

RELEASE IN FULL

THE MONEY COP

Gary Gensler got his start on Wall Street. Now he's cleaning it up—and taking on the biggest banking scandal since the financial crisis

BY RANA FOROOHAR

FOUR YEARS ON FROM THE FINANCIAL crisis, new scandals still seem to break out every few months. HSBC, the big British bank, just agreed to a \$1.9 billion settlement over money laundering. That was followed by the arrests of several London traders, including one who had worked for Swiss giant UBS and Citigroup, on suspicion of interest-rate manipulation—and banks are bracing for more to come. A driving force behind this latest crackdown tied to LIBOR, the London interbank-loan rate that is critical to

global banking, is Gary Gensler, chairman of the U.S. Commodity Futures Trading Commission (CFTC), who since 2009 has become one of Wall Street's toughest cops. That's a long way to have traveled since his days in the Clinton Administration, when he was one of those who advocated loosening financial regulation in the first place.

For a man who strikes fear in the hearts of brazen bankers, Gensler is a pretty genial guy. The 55-year-old single father laughs easily, jokes frequently and tells self-deprecating stories about his role in making our financial system safer in between

tales of the perils and joys of raising three daughters (Anna, 22; Lee, 21; and Isabel, 16) on his own following the death of his wife of 20 years, Francesca, from cancer in 2006.

Today, Gensler is railing about soiled clothing. "Anna came back home from L.A. the other day, and she brings this duffel bag full of dirty clothes!" he says. "Can you believe it? I end up doing all her laundry." Lounging in a beautiful home filled with photos and paintings done by their mother, who was an artist, the girls roll their eyes and later retaliate by mocking Dad for his downtime pleasure, dancing:

Photograph by Reed Young for TIME



“You should see him get down—it’s half swing, half breakdancing!” When I point out to Gensler—a former Goldman Sachs partner who employs almost no household help and lives much of the time not in D.C. but near where he grew up in Baltimore—that maybe he doesn’t need to do his own laundry, he sighs and says, “I know, I know.” Living outside the Beltway and being Mr. Mom are part of Gensler’s effort to keep a healthy distance—geographically and existentially—from both Washington and Wall Street, where the dirty laundry is a lot nastier than anything his kids can throw at him.

As chairman of the CFTC, he stands watch over some of the most exotic—and risky—financial transactions. Since summer, Gensler has been a central figure in exposing the biggest banking scandal since the financial crisis: the LIBOR interest-rate-manipulation investigations. LIBOR, the London interbank offered rate, is an arcane term for a simple concept: the interest rate that a bank might charge another bank. It plays a huge role in lots of everyday loans,

since banks use it as a benchmark to set other rates. Adjustable-rate mortgages, many student loans and car payments are pegged to LIBOR. So are countless types of complex financial instruments, including 70% of the U.S. futures market. In all, LIBOR underlies some \$350 trillion worth of derivatives contracts and \$10 trillion in loans.

So the notion that someone has played games with LIBOR doesn’t sit well with enforcers like Gensler, who think the very viability of the world financial system depends on transparency and a level playing field. From pro investors making giant bets to homeowners considering a refinance, practically everyone in the market relies on the assumption that the LIBOR benchmark reflects reality. “These rates are at the absolute core of our global financial system,” he says. If they are falsely reported, “that goes to the integrity of markets and how much trust the public has in them.”

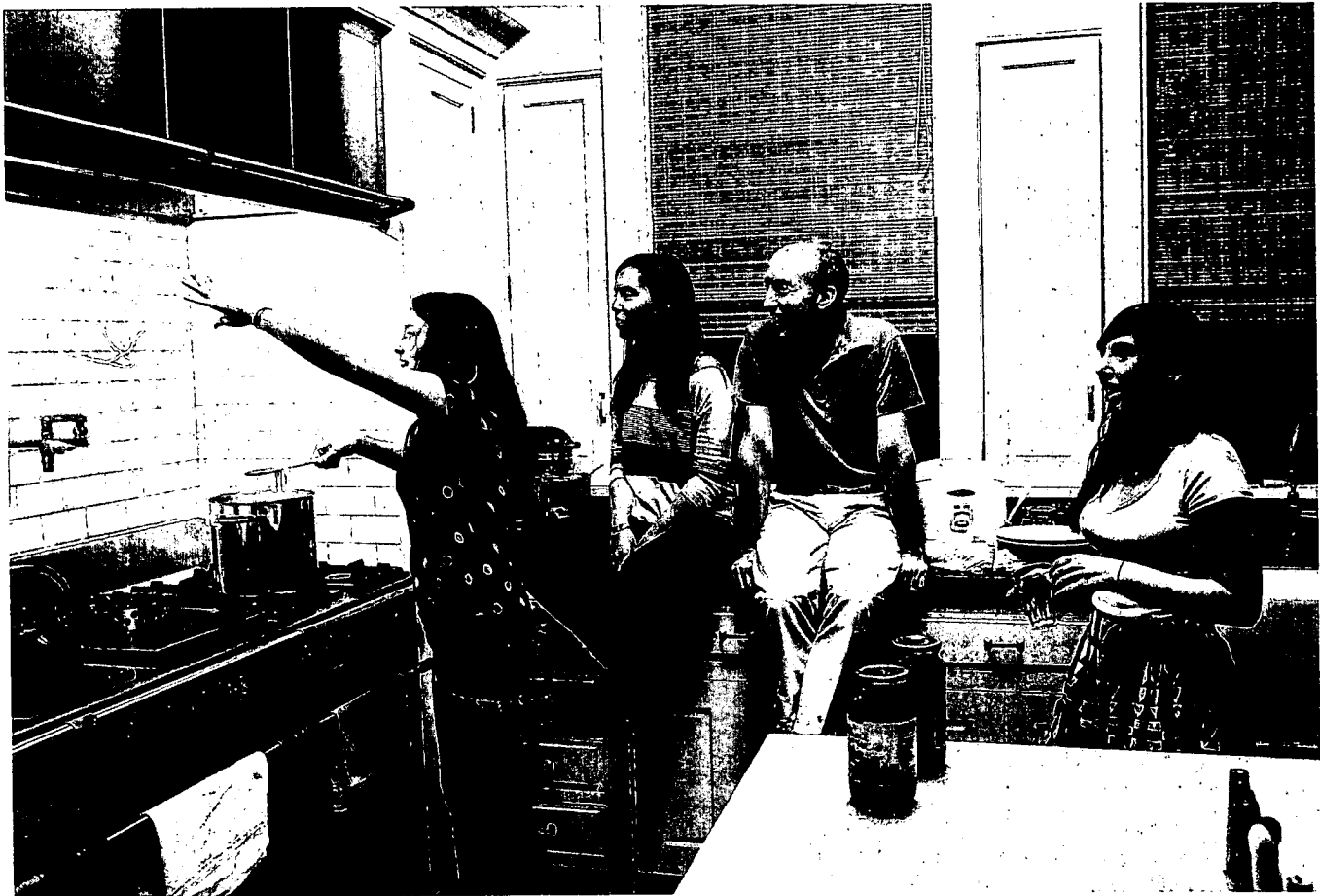
It turns out that public trust was indeed misplaced. On June 27, after four years of investigation by the CFTC, Barclays became the first major bank to publicly admit that

it had been rigging the rates it submitted for LIBOR for years, paying \$450 million in fines as a result. Over a dozen other global banks are under investigation by the CFTC and other U.S. and European regulators for falsely reporting or manipulating LIBOR. A number of those banks have been setting aside massive reserves to deal with potential fines. UBS, which may end up paying even bigger penalties than Barclays, has socked away some \$610 million to deal with possible regulatory issues.

A Motive for Fraud

THE CLEANUP IS LARGELY DUE TO GENSLER, who has been leading the charge to uncover LIBOR fraud since he took over the CFTC in 2009.

Seeing what sticks Gensler with daughters Isabel, Anna and Lee in the kitchen of their Baltimore home



REED YOUNG FOR TIME

A year earlier, there had been hints that something was off with LIBOR, which is unusually vulnerable to manipulation since it's not based on actual lending transactions. Instead, it's calculated through guesstimates submitted by a panel of 20 global banks. In some ways, LIBOR is a measure of banks' trust in one another's solvency. After all, you will offer a better deal on a loan to a borrower you feel confident can easily repay you than to someone whose finances seem weaker.

In 2008, as the financial crisis was building, that trust was manifestly declining—yet LIBOR wasn't rising. In those dark days, banks had a powerful motive to report rates lower than the real ones: the first banks that admitted having to pay more to borrow from fellow institutions would be effectively advertising the worries about their stability—admitting that they, and perhaps the entire financial system, were vulnerable.

Authorities knew something was up. (In 2008, Mervyn King, governor of the Bank of England, joked that LIBOR “is in many ways the rate at which banks do *not* lend to each other.”) Yet regulators—some of whom may have feared market panic if LIBOR was exposed as unreliable—didn't jump on the case.

Except for Gensler. Working alone at first and then with other U.S. and international agencies, the CFTC trolled through thousands of e-mails, coming up with damning evidence. “Dude, I owe you big time,” reads one e-mail from a trader to a Barclays staffer involved in fixing rates. “I'm opening a bottle of Bollinger.” The Champagne may not have cost consumers anything—indeed, to the extent that LIBOR was kept artificially low, it's possible that people with loans pegged to that rate saved some money. But the LIBOR fixing illuminated a culture in which bankers routinely commit fraud while regulators turn the other way.

A Born-Again Regulator

THE FACT THAT GENSLER DIDN'T IGNORE the LIBOR problems may in some ways be an atonement for the earlier role he played in the deregulation of financial markets. In the Clinton Administration he worked with Treasury Secretary Robert Rubin and later was an Under Secretary to Rubin's successor, Larry Summers, who passed the Commodity Futures Modernization Act. That law exempted credit-default swaps—those exotic securities that exploded our economy in 2008—from regulation.

“Knowing what we know now, those of us who served in the 1990s should have

Staying rooted in Baltimore and being Mr. Mom are part of Gensler's effort to keep a healthy distance from both Washington and Wall Street

done more [to protect] the derivatives markets,” says Gensler. And unlike others on the team, he was brave enough to make a public mea culpa and also fight back when it seemed the Obama Administration wanted to return to the status quo. He wrote a letter to Congress in 2009 urging that new derivatives rules be strengthened; critics claimed that more regulation would raise the cost of capital and add red tape.

Even some opponents of Clinton-era deregulation offer praise for Gensler. “I think he's done an impressive job,” says Joseph Stiglitz, former chairman of the Council of Economic Advisers. “He's someone who doesn't just say, ‘Trading is good,’ but who really thinks about the social value of finance.”

As the son of a vending-machine small-business owner who grew up in a middle-class Jewish family, Gensler had early exposure to the real-world side of finance. His father would draft Gary and everyone else in the family to “go around to the bars of Baltimore with this nickel-counting machine” so he could make the weekly payroll.

Gensler turned out to be a math whiz and went on to earn both his undergraduate degree and his M.B.A. from the University of Pennsylvania's Wharton School. (He was an undergrad alongside his twin Robert, now a fund manager.) After Wharton, Gensler began a successful 18-year career at Goldman Sachs, eventually working under Rubin, who was a partner running a trading desk and starting up the risk-arbitrage unit. While the two weren't personally tight (“It was always a business relationship,” says Gensler, ever tactful), Rubin was a good judge of talent, eventually exploiting Gensler's quantitative thinking on trading as the firm's focus shifted further and further to that more profitable—and risky—area of business.

Rubin then brought Gensler into the Clinton Administration. (Gensler later

worked as an adviser to Hillary Clinton during her 2008 campaign.) But in 1998, Gensler's wife had a flare-up of cancer, which had plagued her since they met. By 2005 the family was taking their last vacation together, to London, with Francesca in a wheelchair. The next year, as she lay dying in hospice in a medication-induced haze, Gensler says, “I took her hand and talked about all the vacations we had taken together, and I was laughing and saying, ‘Wasn't this great?’ and ‘Remember that?’” He pauses, his face softening, and then he smiles. “She opened one eye and gave me this wry little smile. That was her goodbye.”

The family is still very tight-knit—and somewhat competitive. Gensler's book *The Great Mutual Fund Trap* took aim at his brother Rob's industry, which he felt was overcharging people. “It's like, Do you really need that much of a spread for the middleman? There are a lot of bad practices out there in finance.”

When 2013 kicks off, Gensler can notch the end of another bad practice as an accomplishment. On Dec. 31, the U.S. will become the only nation to require domestic and international dealers of swaps who are conducting business in America to register with regulators. The new reporting rules might have allowed regulators to see that a company like AIG—which had to be bailed out with \$180 billion in taxpayer money—was taking risky bets in the derivatives markets. “Would that have prevented AIG from taking those bets?” asks Gensler. “Maybe not. But at least we would have known. You always feel safer on a lit street rather than a dark one.”

Shining a light in the darkest corners of finance hasn't won Gensler many friends. “He's dealt with a lot of very uncooperative people,” says Congressman Barney Frank. Among them: a Congress that has underfunded the CFTC (which has only 10% more staff than it did in the 1990s, when markets were much smaller) and banking-industry lobbying groups that are continually suing the agency. Indeed, some insiders speculate that if Gensler hadn't made so many enemies in finance in the past few years, he might be a contender for a bigger gig, like head of the SEC or Treasury. He shrugs at the idea. “It's a privilege to see this job through. These rules [we are enforcing] really can help shift advantage from Wall Street to the rest of the economy.” In a country still rife with financial scandal, where people have come to believe that the system is rigged against the little guy, that's as important a job as any. ■