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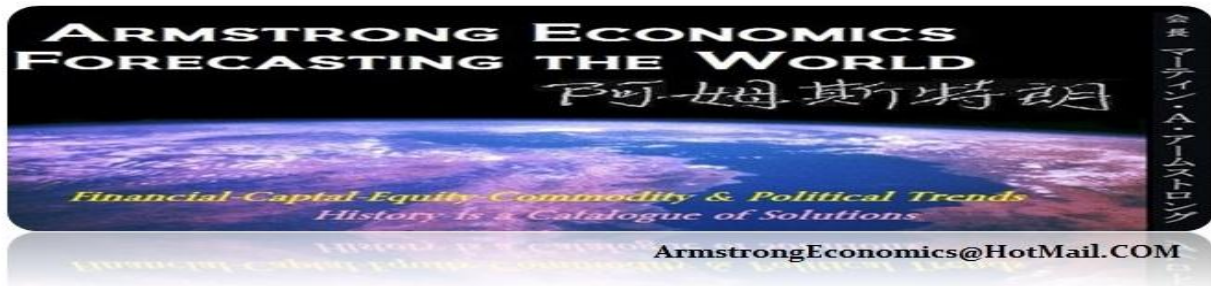
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TRADING WITH OTHER PEOPLE'S MONEY
 THE COLLAPSE OF THE - WORLD FINANCIAL SYSTEM
 WHY MF GLOBAL IS WORSE THAN EUROPE

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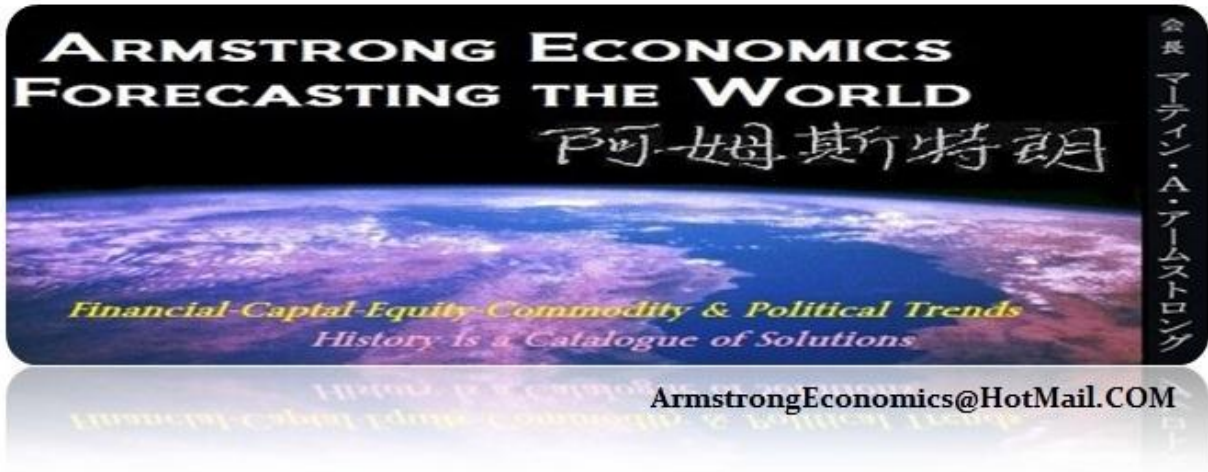
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Jon Corzine

Gary Gensler, CFTC Chairman

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TRADING WITH OTHER PEOPLE'S MONEY THE COLLAPSE OF THE - WORLD FINANCIAL SYSTEM WHY MF GLOBAL IS WORSE THAN EUROPE

By: Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.

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[HTTP://WWW.YOUTUBE.COM/WATCH?V=LCIN5ZQ7GKW](http://www.youtube.com/watch?v=LCIN5ZQ7GKW)

The shocking collapse of MF Global with the amount of missing client funds now rising to \$1.2 billion, is so devastating, we are at the precipice of complete financial disaster. The United States boasts far too much of its greatness and *"liberty and justice for all"* but its actions reveal nothing but greed, disdain, and contempt of the rights of man that include his right to property. Jon Corzine was a bond trader at Goldman Sachs and has been known as an aggressive trader all along. He intervened at the SEC and changed the direction of MF Global. What is at stake now is exposing the political corruption of the New York media, courts, Justice Department, Commodity Futures Trading Commission, Securities Exchange

Commission, and political process has come together in such a way that the fate of the nation is truly hanging in the balance. Why do I make such a bold statement? The failure of the clearing houses to step up and honor the trades is devastating. The conduct of the SEC and CFTC is despicable and how can you place **ANYONE** at the helm of either “regulator” who would **EVER** be in a position to have to recuse himself as the **Commodity Futures Trading Commission’s** chairman, Gary Gensler has done for being ex-Goldman Sachs? Gensler can claim he recused himself, but that is bullshit for how can he do that and still run the Commission? He was replaced by Jill E. Sommers who previously worked for **Chicago Mercantile Exchange**, where her responsibilities included overseeing regulatory and legislative affairs for the exchange and working closely with congressional staff drafting the **Commodity Futures Modernization Act of 2000**. So now we have Sommers who clearly has a conflict of interest as to the failure of the **CME** to conduct auditing and to allow such trading with client’s money in the first place.

Finally, the CFTC passed a measure that at long last required brokers not trade with client’s money by a 5-0 vote AFTER THE FACT! The rule was initially proposed by the CFTC in October 2010 and it took MF Global to at last establish this precedent. In my own case, the CFTC made that a primary allegation (failure to segregate) and used this as the justification to ask for a receiver to seize the company. It has **NEVER** been a crime. In my own case it becomes clear that Bloomberg News simply always refused to **EVER** even print my defense and ignored the very plea that stated clearly that the segregation of funds was **NEVER** concerning accounts of Princeton Economics but that it was Republic National Bank that had then used our accounts for their own benefit precisely as MF Global. Since the CFTC just now is making it a violation to trade with client’s money shows how it has been a **COMMON** practice all along.



Jill E. Sommers

Of course anything that tells the truth about New York is not newsworthy in the eyes of Bloomberg News when it exposes the banks – their clients. This bias strips them of any justification to dare call themselves journalists. This is what I had to read in a script written by the government no different from a hostage

THE DEFENDANT: Among the things that were represented to investors by my agents in Japan on my behalf and with my knowledge when the investments were solicited was that investor's money would be held in accounts at Republic New York Securities, and my agents also told investors that their monies in those accounts would be separate and segregated from Republic's own accounts and would not be available to Republic for its own benefit.

held by Iran put before the media to read similar scripts. But these were the words the government gave me to read where they could not trace 10 cents to any personal account of mine, but everything was taken by Republic. When they first ran to the government after my lawyers filed notice we would sue on this issue of trading with our funds, they told the government I conspired with the **THEIR OWN** employees to hide their trading from the Japanese. That would sound good if the accounts belonged to the Japanese. Once they could not get around the fact we purchased portfolios and the accounts did not belong to the Japanese, they would never go to trial.



O'MELVENY & MYERS LLP



Andrew J. Geist

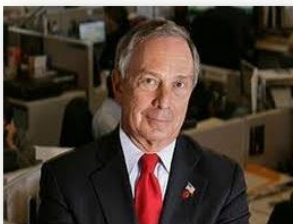
Conflicts of Interest in New York are no longer reason to prevent rigging the game. In our own case, **Andrew J. Geist** was then at the SEC and was the Senior Associate Regional Director for Enforcement in the SEC's Northeast Regional Office. This is the man that authorized filing the case and seizure of Princeton Economics. Aside from the fact that this man wanted the US Constitution suspended and that the company was to be denied the right to hire a lawyer, he then directed that **O'Melveny & Myers LLP** be the lawyer for the receiver he also picked, Alan Cohen who is head of Global Compliance of Goldman Sachs. After that is accomplished, he then quits the SEC and becomes a partner in **O'Melveny & Myers, LLP** the very law firm he selected. In **Armstrong v. McAlpin, 625 F.2d 433 (2d Cir. 1980) (no relation)** it was held that former government lawyers cannot then participate in the same case. The Model Code of Professional Responsibility forbids a former government attorney from accepting private employment in the same matters for which he had substantial responsibility while working for the government. Violation of this rule requires the former government attorney's disqualification from the case at issue. The Code also provides that if an attorney is disqualified under any of its rules, then all associates or members of his firm should be disqualified (**MODEL CODE OF PROFESSIONAL RESPONSIBILITY DR 5-105(D)**). They just do not care in New York and if you raise the issue, the judge will not address it and he then gets pist-off at you and will retaliate.

The same was true about Hank Paulson claiming to be Secretary of the Treasury, who signs conflict of interest restrictions regarding Goldman Sachs upon taking office, but when the meltdown takes place gets everything was waved so he could deal with the very firm at the very moment of conflict! This status of Goldman Sachs Alumni infiltrating the executive functions (non-elected) both in America and Europe is threatening our very way of life. Enough is enough. We do not need recusals and unenforceable conflict of interest covenants that are inevitably waived when the Justice Department would never prosecute a violation anyway. We need **HONEST** government. We need the **RIGHT** to sue the press for **NOT** reporting the truth before judges who have **NEVER** worked for government and are **NOT** there for life.



Hank Paulson Secretary Treasury
Former CEO Goldman Sachs

The major New York Press groups are owned by major corporate players who are or were obviously involved in the whole scheme. Take Bloomberg News where Michael Bloomberg was a partner in Salomon Brothers who was discovered manipulating the US government Treasury Auctions. This is why even when Bloomberg News has been handed the very evidence that shows the story is false and the choice is between reporting the truth or supporting the corruption in New York, they refuse to publish the truth claiming they "**will not relitigate the case**" which amounts to censoring



Mayor Michael Bloomberg
was a partner at Salomon Brothers

the information that belongs to the public. This is the most tyrannical role that any press organization can play and it precisely this lack of independence that threatens the entire world economy not just the American people and their liberty. This bullshit about protecting the “club” in New York has got to stop and when the press is bought and paid for, this amounts to **TREASON** against the right to a free society to remain free. This is **NOT** performing the role of the **First Amendment** and the dishonesty of the NY press has also become part of the whole problem that is destroying our way of life. This incestuous corruption must come to an end!

The US conviction rate now stands in the Federal system at about 98.5%. While it is slightly lower than that of Japan 99% or the Israeli military courts in the West Bank where the conviction rate is 99.74% for Palestinians as recently published by the Israeli newspaper Haaretz where there were 9,542 cases in 2010, including over 2,000 involving "hostile terror activity," these rates of conviction warn that government is out of control. Where the Israeli Military Court is ruthless with just 25 full acquittals, this thirst for blood today is far worse than the most notorious court of Adolf Hitler, to put this in perspective. Hitler established the **People's Court** (Volksgerichtshof) after the terrorist bombing of the German parliament building, the Reichstag just as the USA set up Homeland Security and fingerprints everyone just visiting the USA after 911.

Roland Freisler (1893–1945) was a prominent and notorious Nazi lawyer and judge. He was State Secretary of the Reich Ministry of Justice and President of the **People's Court**, which was set up outside constitutional authority. This court handled political actions against Hitler's dictatorial regime by conducting a series of show trials. The conviction rate was lower than most governments today with approximately 90% of all proceedings ending with sentences of death or life imprisonment. Between 1942 and 1945, more than 5,000 death sentences were handed out, and of these, some 2,600 through the court's First Senate, which Freisler headed.



Roland Freisler (1893–1945)

In Russia under the Communists the conviction rate was 90%. It is clear that whenever the judges are appointed by government, the conviction rates rise. Thomas Jefferson was correct – no man can be trusted for life. The conviction rate in China is 98%. A judge and prosecutor are there to vindicate the government. When we consider these factors it becomes obvious that a fair trial is extremely hard to obtain and is impossible in the federal system. The overall national conviction rate including states is about 80% in the USA, but in the federal system it jumps to 98.5%.

We can see how this type of corruption can infiltrate the entire legal system that effect even the financial markets because this is corruption that is political in nature. We have reentered a period of legal corruption where they use the pretense of law to exploit the private wealth of citizens. It was Edward Gibbon who wrote in the ***Decline and Fall of the Roman Empire***; “Suspicion was equivalent to proof; trial to condemnation. The execution of a considerable senator was attended with the death of all who might lament or revenge his fate; and when Commodus had once tasted human blood, he became incapable of pity or remorse.” (Vol I, Chapter IV, Part I). Today, if anyone is spared death or imprisonment in the USA, it is considered “liberal” and the federal judge is not respected. Any federal

crime even so minor traffic offenses on federal property are always accompanied by imprisonment even if for just one week.

With the state of the law in America at this time, how is it possible to now trade in **ANY** “regulated” US market when there is no rule of law? The keepers of the law are now bought and paid for. Federal Courts are out of control and currently we are seeing the real mistake of allowing Congress to create courts ignoring the spirit of the US Constitution. It was to be **liberty and justice for all** that was supposed to be the **top** priority in creating the Federal Courts. The danger Congress created was the failure to separate equity and law. At the time 1789 in England, there were two courts, Chancery and Law (King’s Bench). Parliament wrote the LAWS and they were supposed to be enforced to the letter without discretion. If the strict imposition of the law was somehow unfair, then you could go to the Chancery for some relief. The Chancery Court had the power of discretion to make “equitable” decisions. Place both types of courts in the same judge has been a total disaster and this threatens the entire global economy as evidence by the MF Global debacle that is now calling into question the ability to even trade.

Under equity (chancery), the practice of using “discretion” has long been the doorway to abuse and corruption precisely as we have today running wild in federal courts. As long as it serves Government, the Senate Judiciary Committee will continue to allow the citizens to be abused to fill the coffers of Government. The MF Global debacle is an example where they will not clawback funds from banks, but are abusing the depositors instead. Charles Dickens wrote Bleak House in 1853 and in Chapter I he states clearly the same corruption we face again today.

“This is the Court of Chancery, which has its decaying houses and its blighted lands in every shire, which has its worn-out lunatic in every madhouse and its dead in every churchyard, which has its ruined suitor with his slipshod heels and threadbare dress borrowing and begging through the round of every man’s acquaintance, which gives to monied might the means abundantly of wearying out the right, which so exhausts finances, patience, courage, hope, so overthrows the brain and breaks the heart, that there is not an honourable man among its practitioners who would not give—who does not often give—the warning, ‘Suffer any wrong that can be done you rather than come here!’”

Unfortunately, the Constitution did not expressly state that the power of “**Law and Equity**” shall reside in the separate courts. This has been our fatal mistake for it has allowed the same judge to use equity “discretion” to ignore the “law” and that destroys our democratic system where the **PEOPLE** were to make laws, not kings. But when “discretion” is used by judges, they are making law eliminating the PEOPLE and converting the USA into a Judicial Dictatorship. Constitutionally, Congress NEVER had such power to create a new combined court. **Sir William Blackstone** (1723-1780) makes that clear “**For though the king might erect new courts, yet he could not alter the course of law...**” (Commentaries Book III, Chapter 6, p84). Combining both in the same court destroyed law and created a hybrid court that not even the king could have done, no less Congress, but what court would now agree?

“The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority”
Article III, Section 2 did not authorize hybrid courts

This “discretion” is why MF Global customers are getting cheated! The rights, privileges, and immunities of ALL those customers who simply had an account at MF Global are about to get really screwed by the presiding **Judge Martin Glenn** creating whatever it is that he thinks is fair (discretion), not what the law says since he presides in equity (chancery). In the United States, Congress vested both **LAW** and **EQUITY** in the same courts. This has undermined everything. That means that Congress can pass a law, and the judges do not have to obey the law at all calling it their right of “equity” to determine if it is what they would write. In **MORRISON v. NATIONAL AUSTRALIA BANK LTD.**, 558 US – (6/24/2010) the Supreme Court overruled ALL securities law of the New York Second Circuit because they were applying the law based upon what they think Congress would like them to do. They have been creating “judicial law” in securities since the beginning. This is so anti-Constitution and against the principles of any “democracy” because it eliminates the people entirely. This becomes a judicial dictatorship no different than **Gaddafi**.



Judge Martin Glenn

There is no actual law authorizing a “**clawback**” but the NY court will create whatever it wants. The New York Bankruptcy Judge is Martin Glenn who was the very lawyer for the Receiver in the case of Princeton Economics who defended Republic National Bank and HSBC. In this case, it was Glenn who argued for the right of judges to imprison anyone for life until death without lawyers or trial by jury. The New York Law Journal on January 7, 2002 reported that Martin Glenn argued for the contempt and reported it was starting to “*resemble a merry-go-round that never stops.*”

When I offered evidence that Republic had stolen the money using it for its own trading the SAME as MF Global, Glenn and his team replied that they “**believed**” Republic’s story and refused to allow ANY suit against Republic. They were clearly trying to take everything for the banks and to cheat the Japanese. I then had to do interviews with the Japanese press to tell the Japanese that Republic took the funds and they should file suit in New York. Had they NOT filed in New York, Martin Glenn as the lawyer for the receiver would have protected Republic National Bank to the death and aided them in keeping over \$1 billion dollars, which seems to be going on with MF Global. If I was guilty, Republic kept the money. That is what he was insisting.

This time, instead of being the lawyer defending the banks, Martin Glenn is now the judge presiding over MF Global! Do you really think he will defend the clients or the NY banking community? In another case his law clerk even wrote part of the brief of an adversary before Judge Glenn. He was asked to recuse himself and refused, since judges can violate every sense of decency, morality, and sit in judgment over themselves. If they were truly unbiased, then hand the case to someone else. They refuse to recuse themselves because they want the case which confirms the bias in a self-fulfilling prophecy. This is far too corrupt.

http://www.nysb.uscourts.gov/opinions/mg/104370_923_opinion.pdf



James Giddens

Now we have the liquidator Trustee James Giddens of MF Global has already been accused by some customers of having a conflict of interest because of his past work done for JPMorgan Chase & Co. in 2009 and 2010. He argued that this was less than one-tenth of 1 percent of his law firm's total. JPMorgan, a lender to MF Global's parent company, in court papers after the judge handling the bankruptcies ordered him to describe his relationship with the biggest U.S. bank. Customers have said he may have interests opposed to theirs because of such work. You cannot represent JPMorgan, claim they do not pay you that much, and refuse to recuse when in fact the reward comes after the case, not before. His refusal to recuse is once more indicative of bias and he has refused to qualify precisely what he did for JPMorgan, while then conceding his firm has "*historically*" represented that bank. It is

JPMorgan that is the agent to a \$1.2 billion loan to the brokerage's parent, MF Global Holdings Ltd., and is allowing the company to use cash securing a loan that belongs to clients. By contrast, Giddens said that he had "investigated and actively pursued claims" against the JPMorgan in his role as trustee of the Lehman Brothers Inc. brokerage, settling for \$860 million. But that was bank v bank. This is bank v people who are normally screwed in New York courts to start with.

Giddens' staff attorney James Kobak testified before the House Agricultural Committee on Thursday, December 8th, 2011, stating that the total customer accounts at MF Global were "between \$5.5 billion and \$6 billion", which is expanding the original \$5.45 billion estimate from MF's primary clearinghouse, the Chicago Mercantile Exchange who has utterly failed in its duty to protect investors. If this is correct, then the missing customer funds may rise from \$1.2 billion to nearly \$2 billion. Kobak admitted the \$1.2 billion shortfall estimate is fluid, since it had more than already doubled from the original \$600 million statements.

Giddens and several federal authorities are investigating the cause of the shortfall but they are not likely to reveal the truth of what has become standard practice in trading with other people's money. The nightmare was customer accounts with open positions that became frozen. While Kobak is being optimistic that total recoveries could be as much as 70 percent of accounts, he will not clawback funds from other brokers or banks letting them keep their illegal gains.



The liquidation case is:

In re MF Global Inc, U.S. Bankruptcy Court, Southern District of New York, No. 11-2790.

Judge Martin Glenn



TRADING WITH OTHER PEOPLE'S MONEY THE INTERNATIONAL LOOPHOLES THAT ARE THREATENING THE ENTIRE FINANCIAL SYSTEM

Whenever you get to play with other people's money by force or scheme be it government, as Milton Friedman eloquently said <http://www.youtube.com/watch?v=k2Kg2Svs18Q>, or banks and brokers, as MF Global has done, the end game is always tyranny. In the instant case of MF Global, there is a legal loophole in international brokerage regulations that is time to explain before you leave a dime in **ANY** New York operation. You should **DEMAND** from any broker a signed agreement that they will **NOT** invest your cash or assets in any market, exchange, or transaction where your property is up for grabs based upon their covert use of your money!

MF Global and virtually all of its Wall Street counterparts have been circumventing U.S. securities rules at the expense of their clients for decades, and people like **Judge Martin Glenn** is by no means about to change the game or expose what has been really taking place. Client funds were by no means just inadvertently misplaced or gobbled up in MF's dying hours as is being desperately portrayed by the NY media once again covering up the truth. These were losses created by manipulation of brokerage rules that allowed for the wholesale acquisition and sale of client funds through **re-hypothecation**. I was aware of this for decades and purposefully purchased Fannie Maes, which were **NOT** AAA and could not

be **re-hypothecated** by either posting them as collateral at the exchanges or in the REPO market. MF Global, as other NY firms, used clients' funds to finance an enormous \$6.2 billion Eurozone repo bet that was approved personally by Corzine. What this has amounted to is any win was to MF Global's benefit, while the losses belonged to clients. If the trustee is even correct and without going after other NY bankers as Martin Glenn did in Princeton Economics, a 70% recovery means they still stole 30% of all deposits when their bad trade was netted out. Nobody goes to jail, as was the case in Princeton Economics since Republic & HSBC agreed to give back what they stole provided no director went to jail. SO this is what Martin Glenn argued for in addition to indefinite detention with all constitutional rights suspended until you die. We just cannot expect anything honest or upfront from Judge Glenn based upon his track record. This is the guy who argued that since corporations have no rights to remain silent, then nobody who works for a corporation does either. Investors should cite my case before Judge Glenn, use his own words, and then move to imprison all corporate officers of MF Global until they die. He said that was constitutional since corporate officers have no rights.

The MF Global use of customer funds has now reached at least \$1.2 billion and the picture emerging is precisely why I tried to prevent any **re-hypothecation** using Fannie Maes – because I knew it was a systemic and widespread practice with other people's money. In the early 1980s when interest rates were high, Drexel Burnham gave me a choice to sell my cash at night as my accounts would be automatically swept and I was paid a portion of the interest earned. As time passed, the brokers after 1987 no longer offered any such overnight rate and began to keep that interest for themselves. This has been known among regulators for decades. This is not something new. The press like **Bloomberg News** knew about this practice and nobody was willing to report it or direct that it stop especially when Bloomberg himself was a partner in Salomon Brothers.

Up until now the assumption has been that the funds missing were simply misappropriated by MF Global and any bankruptcy filing would not be justified. However, this is why so many conflicts of interest exist in this case for they are needed to protect the other banks once again. That client money should be taken back from the banks it was used for trading. In basic law, if someone steals your car, repaints it, and resells it, once found, you still have the title. In this case, MF Global **NEVER** had **TITLE** to those funds and they have to be returned to the clients and the counter-party bankers as a fundamental matter of law cannot keep them.

“The interpretation of a contract is a question of law to de novo review on appeal.” SEC v Elliott, 953 F2d 1560, 1582 (11th Cir 1992). This is vital for nowhere in an account contract did the client authorize MF Global to trade on its own account with the funds in the account. Without that written authority, this is criminal fraud. The Trustee and the presiding Judge will do everything in their power to prevent any true fair trial for clients and will usurp power that do not belong to them. ***“Whether property is part of the bankruptcy estate is a factual issue for the jury in a prosecution for bankruptcy fraud.”*** US v Dennis, 237 F3d 1295, 1300 (11th Cir 2001). This means a JURY constitutionally determines title ownership – not judges! Guaranteed, the judge will block such a jury trial to protect the banks because ALL client funds MUST be returned and the losses incurred in illegal trades MUST be borne by the banks!



Mary Shapiro
Chair of the SEC



Jon Stevens Corzine
Chair MF Global

I reported on November 15th, 2011 from a very high inside source that Corzine met with the head of the SEC Mary Shapiro to lobby against a rule that would have outlawed MF Global from trading using client's funds. Shapiro has denied that the collapse of MF Global was any failure on the part of regulators. Corzine met with Shapiro and she personally stop the rule that allowed Corzine to trade with customer funds. This is simply outrageous and shows why both the SEC and CFTC should be raze to the ground with a new single regulator created with absolutely NO former SEC and CFTC employees need apply with ALL employees signing contracts and are **PREVENTED** from ever working for ANYONE that is in the industry or a law firm whose clients are in the industry. People should write to the Senate and House Committees that oversee the SEC and CFTC and **DEMAND** that they do their **f**king** job or get the hell out of Congress. This incestuous relationship crap between regulators and the big New York firms is destroying the integrity of the financial system, the United States as a viable free nation, and is becoming a warning beacon that people should not have any money in a system that is just this damn corrupt. Shapiro's denial that there is any fault on the part of the SEC to prevent this one is arrogant and absolutely indicative of the crisis we face that the financial press refuses to expose for fear of hurting their clients – the brokers and banks.

http://www.pbs.org/nbr/site/onair/transcripts/sec_chairman_mary_Schapiro_on_mf_global_111107/

MF Global was allowed to take customer funds for their own use and this has been allowed by the regulators who are bought and paid for and have **NEVER** prevented a damn thing. MF Global plowed money into an off-balance-sheet maneuver known as a repo, or sale and repurchase agreement. A repo involves a firm borrowing money and putting up assets as collateral, assets it promises to repurchase later. Repos are a common way for firms to generate money but are not normally off-balance sheet and are instead treated as "financing" under accountancy rules. In this case, MF Global used the version of an off-balance-sheet repo called a "**repo-to-maturity**." The repo-to-maturity involved borrowing billions of dollars backed by huge sums of sovereign debt, all of which was due to expire at the same time as the loan itself. Since the collateral and the loans matured simultaneously, MF Global was entitled to treat the transaction as a "**sale**" under US GAAP. This is how MF Global moved \$16.5 billion off its balance sheet hiding its bets on Italy, Spain, Belgium, Portugal and Ireland.



What has emerged is a liquidity swap that is this "**repo-to-maturity**." In other words, no longer is a REPO transaction simply a 24 hour swap market. We are now extending REPO into a quasi-central bank function. The **ECB** is being marginalized because of its structure since its structure is different from the Fed lacking an elastic-money supply authority. If the **ECB** runs out of cash, it has to be recapitalized unlike the Fed. This has led to the emergence of this new market for liquidity swaps "**repo-**

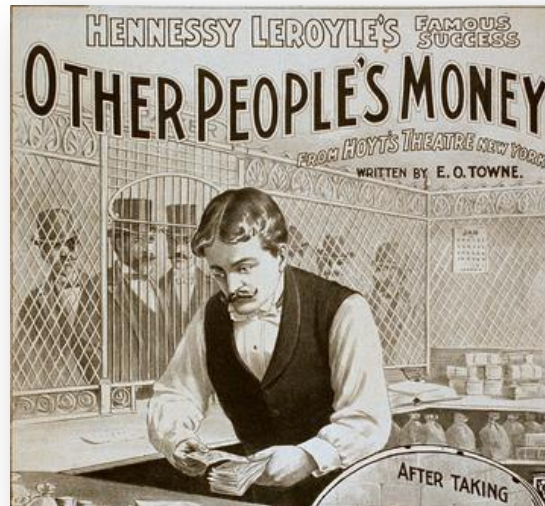
to-maturity" which has led to the UK's Financial Services Authority (FSA), to issue a report last July pointing out the new risks in this development. Spreading the problem around, some U.S. banks are jumping into the market entering into these liquidity swaps with European banks in the tens of billions of dollars. In Europe, unsecured borrowing among banks was virtually non-existent. We are on the edge here of a very serious economic implosion for this is the very market that enabled MF Global to implode with other people's money.

MF Global has exposed also the leverage employed by NY firms. In order to lose \$1.2 billion of its clients' money in the acquisition of a sovereign debt position of \$6.3 billion, which was more than five times the firm's net worth, it exploits another loophole between UK and US brokerage rules on the use of client's funds known as "**re-hypothecation**". In other words, the borrower pledges collateral to secure a debt but he retains the title and the creditor technically has only a "hypothetical" control of the title to the assets. The creditor may seize possession ONLY if the borrower defaults.

Here is the legal loophole between the US and the UK. In the U.S., this legal right takes the form of a **lien** upon a specific asset while in the UK this is a **floating legal charge**. A floating charge is a security interest over a fund of changing assets of a company or a limited liability partnership (LLP), which "floats" until conversion into a **fixed charge** or specific lien, at which point the charge attaches to specific assets. The conversion (called crystallization) can be triggered by a number of events. This it has become an implied term in debentures (in English law) that a cessation of the company's right to deal with the assets in the ordinary course of business will lead to an automatic crystallization. This is normally expressed in terms of a typical loan agreement where the seizure of assets takes place upon default by the charger is a trigger for crystallization. Such defaults typically include non-payment, invalidity of any of the lending or security documents or the launch of insolvency proceedings. Under UK law, a **floating legal charge** can only be granted by companies and cannot be sustained by an individual person or a partnership for in such cases that entails a specific lien on assets.

This **floating legal charge** is known as "one of equity's most brilliant creations" and takes effect **ONLY** in the absence of **LAW**. The Judiciary Act of 1789 that created the US district courts states clearly: "**SEC. 16. And be it further enacted, That suits in equity shall not be sustained in either of the courts of the United States, in any case where plain, adequate and complete remedy may be had at law.**" You cannot eliminate the law of a statute by resorting to equity, yet this has become a treasonous standard practice in America. This is at the heart of judicial corruption and tyranny.

In other words, Americans harmed by MF Global taking their assets would have had more rights in Britain than in New York. In practice, as the charger has power to dispose of assets under a **floating legal charge**, this is only of any consequence in relation to disposals after the charge has crystallized. Since in the United States they **NEVER** disclose that they are using client's money, under **EQUITY** there was no legal right to the "***re-hypothecation***" of client's funds since it was not disclosed and the client did not relinquish title to the assets and did not even lease them for such use.



MF Global exploited a loophole between US and UK law that is criminal. A mutual fund/hedge fund is legally different from a broker-dealer. There you invest in the fund and receive shares. You have now relinquished the title to the assets and thus "***re-hypothecation***" is expected for the fund manager is not managing your specific money differently from another. However, when you open an account at the brokerage house or bank that account is your and you did NOT relinquish title to the assets. Since they also do not disclose they are using your assets for their own trading, you certainly did not give up your title and therefore they legally cannot engage in "***re-hypothecation***" of your assets for their benefit. If any lawyer tells you different, get a new lawyer. **NEVER EVER** use a law firm from the same city in which you are filing a suit. He will blow smoke up your ass and "imply" how he knows the judge, the prosecutor, or whatever as if they were friends and that inside position will benefit you in some way. That is a sales pitch that is bogus for it works in the opposite manner. Because of those very relationships and the fact that the practice of the lawyer is in that town, his business relationships long-term are more important to him than you one-time case. He will never piss off the judge because he has to be before him on other cases. So **NEVER** use a firm from the same city. It is a disaster.

Hypothecation of client assets takes place in investment banking, when assets deposited with a broker may be sold if client fails to keep up credit payments or if the securities drop in value and the investor fails to respond to a margin call (a request for more capital). **Re-hypothecation** occurs when a bank or broker utilizes collateral posted by clients, including those of hedge funds, to back the broker's **own** trades and borrowings.

Even under the U.S. Federal Reserve Board's **Regulation T** and SEC **Rule 15c3-3**, a broker-dealer may **re-hypothecate** assets to the value of 140% of the client's liability to the broker-dealer. In other words, assume a customer has deposited \$1000 in various securities and has a current debt deficit of \$500, resulting in net remaining equity of \$500. The broker-dealer can then **re-hypothecate** up to \$700 (140% x \$500) of these assets. This now leverages the taking of client's money on an undisclosed basis.

In the UK, there is unquestionably no statutory limit whatsoever on the amount that can be **re-hypothecated**. In fact, brokers are free to **re-hypothecate** all and even more than the assets deposited by clients is truly astonishing. However, at least there it is up to clients to negotiate a limit or prohibition on **re-hypothecation** whereas in America it is not even disclosed. Therefore, US broker-dealers have an advantage when opening a UK operation allowing them to bounce back and forth exploiting both systems. Why do you think that AIG was operating in London? This irregularity of rules between the two markets enables exploiting the UK regime very attractive to international brokerage firms to employ European subsidiaries to create pools of funding for their U.S. operations, without the bother of complying with U.S. regulations even if they did bother to enforce them.

This is why the collapse was so devastating following the 2007 high. The **re-hypothecation** in the REPO market had grown so enormous also using the mortgage backed securities rated AAA amounting to half of all the activity within this “shadow banking system” known as REPO. Prior to the Lehman Brothers collapse, the International Monetary Fund (IMF) had actually calculated that US banks were receiving \$4 trillion worth of funding through this **re-hypothecation scheme**, most of which was being sourced from the UK. With even the mortgage backed assets being **re-hypothecated** many times over in London (the “churn”), the original collateral being used may have been as little as 25% of the total volume reported to have been \$4 trillion. This is why \$700 billion was needed in Tarp. Nobody was looking at just how big the bailout had to be and behind the curtain the Fed and Treasury had to see this degree of leverage. The fact that MF Global has blown-up, demonstrates that Congress did not address the real issues in this whole mess allowing the shit-to-hit-the-fan hoping that the bankers would make a ton of money and grow the economy out of this mess all on other people’s money!

The practice of **re-hypothecation** today runs into the trillions of dollars and is faultlessly legal under current law. If Congress is not grandstanding once again, then write a statute and state banks and brokers can do **NOTHING** with client’s assets whatsoever without a contract and payment for the use of such assets. It can no longer be justified that banks and brokers on the basis that it is a capital efficient way of financing their operations that amounts to trading illegally with other people’s money. Investors in hedge funds should DEMAND that assets NOT be left on deposit in ANY Investment Bank right now until this issue is clearly made illegal.

US broker-dealers have been making great use of their European subsidiaries since **re-hypothecation** is so hugely profitable being free money. US client’s assets are being transferred to the broker dealer’s UK subsidiary to circumvent US **re-hypothecation** rules. This means, that any US regulation must also outlaw the transfer of US assets to any subsidiary offshore without contract with the client. At least in the UK clients can negotiate the use of their assets whereas under subtle brokerage contractual provisions in the USA, investors can find that their assets simply vanish not merely into thin air, but out of the US and magically appear on the books in the UK, despite any contractual agreement with any American broker-dealer. If a US branch enters an agreement with its UK branch, then the UK’s unrestricted **re-hypothecation** rules then apply. This is how Lehman Brothers blew up so quickly because it was doing this with Lehman Brothers International (Europe) (LBIE), where it had transferred most of the assets of its hedge fund clients so they could leverage them to the max. Once assets were

transferred to the UK based company, then they were **re-hypothecated** and when Lehman imploded, client's assets vanished.

Under US law, a broker dealer is under NO obligation to get a client to sign any agreement with a European subsidiary to take advantage of the loophole. In the case of Lehman Brothers, the customer agreements were signed with the US entity for brokerage, but margin-lending agreements and securities-lending agreements were with the UK entity under a Global Master Securities Lending Agreement. This enabled Lehman to transfer client assets between various affiliates without the hedge fund's actual consent or knowledge, despite the fact that the main agreement had been under US law. This is how most of the firms clients' assets mysteriously ended up in London. MF Global's agreements appear to be the same structure for trading in futures, options and forwards as well as securities. Clause 7 reads:

"7. Consent To Loan Or Pledge You hereby grant us the right, in accordance with Applicable Law, to borrow, pledge, repledge, transfer, hypothecate, rehypothecate, loan, or invest any of the Collateral, including, without limitation, utilizing the Collateral to purchase or sell securities pursuant to repurchase agreements [repos] or reverse repurchase agreements with any party, in each case without notice to you, and we shall have no obligation to retain a like amount of similar Collateral in our possession and control."

Clearly, the mechanism that blew the world up in 2007 has been allowed to thrive thanks to the SEC and CFTC. This has been a well-known practice and this is WHY Princeton Economic was one of the biggest buyers of Fannie Mae back in 1999 to defeat this practice. The problem was they were then selling the Fannie Maes and not recording entries in the accounts. I was only able to ascertain what they were doing when they mistakenly put \$50 million in Fannie Maes back in the wrong account.

US regulators knew precisely what has been taking place. I believe this is why they created the contempt and refuse to allow any trial because this would have been exposed back then. Even going back to Bill Clinton, he allowed in 2000 the easing up of rules for the **re-hypothecation** funds to US Treasury, state and municipal obligations allowing customer money could be used to enter into REPO market so by 2007, the mortgage backed time bombs were eagerly accepted.

This entire scheme of **re-hypothecation** creates tremendous problems for it sets the stage for the same precise mechanism that blew up the world in 1931. Back then, the bankers sold foreign sovereign debt in small denominations to depositors. When they defaulted, the collateral damage was to wipe out their deposit base. Here we have people depositing funds, not even trading assuming T-bills are safe, only to find out the broker dealer is using their deposits to trade. This then introduces substantial counterparty risk for assets are being pledge when they have no title to them. Then we have the off-balance sheet treatment which hides what the hell is going on and you just don't know escalating the leverage that cannot be easily determined turning this system of **re-hypothecation** into a staggering time bomb that far exceeds even the mortgage backed securities debacle. This is creating a chain of counterparty risk like a set of dominoes. Central Banks are incapable of dealing with this problem particularly when the crisis is now engulfing the sovereign debt market.

The annual reports reveal at least some idea of what is going on. Jefferies' most recent Annual Report stated it had **re-hypothecated** \$22.3 billion of assets in 2011 out of \$37 billion in capital. Goldman Sachs re-hypothecated \$28.17 billion in 2011, Wells Fargo \$19.6 billion, JP Morgan \$546.2 billion, and Morgan Stanley (\$410 billion). The Canadian Imperial Bank of Commerce "**re-pledged**" \$72 billion in client assets; Royal Bank of Canada "**re-pledged**" \$53.8 billion, and Credit Suisse (CHF 332 billion). They are all doing it. The question should be to be (**re-hypothecated**) or not to be! This should be illegal and the banks should raise their fees and stop playing dice with other people's money.

COLLAPSE OF THE WORLD FINANCIAL SYSTEM

While the headlines have focused on how a Eurozone default would ravage the global economy resulting in vast losses in Eurozone bonds taking down balance sheets of world banks felt across entire global financial landscape, we must not ignore this shadow REPO market and the re-hypothecation that is taking place. The collapse of MF Global is threatening even farmers' ability to finance and hedge their crops. Corporations cannot hedge exchange risk and foreign exchange markets can find themselves in dire straits lacking liquidity. The **re-hypothecation** has surely increased the financial footprint of the entire Eurozone bonds crisis and we could be on the verge of an apocalyptic year ahead in 2012.

The sheer volume of **re-hypothecation** has reached staggering levels and we must assume that assets of customers are themselves being leveraged by 200-400% before we even get to the derivative levels of leverage. The US bank holding of European sovereign debt is a tiny fraction below \$200 billion of Greece, Ireland, Italy, Portugal and Spain. The real danger is the off-balance sheet transactions emerging from this **re-hypothecation** and **REPO**, of client assets as well as all European debt. The CFTC new rule banning the use of client funds is limited to foreign sovereign debt, but is not outlawing **re-hypothecation** all together.

In the aftermath of the MF Global debacle, we have seen how the Regulators (SEC & CFTC) do nothing to protect the citizen. How can they allow firms to just take other people's money without any agreement? It was former Goldman Sachs' Robert Rubin who got rid of Glass Steagall Act (The Banking Act of 1933, Pub.L. 73-66, 48 Stat. 162, enacted June 16, 1933) when he became Treasury of Secretary. In this case former Goldman Sach's Jon Corzine is blowing up the World Financial System and former Goldman Sachs' Gary Gensler, now currently head of the CFTC, pretends to recuse himself from an MF Global investigation, yet in a unanimous vote, "**The U.S. futures regulator approved on Monday a rule that puts tighter limits on how brokerage firms can use customer funds, a measure that the now-bankrupt MF Global had encouraged the agency to delay.**" So, the CFTC has thus condoned what Corzine did for he can now say see, it was NOT illegal to trade with other people's money before!

The entire world financial system is in dire need of reform before everything blows up. If you think the Fed or any central bank can prevent a bank run, good luck. They don't even know where the assets are. We have a Sovereign Debt Crisis, but we also have a system where there may be no market level to even trade. This is serious shit and does anyone remember what ethics is?

END THE CORRUPTION

Sir William Blackstone (1723-1780) wrote the foundation of law that was used to establish the United States. He warned precisely the type of corruption that has consumed the United States legal system that threatens the entire world economy by its inability to deal in an honest and forthright manner. He wrote:

“For if judgments were to be the private opinions of the judge, men would then be slaves to their magistrates; and would live in society, without knowing exactly the conditions and obligations which it lays them under.”

Commentaries on the Laws of England, 1776, Book IV, Chp 29, p371

We are indeed slaves to the corrupt court of New York, Regulators, and the Press. This deadly combination is lethal to our property and liberty. Everything that once was decent and honorable has turned to dust and fallen to the ground.

“[T]he power of the district courts to make rules is confined to such as are ‘not inconsistent with any law of the United States’, and it obviously would be thus limited even without the statute.”

Johnson v Manhattan, 289 US 479, 503 (1933).

All the decent decisions are no longer followed because **EQUITY** has superseded **LAW**. This has eliminated any meaning to the right to vote for its matters **not** when judges have crowned themselves with discretion. It is time to wake up, for whatever law you enact through a representative in a pretend democracy need not be followed by a judge. They assume the “discretion” not to prosecute their friends. This threatens the viability of doing business in the United States altogether.

The Supreme Court wrote “advancement of the purpose of the [recusal statute] provision [is] to promote public confidence in the integrity of the judicial process.” *Liljeberg v Health Serv. Corp*, 486 US 847, 859-860 (1988). Judges have ignored the law. Local lawyers are afraid to even ask for recusal because the judge will retaliate and gets to preside as judge over himself. The Supreme Court also acknowledged “Judges are as human as anyone and as likely as others to see the world through their own eyes and find the ‘collective conscience’ remarkably similar to their own.” *Goldberg v Kelley*, 397 US 254, 276 FN6 (1970). It is time we clean house. As Jefferson said, there is no man to be trusted for life. A judge **MUST** recuse if a party asks for it. If he dares retaliate, he should be disbarred. What has happened to the clients at MF Global is outrageous. Both regulators and the CME were supposed to prevent this. Both have utterly failed once again to do their **ONLY** job.



Sir William Blackstone
(1723– 1780)

World Economic Conference



We apologize that we could not accommodate everyone since it just had to be cut off at 300 people to keep it practical. We all know something is wrong. Because of this feeling, a German film crew (Marcus Vetter) flew in to make a documentary and in respect of this deep global concern that is rising from every corner of the globe, a practical solution has been presented to save our society from the corruption that has consumed it.

We either DEFAULT or we INFLATE. This conference concluded with a startling resolution that will become a book very soon.

DVD/Download will be available by next week for attendees the Motion Picture sometime next year before it's in the theaters only to our readers