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PAGE 11 | SPORTS

201

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Obama says he's ready to clamp down on big banks

WASHINGTON

Volcker Rule would curb 'reckless risks' that led to industry's meltdown

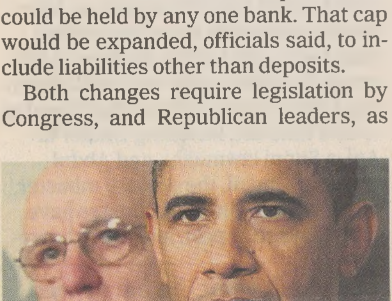
BY SEWELL CHAN AND ERIC DASH

Declaring that huge banks had nearly brought down the economy by taking "huge, reckless risks in pursuit of profits," President Barack Obama on Thursday proposed legislation to limit the scope and size of large financial institutions.

The changes would prohibit bank holding companies from owning, investing or sponsoring hedge fund or private equity funds and from engaging in proprietary trading — what Mr. Obama called the Volcker Rule, in recognition of the former Federal Reserve chairman, Paul A. Volcker, who has championed the restriction.

In addition, Mr. Obama will seek to limit consolidation in the financial sector, by placing curbs on the growth of the market share of liabilities at the biggest companies. An existing cap, put in place in 1994, set a limit of 10 percent on the share of insured deposits that could be held by any one bank. That cap would be expanded, officials said, to include liabilities other than deposits.

Both changes require legislation by Congress, and Republican leaders, as



KEVIN LAMARQUE/REUTERS

President Obama with Paul A. Volcker.

well as the banking industry, signaled Thursday that they would resist the proposals.

Mr. Obama, speaking in the Diplomatic Reception Room at the White House, said he anticipated such opposition, saying an "army of industry lobbyists" had already descended on the capital to oppose regulatory changes.

"If these folks want a fight, it's a fight I'm ready to have," he said.

With his comments, the president, for the first time, threw his weight behind an approach long championed by Mr. Volcker, who flew to Washington for the announcement. Mr. Volcker's chief goal has been to prohibit proprietary trading

ECONOMY, PAGE 16

GOLDMAN TRIES TO BLUNT CRITICISM OF PAY

The investment bank posted a record profit for 2009, but it reduced the share of its revenue going to bonuses. *PAGE 14*

DOUG MILLS/THE NEW YORK TIMES

President Barack Obama took a populist approach in his announcement of restrictions on the activities of big banks, saying they had "posed threats to the entire system."

Obama pledges to curb 'reckless risks'

ECONOMY, FROM PAGE 1

of financial securities by commercial banks using deposits in their commercial banking sectors. Big losses in the trading of those securities precipitated the credit crisis in 2008 and the government bailout.

Mr. Obama was flanked Thursday by Mr. Volcker; William H. Donaldson, a former chairman of the U.S. Securities and Exchange Commission; Barney Frank, Democrat of Massachusetts, and the chairman of the Financial Services Committee of the House of Representatives; and Christopher J. Dodd, Democrat of Connecticut, chairman of the Senate Banking Committee.

The principal obstacle to Mr. Obama's proposals may come from the Senate Republicans. Even before the White House announcement, the Senate minority leader, Mitch McConnell of Kentucky, had scheduled a meeting with the Republicans on the Senate Banking Committee, a contingent led by Senator Richard C. Shelby of Alabama.

Even so, other Republicans on Thursday were restrained in their response to Mr. Obama's proposal, suggesting that they did not want to be perceived as defending the bailed-out banks.

Spencer Bachus of Alabama, the top Republican on the House Financial Services Committee, said his party set out a plan in July to "end the bailouts, get the government out of picking winners and losers and restore market discipline." That approach would address the "uncertainties created by repeated government interventions and ever changing policies," Mr. Bachus said.

The president — still stinging from a stunning [illegible]back Tuesday, when Republicans [illegible]aptured the Senate, seat formerly held by the late Edward M. Kennedy of Massachusetts — took a populist posture Thursday in criticizing the banks for bringing on the crisis and necessitating hundreds of billions of dollars in government assistance.

Taxpayers were "forced to rescue financial firms facing a crisis largely of their own creation," he said.

Mr. Obama said of the Troubled Asset Relief Program, the 2008 bank bailout: "That rescue, undertaken by the previous administration, was deeply offensive, but it was the necessary thing to do." But he said the financial system was "still operating under the same rules that led to its near-collapse," and vowed: "Never again will the American taxpayer be held hostage by a bank that is too big to fail."

Under existing rules, he said, the banks "concealed their e[illegible]ure to debt" through complex financial maneuvers, made "speculative investments," and took on "risks so vast that they posed threats to the entire system," Mr. Obama said.

Investors, nervous about the effects the proposed rules could have, sent bank shares down on Wall Street, even with the record earnings reported Thursday by Goldman Sachs.

Administration officials played down any suggestion that the proposals were a reaction to the president's falling approval ratings and popular anger over the huge profits announced by giants like Goldman Sachs and JPMorgan Chase.

The proposals, they said, have been brewing since last summer, and partly arose out of meetings of the president's Economic Recovery Advisory Board, a panel Mr. Obama created last February.

Eric Dash reported from New York.