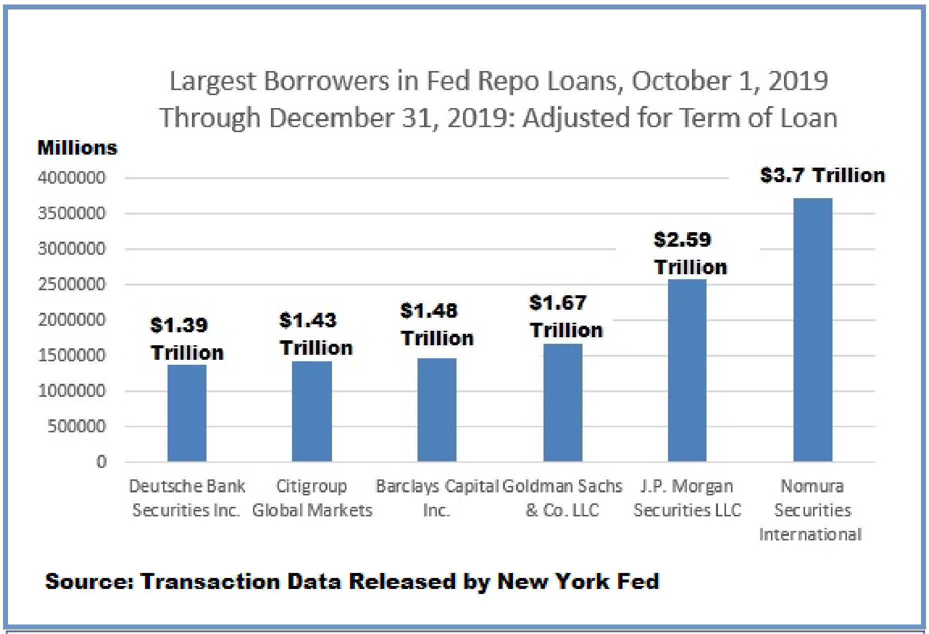
Participant	Total Billions	Percentage of total
Citigroup	$2,654.0	13.6%
Merrill Lynch	2,429.4	12.4
Morgan Stanley	2,274.3	11.6
AIG	1,046.7	5.4
Barclays (UK)	1,030.1	5.3
Bank of America	1,017.7	5.2
BNP Paribas (France)	1,002.2	5.1
Goldman Sachs	995.2	5.1
Bear Stearns	975.5	5.0
Credit Suisse (Switzerland)	772.8	4.0
Deutsche Bank (Germany)	711.0	3.6
RBS (UK)	628.4	3.2
JP Morgan Chase	456.9	2.3
UBS (Switzerland)	425.5	2.2
All others	3,139.3	16.1
Totals	**$19,559.00**	**100%**

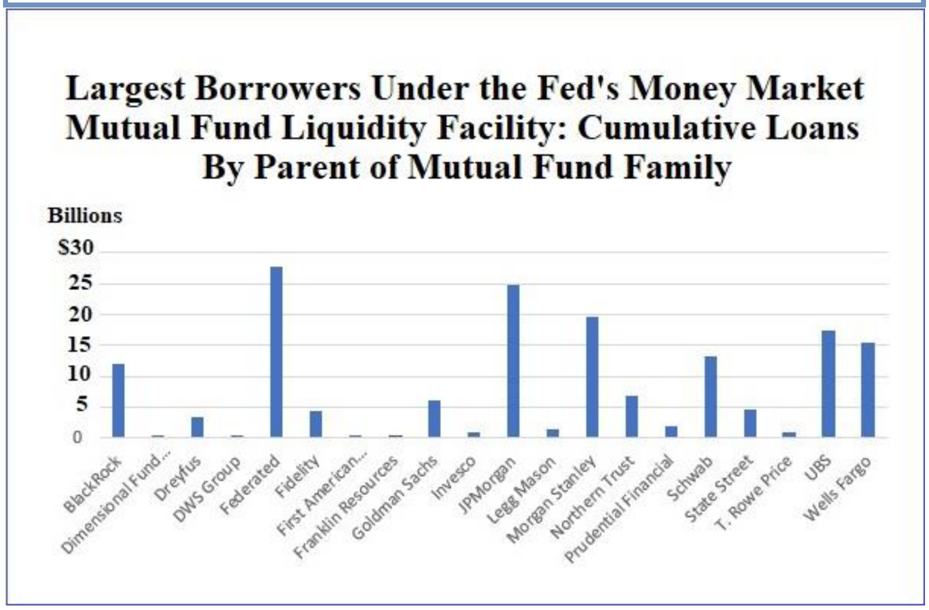
Source: Levy Economics Institute Using Federal Reserve Data.

Where a Large Part of AIG’s Government Bailout Money Went in 2008. Figures are in Billions. (Source: Congressional Oversight Panel)



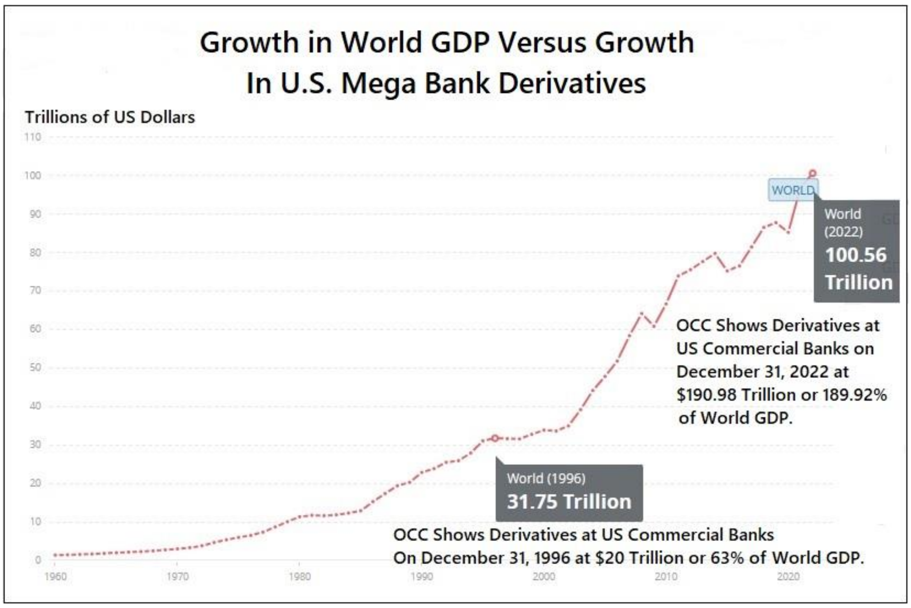
Counterparty Payments	Securities Lending	Collateral Postings
$6.9B: Societe Generale	$7.0B: Barclays	$4.9B: Merrill Lynch
$5.6B: Goldman Sachs	$6.4B: Deutsche Bank	$4.1B: Societe Generale
$3.1B: Merrill Lynch	$4.9B: BNP Paribas	$2.6B: Deutsche Bank
$2.8B: Deutsche Bank	$4.8B: Goldman Sachs	$2.5B: Goldman Sachs
$1.2B: Calyon	$4.5B: Bank of America	$2.3B: Calyon
$7.58B: Other Payments	$16.2B: Other Payments	$6.0B: Collateral Postings





The Fed's Money Market Mutual Fund Liquidity Facility made emergency loans from March 23, 2020 through April 23, 2020, but the program did not end on April 23, 2020. That's because these were not overnight loans. They were loans made for periods up to as long as 11 months in some cases – taking the program into 2021.

Three Wall Street Mega Banks Hold $157.3 Trillion in Derivatives – That's $56.7 Trillion More than the Entire World's GDP Last Year



At recent Congressional hearings on federal bank regulators' newly proposed rules to force the largest banks in the U.S. to hold more capital against their riskiest trading positions (so that taxpayers aren't on the hook for more bailouts), the banks and their sycophants holding Senate and House seats made it sound like it's the American farmers who will be hurt because the derivatives they use to hedge against crop failures or price swings in their crops will become more expensive..

We knew this was a completely bogus argument because the latest data from the U.S. Department of Agriculture indicates that "agriculture, food, and related industries contributed roughly $1.264 trillion to U.S. gross domestic product (GDP) in 2021…."

In other words, U.S. farmers need to hedge less than $2 trillion while just three mega banks on Wall Street were holding $157.3 trillion in derivatives as of September 30 of this year – which is $56.74 trillion more than the GDP of the *entire world* last year. (See chart above.)

If the bulk of these derivatives aren't being used by farmers and business owners to hedge against losses, what are they being used for? According to the Office of the Comptroller of the Currency (OCC), the federal regulator of national banks, the trillions of dollars in derivatives at the mega banks on Wall Street are being used for *trading* – likely for the benefit of the banks themselves or their billionaire speculator clients, such as hedge funds and family offices.

According to the OCC, as of September 30, JPMorgan Chase (which lost $6.2 billion from its federally-insured bank in wild derivative trades in 2012) is still allowed to sit on $54.4 trillion in derivatives. Citigroup's Citibank, which blew itself up in 2008 from derivatives and off-balance-sheet vehicles and received the largest bailout in global banking history, is sitting on more derivatives today than at the time of its crash in 2008. OCC data shows Citibank with $35.6 trillion in derivatives on September 30, 2008 (see Table 1 in the Appendix here) versus a staggering $51.3 trillion as of September 30, 2023. Goldman Sachs, whose federally-insured bank has just $538 *billion* in assets, has $51.6 *trillion* in derivatives. (In what alternative universe from hell would Goldman Sachs be allowed to own a federally-insured bank?)

Then there is the matter of concentrated risk. According to the FDIC, as of September 30, there were 4,614 federally-insured banks and savings associations in the U.S. – the vast majority of which found no need to involve the bank in derivatives at all. But, for some inexplicable reason, three banks with highly dubious histories have been allowed to establish insane levels of concentrated risk in derivatives. The $157.3 trillion in derivatives held by JPMorgan Chase Bank, Citibank and Goldman Sachs Bank USA represent 77 percent of all derivatives held by all 4,614 federally-insured financial institutions in the U.S. (See chart below.)

Notional Amounts of Derivative Contracts Held for Trading

Top Four Commercial Banks, Savings Associations, and Trust Companies in Derivatives, Millions of Dollars, September 30, 2023

Bank name	Total assets	Total derivatives	Total held for trading & MTM	Percent held for trading & MTM
JPMORGAN CHASE BANK NA	$3,385,581	$54,404,568	$52,423,285	98.7
GOLDMAN SACHS BANK USA	538,127	51,613,940	51,003,029	99.9
CITIBANK NATIONAL ASSN	1,657,372	51,307,008	49,722,899	99.8
BANK OF AMERICA NA	2,465,234	21,874,946	19,385,558	90.8
Top four commercial banks, SAs & TCs with derivatives	$8,046,314	$179,200,462	$172,534,771	98.4
Other commercial banks, SAs & TCs with derivatives	12,818,708	24,976,227	21,774,716	88.1
Total all commercial banks, SAs & TCs with derivatives	20,865,022	204,176,689	194,309,487	97.1

Source: Compiled by the OCC from Call Reports, Schedule RC-L

The chart at the top of this page shows how this derivative problem has grown since the repeal of the Glass-Steagall Act in 1999. The repeal removed the ban of casino trading houses on Wall Street merging with federally-insured banks. Today, every giant federally-insured bank on Wall Street owns a trading house. In 1996, prior to the repeal of Glass-Steagall, derivatives at U.S. banks represented just 63 percent of world GDP. At the end of last year, derivatives at U.S. banks represented 189.92 percent of world GDP.

To prevent a replay of the banks blowing themselves up as they did in 2008 while their federal regulators were napping, federal banking regulators in July proposed to impose higher capital rules on just 37 banks – those significantly engaged in derivatives and other high-risk trading strategies.

The backlash has been fierce, with the mega banks even running television ads painting a bogus and distorted picture of what the capital increases would do.

Another critical question is who is on the other side of these derivative trades with the mega banks and may blow up if they took the wrong side of the trade?

According to federal researchers, there are both mega bank counterparties as well as "non-bank financial counterparties" – which could be insurance companies, brokerage firms, asset managers or hedge funds. There are also "non-financial corporate counterparties" – which could be just about any domestic or foreign corporation. To put it another way, the American people have no idea if they own common stock in a publicly-traded company that could blow up any day from reckless dealings in derivatives with global banks.

This is not some far-fetched fantasy. Wall Street has a history of blowing up things with derivatives. Merrill Lynch blew up Orange County, California with derivatives. Some of the biggest trading houses on Wall Street blew up the giant insurer, AIG, with derivatives in 2008, forcing the U.S. government to take over AIG with a massive bailout.

According to documents released by the Financial Crisis Inquiry Commission (FCIC), at the time of Lehman Brothers' bankruptcy on September 15, 2008, it had more than 900,000 derivative contracts outstanding and had used the largest banks on Wall Street as its counterparties to many of these trades. The FCIC data shows that Lehman had more than 53,000 derivative contracts with JPMorgan Chase; more than 40,000 with Morgan Stanley; over 24,000 with Citigroup's Citibank; over 23,000 with Bank of America; and almost 19,000 with Goldman Sachs.

According to the Financial Crisis Inquiry Commission (FCIC), derivatives played an outsized role in the spread of financial panic in 2008. The FCIC wrote in its final report:

"the existence of millions of derivatives contracts of all types between systemically important financial institutions—unseen and unknown in this unregulated market—added to uncertainty and escalated panic…."

We are asking our readers to do their part to stop Wall Street mega banks and their legions of lobbyists from gutting the proposed capital rules. Please contact your U.S. Senators today via the U.S. Capitol switchboard by dialing (202) 224-3121. Tell your Senators to demand that banking regulators hold firm on the stronger capital rules for the casino banks on Wall Street.

The New York Fed Has Extended Its Half Trillion Dollar Bailout Facility to a Sprawling Japanese Bank You've Never Heard Of

Kazuto Oku, CEO of Norinchukin Bank

Quietly, on December 1, the New York Fed published the following statement on its website: “The Norinchukin Bank, New York Branch, has been added to the list of Standing Repo Facility Counterparties, effective December 1, 2023.”

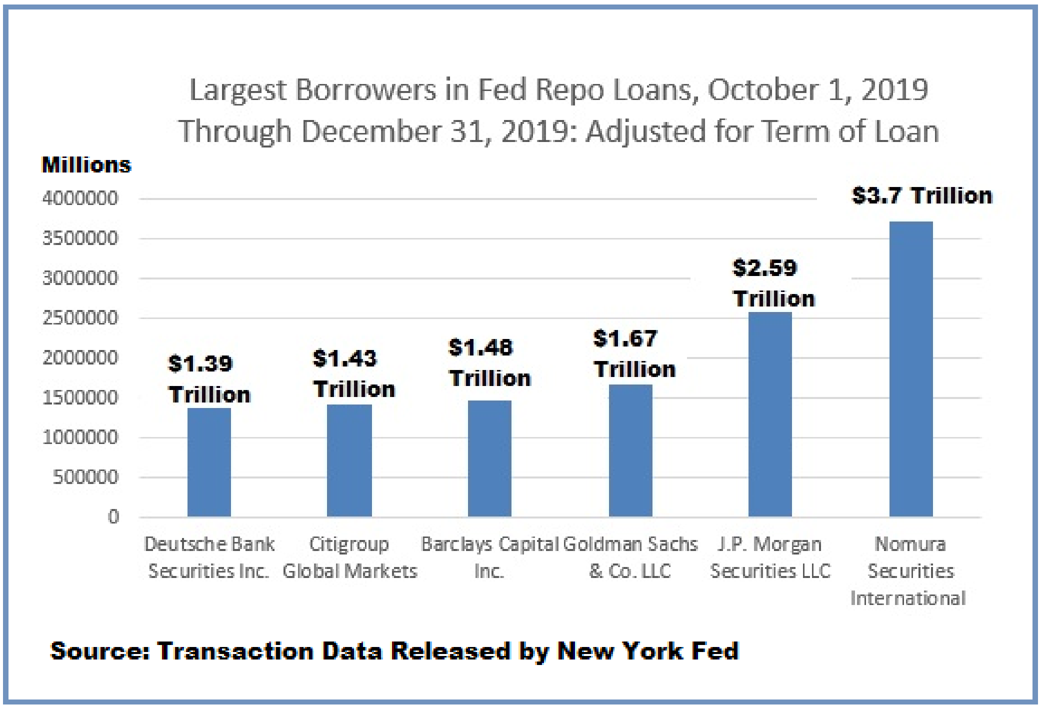
The Standing Repo Facility (SRF) is a permanent $500 billion bailout facility created by the Federal Reserve and operated by the New York Fed – the private regional Fed bank where multi-trillion dollar Wall Street bank bailouts have become a regular feature of its operations.

Without any action from the U.S. legislative branch (otherwise known as Congress), the Fed has unilaterally decided to become lender of last resort to Wall Street trading houses (whom the Fed prefers to call its “primary dealers”) and deposit-taking banks, including the uninsured New York branches of foreign banks like Norinchukin Bank.

If you have never heard of Norinchukin Bank, don’t feel badly. Neither have we and we’ve been monitoring global banks for decades. According to Norinchukin Bank’s financial statement for its fiscal year ending March 31, 2023, it had $708 billion in assets. If it were a U.S. bank, it would be the fifth largest by assets, just behind JPMorgan Chase, Bank of America, Wells Fargo and Citibank.

The notice from the New York Fed about adding Norinchukin Bank to its bailout facility grabbed our attention for two reasons. First, it came out on a Friday, which is typically when financial entities dump bad news they hope will disappear over the weekend. And also because the Standing Repo Facility was the successor to the trillions of dollars in still unexplained emergency repo loans the Fed had to pump into Wall Street in the fourth quarter of 2019.

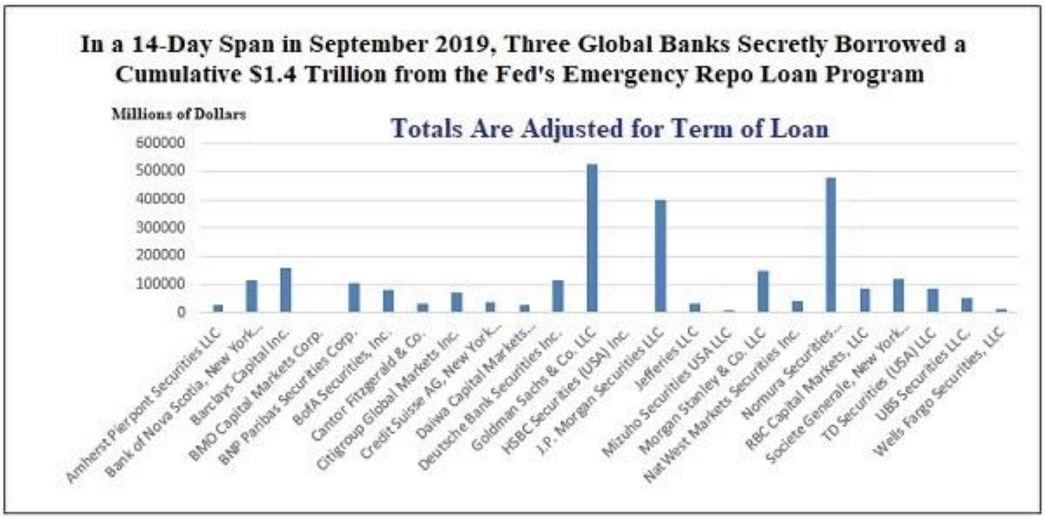
As indicated on the chart below, a unit of another Japanese bank, Nomura, was the largest recipient of Fed bailout largesse in the last quarter of 2019. Nomura borrowed $3.7 *trillion* cumulatively under the Fed’s emergency repo loan program, topping the amount borrowed by JPMorgan Chase by $1.11 trillion. The loan amounts on the chart come directly from the emergency repo loan data released quarterly by the New York Fed, adjusted for the term of the loan. (Reverse repo amounts have to be deleted from the data released by the Fed.)



The Fed swung into emergency mode on September 17, 2019 when the rate on overnight repo loans suddenly spiked from around 2.25 percent to as high as 10 percent at one point, strongly suggesting that Wall Street banks were backing away from questionable borrowers. The Fed set up its own repo facility to make tens of billions of dollars in loans available to trading houses on Wall Street *on a daily basis*, and at very cheap interest rates that did not reflect the credit risk of the individual trading houses. (Repos, short for Repurchase Agreements, are a short-term form of borrowing where corporations, banks, brokerage firms and hedge funds secure loans, typically for one day, by providing safe forms of collateral such as Treasury notes.) The Fed hadn't made these emergency repo loans since the financial crisis of 2008.

Instead of making just the typical overnight repo loans in 2019, the New York Fed extended some of these repo loans to 14-day, 28-day, and 42-day term loans, further suggesting some banks were in dire need of long-term liquidity.

The distress being experienced by Nomura likely came from its large derivatives exposure. The fact that JPMorgan Chase and Goldman Sachs were, from the get-go, also borrowing heavily from the Fed, suggests that the three firms were counterparties to each other's derivatives. (See 14-day chart below beginning when the Fed first launched its emergency repo loan bailouts in September 2019.)



Celebrating 100 years of existence this year, Norinchukin Bank describes itself as a wholesome outfit on its website:

"It is a cooperative private financial institution with a clear mission to 'contribute to the development of the nation's economy by supporting the advancement of Japan's agriculture, fishery and forestry industries by providing financial services for the members of the agricultural, fishery and forestry cooperative system.' "

Helping the agricultural, fishery and forestry industries in Japan, unfortunately, has somehow morphed into this:

"Under the policy of reinforcing our asset management business, we transferred our credit and alternative investment functions to Norinchukin Zenkyoren Asset Management (NZAM), an affiliated company of the Bank, in fiscal 2021. In addition, we newly established Norinchukin Capital (NCCAP), for private equity investment and Nochu-JAML Investment Advisors (NJIA), for managing domestic real estate private REITs.

"NZAM now offers a full lineup of products according to economic cycles and launched its credit flagship fund in August 2022. NJIA has begun managing a domestic real estate private REIT, in which the Bank also has a stake, offering prime yen-denominated investment opportunities. We will continue to ensure the effective use of our management experience to meet diversified customer needs (including ESG investment products)."

This sounds like some serious mission creep to us. Instead of its "clear mission" to support the "advancement of Japan's agriculture, fishery and forestry industries," Norinchukin Bank sounds like it is attempting to remake itself into a cross between Blackstone and Blackrock. According to its most recent financial statement, Norinchukin Bank does not appear to be heavily involved in derivatives. However, it has been heavily involved in CLOs – Collateralized Loan Obligations, which frequently include high risk debt.

In February of 2020, Reuters reported this: “Norinchukin, the world’s largest CLO investor, ceased its buying in the second half of 2019. Its December holdings were ¥8trn (US$72bn), the same level as in June last year, according to the bank’s latest result released early this month.”

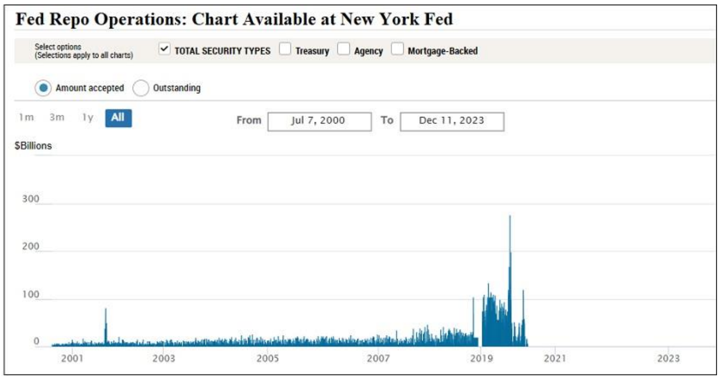
The Fed may have another particular interest in making sure Norinchukin Bank has ample access to liquidity. The bank has typically been a large buyer of U.S. Treasury securities. In a NikkeiAsia.com interview in March of this year, Norinchukin Bank’s Chief Investment Officer, Hiroshi Yuda, said this:

“We were hit with unrealized losses, largely in U.S. government bonds. We actually started reshuffling our bond holdings in 2021 to prepare for rates to rise, but we rushed to unload in response to the jump in 2022. We sold around 12 trillion yen in securities, mainly U.S. government bonds, in the April-September half. We have continued to sell since October.”

At today’s conversion rate, dumping 12 trillion yen in U.S. government bonds amounts to dumping $84.6 billion. When U.S. government bonds are sold in large quantities, it puts downward pressure on the price of the bond in the secondary trading market, resulting in higher yields. Higher yields, in turn, raise the debt service cost to the U.S. government. Like mega banks in the U.S., Norinchukin Bank is also grappling with heavy unrealized losses on the government debt securities it has not dumped into the market but is maintaining on its balance sheet. According to its fiscal year-end financial statement linked above, at fiscal year-end (March 31, 2023) it had unrealized losses on investment securities of $20 billion, which netted out to a loss of $10.76 billion after adjustments for reclassification and tax effects.

The bottom line is this: what kind of a Faustian bargain has the Fed ensnarled itself in by becoming the lender of last resort to sprawling trading operations around the globe? And how long will Americans continue to allow the privately-owned New York Fed to usurp power from the elected members of the le

If Wall Street’s Mega Banks Are Safe and Sound as the Fed Says, Why Do They Need a Half Trillion Dollar Bailout Facility at the New York Fed?



There is a battle raging between the Wall Street mega banks and their federal banking regulators. The regulators want the mega banks to hold more capital against their high risk trading positions to prevent a replay of the bailouts in 2008 and repo bailouts in the fall of 2019. The mega banks have launched a deceptive ad campaign and public relations battle to thwart that from happening.

The federal regulators' efforts to raise capital are being undermined by Fed Chairman Jay Powell's perpetual testimony to Congress that the U.S. banking system is safe and sound and adequately capitalized.

Thus far, no member of Congress has thought to question Fed Chair Powell during public hearings as to why the Fed needs a new permanent bailout facility of $500 billion, on top of its century-old Discount Window, if the banking system is adequately capitalized.

The half trillion dollar bailout facility has the benign-sounding name of Standing Repo Facility (SRF). (The Fed always gives a benign-sounding name to the unprecedented bailout facilities it has been perpetually creating since 2008.)

On July 28, 2021, when first disclosing the creation of the SRF, the Federal Reserve made the following unprecedented announcement:

"Under the SRF [Standing Repo Facility], the Federal Reserve will conduct daily overnight repo operations against Treasury securities, agency debt securities, and agency mortgage-backed securities, with a maximum operation size of $500 billion. The minimum bid rate for repos under the facility will be set initially at 25 basis points, somewhat above the general level of overnight interest rates. Counterparties for this facility will include primary dealers and will be expanded over time to include additional depository institutions."

Primary dealers are decidedly *not* deposit-taking institutions. The word "dealer" gives this away. They are broker-dealers, meaning their business is the trading of securities, such as stocks, bonds, commodities, and futures. It was never the intent of Congress to make the Federal Reserve the lender of last resort to trading casinos on Wall Street.

Repos, short for Repurchase Agreements, are overnight loans that are typically made between financial institutions where safe collateral such as short-term Treasury securities are posted to ensure the repayment of the loan. When the Fed has to get involved in the Repo market, it means there is a liquidity crisis of some nature, such as mega banks backing away from lending to each other out of fear of default.

The chart above shows the increasing nature of the Fed's involvement in the repo market as a bailout facility to the trading houses on Wall Street.

The controlling legislation for the Federal Reserve is the Federal Reserve Act. That legislation makes clear that the Fed is to be the lender of last resort to depository institutions – those taking deposits from individuals and businesses –

by making short term loans through its Discount Window. (Depository institutions are worthy of central bank emergency loans because they, in turn, make loans to consumers and businesses to grow the U.S. economy.) In case of a dire emergency, the Fed is also allowed to make *short-term loans* under emergency lending facilities. The Fed's establishment of a *permanent lending facility* to support *securities trading* on Wall Street shows just how distorted the Fed's mission has become.

The Fed has also made it possible for the mega banks on Wall Street to now get two bites from the same apple. Each of the mega banks own a primary dealer (securities trading house) as well as a federally-insured bank. The Fed has now made both units eligible to borrow from its Standing Repo Facility.

For example, JPMorgan Chase's broker-dealer, J.P. Morgan Securities LLP, is a primary dealer with the New York Fed and, thus, automatically eligible to borrow from the Standing Repo Facility. The Fed has also approved JPMorgan Chase Bank, the federally-insured banking unit of JPMorgan Chase, to borrow at its Standing Repo Facility. Two units of the same corporate parent will now be able to tap the daily maximum lending limit set by the Fed, giving the mega bank twice the borrowing capacity.

The chart above from the New York Fed shows that no lending has occurred from the Fed's repo facility or Standing Repo Facility since the still unexplained mega bank crisis in the last quarter of 2019 through the COVID pandemic crisis of 2020. And yet, the New York Fed has this statement on its website:

"The New York Fed Trading Desk conducts overnight repo transactions under a Standing Repo Facility to support the effective implementation of monetary policy and smooth market functioning. In addition to primary dealers, participants in these transactions include Standing Repo Facility counterparties."

For insight into whether the New York Fed has actually stopped making its bailout repo loans or just tucked them into a more opaque part of its own plumbing, see our report: Watchdog Report: Fed's Billions in Emergency Repo Loans to Wall Street Didn't Go Away in June; They Just Went Dark.

The New York Fed's insatiable money spigot to the mega banks on Wall Street impacts the U.S. economy because it fuels wealth inequality by enriching the top 10 percent of Americans who own the vast majority of all stocks and bonds in the U.S. It impacts the economy further because it is ballooning the size of the Fed's balance sheet (which now stands at $7.8 trillion) which the U.S. taxpayer is ultimately on the hook for. It impacts the U.S. economy because it is worsening the bubble that already exists in the stock market, thus making the inevitable bursting of the bubble worse. And it impacts the U.S. economy because these unprecedented bailouts of Wall Street by the Fed undermine the trust the American people have in their central bank and the U.S. banking system. (See here and here.)

The Federal Reserve has outsourced most of its bailout activity beginning in 2008 to just one of its 12 regional Fed banks, the New York Fed, which is privately owned by the mega Wall Street banks in its district.

The New York Fed is also the most inherently conflicted Frankenbank in the history of central banks. Not one member of its Board or management is elected by the American people and yet it can create trillions of dollars at the push of an electronic button and make that money flow to benefit the interests of the top ten percent of Americans. (It's no wonder that New York City ranks number one among cities in the world for the largest number of billionaires, with 136 billionaires living there in 2022.)

Henry Steele Commager, an American historian, once wrote that "The generation that made the nation thought secrecy in government one of the instruments of old world tyranny and committed itself to the principle that a democracy cannot function unless people are permitted to know what their government is up to."

Tragically, the U.S. government has outsourced its money-printing to an unaccountable, privately-owned facility in lower Manhattan that has no respect for the public's right to know. The New York Fed has a long history of denying basic information to *Wall Street On Parade* in order to keep a very dark curtain around its interconnections to Wall Street's trading houses.

In 2013, *Wall Street On Parade* attempted to obtain a simple photograph of the trading floor of the New York Fed, which interacts daily with the trading floors on Wall Street. No photograph was forthcoming. Instead, we had to spend weeks researching other sources until we located photographs from an educational video. The New York Fed has since that time quietly established yet another trading floor in Chicago, the center of the futures markets.

On April 6, 2015 William (Bill) Dudley, the President of the New York Fed at the time, stated in a speech that "the Federal Reserve already is very transparent and accountable to Congress and to the public." Two days later, *Wall Street On Parade* attempted to get one piece of very basic information from the Fed. Again we were stonewalled. We wanted to know if JPMorgan Chase, a bank operating at the time under a deferred prosecution agreement for criminal acts and under a criminal investigation for potential currency rigging (it pleaded guilty to that count in May 2015) was still the custodian of $1.7 trillion of mortgage backed securities owned by the Federal Reserve, as we had reported on November 3, 2014.

In the fall of 2019 there was speculation on Wall Street at the time the Fed initiated its emergency repo loans, that JPMorgan Chase had played a role in triggering the lack of liquidity in the repo loan market by withdrawing large sums from its liquid reserves at the Fed. The $158 billion that JPMorgan Chase withdrew in 2019 from its liquid reserves at the Fed represented 57 percent of its total reserves at the U.S. central bank.

Wall Street On Parade attempted to learn more about this by filing two Freedom of Information Act (FOIA) requests, one with the Federal Reserve in Washington, D.C. and one with the New York Fed, which likes to say that it follows the Federal Reserve's FOIA guidelines.

The Federal Reserve acknowledged to Wall Street On Parade on March 11, 2020 that it had 233 documents that might provide some transparency on why JPMorgan Chase was allowed to draw down $158 billion of its reserves. After taking four months to respond to what should have been a 20-business day turnaround on our Freedom of Information Act request, the Federal Reserve denied our FOIA in its entirety. (Our earlier request to the New York Fed resulted in the same kind of stonewalling. See The New York Fed Is Keeping JPMorgan's Secrets Close to Its Chest.)

The Federal Reserve Board of Governors in Washington, D.C. has also been a party to protecting its interactions with Wall Street from public scrutiny. Ben Bernanke, the Fed Chairman during the financial crisis, stated that one of his priorities was to "make the Federal Reserve more transparent." But in December of 2013, when we asked the communications office of the Fed for Bernanke's 2007 and 2008 appointment calendar, we were told we would have to file a Freedom of Information Act (FOIA) request for it – an obvious stalling tactic for something so basic.

When we finally received the appointment calendar, there were redactions of 84 meetings that occurred between January 1, 2007 and the pivotal collapse of Bear Stearns on the weekend of March 15-16, 2008. Bernanke's calendar for March 7, 2008 shows a full day of appointments redacted. The Fed might possibly justify this level of secrecy in the midst of a financial panic, but we received the deeply redacted materials six years after the crisis.

And for how *Wall Street On Parade* was stonewalled on our FOIAs for information on the worst trading scandal in Fed history, see our report: The Fed Pulls a Dark Curtain Around Former Dallas Fed President, Robert Kaplan, and His Trading in S&P 500 Futures.

If you believe a democracy requires transparency and accountability from those in positions of power, we urge you to call your U.S. Senators today and demand hearings, under oath, on the structure of the New York Fed and its crony ties to Wall Street.