Book Reinforces Shift In China's Yuan Stance

BEIJING—China will gradually widen the yuan's daily trading band and "basically" phase out routine intervention in the foreign-exchange market, the head of the central bank said in a newly published book.

Zhou Xiaochuan, governor of the People's Bank of China, also repeated previous statements that China will speed up the opening of its capital account, which covers investments.

The statements largely repeat past comments. But their appearance after last week's meeting of top Chinese leaders—a meeting that resulted in an ambitious blueprint for overhauling the world's No. 2 economy—give them added heft.

6.0927

The amount of yuan a dollar bought Tuesday, a gain from Monday.

The statements that were in an article included in a newly published book designed to explain and amplify the decisions made at the Communist Party's meeting last week. Other senior officials, including Finance Minister Lou Jiwei, contributed to the book, which boasted a high-powered editing team that included Xi Jinping, China's president and chief of the Communist Party.

"We will in an orderly manner expand the renminbi [yuan] trading band according to the development of the [foreign-exchange] market and the economic and financial situation," Mr. Zhou wrote.

"We need to strengthen the two-way flexibility of the renminbi exchange rate" and keep the rate at a basically stable and reasonable level, he added.

The central bank currently allows the yuan to move 1% above or below a parity rate it sets every day against the dollar.

Central bank officials have said they want to widen the band for trading against the dollar but haven't announced any timetable. Mr. Zhou's article didn't give one.

Foreign-currency traders said they didn't expect the central bank to move immediately on any band widening.

"There have been expectations of exchange-rate reforms, including the widening of the yuan band, though any imminent move would be a surprise," said a Beijing-based trader at a local bank.

The trader also noted that a previous move to widen the yuan's trading band in April 2012 was preceded by volatile trading when the dollar-yuan consistently hit its daily limit, which was then 0.5%.

On the over-the-counter market, the dollar was at 6.0927 yuan at Tuesday's close, up from Monday's close of 6.0920 yuan. It traded in a narrow range of 6.0910 yuan to 6.0935 yuan. Late in New York on Monday, the dollar was at 6.0924 yuan.

Mr. Zhou said China would relax approval requirements for cross-border investment movements under the Qualified Foreign Institutional Investor and Qualified Domestic Institutional Investor programs.

The central bank chief also said the bank's medium-term goal was to fully liberalize interest rates.

—Liyan Qi

Banks Probe Sales Units

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dealing banks around the world have reported being contacted by regulators in the investigation.

Several banks, including Barclays, have suspended a total of more than a dozen foreign-exchange traders as part of the investigation, according to people familiar with the matter.

Banks including Barclays and **UBS** AG have hired defense lawyers to represent some of the suspended employees, these people say.

No salespeople at London-based Barclays have been suspended as part of the foreign-exchange investigation, according to a person familiar with the matter.

It isn't clear whether regulators are looking into the possible role played by salespeople in the currencies probe or whether the focus on salespeople is confined to the banks' own internal reviews of their staffs' conduct. It also isn't clear which banks beyond Barclays are looking into the roles played by their salespeople.

"Investigating salespeople is the natural next step of the investigation, as they manage big orders on behalf of clients," said James Cochrane, director at ITG, a New York company that offers trading services to institutional investors. He said that is because salespeople serve as middlemen between big institutional clients and traders at their own banks, making them natural conduits for sensitive market information.

As part of their internal reviews, banks have been sifting through voluminous transcripts of electronic chat rooms used by foreign-exchange traders. Much of the focus has been on a chat room that traders alternately dubbed "The Cartel" and "The Bandits' Club" among other monikers, although several other chat rooms also are under scrutiny, according to people familiar with the matter.

Meanwhile, several banks now are facing class-action litigation in connection with alleged currency-market manipulation.

Simmtech Co. Ltd., a South Korean semiconductor maker, filed a class-action suit in New York on Nov. 8 against defendants including Barclays, **Citigroup** Inc., **Credit Suisse Group** AG, **Deutsche Bank** AG, **J.P. Morgan Chase** & Co., **Royal Bank of Scotland Group** PLC and UBS.

The banks all declined to comment on those allegations.

Simmtech's lawsuit alleges that the banks conspired to manipulate the London "fix," a global benchmark for where currencies are trading.

The fix serves as a reference point for exchange rates, and many investors will ask their banks to process transactions at the fix price.

Several South Korean companies across industries have inquired about joining Simmtech's class-action suit, B.J. Kim, a lawyer representing Simmtech, told The Wall Street Journal.

Simmtech's action comes a few days after Haverhill Retirement System, a Massachusetts-based pension fund that provides retirement and disability benefits, filed a similar class-action suit in New York against the same group of banks.

—Anjani Trivedi contributed to this article.

BofA, AIG Battle Over Settlements

Judge to Rule in Mortgage-Securities Case While Firms Break Off Lawsuit Talks

By Shayndi Raice

Agence France-Presse/Getty Images

AIG has sued BofA for $9 billion over soured mortgage-backed securities.

Bank of America Corp. and **American International Group** Inc. have been sparring for months over one of the biggest mortgage-security settlements in history. Now, a New York judge is set to rule on the dispute.

Justice Barbara Kapnick heard closing arguments Monday and Tuesday in a special hearing in New York State Supreme Court that will determine whether Bank of America can proceed with an $8.5 billion legal pact it struck with investors in 2011 over soured mortgage-backed securities. It isn't known when the judge will issue her ruling.

The hearing is about whether the trustee for investors, **Bank of New York Mellon** Corp., negotiated a fair and reasonable settlement on behalf of a group of 22 investors that included **BlackRock** Inc., **MetLife** Inc., the Federal Reserve Bank of New York and AIG, among others.

But behind the scenes is a larger legal dispute between the second-largest bank by assets and AIG. The insurance giant, which argues the $8.5 billion pact is flawed, has separately sued Bank of America for $9 billion over other mortgage-backed securities.

During months of negotiations, representatives for AIG have said they would drop their objections to the settlement if Bank of America agreed to settle the $9 billion lawsuit, according to people familiar with the matter.

The two sides were negotiating until just days before closing arguments, one of the people said. The talks fell apart when the sides couldn't agree on a settlement amount, the person added.

A representative for Bank of America told an AIG representative that the bank had "zero chance" of losing the case, people familiar with the matter said.

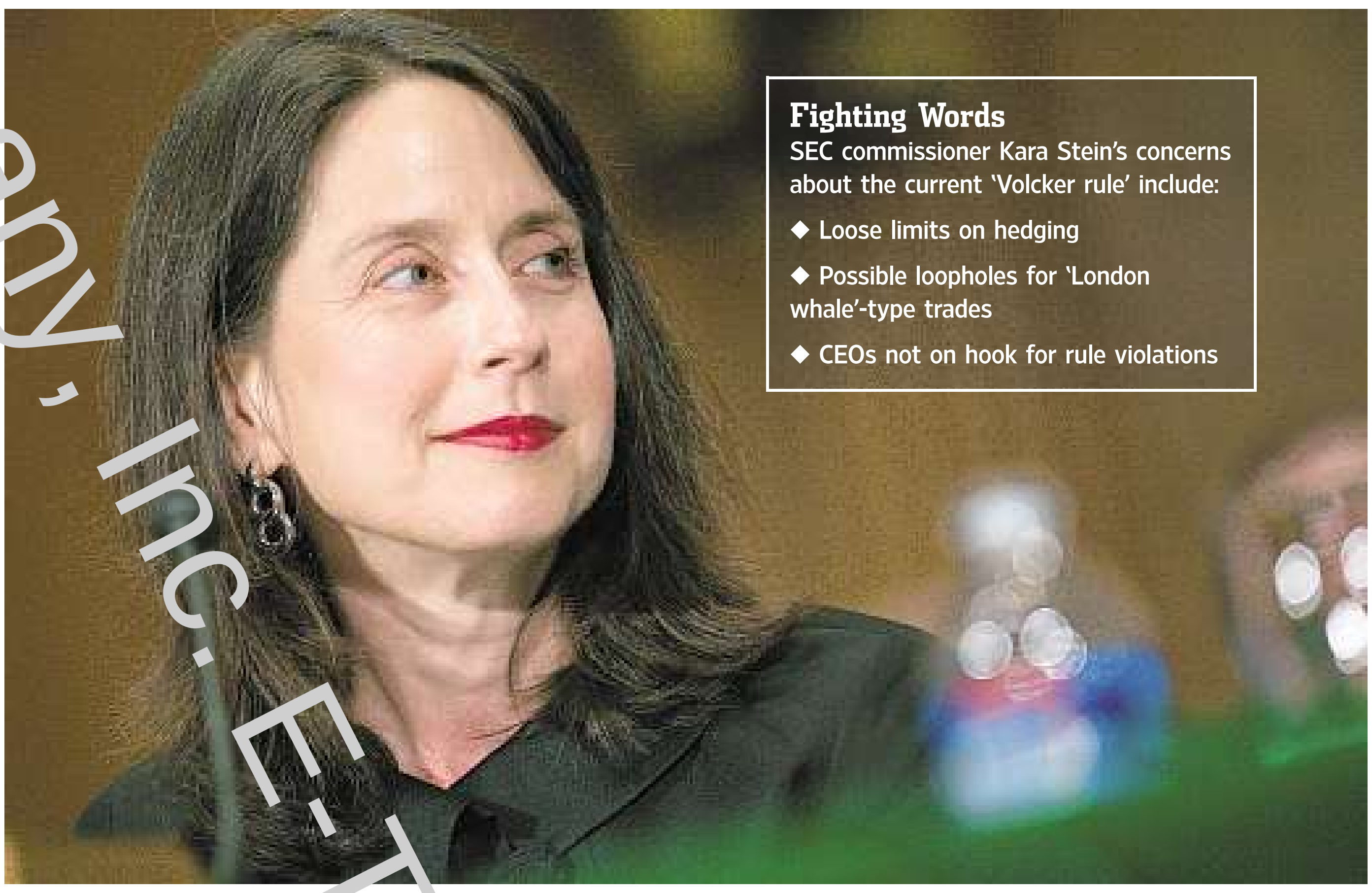
Spokesmen for Bank of America and AIG declined to comment on the negotiations.

The hearing comes as Bank of America is trying to persuade investors its legal troubles are in the past. The bank recently lost a civil case when a jury found its Countrywide unit committed fraud in a loan-processing program called the "Hustle." Bank of America already has paid almost $50 billion in litigation costs tied to its 2008 acquisition of **Countrywide Financial** Corp.

The 2011 investor pact came after nearly nine months of negotiations between investors who held mortgage-backed securities originally valued at $105 billion. If approved by the judge, the settlement would apply to all investors, not just the ones who negotiated the deal.

AIG alleged in the hearing that the trustee, Bank of New York Mellon, was conflicted and sought to protect its own self-interest to immunize itself from billions of dollars of potential liabilities from past inaction to protect investors.

Bank of New York Mellon's lawyer, Matthew Ingber of **Mayer Brown** LLP, said in his closing arguments the trustee went to great lengths to notify investors of the deal. Mr. Ingber said the lawyers were hoping to avoid litigation between Bank of America and investors and come to an agreement instead.



Bloomberg News

Fighting Words

SEC commissioner Kara Stein's concerns about the current 'Volcker rule' include:

- Loose limits on hedging
- Possible loopholes for 'London whale'-type trades
- CEOs not on hook for rule violations

'Volcker Rule' Faces New, Late Hurdles

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ing to people close to the conversations.

That would leave it stalled at the five-member commission. To pass the rule, SEC Chairman Mary Jo White, an independent, needs "yes" votes from herself as well as the two Democrats on the commission, Luis Aguilar and Ms. Stein. The two Republican members at the agency, Michael Piwowar and Daniel Gallagher, have said they plan to vote against the rule.

Ms. Stein, who joined the SEC in August, previously served as a top staffer to Sen. Jack Reed (D., R.I.) and spearheaded Senate Banking Committee hearings on issues such as exchange-traded funds, high-speed trading and securitization. She was a key player in negotiations on the new derivatives-oversight regime laid out by the Dodd-Frank law and was close to discussions about the Volcker rule.

One of Ms. Stein's primary concerns is that the rule doesn't clearly enough define how banks might legitimately be excused from the rule's prohibitions against proprietary trading, a term referring to banks making bets with their own money.

One possible exemption would be for hedging, or trades that reduce the risk of other investments, people familiar with her views said. Ms. Stein would like hedges to be more closely tied to the assets being hedged.

Ms. Stein's objection cuts to the heart of one of the thornier problems posed by the Volcker rule: how to restrict proprietary trading without harming permitted activities such as hedging. The issue came into focus last year when J.P. Morgan Chase & Co. disclosed billions of dollars in losses from its "London whale" trades, which the bank initially said were hedges to protect against losses in its bond holdings.

Regulators, under pressure from Congress, initially tightened language in the rule to ensure that trades such as the London whale bets would be prohibited. But SEC officials pushed back against the move, arguing that overly strict prohibitions could hurt banks' ability to buy and sell assets on behalf of customers, an activity known as market making.

Bank regulators agreed and removed language requiring hedges be "reasonably correlated" with other holdings, said people familiar with the rule.

Ms. Stein is pushing to get such language back into the rule, said people familiar with the talks. Ms. Stein is also pushing to get language into the rule requiring chief executives to promise compliance with the rule, a provision opposed by Wall Street, according to a person familiar with her positions.

Ms. White, the SEC chief, has declined to promise her agency will sign off on a final version by year-end. At an industry conference last week, she described Volcker as a "complex and difficult" measure.

People close to the rule-writing process said agency staffers are trying to hammer out the rule and satisfy concerns expressed by Ms. Stein, Mr. Gensler and others. But they have resisted making large changes, arguing that it is too late to make significant revisions to the rule, these people said. Officials involved in the talks have expressed particular frustration that Mr. Gensler is raising concerns at this late stage. He has announced that he is stepping down and he is expected to leave the agency by year-end.

FINANCIAL BRIEFING BOOK: NOV. 20

◆ **U.K. BANKING**

Co-operative Group Chairman Steps Down

U.K. mutual conglomerate Co-operative Group said Len Wardle has resigned as chairman, effective immediately, following allegations against Paul Flowers, former chairman of its bank unit, Co-operative Bank PLC.

"The recent revelations about the behavior of Paul Flowers, the former chair of the Co-operative Bank, have raised a number of serious questions for both the bank and the group," Mr. Wardle said. "I led the board that appointed Paul Flowers to lead the bank board and under those circumstances I feel that it is right that I step down now, ahead of my planned retirement in May next year."

Over the weekend, Mr. Flowers was shown on video allegedly discussing a drug purchase and counting out money for the transaction. Mr. Flowers, who stepped down as the bank's chairman in June, said: "This year has been incredibly difficult, with a death in the family and the pressures of my role with the Co-operative Bank. At the lowest point in this terrible period, I did things that were stupid and wrong. I am sorry for this, and I am seeking professional help, and apologize to all I have hurt or failed by my actions."

Co-operative Banking Group/Reuters

Len Wardle resigned as Co-operative Group's chairman.

Mr. Wardle will be succeeded by Ursula Lidbetter, chief executive of Lincolnshire Co-operative Society.

Ian Walker

◆ **MORTGAGE FORMS**

Consumer Bureau Offers Streamlined Documents

The government is trying again to make it easier for consumers to understand the complicated details of obtaining a home loan, one of the biggest financial decisions consumers make.

Under a final plan by the Consumer Financial Protection Bureau to be unveiled Wednesday, lenders will give consumers new streamlined forms designed to make loan terms and fees easier to understand—both when shopping for a loan and signing documents at the closing table.

The effort is the federal government's second try since 2008 to make deciphering everything from the interest rate to the overall cost of a loan more accessible.

Lenders will begin using the new disclosure forms in August 2015, giving mortgage lenders time to absorb this and other regulatory changes following the financial crisis.

The 2010 Dodd-Frank financial overhaul required the CFPB to rewrite the forms, with the goal of simplifying and reducing the stack of mortgage disclosures provided to borrowers when they apply for a loan.

Alan Zibel

◆ **BANKIA SA**

Spain Says Investors Show Interest in Part of Stake

Spain has received expressions of interest from investors for part of its [illegible]% stake in **Bankia** SA, Finance Minister Luis de Guindos said, indicating that the lender at the heart of the country's banking crisis may return to private hands sooner than expected.

"There's interest; it is logical. The perception of Spain has improved, and Bankia's image has improved a lot," Mr. De Guindos said. "The bank has been cleaned up, its restructuring plan is ahead of schedule and it has a solid management team." He cautioned, however, that Spain has no imminent plan to start selling shares.

Christopher Bjork