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# Stern Call to Prevent Major Bankruptcies

The nation's top three finance officers lobbied before the House Financial Services Committee for more stringent regulatory measures over financial markets to prevent any more major bankruptcies like Lehman Brothers. Treasury Secretary Tim Geithner, Federal Reserve chairman Ben Bernanke and Securities and Exchange Commission (SEC) chairwoman Mary Schapiro who have come under sharp criticism lately for their institutions' failure to prevent Lehman from going bankrupt, appealed for an overhaul of the financial systems.

At the opening of a hearing to discuss policy matters on financial markets, the case of Lehman's bankruptcy was brought up highlighting the fact that the nation's financial regulatory bodies did not pick up on Lehman's exposure to risky derivatives and their highly questionable accounting practices to hide these activities in the years prior to their collapse.

Financial reform has been in the forefront of many people's minds not least because the SEC last week charged another Wall Street giant, Goldman Sachs with fraud. At the hearing, legislators began their debate on the tough measures needed to be taken for the government to better regulate derivatives and the appropriate capital requirements for Wall Street firms.

One of the matters brought up in the debate was how Lehman surreptitiously used an accounting trick known as 'Repo 105' to mask its massive losses and remove some $50 billion of assets from its balance sheet instead of selling them off at a loss.

At the discussions, lawmakers from both sides of the political divide decried Lehman's gross mismanagement and expressed disappointment at the feeble regulatory system that did not detect their wrongdoing and under-capitalization until it was too late.

This led to a call for the need to enforce the Wall Street Reform bill that was proposed by the Democrats and passed by the Senate Banking Committee last month. But this proposal was quickly shot down by the GOP representatives, branding such a move as trying to reinforce a broken system. The Republicans are generally against giving the Fed Reserve and SEC more regulatory authority.

The committee questioned Shapiro on how the SEC could have overlooked Lehman's condition and did not take action on the investment bank earlier. In reply, Shapiro stated that the SEC did not have "the staff, the resources or…the mindset" to effectively regulate the operations of the world's largest financial institutions. At the time of Lehman's bankruptcy, the SEC had only 24 employees overseeing five of the largest investment banks in the world.

Shapiro was quick to add that the SEC had learned from its mistakes and has adopted more stringent methods of cracking down on the types of transactions that led to Lehman's downfall. The SEC has sent letters to all major financial institutions requesting detailed descriptions of accounting practices including possible Repo 105 type transactions and will make its findings public after reviewing them.