The Great Dispossession: Turning Our Property in Financial Assets Into the Property of "Secured Creditors"

Part II

By Dr. Paul Craig Roberts
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Read Part I:

WEF's Great Reset: The Great Dispossession. The Loss of Property Rights in Financial Assets. "Own Nothing Be Happy"

By Dr. Paul Craig Roberts, April 11, 2024

In Part 1, I reported that we already do not own anything.

The immediate response from readers is: what can we do to avoid dispossession? Offhand, the answer might appear to be debt-free property and gold and silver in personal possession.

However, if the goal is that we own nothing and are controlled under a digital currency regime, these assets will be taken as well.

Webb says if the billionaires and large financial institutions can be made aware of the situation, they could make Congress aware of the regulatory changes and force Congress to use its law-making power to undo the regulatory changes.

After all, if there is no private financial property, there is no one to contribute to Congressional elections.

Billionaires' campaign donations elect the politicians, and what the regulatory changes do to billionaires is to reduce them to the same poverty as a homeless person. What the changes mean for large financial institutions such as Merrill Lynch, Schwab, etc., is their existence ceases. Webb's hope is the combined influence can undo the regulatory changes. The question is whether awareness can be generated. The fate of Congress is also at stake. In the Great Reset there is no input from the people and no function for Congress.

As in all of my writings, I am trying to bring awareness. Little doubt the messenger will be shot.

The purpose of Part 2 is to outline the regulatory changes that have been made that have turned our property in financial assets into the property of "secured creditors."

Webb terms them legal changes, which they are, but as I read it from regulatory, not legislative, action.

Webb says the changes are global, but he only describes how the US and EU effected the changes for themselves. I am unable to imagine that Russia, China, Iran and any parts of the world not captured in the Western financial system are parties to the dispossession, especially under the regime of sanctions. As I read it, the dispossession that awaits is limited to the Western world and its captive countries. By global, perhaps Webb means the global operations of Western world financial organizations.

First some definitions: an "account holder" is you, your IRA, your pension plan, your stock and bond investments held at an "account provider" or "intermediary" or "depository institution" such as Merrill Lynch, Schwab, Wells Fargo. An "entitlement holder" is the definition of you whose ownership claim to your financial assets has been subordinated to the claims of "secured creditors" of the institution where you have your accounts. Please do understand that the dispossession of which I write is your dispossession.

As reported in Part 1, a country's securities are pooled in a Central Security Depository (CSD). Each national CSD is linked to the International Security Depository (ICSD), which in the words of a 2013 report by the Bank for International Settlements Committee on the Global Financial System, makes available to "secured creditors" all available collateral (all of our stocks and bonds) and provides cross-border mobility of collateral from the "collateral giver" to the "collateral taker." Yes, these terms are explicitly used, indicating recognition that theft is taking place.

Webb writes that these arrangements were "designed and deliberately executed to move control of collateral to the largest secured creditors behind the derivatives complex. This is the subterfuge, the endgame of it all."

To achieve these arrangements took many years and many regulatory changes that did not involve financial market participants (you) in the decisions. The differences between financial property rights in the US and in some European countries were a special obstacle which required "harmonization" of Europe with the US. The first effort was signed only by the US, Switzerland, and Mauritius. The EU did not sign, because in some EU member countries (Sweden, Finland, for example) the purchasers of securities had inviolable property rights based on the ancient legal principle of *lex rei sitae.*

Webb describes, citing the documents, the 10-year work-around of this blockage.

The creation of cross-border collateral mobility began with the Depository Trust Corporation moving from physical stock certificates held in the owners name to book-entries. A "paperwork crisis" was claimed from having to process transactions of individually owned shares of securities.

Then the US Uniform Commercial Code was quietly amended over many years without requiring an act of Congress. Here are the changes:

Ownership of securities as property has been replaced with a new legal concept of a "security entitlement", which is a contractual claim assuring a very weak position if the account provider becomes insolvent.

All securities are held in un-segregated pooled form. Securities used as collateral, and those restricted from such use, are held in the same pool.

All account holders, including those who have prohibited use of their securities as collateral, must, by law, receive only a pro-rata share of residual assets.

"Re-vindication," which is the taking back of one's own securities in the event of insolvency, is absolutely prohibited.

Account providers may legally borrow pooled securities to collateralize proprietary trading and financing.

"Safe Harbor" assures secured creditors priority claim to pooled securities ahead of account holders.

Webb reports that "the absolute priority claim of secured creditors to pooled client securities has been upheld by the courts."

Webb reproduces the New York Federal Reserve Bank's reply to questions from the European Community's Legal Certainty Group about the new system Washington was developing. The Fed was asked if investors have rights attaching to particular securities in pooled securities. The NY Fed responded "No."

The Fed was asked if investors are protected against the insolvency of an intermediary or depository or account provider. The NY Fed answered "creditors have priority over the claims of entitlement holders."

The Fed was asked if creditors still had priority if failure involved fault, negligence or similar breach of duty of the intermediary. The NY Fed answered: "In terms of the interest that the entitlement holder has in the financial assets credited to his securities account: regardless of fault, fraud, or negligence of the securities intermediary, under Article 8, the entitlement holder has only a pro rata share in the securities intermediary's interest in the financial asset in question."

In short, omnibus accounts pool assets so that individual securities cannot be identified with specific investors. When bankruptcy occurs causing default of the account provider, clients are left with a mere contractual claim and have to line up with all other unsecured creditors.

The objective of using all securities as collateral has been obtained. "Comprehensive 'collateral management' systems have been implemented which assure the transport of all securities cross-border through the mandated linkage of CSDs to ICSDs to the CCPs (where the risk of the derivatives complex is concentrated), and on to the anointed secured creditors which will take the collateral when the CCPs fail, having assured for themselves that their taking of assets cannot be legally challenged."

Nevertheless, two problems remain. What happens if the pools of collateral are insufficient to cover the claims of secured creditors and what is the risk that a CCP (Central Clearing Party) could fail?

The 2013 Bank for International Settlements Global Financial Committee report says that if there is insufficient pooled collateral (our stocks and bonds) to prevent the collapse of the financial system (by which is meant apparently the mega-banks), then non-collateral has to be transformed into collateral. What non-collateral is and how it is transformed is not clear. The BIS Global Capital Committee's report says: "some market participants may need to exchange available, but ineligible [as collateral], securities for other securities that meet eligibility criteria [as collateral] in order to fulfill their collateral obligations. Undertaking transactions to achieve this outcome has been defined as 'collateral transformation.'"

Webb writes: "Collateral transformation is simply the encumbrance of any and all types of client assets under swap contracts, which end up in the derivatives complex. This is done without the knowledge of the clients, who were led to believe that they safely owned these securities, and serves no beneficial purpose whatsoever for these clients."

As Assistant Secretary of the Treasury, my bailiwick was the management of the domestic economy, and my task was to replace the Keynesian demand-management policy that had resulted in "stagflation" with a supply-side policy. Moreover it was 40 years ago prior to the era of derivatives that exceed many times the size of world GDP and, as I understand, the combined value of all stocks and bonds in the Western world. Therefore, I cannot provide the answer. Webb does not explain, nor does the BIS committee, how more collateral is created when the pooled accumulations of all stocks and bonds are insufficient to meet secured creditors' claims. But it is not from money creation by the central bank.

Under the new Dispossession, a Central Clearing Party (CCP) has the counterparty risk between parties in a transaction and provides clearing and settlement. The CCP has "the obligations of the failed clearing participant." So what happens if a CCP itself fails? The answer seems to be financial Armageddon. "If a large CCP is in trouble because of its members' default, then we will be having a banking crisis" says Benoît Gourisse, Senior Director, European Public Policy at ISDA.

The Depository Trust & Clearing Corporation states that it has no solution to the undercapitalization of CCPs.

Webb concludes that the CCPs are deliberately under-capitalized and designed to fail.

In Part 3 we will consider the likely result of the pending financial crisis.

Read Part III:

[The Great Dispossession: A Massive Financial Crisis Is Pending. The WEF's "Great Reset" Means "The Re-institutionalization of Feudalism"]

By Dr. Paul Craig Roberts, April 17, 2024

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