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The Dodd-Frank Wall Street Reform and Consumer Protection ACT: Title VII, Derivatives

By Kathleen Ann Ruane

Createspace. Paperback. Book Condition: New. This item is printed on demand. Paperback. 28 pages. Dimensions: 11.0in. x 8.5in. x 0.1in. The financial crisis implicated the over-the-counter (OTC) derivatives market as a major source of systemic risk. A number of firms used derivatives to construct highly leveraged speculative positions, which generated enormous losses that threatened to bankrupt not only the firms themselves but also their creditors and trading partners. Hundreds of billions of dollars in government credit were needed to prevent such losses from cascading throughout the system. AIG was the best-known example, but by no means the only one. Equally troublesome was the fact that the OTC market depended on the financial stability of a dozen or so major dealers. Failure of a dealer would have resulted in the nullification of trillions of dollars worth of contracts and would have exposed derivatives counterparties to sudden risk and loss, exacerbating the cycle of deleveraging and withholding of credit that characterized the crisis. During the crisis, all the major dealers came under stress, and even though derivatives dealing was not generally the direct source of financial weakness, a collapse of the 600 trillion OTC derivatives market was imminent absent federal intervention. The first...



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