FINANCIAL TIMES

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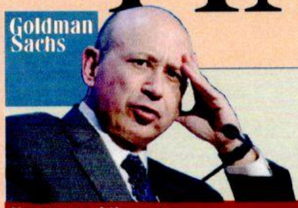

Global financial crisis

NEWS **Pages 2-7**; COMMENT **Page 13**; LEX **Page 16**; MARKETS **Pages 26-28**
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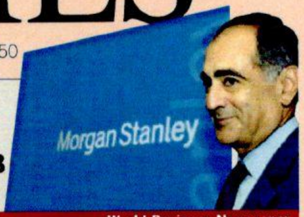

Newspaper of the year

World Business Newspaper

VIEW FROM THE TOP

BILL RHODES, senior vice-chairman of Citigroup

Bill Rhodes, Citigroup senior vice-chairman, made his name three decades ago in helping to defuse a series of international financial crisis. Some of his early experiences included helping Jamaica restructure its debts in the late 1970s and working with Nicaragua's new government after the Sandinista revolution in 1979.

That work meant he was poised to play a key role when financial turmoil hit much of Latin America in the 1980s. Starting with Mexico in 1982, Mr. Rhodes headed the advisory committees of international banks that negotiated debt restructuring agreements for much of the region, going on to tackle Argentina, Brazil, Peru and Uruguay. When a financial tsunami hit Asia a decade ago, Mr. Rhodes was brought in to help restructure South Korea's debt.

As for America's current financial travails, Mr. Rhodes is on the record as a Cassandra, warning in an article in the Financial Times in March 2007 that lending and investing standards needed to be tougher. In a video interview with FT.com this week, Mr. Rhodes, who joined Citibank more than half a century ago, put the current financial meltdown in historical and international context. Edited highlights appear below.

We have now seen the bankruptcy of Lehman, the takeover of Merrill Lynch and, in effect, a government takeover of AIG. Is it time for a comprehensive government rescue package?

I think it's worthwhile to take a look at an RTC-type solution [Resolution Trust Corporation, set up in 1989 to take over failing US savings institutions]. The hole just seems to be getting bigger, no matter what the action taken. It certainly did the job in the late 1980s and early 1990s with the savings and loan situation.

How much would it cost?

Cost probably would be high. It would help liquidity, which is very important because we're in a sense of liquidity crisis here now. Second, it would probably allow homeowners to stay longer in their homes.

You are a veteran of a number of financial crises in emerging markets. How does this one compare with those?

This is probably the worst that I've seen. The market reaction here has been deeper than I've seen before and we still haven't seen the impact on the real economy. One of the disturbing things is the lack of confidence among financial institutions. We see that in the lending between institutions, or lack thereof. We see it in the counterparty area and that's really critical.

So is America today in worse shape than Latin America or Asia during their financial crises?

Different situation, but I think the markets are so much more sophisticated and we're talking about much larger markets.

Is there a single cause of this current crisis?

We got ourselves into a bubble at the same time as a breakdown in risk management. There is a lot of guilt to play around. Regulatory oversight, corporate governance – all were lacking the levels they should have been, but the basic problem was this bubble, aggravated by everything else. One of the things I would say about solutions is that we've got to do something about having a clearing house arrangement for derivatives and credit default swaps.

Are we entering a new era of regulation?

What you need is smart regulation ... At the same time, institutions have to do more on self-regulation with their liquidity management, capital management and, very importantly, risk management.

You were an early Cassandra on the crisis. Why do you think people in your own bank didn't seem to listen to you?

In general, people tended to agree with me that we were in a bubble, but they saw, or thought they saw, that this bubble was not going to [burst] for a while. One of the lessons I've learnt form Paul Volcker [former chairman of the Federal Reserve] is that when a crisis is coming, the clock is running against you and you think you have all the time in the world but, once it hits, there's no time at all.

And what stops people from doing that? Why was, for example, Merrill able to act when Lehman wasn't?

The decision-making capacity and capability of management is important. There's also the competition. Your peers are out there and you feel you have to be out there. The regulators tend to feel that they have more time to do things. Everyone thinks they have more time.

Has the age of independent broker-dealers ended? Do all of them need to have a tie-up with a retail bank?

Not clear, but that's the trend. The deposit base is key because if you're reliant on raising funds in the market short-term or even going to the bond market...

This makes you very vulnerable?

Yes, in times of stress like we are.

So are the days of institutions without an independent deposit base numbered unless they can acquire one or be acquired?

I wouldn't say they are numbered but it's something they ought to be concerned about.

Some people in Wall Street are saying that this is the worst financial crisis since 1929. Could it get as bad as 1929?

Hopefully not. It is certainly the worse one I've ever seen.

The worst ever?

No, the worst one I've seen and I think it's probably the worst – for the credit markets – since the Great Depression.

When the hurricane passes, will the landscape for financial services be fundamentally changed?

I think we're going to see an awful lot in the way of mergers and acquisitions.

Should Congress and the regulators have a say in how much people are paid by private companies?

I don't think so – but unless the private companies do the job, there is always that danger that they may.

Chrystia Freeland

VIDEO ON FT.COM

To see an interview with Tom Albanese, chief executive of Rio Tinto, and the interview with Bill Rhodes, go to **www.ft.com/view**

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