Sutton & Associates, LLC - Andrew W. Sutton, MBA

Cyprus Bank Holiday and Depositor Status Change Series- The Bail-in Resolution Mechanism

"Holiday in Cyprus" – 3/17/2013
"Let's Get Cyprused!" – 3/26/2013
"The Fleecing Has Only Begun" – 4/12/2013
"Retirement Accounts Next?" – 6/28/2013

Installment #1

Buried among the weekend news stories, the battle for the few remaining NCAA basketball slots, and the new Pope's shoes is a growing crisis on a small island far removed from mainstream America. Perhaps at first glance one might wonder why I am even spending the time covering this developing story. After all, Cyprus is just a little island nation of around a million people and our Congress borrows more money in one day than the GDP of Cyprus for an entire year. What relevance could the goings on in Cyprus possibly have to do with the mightiest nation on Earth?

Every once in a while we are given an opportunity to see our future. Myself and many others have been railing for years now about the concepts of economic slavery, debt, and wealth confiscation. And we've been called nuts, extremists and many other things I cannot repeat.

Yet here we are in 2013 with a crystal clear sampling of what is undoubtedly going to take place across the rest of the globe – and already has taken place here, but not in such clear terms. The government of Cyprus, much like the vast majority of governments globally, is broke. However, its ***people*** are not. There is a massive distinction here. The self-ascribed European Benevolent Society, aka the European Central Bank and IMF cabal, has arrived on the scene with a Cypriot solution – another bailout. Surprise surprise. But this time there is a catch. The ECB/IMF (as well as the rest of the EU nations!) are demanding a supposedly one-time 'tax' of 6.7% on the savings of every Cypriot bank account containing less than $131,000. And a 9.9% 'tax' on every account greater than that.

I use the term tax very loosely in this case. While the banking shysters may call this a tax, this is an outright confiscation. A penalty. I think we had SCOTUS case not too long ago in which there was an argument over exactly what constitutes a tax. Ironically enough, the ECB and IMF have finally laid bare one of the mechanisms by which the remainder of the world's wealth will be confiscated and consolidated over the next period of years. **The Cypriots are going to pay (directly) for the bailout of their government and banks – pending a vote of Parliament, which is supposed to happen tomorrow.**

Obviously there is a good deal of resistance on the part of lawmakers to ascend to such a scam. Probably because they know that the $12 billion and change bailout will be the first

of many such measures and it is not wise for a political figure trapped on an island with a million people to act in a manner inherently contrary to their interests. The Australian newspaper 'The Age' portrayed the scene in Cyprus:

In a move that could set off new fears of contagion across the Eurozone, anxious depositors drained cash from ATMs in Cyprus on Saturday, hours after European officials in Brussels required that part of a new €10 billion ($12.6 billion) bailout must be paid for directly from the bank accounts of savers.

The move - a first in the three-year-old European financial crisis - raised questions over whether bank runs could be set off elsewhere.

Jeroen Dijsselbloem, president of the group of euro-area ministers, on Saturday declined to rule out taxes on depositors in countries beyond Cyprus, although he said such a measure was not currently being considered. Although banks placed withdrawal limits of €400 on ATMs, most of them had run out of cash by early evening. People around the country reacted with disbelief and anger.

I beg the forbearance of those who have been reading this column for many years. You've already heard this many times before, but since there are new folks waking up each week, it needs to be said again. It comes in the form of a question. We know that the ECB/IMF create their 'money' from nothing in a manner similar to their cousin, the not-so-USFed. Given that this is the case, why then is it necessary to raid the personal savings accounts of Cypriot citizens? The answer is that none of these machinations really have anything to do with money, but have everything to do with creating a population of debt slaves.

While you're cogitating on that concept, let's talk about the reaction of the Cypriot citizens to the ECB/IMF demands. They're cleaning out their bank accounts as best they can over a weekend and via ATMs. Conveniently, tomorrow is a national holiday and the banks will be closed. By the time they wake up Tuesday it is rather likely that their government will have capitulated and it will be too late to do anything about it. The point is that the Cypriot people were given no quarter by the European Benevolent Society.

The parallels between that little island and America are too distinct to ignore. Think back to October of 2008. Lehman had failed, the markets were crashing, and a bailout of the US

banking system was on the floor of the US House. The fear mongering was at fever pitch. There were enough Chicken Littles to keep the Perdue boys working three shifts for a generation.

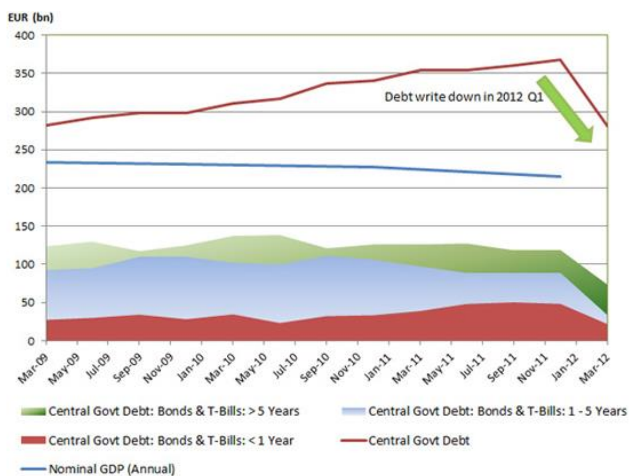
What was at stake? $750 billion to get tacked on the tab of the US Taxpayer to bail out the same banks who had trashed the financial system. However, the world clearly wasn't psychologically conditioned to tolerate the cleaning out of Americans' bank accounts to pay for the bailout. So we became further indebted to the same banker-shysters who made the mess in the first place. The means were different, but the ends are the same for both America and Cyprus. We will soon be bound for eternity in the commonality that both our governments sold the people into debt slavery, all for the benefit and at the whim of international bankers.

What is the disposition of the Cypriot wealth confiscation? From the AP:

The decision by Cyprus' 16 Eurozone partners and the International Monetary Fund to impose a one-time tax of 6.75 percent on all deposits under (EURO) 100,000 ($131,000) and 9.9 percent over that amount was a significant shift. It marks the first time they have dipped into people's savings to finance a bailout - a move that analysts worry may roil international markets and jeopardize Europe's fragile economy.

The levy is expected to raise (EURO) 5.8 billion to recapitalize the nation's banks and service the country's debt. Cypriot banks got into trouble after losing some (EURO) 4.5 billion on their Greek government bond holdings after Eurozone leaders decided to write down Greece's debt last year.

For the balance of the Eurozone leaders to have approved of such a ramp job with overt and blatant disregard for their own citizens suggests either ignorance and sheer stupidity of an epic magnitude or complicity with the banker-shysters in fleecing yet another population. You can decide which.



As most of you know, with regards to the 2008 American bailout, aka TARP, the Congress voted 'no' on a Monday, only to swing to 'yes' on Friday after immense pressure from then

Secy of the Treasury and former Goldman Sachs CEO Hank Paulson, among others. The threats and scare tactics went as far as to suggest the government would even declare martial law if the Congress voted 'no' and refused the banker-shysters their billions. One must wonder if the delay in the vote in Cyprus is an effort to provide more time for similar arm-twisting. The tactics of fear are already being deployed on the Cypriots as well as the rest of the Eurozone:

"The stakes are high for the tiny island nation of one million people, because a rejection of the levy by lawmakers could push Cyprus into bankruptcy and possibly out of the common euro currency. Officials also fear a massive run Tuesday on Cypriot banks - after a national holiday on Monday - no matter which way the voting goes." - AP

I will say it right here, on the record – for even the cheap seats. This type of maneuver will become more and more common. There are still large pools of private assets that exist globally and these folks want them all. Their hubris is unlimited and their greed held in check only by the bounds of their wicked imaginations. They have been fully given over to their reprobate minds, and it is high time that the ostriches of the world grow a spine, pull their heads out of the sand, and stop pretending that these people have anyone's best interest in mind other than their own.

My fellow Americans, you are not immune. All the patriotic slogans uttered on national holidays, the fireworks, and the tripe will not protect a people that is so ignorant of its surroundings as to allow such a group to remain a determining factor of its destiny. We have a responsibility to either learn from our own previous mistakes and those of the other nations in this world or succumb to the repetition thereof.

I am not going to tell anyone what to do. My job with regards to the general public is only to inform. The responsibility now falls on you, but I will say this: if you disregard the goings on in Cyprus and the rest of the Eurozone, you do so to the detriment of not only yourself, but your children as well. Because I guarantee, one day it will be you racing to an ATM machine along with the rest of the masses in a futile attempt to protect the last vestiges of your wealth from men who have no country, no allegiances, and have pledged their lives, fortunes and sacred dishonor to nothing less than the total domination of all four corners of this Earth.

Installment #2

There is little doubt that the past two weeks have brought about dramatic changes in most circles regarding the way people look at banks, bank deposits, and the monetary situation in general. This year's 'Ides of March' will no doubt go down in history as a pivotal period where once again our world changed forever. One would be right in stating that there have been many such watershed events in the past decade and a half and that alone should be even more persuasive to those who believe we still live in the bull market of the 1980s. This is not your father's market, nor his country, nor his world.

So what exactly happened in Cyprus that changed everything? The goal here is to provide something of a post mortem on the situation – with the recognition that it is still ongoing. However, some of the major decisions have been made and, fallout notwithstanding, are somewhat set in stone.

The Parallels with 2008 (And Before)

Make no mistake about it; 'The Great Cypriot Train Robbery' adhered closely to the now accepted methodology of conquest by fear used successfully in America in 2008 when the banksters wanted their $750 billion bailout from Congress.

While the purpose of this piece is not to relive that experience, it is critical that people see the progression in place just over the past 5 years. I must point out that all of these situations are able to happen because banks have outlived their usefulness in our society – at least in their present form. The whole purpose of having banks (of the Savings & Loan variety) in the first place was to solve one of the primary challenges facing a direct exchange economy – that of coincidence of wants. Or, to use more commonly accepted vernacular, to bring together those with savings and those with a demand for that savings. It allowed the saver to indirectly 'invest' in the commercial activities of the borrower. The bank acted as a conduit, charging interest to the borrower and paying interest to the saver – all at rates that made it economically feasible for all parties to engage in the transaction.

Today we have a system that is half-baked at best, born half improvised and half compromised. The improvisation created the moral hazards and the compromise allowed these institutions not only to leverage themselves into insolvency, but to attach the economies of entire nations to their activities as well. The main firewall preventing this, the Glass-Steagall Act, was torn down over a decade ago. The morphing that has taken place since then set the stage for the rampage of financial crises we've witnessed over the past half dozen years. The factor that should be most concerning regarding this aspect is the consolidated nature of the global banking system and the fact that nearly every nation of consequence allows the same types of risky activities that are permitted (and even encouraged) both in America and the Eurozone. There is no longer such a thing as an isolated incident. Everyone has exposure to everyone else's bad bets.

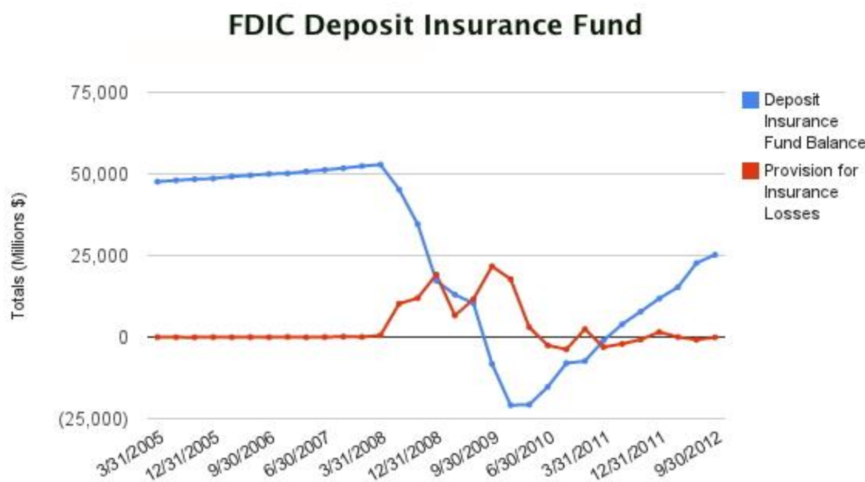
What About Depositor Guarantees?

Obviously the Cypriots learned the hard way a lesson that should have been learned from Argentina circa 2000: when the chips are down, hold onto your wallet. If the rest of the world has learned nothing else from this ordeal, it should be that nothing in the economic/financial world is sacrosanct, especially when it comes to assets.

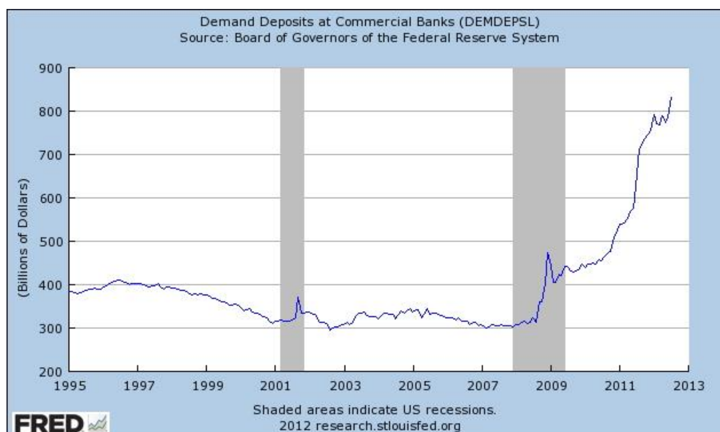
We've now watched an entire first-world continent succumb in large part to the demands of the banker-elites, in that they've pledged the economic efforts of the people *ad infinitum* to support 'bailouts' that have zero chance of working. Yes, zero chance. As long as governments continue to overspend and incur new debt while the piranhas in the trading pits make all manner of insane bets on said debt, this will continue to devolve into a persistent crisis state. Double that for the consumer whether it is through mortgages

(which various institutions love to bet on), credit cards or other kinds of debt. Think about it. When in the last half decade hasn't there been a crisis going on somewhere?

The bottom line is there is no such thing as a depositor guarantee. Not anymore. You're on your own. I don't care if you're in Albuquerque, NM or Auckland, New Zealand. There is no guarantee. What about FDIC? What about it? First of all it doesn't apply in a Cyprus-like situation. FDIC is specifically for bank failures. And if the government taxes you to make your bank non-failing, then it is a tax and taxes just aren't covered by FDIC. If you want to see who is going to guarantee your funds, look in the nearest mirror. Secondly, even if the FDIC wanted to, there is no way it could cover the kinds of losses depositors would suffer even under a modest 'haircut' type situation. Take a look at the FDIC's pitiful reserves as of 9/30/12 for dealing with any type of bank failure:



The 'Fund' has a mere $25 billion available and there are many questions about how much of that money is even 'free and clear' that it could be used to bail out anything. To put it in perspective, $25 billion is about 4.75 days of government borrowing at the current rate, about 0.1% of US GDP, or (and most importantly), about 3% of all US demand deposits as of the end of 2012. This alone should demonstrate that even if the FDIC were so inclined or obligated, it would prove to be completely impotent at backstopping any type of Cyprus-style bank confiscation.



The Rest of the EU Has Been Warned

Earlier this week, the UK Telegraph ran an article in which senior EU official Jeroen Dijsselbloem said that the folks in Italy and Spain in particular ought to be ready to fund a bailout should any of their banks require it. Gee, I wonder how long it'll be until one of those banks hits the mat? Don't forget who is running these countries and WHERE they came from. Just think of Hank "I never saw a bailout I didn't like" Paulson.

From The Telegraph:

The euro fell on global markets after Jeroen Dijsselbloem, the Dutch chairman of the Eurozone, announced that the ***heavy losses inflicted on depositors in Cyprus would be the template for future banking crises*** *across Europe.*

"If there is a risk in a bank, our first question should be 'Okay, what are you in the bank going to do about that? What can you do to recapitalize yourself?'," he said.

"If the bank can't do it, then we'll talk to the shareholders and the bondholders, we'll ask them to contribute in recapitalizing the bank, ***and if necessary the uninsured deposit holders****."*

Seriously, if Dijsselbloem gets anymore radical someone might suggest that he run for the mayor of Chicago – or maybe even New York City. I wonder what his stance on 16oz sodas happens to be? Come on Jeroen, enquiring minds want to know!

All levity aside, however, the warning has been given. The think tank position papers on these topics are so old that the edges are starting to yellow. Theory and policy desire have become practice and the practice is spreading.

America's Next Crisis?

Obviously the bulk of readers of this periodical reside in the United States and as such are seeking input on the likelihood of such a scenario taking place here. I will quickly grant that the EU has been in turmoil for the better part of three years now and it has finally come to forfeiture of deposits. Why did they wait for little Cyprus instead of pulling a similar stunt in Greece, Italy, Spain, or even Portugal or Ireland? Simple. First of all it was a nice way to extend the state ornithological symbol to the Russians.

Russia has been dreadfully ornery lately and, even worse, has been acting awfully protectionist. That kind of independent thinking just isn't welcome in a post NAFTA/GATT/WTO world. Make no mistake that there is at least an element of muscle-flexing between the world's power brokers going on in this whole thing. Cyprus became their battleground. The tax haven status didn't' help their cause either. If you happen to run a small island nation with a simple economy, it might be wise to think twice before trying to create a Club Med style resort for the global moneychangers. Seriously, it is bad for national health not to mention bank deposits.

Back to America and where we fit into all this. I have been asked at least a hundred times since this Cypriot situation boiled over what people could do about this. The answer stays the same. We remain one headline from being in the same boat as the Europeans. Our economic transgressions are even more grave than theirs and are several orders of magnitude deeper as well. Our currency is the foundation that the other houses of cards that are currently collapsing have been built on.

While the Dollar may be the last to go in terms of the monetary cycle, a quick look at history says that it will in fact fail. Paper currencies, by their very nature, are doomed to failure. The biggest mistake we could make in America is to assume that for whatever reason we get a free pass on this. We don't, so forget about it. What is also true is that this could easily take a bit longer than many of the folks who are commonly referred to as 'gloom and doomers' would have us believe.

Many feel hyperinflation and bank runs are imminent. I will say right here that a hyperinflationary event at this point is impossible. Why? What about all the debt? What about all the unfunded liabilities, etc.? Yes, all that is true, but the biggest piece of the 'immediate hyperinflation' scenario is missing and that is a wage-price spiral. Prices are certainly rising, but wages are stagnant. If there is to be a Weimar-style monetary event in America, then wages are going to have to start increasing, slowly at first, then assuming a parabolic-type growth pattern. We're just not there at this point.

Right now, wages are the limiting factor. I've heard the argument that credit could step in place of wages and to a certain extent that is true, but there is a specific point where the credit function as it relates to the ability to spend becomes exhausted. There is no mistaking the government's efforts to induce people to borrow money. All these shenanigans aimed at restoring the housing bubble to 2005 status are clear evidence of that. Not only is it part of generating the wealth effect, the continual accumulation of debt is necessary to drive a fiat monetary system such as ours.

All this said, our banks are very susceptible. The safety nets to protect depositors just aren't there and the sad reality is that such a small percentage of our money supply exists as cash that it would be patently impossible for everyone in the nation to pull even 10% of their funds from the banks without causing a serious dislocation. Think about it. Even in a paper system, the banks can't produce deposits on demand. This demonstrates the functional insolvency of the savings/loan bank model. Their assets are spread out in time while their liabilities (your deposits) can be called at any time. This is why so many banks are putting limits on cash withdrawals and imposing waiting periods to receive such withdrawals and so forth. They just don't have the ability to meet their obligations en masse.

In Conclusion – And a Forward Look

One part of the Cypriot situation that still boils on is that the banks remain closed and capital controls are now in place. Evidently the Cypriot government wants to make certain that their little island becomes a monetary 'Hotel California'. You can pull your money out of the bank any time you like, but it can never leave the country. History has also

demonstrated that capital controls tend to end very poorly. Wherever you happen to be, beware of such measures or even the talk thereof.

Finally, the biggest problem now in Cyprus is a social one. People have been cut off from their money for nearly 2 weeks. How many Americans could deal with that kind of reality? Will Cyprus be the next Greece where the middle class is picking through dumpsters looking for food and drug companies refuse to send medicine for fear they won't be paid? Obviously these folks now know full well what it means to 'Get Cyprused'. And as a logical extension, what would America look like after 'Getting Cyprused'? As unappealing as the answer may be to some, the good news is that we have a bit more time to consider our options. Certainly more time than those million or so folks on that little previously obscure Mediterranean island got.

Installment #3

The story broke from nowhere and caught many off guard. To others it was the manifestation of previously unspoken fears. It was, and is, by far the biggest story of 2013, the decade, and quite possibly the millennium. It was the crossing of another Rubicon. For years and decades, the financial piranhas had wandered around the edges, nibbling a little here and a little there. Inflation, bailouts, and other monetary mischief had already eroded the value of most currencies. But never before had they actually made the boldest of moves – to steal what were always considered to be the most liquid and secure of funds – bank deposits. In a weekend, the liquid became the illiquid and the secure became the repossessed. Hey, let's not split hairs here, the money was stolen. The media dutifully came up with another new buzzword – the 'bail-in'. Talk about putting a positive spin on outright theft.

We've already covered Cyprus in great detail. That story goes on and is largely ignored by the mainstream press corps; however, Cyprus was just a small prize. There are much bigger fish to fry – like you. This week's column will cover the groundwork that has already been laid to turn America into the next Cyprus. I am not positing here that we will necessarily be the next in line chronologically, but it will happen eventually – and likely sooner than later. There are other pools of wealth in other parts of the world that may serve as additional beta tests prior and I claim no inside knowledge of the blueprint, but can only attest to the fact that it does in fact exist and more importantly, to make you aware of it now.

Spain, Canada, and New Zealand have already adopted specific measures using the 'bail-in' approach to guarantee the solvency of the 'too big to fail and too big to jail' banksters using depositor money. For simplicity's sake, a bail-in is pretty much the opposite of a bailout. In a bailout, which we all know far too well, ***everyone*** shoulders the losses of the offensive, insolvent institution. Think of TARP. However, that 'socialization' of losses tends to annoy folks; especially those who had no prior pecuniary interest in the aforementioned offensive institution. And yes, I do mean offensive.

However, in a bail-in, instead of getting the funds from the general public, the strategy is to swipe (not write-down, not give a haircut, etc.) depositor assets. This is done by a bit of

wordsmithing. Under previous customary definitions, depositor assets were also known as the bank's liabilities. Obviously an insolvent bank has more liabilities than assets (in simple terms) and as such changing the status of account holders from 'depositors' to 'unsecured creditors' means the bank can 'repatriate' your money to pay off its bad debts. Truth told, this is nothing new; there is already the precedent of a series of frighteningly similar situations that are already part of America's decaying reputation as an advocate for private property rights.

The Precursor – Sentinel Management Group

If all this is starting to sound a bit familiar, that is because in principle a variation of this has already happened in the case of the Sentinel Group. Late on Friday August 17, 2007 (always over a weekend, don't EVER forget that), the company filed for Chapter 11 bankruptcy protection.

Blockage of the sale of firm assets to the hedge fund Citadel Investment Group caused lawsuits to be filed against Sentinel by two brokerages: Farr Financial and Velocity Futures. On August 20, 2007, the SEC filed a complaint in US District Court in Chicago alleging that Sentinel had used falsified statements to obtain a $321 million line of credit and had comingled $460 million of segregated client assets with assets in its proprietary 'dealer' or 'house' account. On June 1, 2012, the former CEO and head trader were indicted on federal fraud charges for defrauding more than 70 customers of over $500 million.

Here's where it gets dicey. BNY Mellon is the firm that provided the $321 line of credit and it filed suit and the courts have ruled (in error and on the side of criminal behavior) that customer funds ***may*** be used by Sentinel to pay off BNY Mellon's credit line. There have been two similar subsequent cases in the brokerage world – MFGlobal and Peregrine Financial Group. The Sentinel ruling is going to make it awfully difficult, if not impossible, for the clients of those firms to recoup lost funds. This is precisely the type of moral hazard that we need to be avoiding, not encouraging. To allow a few too big to fail – too big to jail firms to leverage the entire system is not only insanely foolish, but criminal as well.

Granted, Sentinel was a brokerage house that went belly up because it made bad bets, but allowing the firm to steal customer money to make good on its line of credit was little more than a precursor for a savings and loan entity to do the same thing. Or in the case of Cyprus, several savings and loan entities. However, given the incestuous relationship between commercial banks and brokerages thanks to the 1999 repeal of Glass-Steagall, there is ostensibly no difference between the situations at Sentinel, MFGlobal, and PFG and what happened in Cyprus. Can the brokerage arm of a big bank put the entire operation at risk? Absolutely. Are you protected if you happen to have deposits in such a bank? Absolutely not.

Of course in any case, the big insiders will be tipped off well in advance and have the opportunity to move their money elsewhere long before the hammer falls, leaving the Proletariat scrambling for ATMs after the banks close on a Friday afternoon.

Act Two – Canada, Spain, New Zealand, or America?

Let's look at the blueprints and what we've got regarding Canada, Spain, New Zealand, and even from our ever quiet, perpetually underfunded friends at the FDIC.
There has been a bevy of whitepapers released over the past few months that outline how various jurisdictions are going to deal with future crises. Note that the emphasis is on cleanup rather than prevention. Nobody is interested in preventing another disaster and that is precisely why we're going to have one. I am going to link these whitepapers from our site so that you can look for yourself and draw your own conclusions. I challenge everyone reading this paper to do exactly that.

Exhibit One: "Resolving Globally Active, Systemically Important, Financial Institutions" – FDIC / Bank of England

They call them G-SIFIs; short speak for Globally Active, Systemically Important Financial Institutions. These are your Citigroup, JP Morgan, Lloyds of London, BNP Paribas, and Societe Generale folks. They're intertwined in a web of deceit, corruption, and astronomical leverage and when one goes, they all go. That is why the paper refers to them as being 'Systemically Important'. Like we need these characters for something. These aren't even banks really; they're casinos on steroids. Let's take a look at some of the bankerspeak from the Bank of England and FDIC shall we?

"These strategies have been designed to enable large and complex cross-border firms to be resolved without threatening financial stability and without putting public funds at risk." – Note the emphasis on 'public funds' ie: bailouts and the concomitant promise that bailouts will no longer be used.

"A process to ensure the equitable treatment of the creditors, depositors, counterparties and shareholders of group entities, regardless of the jurisdiction in which they are located, which would require careful assessment of the provision of intra-group financing;" – Note 'equitable treatment' clause.

Here's the London Whale and the essence of the entire paper:

In the U.S., the strategy has been developed in the context of the powers provided by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Such a strategy would apply a single receivership at the top-tier holding company, assign losses to shareholders and unsecured creditors of the holding company, and transfer sound operating subsidiaries to a new solvent entity or entities. – Still no specific mention of where depositors fit in.

And a bit more on who ultimately takes the hit, but in vague terms:

Title II (of the Dodd-Frank Act) requires that the losses of any financial company placed into receivership will not be borne by taxpayers, but by common and preferred stockholders, debt holders, and other unsecured creditors, and that management responsible for the condition of the financial company will be replaced.

Note that depositors are not mentioned anywhere in this exchange. It only says that taxpayers won't take the hit. So there will be no more bailouts. Allegedly. The portion of interest to depositors is the bit about 'other unsecured creditors'. If only equity and debt holders are going to be held responsible for 'making the firm whole' in receivership, then what happens when a hundred dollar stock can't get a bid at five bucks because the firm is insolvent? Look at Lehman. Confiscating every share and selling it wouldn't have even come close to righting the ship. Double that for bonds. Besides, who would even want it? Even assuming there were buyers at par, thanks to leverage, the amount needed to effectively resolve the insolvent firm could easily be many times the proceeds of any sale. The ONLY liquid assets within reach for an insolvent bank are the deposits. Yet deposits and depositors aren't even mentioned in the FDIC/BOE report. Follow along:

"An efficient path for returning the sound operations of the G-SIFI to the private sector would be provided by exchanging or converting a sufficient amount of the unsecured debt from the original creditors of the failed company into equity. In the U.S., the new equity would become capital in one or more newly formed operating entities."

And this is where the noose closes around the necks of depositors. Pay close attention. Unsecured debt is money that is OWED by the now insolvent bank to creditors. That debt is unsecured, meaning that the creditors can't repossess buildings, etc. to make good on the unpaid debt. So they're going to take a bunch of people that are owed something and turn them into owners of the company by converting debt to equity. So what you have is the common and preferred stockholders wiped out and a bunch of creditors now owning the company. But where does the capital come from that is mentioned in the above paragraph? All we've done to this point is shuffled some deck chairs on the SS BrokenBank. We've wiped out the original capital/owner's equity and replaced it with 'unsecured debt' holders. **This resolution mechanism ONLY works if you assume that the deposits fall into the same category as 'unsecured debt' and as such are written-down along with unsecured debt** (a la Cyprus). Otherwise you'd be in a situation where public money would be needed to re-liquefy the new firm and both Dodd-Frank and the FDIC/BOE report specifically state that public money will not be put at risk. Instead, depositor money will be at risk. Yet the FDIC/BOE report does not explicitly say that, and in fact does quite a bit of outstanding grammatical grandstanding to avoid even alluding to it.

It must also be noted that the FDIC/BOE report was dated 10-December-2012; well in advance of the Cypriot bank holiday. The blueprints for America and Europe were laid well ahead of the beta test.

Exhibit II – "Report and Recommendations of the Cross-Border Bank Resolution Group" – Bank for International Settlements – 2010

This report pre-dated the combined FDIC/BOE report by nearly 2 years and was one of the first whitepapers released by a major banking 'authority' after the demise of Lehman Brothers and several other firms in 2008. Again, the ambiguity of the language must be noted and the not-so –subtle grouping of depositors with 'other creditors'. See below:

"The operation of national regulatory, corporate and insolvency regimes in home/host

jurisdictions including the scope of potential ring fencing measures, the treatment of intra-group claims, safe harbour provisions for financial contracts, the treatment of depositors and other creditors under the relevant resolution frameworks, and market, regulatory and legal constraints that may require early disclosure of an impending crisis;"

Note again as in the FDIC/BOE report the lumping together of depositors and 'other creditors'. Formerly, depositors were NOT considered creditors and had separate and distinct rights under the law. For US bank account holders, the biggest 'right' is FDIC protection afforded depositors. That protection is not afforded to creditors.

Below is another example of where depositors are amalgamated with creditors. What obligations do depositors have to a bank anyway? And even further, what obligations do they have when a bank goes bust other than to safeguard their assets? Follow along as the BIS report begins to shift the definition of and mindset concerning depositors:

A commitment of national jurisdictions to undertake the necessary legal reforms, which may require a harmonization of national rules governing cross-border crisis management and resolutions, including rules on core issues such as a common definition for bank insolvency, avoidance powers, minimum rights and obligations of creditors including depositors, treatment of intra-group claims, ranking of claims, rights to set-off and netting, and the treatment of certain financial contracts, submission and admission of claims, and distributions to creditors;

Also, and perhaps ironically, the BIS paper and the FDIC/BOE paper differed dramatically with regards to the possibility of public bailouts for compromised firms such as Lehman. Banks shoot their own wounded. When one gets in trouble, credit lines are withdrawn, loans refused, and the failing institution is isolated. That is what caused the need for tremendous publicly funded bailouts in 2008. Obviously such actions are politically unfavorable, especially when you have a Treasury Secy who blatantly lies about how the money will be used.

Making a note of the change in tenor from 2010 to 2012 is critical. The emphasis shifted from taxpayer-funded bailouts to the model of swiping depositor money to sustain broken firms. Of course nobody was really sure how that would work out. Hence the perfect test in Cyprus. Physically isolated, the Cypriots never had a chance. And, right on schedule, the biggies were forewarned and made their quiet exit before D-Day. This part always comes out later and is released very quietly.

In Conclusion – Some Pointers

In America, the segment of folks who are actually awake are pretty upset about all this and have noticed the change in tone from the bailout to bail-in model. Understandably, they're not too happy about it and seek insight. There are a couple of signposts and points to remember about these types of events:

1) Beware of Friday afternoons after market close. This is when the big actions occur.

Bankruptcy filings are made and these crises are whipped up to a frenzy state. This is done for a reason. It gives the powers that be the entire weekend to plot behind closed doors while nobody can do a thing. In Cyprus they closed the banks and when the ATMs were empty, that was it. The crisis was on. Lehman happened over a weekend. That is no guarantee, but that has been the *modus operandi* in the past.

2) We're one headline from an identical crisis here. The same applies to the EU and the rest of the world. This is the nature of the game that is played. It is literally impossible for any person to fully comprehend the amount of leverage that is being employed in terms of the OTC derivative market alone. The exposure is tremendous and systemic. The BIS and the rest can write all the whitepapers and talk about orderly this and that all they want. The truth is when (not if) that mountain starts shaking, all bets are off. And again, the focus of the banking 'authorities' has been on cleanup rather than prevention. Understanding this is key to grasping the concept that these folks realize they can't control these markets or events. It's a financial Frankenstein and nobody really knows what it is going to do.

3) Follow the blueprints – and the money. The BIS paper, and more importantly, the FDIC/BOE paper, lay the blueprints on how these crises will be dealt with moving forward. I find it hilarious that the papers cite a public distaste for bailouts. I guess they figure that swiping bank accounts is going to be more palatable. Of course it won't be packaged that way. We'll be told that the 'haircut' will only be for the 'rich'. However, by the time it is over, everyone will be cleaned out to some extent. Just look at the end result in Cyprus. They knew all along the Proletariat was going to take a beating. Class warfare is the oldest weapon in the book when it comes to getting people to subscribe to draconian social measures. Yep, nail the other guy, just leave me alone. It works every time.

There are many analysts who believe these events are imminent. I tend to disagree. Don't forget that this is, in many ways, a psychological warfare operation. There is always the potential of a black swan event, however, I would think that there would be some time separation between Cyprus and the next event(s) to allow the public to go back to sleep. That said, those who adequately prepare now should be prepared to maintain those preparations – perhaps indefinitely. This is not a one or two month, then back to the party type situation. Our world has changed many times in the last decade. This is just another step in that progression away from liberty.

The FDIC/BOE report may be found by clicking here.
The BIS report may be found by clicking here.

Installment #4

One of the biggest concerns of savvy investors since the ongoing crisis began in 2008 has been the safety and longevity of the various types of retirement accounts and systems. Throwing gasoline on the flames have been the decisions rendered by courts of 'law' regarding the treatment of customer money in the case of the bankruptcy of several brokerage firms, most notably, MFGlobal. The susceptibility of bank deposits has already been firmly established in prior issues of this column. To our alarm and dismay it appears, at least on the surface, as though few are doing anything to prepare for such an eventuality.

Our hope in authoring this collaborative piece is that it will cause more people to assess matters as circumstances pertain to them, and then take proper evasive action. If you still believe in the system and that it exists for your benefit and protection then you may stop reading now.

The bail-in concept actually began to be implemented here in the United States before anywhere else. When a federal appellate court gave its stamp of approval in the Sentinel case, it gave the green light to the theft of customer funds whether they be segregated in a brokerage account (but held in street name) or held as deposits in a traditional banking arrangement. The quiet and subtle change in status from depositors to unsecured creditors that took place back in 2010 has been well documented in this column. The fact that, since the publishing of that seminal work on 4/12/2013, Japan, Britain, and the EU have officially adopted the bail-in doctrine should be very alarming, yet it is nearly uncovered by the lapdog media.

Derivatives Holdings Exposure by Major Banks

BANK	DERIVATIVES IN BILLIONS	ASSETS IN BILLIONS	PERCENT OF ASSETS
JPMorgan Chase	$79,941	$1,663	4,807%
Goldman Sachs	$40,772	$119	34,262%
Bank of America	$39,064	$1,450	2,694%
Citibank	$31,943	$1,165	2,742%
Wells Fargo	$5,111	$1,100	465%
HSBC	$3,152	$158	1,995%
Bank of NY Mellon	$1,271	$162	785%
State Street Bank	$539	$150	359%
Sun Trust Bank	$295	$170	174%
National City Bank	$178	$141	126%
Northern Trust	$153	$62	247%
PNC Bank	$138	$136	101%
Keybank	$116	$95	122%

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The outrage over the theft of segregated money in the cases of Sentinel, MFGlobal, and PFGBest has been all but absent. Nobody seems to care that they're fleeced. The Cypriots are looted over the course of several weeks and other than the cries of the people of Cyprus there is nary a whimper of protest. So, how safe is the $18 trillion in retirement assets in America? Well, after the latest 'clean-out' beta test (more on this later) it is probably a good portion less than $18 trillion.

The Sustainability of QE

Most thinking individuals will quickly come to the conclusion that quantitative easing (aka printing money from nothing to buy debt) or monetization is not sustainable in the long run. This creates an immediate problem because our economy and financial system are now addicted to these monthly liquidity injections. The economy and financial system are hooked on the bubbles QE produces. The bottom line is someone has to buy all those new Treasury bonds otherwise deficit spending goes away and an instant depression ensues. It is that simple: someone has to buy the bonds otherwise the economy buys the farm.

There is another problem with QE. Unlike retirement savings, QE is not capital. The work of von Mises and Rothbard, among others, clearly delineates the differences between capital and currency so we won't expound on that topic here. QE is currency. It is anti capital. Basically QE destroys capital. When all the capital is gone, the economy is gone and in this case, so is the goose that lays the golden eggs for the banksters. And we can't have that. There is still plenty of fleecing to be done. People are still lining up to take on more debt and pledge more of their future economic output to people who create the enslaving debt from thin air without breaking a sweat. Why should they work when you're willing to do it for them? Who in their right mind would want to put an end to such a great racket prematurely?

It is this very unsustainable nature of QE that will cause the banksters to go hunting for other liquid sources of capital. There are two big ones in America: bank deposits and retirement savings.

Potential Mechanisms for Confiscation

Contrary to the popular undertone of most hucksters (even in the alternative media) who are constantly warning of 'imminent financial/economic collapses' and the theft of everything including the nickel between the couch cushions, it won't necessarily work that way. We've got a distinct socialist trend going in America now and have had one for quite some time.

One likely eventuality is that the government, acting in its now accustomed role as the primary enforcement arm of the banking establishment, would 'nationalize' the retirement system. This would likely start with public pension plans and a mandate that these plans invest a minimum percentage of their portfolio in Treasury securities. The Thrift Savings Program (TSP) here in the US is already a major purchaser of Treasury securities for its 'G' Fund. Coercing other public pension plans to do the same is the next logical step although it is not without severe consequences. The actuarial models of nearly all pension funds are based on the idiotic notion that portfolios always produce a near 7% rate of return over the long run.

The last decade has put a huge dent in these models, which is one reason why many plans are now underfunded. Demographics and wage shifts are other major problems. We know, you have 101 reasons why your plan is the only one that is safe. We've heard them all. We also heard the 101 reasons why your house was the only one on the block that was immune from the housing crash and so forth. Regardless, nearly all plans are underfunded now, to varying degrees. If these plans were forced to take a significant position in Treasury bonds above what they already own, those actuarial models would become absolutely worthless. That is, unless interest rates adjust dramatically upward, which would cause a raft of other problems.

What the nationalization concept would mean for nearly all recipients of pension payments is an immediate and significant cut in their distribution. There are laws against that, right? There are also laws against stealing client money and we saw how well that worked out for the clients so we would suggest taking this possibility rather seriously.

The second potential mechanism is an outright bail-in where the funds are re-hypothecated (stolen) under the guise of some type of 2008-style crisis, whether it be manufactured or real. Under this type of eventuality, there would be the perceived need for recapitalization of the banking system either in its entirety or majority and the segregated monies in retirement accounts and bank deposits would be used to bail-in the system. The securities in those accounts could be sold to raise more funds to complete the bail-in. Obviously in this scenario the pensioner or IRA account owner would be left with little or nothing. At a minimum they'd get what was dubbed a 'haircut' when it was done in Cyprus.

Potential Timetables & Triggers

At current there is no timetable for any of this nor are we going to propose one. There is a smattering of information here and there, mostly from sources who are either dubious or compromised, however there is a certain tenor that we can establish from the actions of central banks, policy think tanks, and governments around the world that strongly suggests the eventual nationalization/confiscation is one of the next steps.

Our best projections regarding potential signposts are precisely the kinds of events we've seen over the past two weeks: massive volatility and sell-offs, particularly in the bond markets. Japan is a huge potential trigger. The BOJ is walking the razor's edge with its Abenomics sham and one mistake and over they go and the rest of the globe with them. Increases in both the frequency and magnitude of central bank easing are another signpost. Stunts such as the Bank of Japan directing pension plans where to invest are another good signpost that it is well past time to begin planning.

The past few weeks have produced what we're going to call a beta test of one of the potential takedown mechanisms. We've previously mentioned the addiction of western economies and their financial systems to QE stimulus. For months now market and economic spectators have been wondering aloud what would happen if and when all this QE stops. The mere mention of such an eventuality causes volatility. There is no possible way that the monetary 'authorities' don't know this.

So in that context we present Ben Bernanke's suggestion a few weeks back that QE may be 'tapered'. Then the banksters stepped back and watched the fireworks. Predictably the world sold off. Stocks, bonds, and commodities all went down. It was a mini deleveraging event. Then the banksters stepped in and restored a bit of stability to the system before things really got out of hand.

That exercise demonstrated several things. First, it proved beyond any shadow of a doubt that nobody has any idea what any financial asset is actually 'worth'. All we know is that they are worth more when there is QE than when there isn't. We have a QE pumped market, which we already knew, but there have been some detractors that have been painting the picture of a bull market based on fundamentals. That is utter nonsense. Secondly, the shock to interest rates caused some major cracks in the financial façade. Interbank rates in China skyrocketed and at least one bank allegedly hit the mat and had to be bailed out (CIBC). There were probably more. Keep in mind there are several hundred trillion dollars worth of derivatives tied to interest rates alone.

Table 1

Global OTC derivatives market[1]

Amounts outstanding, in billions of US dollars

	Notional amounts outstanding				Gross market value			
	H2 2010	H1 2011	H2 2011	H1 2012	H2 2010	H1 2011	H2 2011	H1 2012
GRAND TOTAL	**601,046**	**706,884**	**647,777**	**638,928**	**21,296**	**19,518**	**27,278**	**25,392**
A. Foreign exchange contracts	**57,796**	**64,698**	**63,349**	**66,645**	**2,482**	**2,336**	**2,555**	**2,217**
Outright forwards and forex swaps	28,433	31,113	30,526	31,395	886	777	919	771
Currency swaps	19,271	22,228	22,791	24,156	1,235	1,227	1,318	1,184
Options	10,092	11,358	10,032	11,094	362	332	318	262
Memo: Exchange-traded contracts [2]	*314*	*389*	*308*	*325*	…	…	…	…
B. Interest rate contracts[3]	**465,260**	**553,240**	**504,117**	**494,018**	**14,746**	**13,244**	**20,001**	**19,113**
FRAs	51,587	55,747	50,596	64,302	206	59	67	51
Swaps	364,377	441,201	402,611	379,401	13,139	11,861	18,046	17,214
Options	49,295	56,291	50,911	50,314	1,401	1,324	1,888	1,848
Memo: Exchange-traded contracts [2]	*61,943*	*76,039*	*53,298*	*55,636*	…	…	…	…
C. Equity-linked contracts	**5,635**	**6,841**	**5,982**	**6,313**	**648**	**708**	**679**	**645**
Forwards and swaps	1,828	2,029	1,738	1,880	167	176	156	147
Options	3,807	4,813	4,244	4,434	480	532	523	497
Memo: Exchange-traded contracts [2]	*5,689*	*6,416*	*2,956*	*3,561*	…	…	…	…

The trigger is obvious. The 'end' or even suggested end of QE causes a spike in interest rates, which wipes out a good portion of the world's banks. Essentially allowing what started after Bernanke's speech to proceed unchecked and gain momentum. The bail-in is on. There aren't nearly enough deposits or retirement savings to cover the derivatives market. The leverage is enormous and even the smallest of moves is going to cause problems. The banksters, including their spokesman, the little professor in DC, know all this.

Others might not be willing to say this, but we are. ***If we end up with a spike in interest rates because of the end (or threatened end) of QE with the banks of the world needing to be bailed in with your savings, then it was done intentionally.*** It was not an accident as will undoubtedly be reported. It wasn't a 'black swan'. They did their test the other week and saw the results. We are hostages to QE forever. Without it, the entire system perishes. And, as we pointed out earlier, even that isn't enough. One way or another America's retirement savings are on borrowed time. Sadly there are no other conclusions that really make sense given all that has already happened.

Conclusions

One thing we wonder at with amazement is the absolute unwillingness of most first world citizens to even consider making changes in their standard of living. A simple 20% cut in standard of living by Americans would provide a huge degree of flexibility with regards to weathering the storm that lies dead ahead, yet people won't do it. They won't even talk about it for the most part and your authors have seen this mentality on two continents. Standard of living is sacrosanct. The second thing that is truly amazing is the lengths people

will go to in order to remain in denial. ***We cannot state strenuously enough that you ignore the events going on around you at your own extreme risk and peril.***

We've gone out on a limb here, presenting what is basically a circumstantial case against central banks and governments when it comes to the matter of your retirement accounts. We've demonstrated the need for your capital to keep their Ponzi scheme going. We've demonstrated their willingness to swipe other types of assets with the full blessing of the judicial system. We don't have whitepapers such as the FDIC/BOE and BIS position papers on bank deposits - yet. We have no inside information and don't purport to have secret contacts with Dick Tracy watches as many others do. We're merely presenting what has already taken place and the fact that the current paradigm is in great jeopardy unless your savings are separated from you and placed under their control to some degree or another. The world would be much better off if the paradigm just ended, however it won't go quietly into that good night and neither should you. However, with information and knowledge come responsibility and a call to action. Posterity strongly suggests it. Freedom absolutely demands it.

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