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917-680-1465

August 24, 2026

Ms. Vanessa Countryman
Secretary, Office of the Secretary
U.S. Securities and Exchange Commission
100 F St. NE
Washington, DC 20549-1090

Mr. Chris Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Copy: Fitch Ratings (Fitch); Moody's Ratings (Moody's); S&P Global Ratings (S&P); Office of Credit Ratings, U.S. Securities and Exchange Commission (SEC); Supervision of Credit Rating Agencies, European Securities and Markets Authority; Credit Rating Supervision, UK Financial Conduct Authority; Deputy Governor for Financial Stability Strategy, and Bank of England

Via Electronic Mail

Re: SEC Petition for Rulemaking "File No. 4-790" ("*I seek a rulemaking by the Commission that prohibits a security-based swap dealer or other entity subject to Commission regulation from predicating a security-based swap or other financial instrument subject to Commission regulation on a flip clause, walk-away, or variable subordination*")[1]
AND
SEC "File No. 4-799" ("*Policy Clarification on Credit Rating Agencies*")[2]
AND

[1] **(https://www.sec.gov/rules/petitions/2022/petn4-790.pdf)**.
[2] **(https://www.sec.gov/rules/petitions/2023/petn4-799.pdf)**.

U.S. Commodity Futures Trading Commission (CFTC) "§ 13.1 Petition for Rulemaking of May 26, 2020" ("*prohibit a swap dealer . . . from predicating a swap obligation on a flip clause, walkaway, or variable subordination*")[3]
AND
CFTC RIN 3038–AF71 and SEC File Number S7–2026–21: "Joint Request for Comment on Further Definition of 'Swap' and 'Security-Based Swap' and on Alternative Compliance"[4]
AND
Fitch "Bank Rating Criteria", 8 May 2026"[5]
AND
Fitch "Exposure Draft: Non-Bank Financial Institutions Rating Criteria", 12 June 2026[6]
AND
Moody's "Rating Methodology: Banks", 17 November 2025[7]
AND
S&P "Criteria: Financial Institutions", 13 August 2026[8]
AND
S&P "Request for Comment: Methodology For Bank Ratings Excluding Implicit Government Support", 4 March 2026 and Republished 11 May 2026"[9]

Dear All,

My name is Bill Harrington and I affiliate as Senior Fellow at Croatan Institute, a non-profit research and action institute.[10]

I am among the few worldwide who publicly and candidly evaluate needlessly complex finance, most notably credit-rated asset-backed securities (ABS), structured debt, and derivative contracts such as the swap-contract-with-flip-clause.[11]

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3 **(https://croataninstitute.org/wp-content/uploads/2022/06/CFTC-WJH-2020-6-26-Sec-13.1-Rulemaking-Petition-Acknowledgment_WJHarrington_06-26-2020.pdf)**.

4 **(https://www.govinfo.gov/content/pkg/FR-2026-06-24/pdf/2026-12743.pdf)**.

5 **(https://www.fitchratings.com/research/banks/bank-rating-criteria-08-05-2026)**.

6 **(Exposure Draft: Non-Bank Financial Institutions Rating Criteria)**.

7 **(https://www.moodys.com/research/Rating-Methodology-Banks-Rating-Methodology--PBC_1430268)**.

8 **(https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3611611)**.

9 **(https://www.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3559804)**.

10 **(https://croataninstitute.org/)**.

11 Harrington, Bill, "Experienced U.S. Practitioners: Step Up and Fix Your Fields!", *Croatan Institute View*, February 2026. **(https://croataninstitute.org/cro-view-bill-harrington-experienced-us-**

I work to boost the sustainability of the U.S. financial system with the dual aims of optimizing economic decision-making and preventing bailouts. Most crucially, I advocate protecting the public interest by establishing robust governance in the financial sector, particularly regarding the capitalization, regulation, and credit ratings of needlessly complex finance.[12]

Today's letter is a joint submission to the U.S. Securities Exchange Commission (SEC), to the U.S. Commodity Futures Trading Commission (CFTC), and to the three dominant NRSRO credit rating companies Fitch Ratings (Fitch), Moody's Ratings (Moody's), and S&P Global Ratings (S&P) regarding each of the nine title-line matters. Please post the entirety of today's submission on all applicable websites.

CFTC and SEC Joint Request for Comment on Further Definition of ''Swap'' and ''Security- Based Swap'' and on Alternative Compliance (CFTC-SEC Joint Request for Comment)

> **"***Title VII provides that the Commissions may adopt rules to further define terms included in Title VII, but it also limits the exemptive authority of each Commission over certain provisions related to swaps and SBS.***"**[13]

> "*And when the best reading of a statute is that it delegates discretionary authority to an agency, the role of the reviewing court under the APA is, as always, to independently interpret the statute and effectuate the will of Congress subject to constitutional limits*."[14]

> *"US Congress, markets, and regulators have consigned the flip clause-swap-contract to the garbage heap of history. There, the contract rots away with aerosol sprays, trans fats, asbestos tiles, and other synthetics that poisoned users, producers, and Our Country."* [15]

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practitioners-step-up-fix-your-field/) and **(https://www.sec.gov/comments/4-790/4790-717727-2246814.pdf)**.

12 **(https://croataninstitute.org/2021/05/30/injecting-accountability-into-the-u-s-and-global-financial-systems/) and (https://croataninstitute.org/william-j-harrington/)**.

13 "CFTC-SEC Joint Request for Comment", pP37876.

14 Blumenthal, Michael R. and all, "The End of Chevron Deference: What Does It Mean, and What Comes Next?", *ABA Business Law Today*, August 16, 2024. Accessed August 20, 2026. **(https://www.americanbar.org/groups/business_law/resources/business-law-today/2024-august/end-chevron-deference-what-does-it-mean-what-comes-next/)**.

15 Harrington, William J., "Proposed Amicus Curiae Brief to the US 2nd Circuit 'Re: Case No. 18-1079-bk (Lehman vs 250 Financial Entities Re Flip Clause Enforceability)'", 25 June 2019, p24 (PDF-p64). **(https://www.sec.gov/comments/4-799/4799-513135-1484802.pdf)**. **II** See also "Proposed Brief", p24 (PDF-p64) in Docket Entry No. 361, U.S. Court of Appeals for the 2nd Circuit, Case No.

Regarding "II. Request for Comment on Definitional Clarity", pp37875-3786
The CFTC and the SEC must both define the flip-clause-swap-contract and ban the contract!

No flip-clause-swap-contract is "*innovative*" (even if some aspects of a given contract may be considered innovative in isolation). Rather, every contract is inherently ruinous by longstanding, intentionally defective design that coalesced 30 years ago. In 2008, U.S. and European calamities demonstrated that the contract warps economic decision making, vaporizes financial systems, and shatters social compacts. Post-2008, persistent European sluggishness establishes that even when not generating full-blown crises, the contract undermines economies and social cohesion by suppressing investment and thwarting meaningful growth.[16]

To "*draw clearer regulatory lines for agency oversight*" of the flip-clause-swap-contract, the SEC and the CFTC must immediately initiate action on the first and third title-line items of today's response, namely my respective petitions for rulemakings to ban the contract. The agencies can efficiently develop an optimal rule — namely, one that incorporates useful feedback, asserts unimpeachable rationales for doing so and also for rejecting suboptimal suggestions, helps optimize economic decision making, and strengthens the financial system — by proposing and requesting public comment on a joint rule to ban the contract today.

Crucially, a joint rule to ban the flip-clause-swap-contract will withstand legal scrutiny for two reasons, one pertaining to process and a second pertaining to content. **(1)** Regarding process, the best-in-world contract assessments that I have posted on sec.gov and cftc.gov since 2011 will inform each rulemaking task — e.g., proposal, request for public comment, response assessment, and final drafting — and thereby constitute best practice under the Administrative Procedure Act (APA). **(2)** Regarding content, a contract ban will "*effectuate the will of Congress*" viz-a-viz not only the contract itself but also both NRSRO credit ratings and ABS: A contract ban is the simplest, plain-language, and *independent* interpretation of several Dodd-Frank provisions (not least, Title VII), a key post-Dodd-Frank Act, and equally compelling, a notable post-Dodd-Frank *failure to act*.[17], [18]

18-1079-bk, "MOTION, to file amicus curiae brief, on behalf of Movant William J. Harrington, FILED. Service date 07/10/2019 by US mail.[2605433] [18-1079] [Entered: 07/11/2019 09:59 AM]".

[16] A practitioner may mischaracterize the flip-clause-swap-contract as innovative by highlighting a secondary feature, including but not limited to a new or novel index, security, or instrument as reference obligation.

[17] Blumenthal, Michael R., and all, "The End of Chevron Deference: What Does It Mean, and What Comes Next?", *ABA Business Law Today*, August 16, 2024. Accessed August 20, 2026. **(https://www.americanbar.org/groups/business_law/resources/business-law-today/2024-august/end-chevron-deference-what-does-it-mean-what-comes-next/)**.

[18] Harrington, William J. "Proposed Amicus Curiae Brief to the US 2nd Circuit 'Re: Case No. 18-1079-bk (Lehman vs 250 Financial Entities Re Flip Clause Enforceability)'", 25 June 2019, pp24-33 (PDF-pp64-73) and pp39-43 (PDF-pp79-83). **(https://www.sec.gov/comments/4-799/4799-513135-1484802.pdf)**. **II** See also "Proposed Brief", pp24-33 (PDF-pp64-73) and pp39-43 (PDF-pp79-83) in Docket Entry No. 361, U.S. Court of Appeals for the 2nd Circuit, Case No. 18-1079-bk, "MOTION, to

Collectively and by clear intention, my respective petitions for SEC and CFTC rulemakings to ban the flip-clause-swap-contract, accompanying exhibits, and follow-on comments constitute comprehensive blueprint and impeccable, irrefutable evidence to support the SEC and CFTC in each rulemaking task. As just one example, "Flip Clause Questions to CFTC-SEC-LSTA-SFA-DBRS-Fitch-Moody's-S&P", 28 December 2020, poses 45 questions to 15 entity proponents of the flip-clause-swap-contract. Given that no entity publicly addressed a single question at the time of this writing five-plus years later, a comment request can pose many of the same questions to force proponents either to go on-the-record or to let their silence speak volumes.[19]

In sum, my petitions for SEC and CFTC rulemakings to ban the flip-clause-swap-contract and accompanying petition materials both compel the SEC and CFTC to issue a rule that bans the contract and guide the agencies every step of the way. Armed with superb insights and conclusive evidence, the SEC and CFTC can perfect technical details of contract definition and rule implementation; memorialize Irredeemably faulty contract design; document historically catastrophic contract performance with Lehman Brothers as Exhibit No. 1; demonstrate that both parties to every contract grossly under-capitalize respective exposures; further demonstrate that the same transacting parties intentionally misrepresent the gross capital insufficiencies; and ditto parties' vendors such as auditors, credit rating companies, and other information providers.

Finally, SEC and CFTC rulemakings to ban the flip-clause-swap-contract can explicitly state what Commissioners and staff have known since my first submission to sec.gov stripped them of plausible deniability in 2011.[20]

To wit, contract proponents have offered no convincing evidence either to defend the contract or to oppose a contract ban since 2011 because no convincing evidence exists, as scrutiny of public *and* internal SEC and CFTC records proves.[21]

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file amicus curiae brief, on behalf of Movant William J. Harrington, FILED. Service date 07/10/2019 by US mail.[2605433] [18-1079] [Entered: 07/11/2019 09:59 AM]".

[19] Harrington, William J., "Flip Clause Questions to CFTC-SEC-LSTA-SFA-DBRS-Fitch-Moody's-S&P", December 28, 2020, in Harrington, William J., "Letter to the SEC and CFTC 'Re 14 Matters'", June 12, 2024, pp15-23. **(https://www.sec.gov/comments/4-790/4790-482151-1379834.pdf)** and analogous "*CFTC record associated with your above-referenced petition, as to which the Commission has not opened a separate comment file.*" See CFTC Secretary Chris Kirkpatrick "Email to WJH 'Re SEC File Numbers 4-790 & 4-799 // CFTC File for WJH § 13.1 Petition of May 26, 2020'", February 5, 2025, in Harrington, William J., "Letter to CFTC FOIA Compliance Office ' Re: Freedom of Information Act Request'", April 23, 2025, Appendix A, p6. **(https://www.sec.gov/comments/4-790/4790-596975-1732462.pdf)**.

[20] For example, see 61 mentions of "*replacement*" and 199 of "*swap*" in Harrington, William J., "Comment on SEC Proposed Rules for Nationally Recognized Statistical Rating Organizations // 'File Number S7-18-11'", August 8, 2011. **(https://www.sec.gov/comments/s7-18-11/s71811-33.pdf)**.

[21] CFTC, "Letter to William J. Harrington, 'Re 25-00220-FOIA (Response to WJH Freedom of Information Act (FOIA) Request of April 23, 2025)'", May 7, 2025. **(https://www.sec.gov/comments/4-790/4790-598795-1739004.pdf)**. **II** Also Harrington, William

Regarding "III. Request for Comment on Alternative Compliance", p37876

"*'[N]o walkway clause shall be enforceable in a qualified financial contract of a covered financial company in default.' (Dodd-Frank Act, § 210, 124 Stat. 1488.)*

II

"*The flip clause closely resembles a walkaway clause. Congress was crystal clear in enacting § 210(c)(6)(F)* ***Walkaway Clauses Not Effective****. . . .*

"*This is for good reason. The circumstance that prompts one counterparty to activate a walkaway clause — the severe credit-impairment of a financial institution — enables all counterparties with a walkaway to activate it. The 100% correlation of walkaway activation would strip an insured depository institution, financial company, or government-sponsored entity of swap assets after becoming severely credit-impaired, thereby defeating the dual purposes of receivership and conservatorship — i.e., to preserve institution assets and limit losses to US taxpayers.*"[22]

"*The daily, two-way exchange of variation margin '****defuses****' the flip clause by enabling both a swap dealer and an ABS issuer to terminate a swap contract without referencing the deal's priorities of payments. Moreover, the reason for termination becomes largely irrelevant because the party that is owed payment will hold collateral with market value that is at least equal to the previous day's swap valuation. Crucially, both parties will have agreed all prior daily valuations since having entered the swap, i.e., they will have established a track record of mutually accepting both the termination valuation and the means of monetizing it.*"[23]

"*The Dodd-Frank Act unequivocally directs six financial regulators to adopt capital and margin rules for swap dealers and for the SEC to do the same for security-based swap*

J., "Letter to CFTC FOIA Compliance Office 'Re: Freedom of Information Act Request'", April 23, 2025. **(https://www.sec.gov/comments/4-790/4790-596975-1732462.pdf)**. **II** Also, Harrington, William J., "Submission to the SEC and CFTC Regarding Six Matters", October 4, 2022, pp33-35. **(https://www.sec.gov/comments/4-790/4790-20147063-312602.pdf)**.

[22] Harrington, William J. "Proposed Amicus Curiae Brief to the US 2nd Circuit 'Re: Case No. 18-1079-bk (Lehman vs 250 Financial Entities Re Flip Clause Enforceability)'", 25 June 2019, pp28-29 (PDF-pp68-69). **(https://www.sec.gov/comments/4-799/4799-513135-1484802.pdf)**. **II** See also "Proposed Brief", pp28-29 (PDF-pp68-69) in Docket Entry No. 361, U.S. Court of Appeals for the 2nd Circuit, Case No. 18-1079-bk, "MOTION, to file amicus curiae brief, on behalf of Movant William J. Harrington, FILED. Service date 07/10/2019 by US mail.[2605433] [18-1079] [Entered: 07/11/2019 09:59 AM]".

[23] "Ibid.", pp34-35 (PDF-pp74-75).

dealers. Collectively, the regulators' rules must impose 'capital requirements' and 'initial and variation margin requirements on all swaps' and 'all security-based swaps that are not cleared by a registered derivatives clearing organization.' See Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 731(e)(2), 124 Stat. 1704-5 and § 764 (e)(2), 124 Stat. 1786-87.

"*Note the **all** in '**all swaps**' and in '**all security-based swaps'**. Congress expressed its clear and unambiguous intent in enacting § 731 and § 764. **All** regulators would formulate rigorous margin rules that would encompass **all** swap contracts, **no exceptions!** To ensure CFTC and SEC compliance, Congress curbed the agencies' 'exemptive authority with respect to the swaps requirements of Dodd Frank.'*"[24]

"*The 115th Congress (2017-2018) intentionally preserved **all** Dodd Frank provisions that fix ABS, including those that kill the flip-clause-swap contract. In 2018, Congress enacted one bill that tweaked the Dodd-Frank Act and let a second bill, a wholesale reversal of the Dodd-Frank Act, die.*

"President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (Pub. L. No. 115-174, S.2155) on May 24, 2018. The act primarily eases Dodd-Frank restrictions on community and regional banks.

"*Had Congress intended to protect the flip-clause-swap-contract under US bankruptcy law, Congress would have passed the Financial Choice Act of 2017. The failed bill would have eased the CFTC-Swap-Margin-Rule by exempting many swap contracts from margin posting. The bill also would have amended US Bankruptcy Law so that Chapter 11 proceedings covered large financial institutions.*"[25]

Until such time as the CFTC has enacted a final rule to ban the flip-clause-swap-contract and the rule has taken full effect, the agency must continue to "*defuse the flip clause*" by preserving or even ratcheting up the CFTC swap margin rules in effect at time of this writing. In particular, the CFTC must not recharacterize or redefine "*financial end user*" or take other action that exempts a registered entity from exchanging variation margin daily and with no threshold with an end user that is an ABS, securitization, or other structured instrument issuer. To do otherwise, the CFTC would violate both plain-language statute and the express *"will of Congress"*.[26]

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[24] "Ibid.", pp24-25 (PDF-pp64-65).

[25] "Ibid.", pp42-43 (PDF-pp82-83).

[26] CFTC, "Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants", January 6, 2016. **(https://www.govinfo.gov/content/pkg/FR-2016-01-06/pdf/2015-32320.pdf)**.

Likewise, until such time as the SEC has enacted a final rule to ban the flip-clause-swap-contract and the rule has taken full effect, the agency must continue to "*defuse the flip clause*" by preserving or even ratcheting up the SEC swap margin rules in effect at time of this writing. In particular, the SEC must not recharacterize or redefine "*financial end user*" or take other action that exempts a registered entity from exchanging variation margin daily and with no threshold with an end user that is an ABS, securitization, or other structured instrument issuer. To do otherwise, the SEC would violate both plain-language statute and the express *"will of Congress"*.[27]

Regarding harmonization more broadly, the CFTC and SEC must harmonize their respective regulatory treatments of the flip-clause-swap-contract with the common good of all Americans. To so harmonize, the SEC and CFTC must take up my respective petitions for rulemakings to ban the contract.

Best regards,

Bill Harrington

[27] SEC, "Capital, Margin, and Segregation Requirements for Security-Based Swap Dealers and Major Security- Based Swap Participants and Capital and Segregation Requirements for Broker-Dealers", August 22, 2019. **(https://www.govinfo.gov/content/pkg/FR-2019-08-22/pdf/2019-13609.pdf)**.

Bill Harrington Interview / Jamie Bartlett Interviewer

Remote, audio only, via personal computer (BH)
September 26, 2025, 10:00 AM – 11:00 AM EDST

Tempo+Talker produced and recorded 60-minute interview for six-part series BBC Radio 4 - Everything Is Fake.

Bill Harrington, senior fellow at Croatan Institute, comments on the causes and legacies of 2008 U.S. and U.K. financial crises in Episode 4. The Lance Armstrong Defence - Everything Is Fake, minutes 23:00-18:00.

Original transcript, pp29-55.
- Edited for pagination only April 8, 2026.

Original transcript as edited by Bill Harrington, pp2-27.
- Edited April 8, 2026.
- Edited for clarity (e.g., pagination, correct erroneous wording, remove repetitive "um"s and phrases, highlight noteworthy points).
- Emphasis added throughout.

Jamie Bartlett: [00:00:00] I'm good. Thanks. Thanks for agreeing to do this.
Bill Harrington: Pleasure to speak with you.

Jamie Bartlett: You too. I've been trying to understand flip clauses for the last hour, and I'm not sure I've actually figured it out. Uh, wow.

Bill Harrington: I think that's intentional. It's something that really isn't justifiable other than [for] convenience of the financial industry. So, it's a difficult, difficult thing to figure out.

Jamie Bartlett: Well, I asked, I just asked GPT the simplest description it could do in one sentence of, of a flip clause, and it said, when the bank thinks they're in the front of the queue when somebody defaults, and then after the default they go to the back of the queue. How's that? Is that any good?

Bill Harrington: I think it causes more damage than it creates [00:01:00] benefit. And this was actually something that Tom [producer Tom Pooley] and I were just discussing. **I purposely keep my work out of the AI sphere to the extent that I can, because I want to be the author of voice on this topic. Lehman Brothers had the classic example of how damaging flip clauses are to a bank that writes swaps that contain a flip clause.**

It's not another entity that defaults. **It's when the bank defaults, it immediately loses some of the assets that it previously had as money good. That's why Lehman's recoveries after having defaulted were lower than expected. Lehman went into bankruptcy, so already it had more liabilities than assets, and just by virtue of having gone into bankruptcy, the flip clauses were activated and Lehman lost even more assets.**

Jamie Bartlett: Right. Right. Okay. Wow. [00:02:00] Okay.

Bill Harrington: So, you're a person who's informed in some areas, maybe less informed in others. Like all human beings, you're not a specialist in overly complicated finance. **And yet this flip clause is what banks put in contracts with UK residential mortgage-backed securities. So, the UK mortgage market in part is financed by this demonstrably deficient mechanism.**

Jamie Bartlett: Well,

Bill Harrington: something that's just esoteric. It's not

Jamie Bartlett: Yes.

Bill Harrington: just established once and then is sort of in the bedrock of the financial industry and is a forgotten issue. **The flip clause gets restated in every new deal and lots and lots and lots of eyes look at it, and they either don't bother to try and understand what it might mean or purposely look the other way.**

Jamie Bartlett: Is it one of those things [00:03:00] that, because it's been around for a while, everyone just assumes it must be fine? You know, it must work because it's been here for such a long time. They don't even see it anymore for what it is.

Bill Harrington: **I don't think people ever saw it for what it was.**

One of the reasons that I got my senior vice presidentship at the credit rating company Moody's Ratings is because I focused on this issue. I had been a derivatives trader prior to joining Moody's. I found this issue interesting. I found the web of connections amongst derivative counterparties interesting. **And I thought it was incumbent on us at Moody's since we reviewed this work to make our methodologies set up a protocol that would make the flip clause work as well as could be expected. And in that period, which was 2000 to 2008, I found very little take up — either among credit rating analysts [or] among bankers, among lawyers, among accountants, among regulators — for [00:04:00] actually assessing what was in front of them on every single deal.**

And then since 2008, I think policymakers were in a panic mode and they just revived whatever had seemed to be working beforehand. And the reason I don't give you this out — *this free pass that: "Oh, people just think it's always been there"* — is because again, the Lehman case was big. It was adjudicated all the way up to the highest levels of the core [legal] systems in the US and also the UK.

And Lehman lost 100 cents on the dollar. They lost a hundred percent of their asset value. So, you can't really do worse than that. And the legal industry wrote about this, and yet even so the desire to really DO something simple — which is what I advocate, which is prevent banks from entering into these contracts — there's no take up [00:05:00]. So, I wish I could let people off the hook for the reason that you mentioned, but I think it's bad faith actually. And laziness starting with the Bank of England.

Jamie Bartlett: **Well, sorry. Sorry, Bill. I'm gonna get to the Bank of England 'cause I saw that you've been in communication with them.** Yeah, yeah, absolutely. Can I, is it okay firstly just to double check the pronunciation, my pronunciation of the, is it Croatan?

Bill Harrington: It is and that's perfect. And thank you. CROATAN is an indigenous group in North Carolina, a lost indigenous group. There's a Croatan National Forest and they were associated with the first English colony in Virginia, North Carolina, the Roanoke Colony. The founder of Croatan is from that area, and we do lots of work on the ground in agriculture there.

Jamie Bartlett: Wow. Oh, that's interesting. Yeah. I didn't realize. Well, I was thinking that we could, if we could split our conversation here into three parts, just so you know what I'll be coming [00:06:00] to as well, so you don't think I'm missing something. **I was hoping maybe the first 15 minutes or so about ratings agencies more generally and your experience at Moody's, then Croatan and your special interest in flip clauses and why they're so bad and what you're trying to do about it. That will include the Bank of England.** And then finally, just a few thoughts from you on how things have changed now. Like what's different to 2008, 2009, what are you worried about now? Like what's the next crisis potentially heading our way? Does that sound like an okay split to you?

Bill Harrington: Sure.

Jamie Bartlett: Alright, great.

Well, can I just start with a brief introduction from you, your name and what it is you do.

Bill Harrington: Sure. Hi. My name is Bill Harrington. I'm a senior fellow at the nonprofit research institute Croatan Institute, which is based in North Carolina, in the United States. [00:07:00] We work on a range of sustainability issues that finance can improve, and the issues range from on the ground help to farmers so that they can learn how to finance regenerative agriculture practices. And then from there, [we] work on better food systems in impoverished areas. And we work to help investors understand this world as a way of bringing capital [to this world]. And our work goes up from there into human rights using shareholder meetings and shareholder proxies to advocate for better labor practices.

And then my work is on the systemic issues that caused the 2008 financial meltdown. And my work is to try and limit the impact of the worst of the 2008 financial crisis and to build [00:08:00] a more robust financial system that properly, in monetary terms, values [and] evaluates exposures to what is sometimes called ESG, which is environmental factors, sustainability factors, and governance factors.

And our real view is there's no dichotomy between finance and [ESG] factors that weren't previously evaluated but also lead to real financial outcomes.

Jamie Bartlett: Right. Okay. So let's dig in a bit here from the earlier part of your career at Moody's. Just talk me through a little bit of your role there. What was that you were responsible for?

Bill Harrington: Well, I was always an analyst. I was never a manager, and that was a conscious decision. I joined Moody's in 1999. I have a [00:09:00] Wharton MBA. I had worked on the derivatives trading floor at Merrill Lynch, and I didn't particularly like banking, but I did have an interest in the way the financial system worked.

Prior to choosing to do an MBA, I also had the option to do a PhD and I always had a research interest in the financial system. What I liked about Moody's and being an analyst is [that] I had a lot of insulation from the business pressures and could work on simply analyzing the deals in front of me. The deals that I analyzed were those that were central to the 2008 financial crisis. They often were very complicated in a way that made them inaccessible for people who weren't experienced with them to evaluate. I'll stop there. So that's what I worked on.

I had a nice [00:10:00] ability to ringfence what I wanted to work on, having been a derivatives trader prior to going to Moody's. I wasn't afraid of bankers. I wasn't afraid of derivative contracts. And I did like simply assessing the contracts in front of me and then saying: "Well, look, here are the risks I see. These are the risks that need to be addressed." So that gave me an ability to carve out an area within Moody's, within this area of 2008 finance.

Jamie Bartlett: Now, how did it change over your spell working there? Because I've seen you say before that it sort of started to change the way that it operated between about 2003-2004 to 2007-2008.

Bill Harrington: The process within Moody's didn't necessarily change. There was a lot of research. There was a lot of evaluation. There was a lot of clear

sighted discussion of deals. But what [00:11:00] did change was the marching orders — which were never explicitly stated but were enforced in a lot of ways — that Moody's analysts should not prevent a deal from being rated and should not prevent a deal from obtaining the ratings that the bankers were seeking. So, in the first couple years when I joined, there was a lot of ability for the Moody's analyst to say: "Based on the ratings that are being sought, we would need to see these changes."

And then over time, maybe halfway through my tenure, say in 2004, [things] seemed to shift. And while it was important for the rating analyst to point out the deficiencies internally, they weren't supposed to ask for changes in the deals. That was a migration. It didn't happen overnight. But more and more, Moody's managers wouldn't back the Moody's analyst in saying: "Look, there's a [00:12:00] problem with these deals."

Jamie Bartlett: What was driving that change though?

Bill Harrington: It's hard to say when you're in the middle of it. It certainly seemed that this area was getting bigger and bigger and a lot more financial entities were interested in it. So they were bringing their concern — which is just to get deals done — to weigh more heavily on the sector. Moody's had gone public in the early 2000's, and there was a direct stock benefit to the entire company from doing more deals. But the same thing [vastly increased business] was happening at the two other large credit rating companies S&P [Global Ratings] and Fitch Ratings, and they hadn't gone public. So, it wasn't necessarily that [going public] was the only issue.

I think it was the general [securitization] sector — which was financing a lot of residential mortgage activity as well as other [activities, not only] in the United States, but also outside of the United [00:13:00] States — was getting bigger and bigger. And the sort of influence waning between individual analysts or analysts in a committee [on the one hand] and then the entire sector [on the other hand] was just getting too big for the analyst to really exercise much influence.

Jamie Bartlett: Now there's a sort of public version of the story leading up to 2008 regarding the ratings agencies, isn't there? Probably 'cause of *The Big Short*, partly that they would just see no evil [but instead] sort of sign everything off because they were being paid by the bank. So, they'd give everything AAA ratings.

I get the impression from your writing [that] the public understanding of this is slightly skewed. They [the credit rating companies] might be responsible for some things, but not for others. How do you see the way the public has viewed ratings agencies in the build up to 2008, [00:14:00] and what is your version of what happened in regards to rating agency's responsibilities there?

Bill Harrington: **The rating agency's responsibility to the quality of their own work is immense and there's no back[ing off that]. And it's very clear that the rating companies, by management diktat, devalued their own work. So that's very clear and can't be criticized enough. But the credit rating companies were not the transacting agents in these deals.**

The factors that were wrong with the deals were transacted by banks and investors who wanted higher ratings for increasingly deficient deals. The leverage that the credit rating companies had is that these deals would not close without a credit rating — in the area of complicated finance securitizations, asset-backed [00:15:00] securities — [equal to] the target rating, generally AAA for the senior class and then a range of lower ratings for the lower classes. The deal wouldn't close. If the deals didn't close, no one was paid. The bankers weren't paid. The lawyers weren't paid. The accountants weren't paid. The other deal vendors weren't paid. And the credit rating companies got a small breakage fee, but they didn't get the large [rating] fee as well.

My point here is there was a huge constellation of companies and entities and a huge amount of financial sector [actors] and their vendors who are all doing increasingly bad work. And yes, the credit rating companies are very much to blame for their deficiencies in their own work. But so were all the other prime actors. And it was a circular, self-referencing system with no center of gravity. [00:16:00] No external measurement. No external way of evaluating what was happening, to demonstrably, say: "Look, the, the quality here continues to be diverging further and further and further from what the credit ratings are supposed to be."

Jamie Bartlett: When

Bill Harrington: So, it becomes this cycle of, of, infinite blame is warranted for the credit rating companies. And yet they couldn't have done this work degrading their own work unless the regulators and the bankers also degraded their work and just let weaker and weaker transactions come to market.

It's the point I wanna raise. **None of these deals would've occurred without the bad ratings. And so, it would've been an entirely different financial and economic trajectory from 2000. It's not like we would've had the growth that we had and ratings would've been fine and everything would've been fine.**

None of that increase in economic activity that was generated by this finance would've occurred. [00:17:00] **And so it would've been an entirely different world that people were facing.** And I think in the US you can [fairly] say that in the real estate age industry, people wanted prices to go up, and brokers wanted to do more deals, and mortgage companies wanted to issue more mortgages. And policymakers seemed to think that this was just really great, sound capitalism doing its job and wanted it to continue.

And it just would've been an entirely different economy that would've developed. Maybe a better one, but we don't know. It's not like on the margin things would've been just as robust, but sounder. We would've been a different landscape entirely.

Jamie Bartlett: How many people sort of on the inside that kind of knew things were going wrong? Again, the Hollywood version is just one or two outspoken, crazy guys had figured it out, but I don't know. When you are in your descriptions of it, it feels like that's probably not quite true. A lot of people had [00:18:00] a sense that things weren't, you know, the reality of what these deals were versus how they were being put together and sold was quite different and a lot of people must have had a sense of that, but

Bill Harrington: Well,

Jamie Bartlett: how widespread was knowledge about what

Bill Harrington: **I'd want to go [i.e., respond] if we're gonna use *The Big [Short]* — I haven't read the book, but I saw the movie — the people in *The Big Short* who did ostensibly benefit only benefited because the banks were bailed out. So even they didn't see how big the problem was. In other words, they did have the short positions that were set up, but they [the short positions] were with other banks. And had the banks not been able to pay, then they [the short holders] wouldn't have received the payout on their short positions. So, it was very much a system that was eating itself.**

And I don't know, if you were to look in in economic history or maybe not even economic history, other type of commercial history of systems that just devour themselves.

The question[s are]: "How many people have a sense that something's wrong, but can they put their finger on it?, one, [00:19:00] and two: "Do they want to do anything about it?" I was in a lot of meetings prior to 2008 where I would be speaking about what the bankers were [proposing], and sometimes also with colleagues, saying: "Look, here's what's wrong with this. Here's what's wrong with this." And the refrain would be: "Well, let's just hope we're all retired and out of this, out of this game by the time that occurs." It wasn't my viewpoint. I didn't like hearing it. But, my m.o. was to go and think about what I needed to do to make sure that my work and the work of the teams that I was on would hold up as well as possible.

But that view that I mentioned — which again, I heard both within Moody's and certainly outside of Moody's — was not, I think that existed. **The bankers knew they were coming every day to obtain as good ratings for as bad deals as possible. So, they knew that they were playing this game.**

I didn't [00:20:00] see any outlet. I had friends who worked for the best law firms in New York City. I lived in New York City then, and in general was talking with friends: "Something's not making sense here, I can't tell what it is." And I didn't get much traction there. So again, I think it really was a system devouring itself and people not choosing to inquire what the impact would be.

The impact would've been that all this economic activity would've stopped. There wouldn't have been a way of rating [the bad deals correctly]. For instance, I didn't work in the RMBS group — that's residential mortgage-backed securities based on US houses. It was at the center of the implosion. But I did work in the group that rated CDOs, and you couldn't have finessed this to have had the good that people thought was occurring without the bad. You would've had a different world in which New York wasn't the center of the [00:21:00] financial [world], and wasn't doing as many deals, and the economy wasn't growing as much.

And I think people can't face something like that. And so, it was easier if you're being paid — whether you're a banker, or an investor, or even a journalist, or a credit rating agent or an attorney — it was just easier if you're being paid, and being paid, and being paid better than last year, to make more deals happen. **I think it was just easier for people to think, who am I to stop this?**

Jamie Bartlett: Well, so why did you leave in the end? And I know you didn't sign an NDA when you did, or did you?

Bill Harrington: **I wasn't offered an NDA. I was offered a lateral promotion into a control group — I would keep my senior vice president [title and] move into the group that reviewed credit rating methodologies. That's a very crucial part of the credit rating process. [Methodologies are] the, the templates that, I'm trying to think of [00:22:00] words to use that people who aren't in finance might understand.**

They're the templates or the protocols that analysts would be using to evaluate the credit exposures of a deal that was brought to them. And so, it was the last duck in a row that I needed to leave. I thought, okay, now Moody's can't say that I'm a kicked-to-the-curb, washed-out analyst who couldn't make it.

They actually asked me to go into an influential group and keep my title. And, uh, I just had

Jamie Bartlett: Did that matter though? Why did that matter to you?

Bill Harrington: **OOHH, I have personal pride. From, easily from 2006, I was trying to think of what is my best course of action? Is it to leave Moody's or is it to stay here and do the work that I need to do? After 2008 when I continued to speak out rather than be a humbled person within Moody's who felt that what was occurring — which was management was covering its tracks and [00:23:00] blaming analysts — then, management was out to get me. And so, from 2008 to 2010, I did know this: "*This is your reputation. You've gotta stay here every day until you can leave on your own terms.*"**

Jamie Bartlett: Right.

Bill Harrington: **But also I was trying to conduct a postmortem for what went wrong, trying to assess what went right and also trying to assess what we should be doing going forward.**

And when I could see that that wasn't gonna occur, the [my] thought was: "Get out with not just your reputation, but your status intact so that if you choose to do something going forward, apologizing isn't the only thing you're gonna be doing." And I think if I had left before then I would've been captured by the narrative that *The Big Short* presented.

Which in addition to the attributes that you described, *The Big Short* presents the credit [00:24:00] rating analyst as stupid. As if there were[n't] smart people and stupid people within a system that wasn't working.

Jamie Bartlett: Well, I think it presented them as sort of slightly devious people who just said: "Well, we can't give anything other than AAA rating 'cause we won't get paid."

Bill Harrington: **Right, but the knock on that and the laziness of Michael Lewis — and I brought my work continuously [to him] since then — is that within the financial firmament, the credit rating companies and the credit aid rating analysts, certainly well paid in objective terms, were the lowest on the totem pole. And so it goes back to this point that I mentioned. If the deal wasn't rated, the target ratings, which were AAA for the senior tranche, it wasn't just the credit rating company that didn't get paid. No one got paid. The bankers, the people who put the deals together, the law firms, nobody got paid. And the investors who were expecting to invest in that deal all of a sudden had money to [00:25:00] invest, but nothing to invest in.**

So, there is a very valid point, but he didn't open that up. Michael Lewis didn't open that up as inquiry to the entire system, the entire financial constellation really.

Jamie Bartlett: Right. Okay. Well, final question on this before we move on to the Croatan Institute. You've obviously, you know, you were part of this world. You, you're still kind of part of this world in a slightly different way now. Just would love your thoughts on what impact you think the 2008 crisis had on, I dunno, people's attitudes towards politics more generally, politics, business in Washington, the way the world works.

It is still talked about here all the time as being such a defining moment all these years later.

Bill Harrington: Yeah, it's funny. **I don't feel part of the world because I was canceled in 2011 when I started speaking out. So, I found a way to [00:26:00] subvert being canceled, and that was to accept not being paid for my work and to always do my work in the public sphere and never do it behind closed door conversation.**

So, I'm not part of that world in any way, except you could say somebody who was a critic, somebody who's consistently critiquing the system, is part

of it. But I do think the the degree of economic displacement that occurred in 2008 was huge, but even more so the lack of accountability that followed.

And I think that was defining. I think we can trace a lot in the US — a lot of the unhappiness and turning away from not just the way the government works, but the way the whole system works — I think a lot of it occurred then.

I think some of it happened previously with the Iraq war also. I mean, you have the Iraq war and then you have the financial crisis. In both cases, you [00:27:00] had all of the, if you wish to say, the people in charge or all the entities that had influence converging on the wrong solution and converging on a damaging solution [in which] individuals suffered. But the entities that brought these calamitous events to bear didn't come under or didn't suffer any, didn't really suffer at all.

And so, I think the idea that there would then be a different set [of rules] that, however we wish to phrase, that everything is heaped against individuals. Or: "We build up banks, but not individual mortgage holders." Or: "If you do a low level offense, you go to jail. But if you do it in a bank, you get a big bonus and get to do whatever you want."

I think those are all correct. And I think those are facts that people saw and had an impact on how they viewed the way the society and country works.

Jamie Bartlett: So that's not just a sort of a [00:28:00] perception from far away. 'Cause obviously, New York and Washington financial political centers can feel quite distant to people and, and that skews opinion about how things really work. You're also saying no, they're people being frustrated about a lack of accountability and that the people responsible, you know, in many cases just carried on doing what they're doing.

That's true. That's not just a

Bill Harrington: That's true. That's, that's evidence-based. And I can certainly, demonstrate my own work as a segue into what I did [after] leaving Moody's in 2010. I didn't join Croatan until 2017. So, at this point [today]. I've done the same work, half without affiliation and then half having affiliated with Croatan. **But the take-up amongst people and entities who should have been concerned starting within the U.S. [with] the US Securities Exchange Commission, because they regulate credit rating companies? But not only**

them. I met with my [00:29:00] congressman, Jerry Nadler. I sat down with him. I spoke with him about

Jamie Bartlett: Oh yeah. Jerry Nadler.

Bill Harrington: There we go. Okay. Well,

Jamie Bartlett: car safety guy.

Bill Harrington: I don't, is Jerry Nadler car Safety? No, that was Ralph. No, sorry. That was Ralph Nader.

Jamie Bartlett: it's Ralph Nader. Sorry.

Bill Harrington: Nadler is [in his] mid-seventies. He's retiring. He represents a Manhattan district.

But, as a quick aside, I did have contacts and I knew a family member of his chief of staff and mentioned my work. And this family member, the chief of staff said: "Oh, I'm gonna bring you in and speak to Congressman Nadler."

And I did speak with him [Nadler] for an hour and he said: "Oh, this is really interesting. I think we should do something about it." And the chief of staff said: "You know what? We have get to Maxine Waters. She's the head of one of the finance committees. But rather than doing it cold, let's go to Nobel Prize winner, Joseph Steiglitz, show your work to him and then he will talk to Maxine." So in the course of this hour, I presented the work, showed the [00:30:00] problems, convince them not only that it should be aired in Congress, but that I should have sort of a gold plated entry.

That was the action plan. And I have several emails after that meeting, this was in 2013, that Jerry was speaking to Professor Steiglitz and it was going fine. And then, all of a sudden, it went cold. So, you can say, oh, poor me, you thought you were gonna have your day in the sun. But more generally, poor everyone because a chance for me to describe what I was concerned with NOT happening going forward was removed in that instance.

And that type of sequence happened a lot. And so, I always use it as a way to think about, well, what causes [problems to fester?] 'Cause they won't give me feedback. What should I try and rebut and what should I address in my work to sort of counter what it is *I believe* is preventing even a public airing of what I have to say?

[00:31:00] **I came to the conclusion that there's such little faith among policymakers in the economic tools or even the current economies, that they just didn't wanna know anything that didn't work. And so, I don't know whether that's a phrase in the UK, but it's a phrase in the US that people "*just don't want to know*".**

It means they should know. It means they probably do know, but they don't wanna know, they don't wanna talk about it, they don't want it expressed. And this — and I mean I have a track record — so again, this is fact-based. I continually brought my work to the heads of the SEC and an allied US regulator, the US Commodity Futures Trading Commission. I brought them to the Federal Reserve and the FDIC. I participated by talk, by forcing my way into a dialogue on some of the rulemaking for Dodd-Frank. And fortunately, one of the key aspects that I advocated for made it into Dodd-Frank. And [since] then, I continually advocate [00:32:00] **to make sure that that Dodd-Frank provision remained intact. And to this date, it has.**

But I never got a friendly audience maybe until, maybe not until a couple years ago when Gary Gensler — who was a Biden appointee — was running the SEC and and then they treated my submissions better. And they were polite to me and they let me air [my concerns] with others. A couple of other things that we thought was [sic] important. **Those things never saw the light of day. And one of those was bringing accountability into the credit rating companies. The U.S. Securities Exchange Commission could bring accountability tomorrow just by reversing something it did in 2010 that negated a different Dodd-Frank provision.**

Dodd-Frank is 1300 pages long, so it's got a lot of provisions. But what I took away from the meeting with the SEC was the Biden administration was so afraid of inflation rising that they didn't want to potentially cause [00:33:00] any increase that that might occur for some interim period. The credit rating companies used all their tools to fight back against accountability. And this is an important point because Gary Gensler is really pro-individual. And he's not liked within the industry, even though he came from Goldman Sachs, 'cause he tries to impose accountability on it. **And it was during the Biden administration, and at this point, 15 years or 14 years after the financial crisis, so enough time should have passed. But even there, they had no appetite to actually improve the content of credit ratings.**

The work — the Dodd-Frank provision that I'm happy with — actually prevents the banks from doing something. I did comment a lot on the way

credit rating companies operate. But I also commented on how this whole constellation operates. And I've had better success saying there are certain financial things that should not be allowed to occur, and almost no success in saying that [00:34:00] credit rating companies should operate differently. In fact, after 2008, the credit rating companies were just given basically free rein to make up their ratings as they want. 2008 just showed them how they needed to insulate themselves politically, and insulate themselves legally, and insulate themselves with respect to regulation.

And now the credit rating companies really have carte blanche to make ratings as fake as they want. And in

Jamie Bartlett: Well, that sounds even worse

Bill Harrington: It is worse. That's the good news. That's the good news. It's even worse. The difference here is that the type of finance that I critique, yes, it's central to the UK mortgage industry, but it's not as systemically pronounced as it was before. But then that's a knock on not fixing it. **Also, you could fix what I critique without destroying the UK mortgage [00:35:00] industry, whereas pre 2008, the argument would've been: "It's just gonna destroy the U.S. mortgage industry."**

Many other things have proliferated since 2008 and maybe [they are] the worst, maybe the worst things. Anyway, we're gonna get to this later. Maybe the worst things will come from there, and not from the unnecessarily complicated finance that I critique. But I think the lack of accountability and the [protections] which the credit rating companies have enshrined for themselves, but I think the banks have also the underlying force that allows a lot of deficient finance to propagate not simply in the area that I critique. '[C]ause there's a whole area of finance that they don't know anything about and they don't critique it. And that, and that's the crypto world. I dunno anything

Jamie Bartlett: Well, right. Well, I do

Bill Harrington: say anything about

Jamie Bartlett: I know a little bit about that one,

Bill Harrington: Right. **But I think this lack of accountability and this thought that, okay, we just have to let markets be markets and whatever happens, happens, I [00:36:00] think it's born out of desperation.** Though there's certainly self-dealing and self-interest because again, this whole

constellation effect of financialization, financial transact[tions], and all their vendors get paid when deals get done, if they have investments and those investments do well. So, absolutely self-interest. **But I also think at the very core, it's this sense that the economies are just not performing. And I think I can document that even more pronouncedly in Europe than the US because continually European policy makers come back and say: "*We need a securitization market.*"**

As if that's a bedrock principle and we need a securitization market to work better. **Sort of rather than saying we need a sound economy and how we get there is what's important. They're flailing in a way, but I don't think they're flailing out of** [00:37:00] **maliciousness. I think they're flailing 'cause they're really scared.**

Jamie Bartlett: Now, when you say that they're, one final thing, and I'll come on to Croatan. You say, well, the, the credit agent agencies are able to be more, the ratings agencies are able to be more sort of fake now than they were 2008. What, in what way?

Bill Harrington: **There's no accountability for the content of credit ratings: *THAT* [i.e., no accountability for content] is enshrined in regulations, in law. What the credit rating companies have to do is follow a set of processes.** If you think of a factory, all the steps you go through to make something, they *define* the processes, but they then have to follow them [the processes]. When there are examinations of credit rating companies — in the US by the US Securities Exchange Commission — the regulator doesn't look at whether some ratings did well or not. They simply look at whether the credit rating companies follow the processes that they, the credit rating companies, set up. [00:38:00] That's what the evaluations focus on.

Jamie Bartlett: So, what does that mean they're able to do though, in practical

Bill Harrington: **As long as they follow the processes, they can just award credit ratings based on convenience, whether it's convenience for them or convenience for their constituents, rather than accuracy.**

Jamie Bartlett: And that is happening now then.

Bill Harrington: **Oh, it's always happened. But there is [now], I think the sureness that the credit rating companies have — that they cannot be sued for this, that they can't be shut down by a regulator — is now ironclad.**

Jamie Bartlett: Right. And is that particularly with the new administration, has

Bill Harrington: Oh no, this has been, this is the whole

Jamie Bartlett: been a, this.

Bill Harrington: **I mean, if it [meaningful credit rating oversight] didn't happen with Gary Gensler and the Biden administration, it won't happen under this one. I'm a progressive Democrat, so I'd love to say: "Oh no, it's one side and not the other", but no, both sides. And that's why I think it's fear. Both [political] sides have decided that is in their interest to let credit rating companies make up credit ratings.**

Jamie Bartlett: Hmm.

Bill Harrington: [00:39:00] **That is not a partisan decision.**

Jamie Bartlett: Because stopping the stopping this would just what they so afraid of in particular.

Bill Harrington: **I guess they're, they're concerned that the debt markets would come to a stop.**

Jamie Bartlett: Right.

Bill Harrington: **And credit rating markets, credit ratings are involved in all the debt markets around the world, even debt that they don't ostensibly rate. Typically, the entities that issue the unrated debt also issue rated debt, or the deals that the unrated debt go into are rated.**

And so the concern is a credit rating companies could just either stymie or halt assigning credit ratings to certain debt. And that could just cause all the debt markets to freeze up in a certain way, and that is just something that cannot be contemplated. But then the implication is it's a false system where credit ratings don't assess risk. And whether people know this or not — because I think there would be a rejoinder: "Well, of course everybody [00:40:00] in finance knows that" — but none will say it publicly.

And so, it's a bad knock and a bad reflection, certainly. And I mean this in objective terms, not like not an adult chastising a child, but just as finance

is a system that prides itself on being: one, transparent; and two, the mechanism to make sure that economies run efficiently.

And that's my knock on it. The credit rating scheme impacts the efficiency of finance through the debt markets, and it means that investment and the projects that get green-lighted, as opposed to the projects that don't, are completely distorted. And that is the implication of a bad system.

Whether or not everybody in the system knows it doesn't work or not, the knock — "Isn't that okay? Some people are doing well." If the system was beneficial, I think there would be a lot more tolerance for those who are within it doing well.

Jamie Bartlett: Yes. Yes. [00:41:00] Okay. Interesting. So moving on to Croatan, what is it that you are hoping to achieve with Croatan?

Bill Harrington: I was on the map in the industry that I was critiquing, and I worked as a journalist for a year in it. And yet I could not get an affiliation with any research entity, I couldn't get grant money. So, the first thing I have is this immense gratitude, but also

Jamie Bartlett: Really, I just thought everyone

Bill Harrington: Oh, wait. It's true. It's just true. It's just true. It's just true. It's just factually true. It's nobody wanted good work in this area. So that's just factually true. Again, I can prove it. I can show you all the

Jamie Bartlett: No, I believe you. I'm just surprised

Bill Harrington: You can't be. You're a journalist. You've gotta be objective.

You just gotta

Jamie Bartlett: I just thought there would be a lot of people interested in someone that had come out of that world who was willing to talk about it around that time.

Bill Harrington: was no interest in somebody who would talk about it in a way that didn't correspond [00:42:00] to what people wish to hear.

Jamie Bartlett: Mm-hmm. Mm-hmm.

Bill Harrington: And so, yes, I made my work known [to] all. And when I submitted a critique of the proposed rules for credit rating companies [to the U.S. SEC], I wrote it really well. I wrote it engagingly. I put a lot of personal details in there, but I also critiqued the proposals.

And I did get play for that by going to Henry Blodget, who was then the editor of the Business Insider. 'Cause he played at my tennis club. And so, I called the desk at my tennis club and said: "Can you call Henry and say" — I didn't know him personally but we recognized each other by sight. I said, "I've emailed something he might be interested in." And initially he said: "I love this. I'm gonna post the whole thing, but would you like to [speak to me]? I have some questions" And I wrote back and said, and this became my tagline: "I'm not getting in front of what I wrote. It's all there. It's meant to be self-quotable. Just go with it." And he did.

And so I could find ways to make my work [00:43:00] really land, but then there was no take up. So that on its own is rebuttal to your point that people were crying for an objective take. They weren't crying for that. They were crying for a take that they were comfortable with.

So, at any rate, this is where I was. And my colleagues at Croatan do fantastic, very clear sighted work. Finance is the tool that we want to use to improve outcomes. But it's [also] knowledgeable practitioner work in regenerative agriculture and several of my colleagues are also farmers. It's knowledgeable about the way financial regulators work and financial entities work.

In the U.S., the Department of Agriculture has a lot of resources available and much of what we do is helping farmers navigate that system, as well as developing financial literacy, as well as bringing investors to be interested in this general [00:44:00] area, as well as critiquing things that sound like they feel good, but they don't work. And that's a common area with my colleagues — we're just very clear sighted about what works, and what doesn't, and we're not gonna pretend something works, even if many in our own constellation think that it does. We do point out what works and what doesn't.

And, I'm in the nice position — because I knew how to use US law, which I taught myself to do — and I just follow what the lobbyists for the financial industry [do] and then did [sic] the same thing except to submit my own work and to make that part of public policy. Part of my work has prevailed, so in a way has succeeded. And my hope is simply to make sure

that the type of residential mortgage-backed security — which the UK still uses right now — it cannot be [00:45:00] used in the U.S. It hasn't been used since 2008 and it's my goal to make sure that that continues. So, it's a sort of modest, very technical goal.

For my colleagues at Croatan, we want finance to work more efficiently. And more efficiently means taking into account the obvious costs, but also the external costs, which tend to be real ones.

And a real [clear-]sighted [view], just completely mainstream finance, is that credit ratings typically only stand a couple of years. Even if the instrument being rated is 30 years, the credit rating doesn't look 30 years in the horizon, [it] only looks out a couple years. Insurance companies have 30 and 40 and 50 year investment horizons because people are paying-in now and they need to receive money in the future. And there's no mainstream financial tools that address that huge gap.

And what we want to do in Croatan is show that these real [00:46:00] financial exposures — which in the US more so than Europe now are really coming under fire — are in fact directly germane, are directly material, and investors need to know about it. Not just so that they [investors] align investments with their own nonpecuniary goals, but so that they understand this is actually real finance. Exposure to climate exposure, to bad governance, to systems that won't hold up can also cost you money.

And so, it's a way of understanding finance as more as what it is, which is more of a human enterprise, and less of what it pretends to be, which is this very closed, almost scientifically based system that is more self-regulating like chemistry. But if you're not a chemist, you can't really understand it.

Jamie Bartlett: Well, that's, speaking of that, you, I mean, you're clearly motivated by the sort of the impact that the current world of [00:47:00] finance as it's arranged has on ordinary people, but I think a lot of ordinary people don't imagine that this esoteric world has anything to do with them. How do you explain to a sort of typical listener who's got nothing to do with finance, what this means for them, how this system works, means for them and their lives?

Bill Harrington: You know what? I actually get the reverse impact when I do it. They [non-financial practiitioners] see that, they see it immediately. It's easier for me to speak with someone who doesn't work in finance. It's harder for me to speak to someone in New York or London where if people

don't work in finance, their spouse, or their child, or their best friend does. And then they have an initial resistance to critiquing the system.

What I do in speaking with individuals is ask them what they do and ask them: "Well, what guardrails are there in whatever it is that you do?" And one of my favorite[s] is speaking to people who are builders or architects because they're responsible for their design, and their build, and what was built for the rest of their lives. And so, [00:48:00] they understand accountability. But they also understand why that accountability exists. *Because a building failure or design failure can kill!*

Jamie Bartlett: that's it. Yeah.

Bill Harrington: **They get it. People see this in all sorts of enterprises that are not finance oriented. And so, what I simply say is I talk about the broad outlines about there being no real plans that can be objectively measured. That this [financial] system exists basically to pay the people who are in the system. And people get it immediately. So, whether they get all the linkages that interest me — because I worked as an economist and I like business, but I also like anthropology, and I like knowing how systems work, and I can trace how I think it works — because I have been in the system?**

Jamie Bartlett: But do you

Bill Harrington: **People may be able to do that or not, but they get the big point that**

Jamie Bartlett: They do. I'm sure they

Bill Harrington: **point that: "This just not, it's not working for me." They get that point immediately. I don't even have to [00:49:00] spend more than three minutes saying it. They get it immediately.**

Jamie Bartlett: But do you have, do you ever have to say: "Well what will happen is these systems will be bailed out again and you'll end up paying for it and you're gonna get poorer. And the way that investment is spread around the world is not actually a reflection of true economic value. So, the markets are getting skewed." I mean, do you ever go into that level of, you know?

Bill Harrington: I have [but] you know what? **I have to be careful because if the bailout doesn't happen, then I'm viewed as a Cassandra who was too**

worried. The way I would look at it is a different analogy of, say, a population with heart problems. And this population had a massive cardiac event in 2008 but they haven't been cured after that. They're just plodding along slowly, way below what they might wish they could do, way below what their potential is. And so, it's like the arteries are still clogged and there's not much activity going on. And oh, by the way, look how unhappy our [00:50:00] our societies are. I think part of that results directly from these self-serving financial systems.

But even if it [self-serving finace] was fixed, it's not like all of a sudden there would be rainbows and money showering from the sky. It [the financial system] would just work a little bit better. But things work so poorly right now that a little bit better would start having material impact, if not directly on someone, then indirectly on someone they know.

Uh, and I do think that,

Jamie Bartlett: as well.

Bill Harrington: right. So, but that's the whole point. I don't think for this system — which again drives economic activity and investment — that it succeeds so long as it doesn't cause another bailout. I think that if a bank goes down, it's gonna get bailed out again, for sure. But I don't think that's the bright line. And for credit rating companies, it's not a pass fail test. They have these different gradations of ratings and risk. If it [the rating] was just [00:51:00] solvent/ insolvent, that's a different type of rating. So, I do always look for an analogy that will work without getting too far away, but it's more, it's always easier when I speak to people [outside of finance]. If you're a doctor or a nurse, another medical practitioner, you're in pharmaceuticals, you have all these health protocols you have to follow. If you're in pharmaceuticals and the protocols don't work, you shut down the testing right away. And in medicine, you keep checking protocols to see what will work better. **And they [non-financial practitioners] get it, that there's no protocols in finance.**

And I already mentioned building, I think of air traffic controllers. They can't be saying: "Oh, well no, there's no planes 'cause that's an easier thing to do right now." I think people in most industries other than finance get it immediately.

Jamie Bartlett: I get that. You mentioned the Bank of England a couple of times and that in the UK we're still doing things that you're trying to expose and, and in the US that aren't allowed. Just explain to me a little bit

what that is and [00:52:00] what you've been trying to sort of lobby the Bank of England to.

Bill Harrington: **The reason I'm lobbying the Bank of England is because financial regulations around the world are dumbing down to the lowest standard. And in the US, the financial regulators — such as the SEC, the CFTC — harp on, I think, a theory that should be discredited, which is the international harmonization of regulations for complicated finance.**

I don't think it makes sense because the legal systems, the tolerance for bailouts, the size of the banks differ by countries. So, the regulations should be different. But nonetheless, there is a strong push for international harmonization. And that's the biggest risk I see to the undoing of the rules that I like in the U.S. is that the other major economies, including the U.K., don't have that rule.

And one of the things I mentioned is I don't have any direct traction, so I have to create it for [00:53:00] myself. I set up an open record using US law in the form of a petition to the Securities Exchange Commission — which is a very mainstream thing to do — to permanently outlaw the type of finance that I critique. And I have the same [petition and file] with the US Commodity Futures Trading Commission. That means every time I submit evidence, it goes directly into the public file of these two entities.

Jamie Bartlett: Sorry, Bill, can I interrupt for one second really quickly? When you say sort of: "Outlaw the sort of finance that I don't think should exist", what's the simplest description of that finance that you can give?

Bill Harrington: I can't give this. There's no simplest because there's only the term that I've coined because I wanna show how complicated it is. So, it's a quadruple barrel name — *a flip-clause-swap-contract* — and I always hyphenate all four words. So, it's a swap contract. And the first thing is, I don't wanna call it a swap because swaps are contracts and [00:54:00] this unnecessarily complicated finance is based on contracts. And even if people don't understand unnecessarily complicated finance, people generally understand what a contract is.

And then a flip clause is a provision in them [flip-clause-swap-contracts], which exposes a bank to big losses — as I mentioned, Lehman Brothers did — if it [the bank] itself defaults. And these contracts, the flip-clause-swap-contract, have many other deficiencies as well, but the flip clause is so obvious because it's the elephant in the room. It's the secret that nobody wishes to acknowledge. So, I lead with that. But this swap really

outperforms in causing damage! And so I want the flip-clause-swap-contract to be permanently barred in the U.S.

But one of the points I have to make is the Bank of England and the Bank of Ireland and the Bank of Canada and the Australian Central Bank and the Japanese Central Bank and the South African Central Bank have all made a mistake in [00:55:00] allowing this, the flip-clause-swap-contract, to continue to be integral to their securitization markets, including their markets that securitize residential mortgages.

So, it's my U.S. advocacy, but it obligates me, the nature of it obligates me, to tie in these other regulators. I do this in the open records. So when I submit to my evidence file, which goes directly to the public records of the US regulators, I address everything to a much wider [audience] including the Bank of England. I've also met with Bank of England practitioners and went into the Bank of England and spoke with him about this. I kept the correspondence alive, subsequent to that.

'Cause I want to be really clear and on the record that regulators knowingly green light, bad finance. It's just, that's the starting, this bad [00:56:00] finance has so many bad actors. Any one of them could stand up and say, we're not doing it anymore, and it would stop. But since none of the private entities — like the credit rating companies or law firms or bankers — are doing that, the regulators can and I actually think the regulators have a duty to do it.

There's actually another risk, though, that's more prominent in Europe and the US as well. It's that there's a circularity because the Bank of England also relies on credit ratings, including those [securitisations] that have the flip-clause-swap-contract, for collateral that it accepts from UK banks and possibly other entities.

And I was trying to think of an analogy for you, so let me see if this will work. Credit rating companies could just make up their ratings. Right? But that's hard. That's too obvious. And you, as a journalist, could just make up a story. You might get caught, but you could just make it up. But [instead] say you as a journalist want to influence the communication channels that are giving you [00:57:00] quotes for your story. But you can't do it directly. So, you sort of participate in chats and you sort of put a word in an ear and what your hope is, is that your own view is gonna come back, but stated by someone else. And then you can quote them.

Well, that, but okay. It's just, you know what,

Jamie Bartlett: No, I know what you mean. I know

Bill Harrington: Okay, good. So, you see I can find an analogy with somebody that I've never met before. But it's not, it might even be that in certain instances that that information — excuse me, [I] just liked my analogy and I almost tipped over a glass of water — **it could even be that there's useful information there. But you have to say it's a degraded self-referencing system to produce the information. And so, in some ways, that information is compromised. It's the same with the Bank of England. In their own regulation, they rely on credit ratings, which they and other policy makers in the UK allowed to be inflated.**

And the problem when you come to the. **Then they almost increase the risk of a [00:58:00] bailout down the road. But they also help stymie and clog the system that they're ostensibly trying to make work as efficiently as possible. So, in the U.S. we don't have that right now, but we had it before and we may have it again. But in the UK and Europe, you do have it where the central banks let this complicated finance, the securitizations and structured finance, be posted as collateral and they had certain rating limits, but then the ratings are bogus.**

So, what is the point of those limits? And then the credit rating companies actually give rating uplift to the bank based on [the rationale of] potentially good policy by the Bank of England. I thought: "Wait a minute, it's circular. They're actually having less good policy." And you know, right now in the U.K., not just with respect to what I'm describing here, but more generally, there is this idea that finance should be even let loose to do even more as a way of getting the economy to grow. So, [00:59:00] it's one of the processes that everyone looks the other way and gives a pass and then relies on that pass that they look the other way to justify their own work.

But the main reason I do it is not to tell the UK what they should be doing. The main reason I do it is because I want to point to the U.S.: "By the way, the UK and Europe use this tool, and yet they're very unhappy with the performance of their securitization markets. So, it really hasn't even done the hoped for thing, which was get the securitization markets and therefore get the financing for residential mortgages or private student loans or cars, all of which can be financed via securitization. It hasn't jumpstarted them in any way."

Jamie Bartlett: So, if I, maybe this might need to be my last question. I'm sure Tom's gonna jump in in a second, but if that we are still doing these flip clauses, flip-clause-swap-contracts, that you are so worried about and they still exist and they were the hidden sort of elephant [01:00:00] underneath the original 2008 financial crisis, does that mean we are heading for another version of that crisis at some point soon?

Bill Harrington: **Again, I would say we've been in a version of that crisis since 2008, which is just the disintegration of the social compact. Everything emerges from that. So, the answer is it continues to cause a lot of damage on its own by facilitating the broader world of unaccountable finance and that, in turn, continually undermines certainly the social contract.**

Well, the flip, if you talked just about the flip-clause-swap-contract, I don't think you would say the UK is a very happy, optimistic place right now. But I don't want to be saying we aren't in the U.S. either, and we don't have the flip-clause-swap-contract. So on its own, that is not the one thing that's gonna cause [a crisis]. But it [the flip-clause-swap-contract] is the one thing I can point to that shows how bad the credit ratings are, that shows how bad regulations [01:01:00] are, that shows how poorly banks capitalize their own positions, which shows how the policy makers know that complicated finance is based on a fiction, and yet promote that fiction every day.

Jamie Bartlett: Brilliant. Okay. Um, well Bill, it's been a real pleasure talking to you.

Bill Harrington: Thank you, Jamie. You too.

Jamie Bartlett: so much. Yeah, that's great. I really enjoyed that.

Bill Harrington: **My only frustration is I have to listen to six hours in January to figure out what part of mine you use, because I have to promote it. I will be promoting,**

Jamie Bartlett: hours, it won't be six hours, it'll be three hours,

Bill Harrington: oh, it's a, oh, okay. Well, whatever it I see. Okay. That's a little better. I

Jamie Bartlett: But it'll be a great, listen, you'll really enjoy it. So it'll be an enjoyable three hours.

Bill Harrington: **but not even that. I'm gonna promote the hell out of it too, so don't worry.**

Jamie Bartlett: Oh, brilliant. Oh, I can't wait. Alright, well listen, thank you so much to Tom. You are there. Yeah, just, uh, do we just, we just shut the page down. Yeah.

Bill Harrington Interview
Jamie Bartlett Interviewer

Remote, audio only, via personal computer (BH)
September 26, 2025, 10:00 AM – 11:00 AM EDST

Tempo+Talker produced and recorded 60-minute interview for six-part series BBC Radio 4 - Everything Is Fake - Episode guide.

Bill Harrington (senior fellow at Croatan Institute) comments mins 23:00-18:00, Episode 4. The Lance Armstrong Defence - Everything Is Fake - Apple Podcasts.

Original transcript, pp29-55.
- Edited for pagination only.

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- Edited for clarity (e.g., pagination, correct erroneous wording, remove repetitive "um"s and phrases, highlight noteworthy points).
- Emphasis added throughout.

Jamie Bartlett: [00:00:00] I'm good. Thanks. Thanks for agreeing to do this.

Bill Harrington: Pleasure to speak with you.

Jamie Bartlett: You too. You've been trying to understand flip clauses for the last hour, and I'm not sure I'm still, I've actually figured it out. Uh, wow.

Bill Harrington: I think that's intentional. It's something that really, it's something that really isn't su justifiable other than, other than, uh, convenience of the financial industry. So it's a difficult, difficult thing to, to figure out.

Jamie Bartlett: Well, I asked, I just asked GPT the simplest description it could do in one sentence of, of a flip clause. Um, and it said, when the bank thinks they're in the front of the queue when somebody defaults, and then after the default they go to the back of the queue. How's that? Is that any good?

Bill Harrington: Uh, I think it causes more damage than it, um, than it creates [00:01:00] benefit. And this was actually something that, uh, Tom and I were just discussing. I purposely keep my work out of, uh, the, um, the AI sphere to the extent that I can, because I want to be the author of voice on this topic. Uh, Lehman Brothers had the, the classic example of how damaging flip clauses are to a bank that writes swaps, that contain a flip clause.

Um. It's not another entity that defaults, it's when the bank defaults, it immediately loses some of the ASEE assets in its that it previously had as money goods. Um, and that's, that's why Lehman's recoveries, after having defaulted were lower than expected. It's Lehman went into bankruptcy, so already it had more liabilities and assets, and just by virtue of having gone into bankruptcy, the flip clauses were activated and Lehman lost even more assets.

Jamie Bartlett: Right. Right. Okay. Wow. [00:02:00] Okay.

Bill Harrington: So we, I want to, but yeah. So you're a person who's informed in some areas, maybe less informed than others. Like all human beings, you're not a specialist in overly complicated finance. And yet this flip clause is what banks put in contracts with UK residential mortgage backed securities. So the UK mortgage market. In part is financed by this demonstrably deficient mechanism.

Jamie Bartlett: Well,

Bill Harrington: something that's just esoteric, it's not

Jamie Bartlett: Yes.

Bill Harrington: just established once and then is sort of in the bedrock of the financial industry. And as a forgotten issue, the flip C clause gets restated in every new deal and lots and lots and lots of eyes look at it, and they either don't bother to try and understand what it might mean or purposely look the other way.

Jamie Bartlett: Is it one of those things [00:03:00] that, because it's been around for a while, everyone just assumes it must be fine. You know, it must work because it's been here for such a long time. They don't even see it anymore for what it is.

Bill Harrington: I don't, I don't think people ever saw it for what it was. One of the reasons that I cut my senior vice president ship at, at the credit rating company, Moody's ratings, is because I focused on this issue. I had been a derivatives trader prior to joining Moody's. I found this issue interesting. I found the web of connections amongst derivative counterparties interesting.

And I thought it was incumbent on us at Moody's since we reviewed this work to make our methodologies set up a protocol that would make the flip clause work as well as could be expected. And in that period, which was 2000 to 2008, I found very little take up. Uh, either among credit rating analysts, but among bankers, among lawyers, among accountants, among regulators, for [00:04:00] actually assessing what was in front of them on every single deal.

And then since 2008, I think policymakers were in a panic mode and they just revived whatever had seemed to be working beforehand. And the reason I don't give you this out, this free pass that, oh, people just think it's always been there is because again, the Lehman case just is, was big. It was adjudicated all, all the way up to the, um, highest levels of the core systems in the US and also the uk.

And Lehman lost 100 cents on the dollar. They lost a hundred percent of their asset value. So you can't really do worse than that. And that's, the legal industry wrote about this and, and yet even so the desire to really. Do something simple, which is what I advocate, which is prevent banks from entering into these contracts.

There's no take up from, [00:05:00] so I wish I could let people off the hook for the reason that you mentioned, but I think it's bad faith actually. And LA and LA and laziness starting with the Bank of England. I, I

Jamie Bartlett: Well, sorry. Sorry, Brooke. I'm gonna get to the Bank of England 'cause I saw that you've been in communication with them. Yeah, yeah, absolutely. Um, can I, is it okay firstly just to double check the pronunciation, my pronunciation of the, is it Croatan? It's,

Bill Harrington: It is and that's perfect. And thank you. CROTTIN is an indigenous group in North Carolina, uh, a lost Indi indigenous group. It was, there's a Crottin National Forest and it was, they were associated with the first English colony in Virginia, North Carolina, the Ronak Colony. And, um, the founder of Croatan is from that area, and we do lots of work on the ground in agriculture there.

So that's

Jamie Bartlett: wow. Oh, that's interesting. Yeah. I didn't realize. Well, I was thinking that we could, if we could split our conversation here into three parts, just so you know what I'll be coming [00:06:00] to as well. So you don't think I'm missing something. Um, I was hoping maybe the first 15 minutes or so about ratings agencies more generally and your experience at Moody's, then keratin and your special interest in flip clauses and why they're so bad and what you're trying to do about it.

That will include the Bank of England. And then finally, just a few thoughts from you on how things have changed now. Like what's different to 2008, 2009, what are you worried about now? Like what's the next crisis potentially heading our way? Does that sound like an okay. Split to you? Sure.

Bill Harrington: Sure.

Jamie Bartlett: Alright, great.

Well, can I just start with, uh, a brief introduction from you, your name and what it is you do.

Bill Harrington: Sure. Hi, uh, my name is Bill Harrington. I'm a senior fellow at the Nonprofit Research Institute, Croatan Institute, which is based in North Carolina. In the United States. [00:07:00] We work on a range of sustainability issues that finance can improve and the, and the issues range from on the ground, help to farmers with so that they can learn how to finance regenerative agriculture practices.

Um, and then from there, work on better food systems in impoverished areas. And we work, we look for, we work to help investors understand this world as a way of bringing more, uh, capital. And our work goes up from there into human rights using. Shareholder meetings to and shareholder, uh, proxies to advocate for better labor practices.

And then my work is on the systemic issues that caused the 2008 financial meltdown. And, and my work is to try and limit the impact of the worst of the 2008 financial crisis and to build, [00:08:00] uh, a more robust financial system that properly in monetary terms, values, evaluates exposures to what is can sometimes called ESG, which is environmental factors, sustainability factors and governance factors.

And our real view is there's no dichotomy between, um, finance and factors that weren't previously evaluated, but also lead to real financial, um, um, out, um, outcomes.

Jamie Bartlett: Right. Okay. So let's dig in a bit here from the earlier part of your career at, at Moody's. Just talk me through a little bit your role there. What, what it was that you were responsible for.

Bill Harrington: Well, I was always an analyst. I was never a manager, and that was a conscious decision. I joined Moody's in, uh, 1999. I have a [00:09:00] Wharton MBA. I had worked on the derivatives trading floor at Merrill Lynch, and I didn't particularly like banking, but I did have an interest in the way the financial system worked.

Um, prior to in choosing to do an MBA, I also had the, uh, option to do a PhD and I was sort of always had a research interest in the, in the financial system. What I liked about Moody's and being an analyst is I had a lot of insulation from the business pressures and could work on simply analyzing the deals in front of me and the deals that I analyzed were those that.

Were central to the 2008 financial crisis. They off, they often were very complicated in a way that made them inaccessible for people who weren't experienced with them to evaluate. Um, and that, okay, so I'll stop there. So that's, that's what I work, that's what I worked on. Um, I had a nice [00:10:00] ability to ringfence what I wanted to work on, be having been a derivatives trader prior to going to Moody's.

So I wasn't afraid of bankers, I wasn't afraid of derivative contracts. And I did like simply assessing the, the contracts in front of me and then saying, well,

look, here are the risks. I see these are the risks that need to be addressed. So that gave me an ability to carve out an area within Moody's, within this area of the, the, um, 2008 finance, finance.

Jamie Bartlett: Now, how did it change over your spell working there? Because I've, I've seen you say before that it, it, it, it sort of started to, yeah, it changed the way that it operated between about 2003 four to 2007, eight.

Bill Harrington: The process within Moody's, uh, didn't necessarily change. There was a lot of research. There was a lot of evaluation. There was a lot of clear sighted discussion of deals. But what [00:11:00] did change was the marching orders, which were never explicitly stated, but were enforced in a lot of ways that Moody's analysts should not prevent a deal from being rated and should not prevent a deal from obtaining the ratings that the bankings were, the bankers were seeking. So in the first couple years when I joined, there was a lot of ability for the Moody's analyst to say, based on the ratings that are being sought, we would need to see these changes. Um, and then over time, maybe halfway through my tenure, say in 2004, seemed to shift. And while it was important for the rating analyst to point out the deficiencies internally, um, they weren't supposed to ask for changes really in the deals.

And that that was a, it was a migration. It didn't happen overnight. But more and more Moody's managers wouldn't back the Moody's analyst and saying, look, there's a [00:12:00] problem with these deals.

Jamie Bartlett: What was driving that change though?

Bill Harrington: It's hard to say when you're in the middle of it. It certainly seemed that this area was getting bigger and bigger and a lot more financial entities were interested in it.

So they were bringing their, um. Their concern, which is just to get deals done to weigh more heavily on the sector. Um, Moody's had gone public, uh, in ear in the early two thousands, and so there was a direct stock benefit to the entire company from doing more deals. But the same thing was happening at the two la other large credit rating companies, uh, s and p, now s and p, global Ratings and Fitch ratings.

And, and they hadn't gone public, so it wasn't necessarily, that was the only issue. I think it was the general sector, which was financing a lot of residential mortgage activity as well as others in the United States, but also outside of the

United [00:13:00] States was getting bigger and bigger and the, the, uh, sort of influence waiting between individual analysts or analysts in a committee.

And then the entire sector was just getting too. Um, too big for the analyst to really exercise. Much influence.

Jamie Bartlett: Now there's a, um, there's a sort of public version of the story leading up to 2008 regarding the ratings agencies, isn't there? Probably 'cause of the big short, partly that they would just, um, see no evil sort of sign everything off because they were being paid by the bank. So they'd give everything AAA ratings.

I get the impression from your writing. The public understanding of this is slightly skewed. They might be responsible for some things, but not for others. How, how do you, how do you see the way the public has viewed ratings agencies in the build up to 2008, [00:14:00] and what is your version of what happened in regards to rating agency's responsibilities there?

Bill Harrington: The rating agency's responsibility to their, to the quality of their own work is, is immense and there's no back. And it's very clear that the rating agency companies by management dictate, devalued their own work. So that's very clear and can't be criticized enough. But the credit rating companies were not the transacting agents in these deals.

The factors that were wrong with the deals were brought to, were transacted by banks and investors and who wanted higher ratings for increasingly deficient deals. The, the leverage that the credit rating companies had is these deals would not close without a credit rating in the area of complicated finance securitizations, asset backed [00:15:00] securities, the target rating, so it would be generally AAA for the senior class, and then a range of lower ratings for the lower classes had to be issued.

A closing or the deal wouldn't close. If the deals didn't close, no one was paid, the bankers weren't paid, the lawyers weren't paid, the accountants weren't paid. The other deal vendors weren't paid. And the credit rating companies got a small breakage fee, but they didn't get the large fee as well. And so my point here is there was a huge constellation of companies and entities and a huge amount of financial sectors and their vendors who are all doing increasingly bad work. And yes, the credit rating companies are, were very much to blame for their deficiencies in their own work. But so were all of the other prime actors. And it, it was a, it was a circular self-referencing system with no center of

gravity. [00:16:00] Um, no external measurement, no external, um, way of evaluating what was happening to demonstrably.

Say, look, the, the quality here continues to be. Diverging further and further and further from what the credit ratings are supposed to be.

Jamie Bartlett: When

Bill Harrington: so it becomes just, it just becomes this, this cycle of, of infinite blame is warranted for the credit rating companies. And yet they couldn't have done this work in degrading their own work unless the regulators and the bankers also degraded their work and just let, uh, weaker and weaker transactions come to market.

It's the point I wanna raise. None of these deals would've occurred without the bad ratings. And so it would've been an entirely different financial and economic trajectory from 2000. It's not like we would've had the growth that we had and ratings would've been fine and everything would've been fine.

None of that increase in economic activity that was generated by this finance would've occurred. [00:17:00] And so it would've been an entirely different world that people were facing. And I think in the US you can say that in the real estate age industry, people wanted. Prices to go up and brokers wanted to do more deals and mortgage companies wanted to issue more, or mortgages and policymakers seemed to think that this was just really great sound, uh, capitalism, doing its job and wanted it to continue.

And it just would've been an entirely different economy that would've developed maybe a better one. But we, we don't know. It's not like on the margin things would've been just as robust, but, but sounder, we just would've been a different, um, landscape entirely.

Jamie Bartlett: How many PE people sort of on the inside that kind of knew things were going wrong? Again, the Hollywood version is just one or two outspoken, crazy guys had figured it out, but I don't know. When you are in your descriptions of it, it feels like that's probably not quite true. A lot of people had [00:18:00] a sense that things weren't, you know, the reality of what these deals were versus how they were being.

Put together and sold was quite different and a lot of people must have had a sense of that, but

Bill Harrington: Well,

Jamie Bartlett: how widespread was knowledge about what

Bill Harrington: I, I'd like, I'd want to go if we're gonna use the big, I haven't read the book, but I saw the movie, the people in the big short who did ostensibly benefit only benefited because the banks were bailed out. So even they didn't see how big the problem was. In other words, they did have the short positions that were set up, but they were with other banks.

And had the banks not been able to pay, then they wouldn't have been received the payout on their short positions. So it was very much a, a system that was eating itself. And I don't know if, if you were to look in, in economic history or. Uh, or maybe not even economic history, other type of commercial history of systems that just devour themselves.

The question is, uh, many people have a sense that something's wrong, but can they put their finger on it? One [00:19:00] and two, do they want to do anything about it? I was in a lot of meetings prior to 2008 where I would be speaking about what the bankers were, and sometimes also with colleagues saying, look, here's what's wrong with this.

Here's what's wrong with this. And the refrain would be, um, well, let's, you know, let's just hope we're all retired and out of this, out, out of this game, uh, by the time that occurs. So it wasn't my viewpoint. I didn't like hearing it, but my mo was to go and think about what I needed to do to make sure that my work and the work of the teams that I was on would hold up as well as possible.

But that view that I mentioned, which again, I heard both within Moody's and certainly by outside of Moody. Uh, was not, I think that existed. Um, the bankers knew they were coming every day to obtain as good ratings for as bad deals as possible. So they knew that they were playing this game. Um, I didn't [00:20:00] see any outlet.

I had friends who worked for the best law firms in New York City, and I lived in New York City then, and I had in general was talking with friends about something's not making sense here. I can't tell what it is. And I didn't get much traction there. So again, I think it really was a system devouring itself and people not choosing to inquire what the, what the impact would be.

Um, the impact would've been that all this economic activity would've stopped. There wouldn't have been a way of. It rating. For instance, I didn't work in the r

and BS group, that's residential mortgage-backed securities. That's the securities are based on US houses. It was at the center of the implosion.

But I did work in the group that rated CDOs. Um, and you couldn't have finessed this to have had the good that people thought was occurring without the bad you, you would've had just a different world in which New York wasn't the center of the [00:21:00] financial, didn't, wasn't doing as many deals, and the economy wasn't growing as much.

And it, it just, and I think people can't face something like that. And so it was easier if you're being paid, whether you're a banker or an investor. Or even a journalist or a credit rating agent or, or an attorney, a credit rating analyst or an attorney. It was just easier if you're being paid any being paid and paid being paid better than last year to make more deals happen.

It was, I think it was just easier for people to think, who am I to stop this?

Jamie Bartlett: Well, so why did you leave in the end? And I know, I know you didn't sign an NDA when you did, or you didn't, you

Bill Harrington: I wasn't offered an NDAI was offered as a lateral promotion into a control group, so I would keep my senior vice president ship, I would move into the group that reviewed credit rating methodologies. That's a very crucial part of the credit rating process. Um, they're the, the templates that, I'm trying to think of [00:22:00] words to use that people who aren't in finance might understand.

They're the templates or they're the protocols that analysts would be using to evaluate the credit exposures of a deal that was brought to them. And so it. It was the last duck in a row that I needed to leave. I thought, okay, now Moody's can't say that I'm a kick to the curb washed out analyst who couldn't make it.

They actually asked me to go into an influential group and keep my title. And, uh, I just had

Jamie Bartlett: that matter though? Why did that matter to you?

Bill Harrington: oh, I have personal pride. I, I, um, from easily from 2006, I was trying to think of what is my best course of action? Is it to leave Moody's or is it to stay here and do the work that I need to do? After 2008 when I continued to speak out, uh, rather than be a humbled person within Moody's who felt that what was occurring, which was management, was covering its tracks and,

[00:23:00] and blaming analysts, um. Then management was out to get me. And so from 2008 to 2010, I did know this is, this is your reputation. You've gotta stay here every day until you can leave on your own terms.

Jamie Bartlett: Right.

Bill Harrington: And so, and but also I was trying to, I was trying to figure, to con conduct a postmortem for what went wrong, trying to assess what went right and also trying and assess what we should be doing going forward.

Um, and when I could see that that wasn't gonna recur, the, the thought was get out with not just your reputation, but your status in tech. So that if you choose to do something going forward, apologizing isn't the only thing you're gonna be doing. And I think if I had left before then I would've been captured by the, uh, narrative that the big short presented.

Which in addition to the attributes that you described, the big short presents, the credit [00:24:00] rating analyst is stupid. And, uh, as if there were smart people and stupid people within a system that wasn't working. So, um,

Jamie Bartlett: Well, I think it presented them as sort of slightly devious people who just said, well, we can't give anything other than AAA rating 'cause we won't get paid.

Bill Harrington: right, but the, the, the, the knock on that and the laziness of, of Michael Lewis and I brought my work done continuously since then. Um, is that the, within the, the financial firmament, the credit rating companies and then the credit aid rating analysts, certainly well paid in objective terms were the lowest on the totem pole. And so it goes back to this point that I mentioned. If the deal wasn't rated, the target ratings, which were AAA for the senior tranche, it wasn't just the credit rating company that didn't get paid, no one got paid. The bankers, the people who put the deals together, the law firms, nobody got paid. And the investors who were expecting to invest in that deal all of a sudden had money to [00:25:00] invest, but nothing to invest in.

So there is a very valid point, but he didn't open that up. He, Michael Lewis didn't open that up in inquiry to the entire system of, um, the, the entire financial constellation really.

Jamie Bartlett: Right. Okay. Well, final question on this before we move on to the Croatan. Um, um, you've obviously, you know, you, you were part of this world. You, you're still kind of part of this world in, in a slightly different way

now. Just would love your thoughts on what impact you think the 2008 crisis had on, I dunno, people's attitudes towards politics more generally, politics, business in Washington, the way the world works.

It, it still talked about here all the time as being such a defining moment all these years later.

Bill Harrington: Uh, yeah, I don't, it's funny, I don't feel part of the world because I was canceled in 2011 when I started speaking out. So I found a way to [00:26:00] subvert being canceled, and that was to accept not being paid for my work and to always do my work in the public sphere and never do it. Uh, behind closed door conversation.

So I'm not part of that world, uh, in any way, except you could say somebody who was a critique and a consistent, uh, a uh, somebody who's consistently critiquing the system is part of it. But I do think the, the degree of economic displacement that occurred in 2008 was huge, but even more so the lack of accountability that followed.

And I think that was defining, I think we can trace a lot in the US a lot of the un unhappiness and, uh, turning away from not just the way the government works, but the way the whole system works. I think a lot of it occurred then. I think some of it happened previously with the Iraq war also. I mean, you have the Iraq war and then you have, um, the financial crisis in both cases.

You [00:27:00] had all of the. If you wish to say the people in charges or all the people in charge or all the entities that had influence converging on the wrong solution and converging on a damaging solution that individuals suffered. But the entities that brought these, uh, calamitous events to, to bear didn't, uh, come under or didn't suffer any, didn't really suffer at all.

And so I think the idea that you would, there would then be a, a, a different set that, however we wish to phrase that everything is reaped against individuals or we build up banks, but non individual mortgage holders. Or if you do a low level offense, you go to jail. But if you do it in a bank, you, you get a big bonus and get to join a get to do whatever you want.

I think those are all correct and I think those are facts and that, that people saw and had an impact on how they viewed the way the, the society and country works.

Jamie Bartlett: So that's not just a sort of a [00:28:00] perception from far away. 'cause obviously. New York and Washington financial political centers can feel quite distant to people and, and that's cons, skew opinion about how things really work. You're also saying no, they're people being frustrated about a lack of accountability and that the, the people responsible, you know, in many cases just carried on doing what they're doing.

That's true. That's not just a

Bill Harrington: That's true. That's, that's ev, that's evidence-based. And I can certainly, uh, demonstrate my own work as a segue into what I did in leaving Moody's in 2010. And I didn't join CROSON until two, 200, uh, 2017. So at this point I've done the same work, half without affiliation and then half having affiliated with keratin, but the takeup amongst, and people and entities who should have been concerned starting within the us, the US Securities Exchange Commission, because they regulate credit rating companies. But not only them, I, I, I met with my [00:29:00] congressman, he was Jerry Nadler. I sat down with him. I spoke with him about

Jamie Bartlett: Oh yeah. Jerry Nadler.

Bill Harrington: There we go. Okay. Well,

Jamie Bartlett: car safety guy.

Bill Harrington: I don't, is Jerry Nadler car Safety? No, that was Ralph. No, sorry. That was Ralph Nader.

Jamie Bartlett: it's Ralph Nader. Sorry.

Bill Harrington: Nadler is mid seventies. He's retiring. He represents a a Manhattan District District.

But, um, as a quick aside, I, I did have contacts and so I, I knew a family member of his chief of staff and mentioned my work and this family member said, the chief of staff said, oh, I'm gonna bring you in and speak to Congressman Nadler. And, and, um, I did speak with him for an hour and he said, oh, this is really interesting.

I think we should do something about it. And the chief of staff said, you know what? We have to go get to Maxine Waters. She's the head of one of the finance committees. And, but rather than doing a cold, let's go to Nobel Prize winner,

Joseph Stig, show your work to him and then he will talk to Maxine. So in the course of this hour, I presented the work, showed the [00:30:00] problems, convince them not only that it should be aired in Congress, but that I should have sort of a gold plated entry.

Uh, and that was the action plan. And I have several emails after that meeting. This was in 2013 that Jerry was speaking to Professor Stig and it was going fine, and then all of a sudden it went cold. So you can say, oh, poor me, you thought you were gonna have your day in the sun. Um, but more generally, poor everyone because a chance for me to describe, uh, what I was concerned not happened going forward was removed in that instance.

And that type of, uh, sequence happened a lot. And so. I always use it as, as a way to think about, well, what causes, 'cause they won't give me feedback and what should I try and rebut and what should I address in my work to sort of counter what it is I believe, uh, is preventing even a public airing of what I have to say.

[00:31:00] Um, and I came to the conclusion that there's such little faith among policymakers in the economic tools or even the current economies, that they just didn't wanna know anything that didn't work. And so, I don't know whether that's a phrase in the uk, but it's a phrase in the US that people just don't want to know.

It means they should know. It means they probably do know, but they don't want, they don't wanna know, they don't wanna talk about it, they don't want it expressed. And this, and. I mean, I have a track record, so again, this is fact-based. I continually brought my work to the heads of the SEC and the an Allied US regulator, the US Commodity Futures Trading Commission.

I act, I brought them to the Federal Reserve and, and the FDIC. I participated by talk, by forcing my way into a, a dialogue in some of the rulemaking for Dodd-Frank. And fortunately, one of the key aspects that I advocated for made it into Dodd-Frank. Uh, and then I continually did advocate [00:32:00] advocacy to make sure that that dod Frank provision remained intact.

And, and to this date, it has. But I never got a friendly audience maybe until, maybe not until a couple years ago when Gary Gensler, who was a Biden appoint, he was running the SEC, and then they treated my submissions. Better. And they were polite to me and they gave, they let me air with others. A couple of other things that we thought was important.

Those things never saw the light of day. And one of those was bringing accountability into the credit rating companies and the, the U United States Securities Exchange Commission could bring accountability tomorrow just by reversing something it did in 2010 that negated a different Dodd-Frank provision.

Dodd-Frank is 1300 pages long, so it's got a lot of provisions. Um, but what I took away from the meeting with the SEC was the Biden administration was so afraid of inflation rising that they didn't want to potentially cause [00:33:00] any increase that that might occur for some interim period. The credit rating companies.

Used all their tools to fight back against accountability. And this is an important point because it, Gary Gensler is really a pro individual and, and really he's not liked within the industry, even though he came from Goldman Sachs. 'cause he tries to impose accountability on it. And it was during the Biden administration and it, it was, um, at this point, 15 years or 14 years after the financial crisis, so enough time should have passed.

But even there, they had, they had no appetite to actually improve the content of credit ratings. The work, the Dodd-Frank provision that I'm happy with actually prevents the banks from doing something. So it wasn't that I, I did comment a lot on the way credit rating companies operate, but I also commented on how this whole Constellation operates and I've had better success saying there are certain financial things that should not be allowed to occur. And almost no success in saying that. [00:34:00] Credit rating companies should be, should operate differently. And in fact, after 2008, the, the credit rating companies were just given basically free reign to make up their ratings as they want. So 2008 just showed them how they needed to insulate themselves politically and insulate themselves legally and insulate themselves with respect to regulation.

And now the credit rating companies really have carp blanche to make ratings as, uh, fake as they want. And in

Jamie Bartlett: Well, that sounds even worse

Bill Harrington: it is worse. That's the good news. That's the good news. It's, that's the good news. It's even worse. The, the difference here is that the type of finance that I critique, yes, it's central to the UK mortgage industry, but it's not as systemically pronounced as it was before.

So it's, but then that's a knock on not fixing it. Also, you could fix what I critique. Without destroying the UK mortgage [00:35:00] industry, whereas pre 2008, the argument would've, it's just gonna destroy the US mortgage industry. Um, so it is, and many other things have proliferated since 2008 and maybe the worst, maybe the worst things.

Anyway, we're gonna get to this later. Maybe the worst things will come from there, and not from the unnecessarily complicated finance that I critique, but I think the lack of accountability and the, the, the, which the credit rating companies have enshrined for themselves, but I think the banks have also, um, I think that is the, the underlying force that allows a lot of deficient finance to, to propagate not simply in the area that I critique.

'cause there's a whole area of finance that they don't know anything about and they don't critique it. And that, and that's the crypto world. I dunno anything

Jamie Bartlett: Well, right. Well, I do

Bill Harrington: say anything about

Jamie Bartlett: I know a little bit about that one,

Bill Harrington: Right. But I think this lack of accountability and this thought that, okay, we just have to let markets be markets and whatever happens, happens.

I [00:36:00] think it's born out of desperation though. There's certainly self-dealing and self-interest because again, this whole constellation of effect of financial age, financial transac, and all of their vendors get paid when deals get done and get paid. If they, they, they have investments and those investments do well.

Um, so this absolutely self-interest, but I also think at the very core, it's this sense that. These, the economies are just not performing. And um, I, I can, I think I can document that more, even more pronouncedly in Europe than the US because continually European policy makers come back and say, we need a securitization market.

As if that's a bedrock principle and we need a securitization mark market to work better. Sort of rather than saying we need a sound economy and how we get there is what's important. They're flailing in a way, but I don't think they're

flailing out of [00:37:00] maliciousness. I think they're flailing 'cause they're really scared.

Jamie Bartlett: Now, what do you, when you say that they're, one final thing, and I'll come on to Croatan. Um, you say, well, the, the credit agent agencies are able to be more, the ratings agencies are able to be more sort of fake now than they were 2008. What, in what way? What do you, what does that

Bill Harrington: There's no accountability for the content of credit ratings that is enshrined in regulations in law. What the credit rating companies have to do is follow a set of processes. Like if you think of a factory, all the steps you go through to make something, they define the processes, but they then they have to follow them. But, and when there were examinations of credit rating companies, the in the US would be the US Securities Exchange Commission. The regulator doesn't look at the, whether some ratings did well or not. They simply look at whether the credit rating companies follow the processes that they, the credit rating companies set up, [00:38:00] and that's what the evaluations focus on.

Jamie Bartlett: So what does that mean they're able to do though, in practical

Bill Harrington: As long as they follow the processes, they can just award credit ratings based on convenience, whether it's convenience for them or convenience for their constituents rather than accuracy.

Jamie Bartlett: And that is happening now then.

Bill Harrington: Oh, it's been, ha it's always happened. But there, I think the sureness that the credit rating companies have, that they cannot be sued for this, that they can't be shut down by a regulator is now ironclad.

Jamie Bartlett: Right. And is that particularly with the new administration, has

Bill Harrington: Oh no, this has been, this is the whole

Jamie Bartlett: been a, this.

Bill Harrington: I, I, I mean, I mean, if it didn't happen with Gary Gensler and the, and the Biden administration, it won't happen under this one, but, and I'm a progressive Democrat, so I'd love to say, oh no, it's, it's one side and not the other, but no, both sides. And that's why I think it's fear.

Um, both sides have decided that is in their interest to let credit rating companies make up credit ratings.

Jamie Bartlett: Hmm.

Bill Harrington: [00:39:00] That is not a partisan decision.

Jamie Bartlett: Because stopping the stopping this would just what they so afraid of in particular.

Bill Harrington: I guess they're, they're concerned that the debt markets would come to a stop.

Jamie Bartlett: Right.

Bill Harrington: And credit rating markets, credit ratings are involved in all the debt markets around the world, even debt that they don't ostensibly rate. Typically, the, the entities that issue the unrated debt also issue rated debt or the deals that the unrated debt go into are rated.

And so the concern is a credit rating companies could just either stymie or, or, or halt, uh, issuing, assigning credit ratings to certain debt. And that could just cause all the debt markets to freeze up in a certain way, and that that is just something that cannot be contemplated. But then the implication is it's a false system where credit ratings don't assess risk and whether people know this or not, because I think there would be a rejoinder, well, of course everybody [00:40:00] in finance knows that, but none will, none will say it publicly.

And so it's a bad. Knock and a bad reflection. Certainly, and I mean this in objective terms, not like, uh, just, not like an, not an adult chastising a child, but just this finances a system that prides itself on being one transparent and two being the mechanism to make sure that economies run efficiently.

And that's my knock on it. The, the, the credit rating scheme impacts the efficiency of finance through the debt markets, and it means that investment and, and, and the projects that get, that get green-lighted as, as opposed to the projects that don't, are completely distorted. And that is the implication of, of a bad system.

Whether or not everybody in the system knows it doesn't work or not the knock, isn't that okay? Some people are doing well. If the system was beneficial, I think there would be a lot more tolerance for those who are within it doing well.

Jamie Bartlett: Yes. Yes. [00:41:00] Okay. Interesting. So moving on to Croatan, what is it that you are hoping to achieve with Croatan?

Bill Harrington: I spent a lot of time, I, I was on the map in the, in the industry that I was critiquing, and I worked as a journalist for a year in it. Um, and yet I, I could not get an affiliation with any research entity. I couldn't get grant money. So the first thing I have is this immense gratitude, but also

Jamie Bartlett: Really, I just thought everyone

Bill Harrington: Oh, wait. It's true. It's just true. It's just true. It's just true. It's just factually true. It's nobody wanted good work in this area. And, um, when I would, so that's just factually true. Again, I can, anyways, I know it, I can prove it. I can show you all the

Jamie Bartlett: No, I believe you. I'm just surprised

Bill Harrington: You can't be, you're a journalist. You've gotta be objective.

You just gotta

Jamie Bartlett: I just thought there would be a lot of people interested in someone that had come out of that world who was willing to talk about it around that time.

Bill Harrington: was no interest in somebody who would. Talk about it in a way that didn't correspond [00:42:00] to what people wish to hear.

Jamie Bartlett: Mm-hmm. Mm-hmm.

Bill Harrington: And so, yes, I made my work known all. And um, when I submitted a critique of the proposed rules for credit rating companies, I wrote it really well. I wrote it engagingly. I put a lot of personal details in there, but I also critiqued the proposals.

And I did get play for that by going to Henry Blot, who was then the editor of the Business Insider. 'cause he worked, he played at my tennis club. And so I, I sent, I, I called the desk at my tennis club and I said, can you just call Henry and say, I, I didn't know him personally, uh, but we recognized each other by side.

I said, I've emailed something to, he might be interested in it. And initially he said, I love this. I'm gonna post the whole thing, but would you like to. I wanna have some questions. And I wrote back and said, and this became my tagline. I'm not getting in front of what I wrote. It's all there. It's meant to be self quotable.

Just go with it. And he did. And so I could find ways to make my work [00:43:00] really land, but then there was no take up. So that on its own is just the, the, the rebuttal to your point, that people were crying for an objective take. They weren't crying for that. They were crying for a take that they were comfortable with.

So at any rate, this is where I was and, and my colleagues at Croatan do fantastic, but very clear sighted work. Um, finances the tool that we want to use to improve outcomes, but it's knowledgeable practitioner work in regenerative agriculture. And several, several of my colleagues are, are also farmers.

It's knowledgeable about the way, uh, financial regulators work and financial entities work in the us it's the us um, IT Department of Agriculture that has. A lot of resources available and much of what we do is how to navigate helping farmers navigate that system as well as developing financial literacy as well as bringing investors, uh, to be interested in this general [00:44:00] area, as well as critiquing things that sound like they feel good, but they don't work. Um, and that's what I really, that was a common, um, area with my colleagues is we're just very clear sighted about what works and what doesn't. And we're not gonna pretend something works, even if many in our, in our own consolation, think that it does. We, we do point out what works and what doesn't. Um, and so it becomes, I'm in the nice position of, because I knew how to use US law, which I taught myself to do, and I knew I just follow what the, what the lobbyist for the financial industry did, and then did the same thing except to, to submit my own work and to make that part of public policy. Part of my work has, has prevailed. Um, so, so in a way has succeeded. And my hope for is simply to make sure that the work that I, the type of residential mortgage backed security, which the UK still uses right now, it cannot be [00:45:00] used in the us It hasn't been used since 2008. And it's my goal to make sure that that continues.

So it's a sort of modest, very technical goal for my colleagues at, at Croat Tin is we want finance to work more efficiently and more efficiently, means taking into account the, the obvious costs, but also the external costs, which tend to be real ones. And a real sighted, just completely mainstream finance is that credit rating, credit ratings typically only stand a couple of years.

Even if the instrument being rated is 30 years long, the credit rating doesn't look 30 years in the horizon. Only looks out a couple years. Insurance companies have 30 and 40 and 50 year investment horizons because people are paying in now and they need to receive money in the future. And there's no mainstream financial tools that address that huge gap.

And what we want to do in Croatan is, is show that these real [00:46:00] expo, these real financial exposure exposures, which in the US more so than Europe now are really coming under fire, are in fact directly germane, are directly material and investors need to know about it. Not just so that they align investments with their own, um, non pecuniary goals, but so that they understand this is actually real finance and exposure to climate exposure, to bad governance, um, ex exposure to systems that won't hold up can also cost you money.

And so it's a way of understanding finance as more as what it is, which is more of a human enterprise and less of what it pretends to be, which is this. Very closed, almost scientifically based system that is more self-regulating like chemistry. But if you're not a chemist, you can't really understand it.

Jamie Bartlett: Well, that's, speaking of that, you, I mean, you're clearly motivated by the sort of the impact that the current world of [00:47:00] finance as it's arranged has on ordinary people, but I think a lot of ordinary people don't imagine that this esoteric world has anything to do with them. How do you explain to a sort of typical listener who's got nothing to do with finance, what this means for them, how this system works means for them and their lives?

Bill Harrington: you know what? I actually get the reverse impact when I do it. They see that, they see it immediately. It's easier for me to speak with someone who doesn't work in finance. It's harder for me to speak to some in New York or London where if people don't work in finance, their spouse or their child or their best friend does, and then they have an initial resistance to critiquing the system.

What I do in speaking with individuals is ask them what they do and ask them, well, what guardrails are there in whatever it is that you do? Um, and one of my favorite is speaking to people who are builders or architects because they're responsible for their design and, and their build and what was built for the rest of their lives.

And so [00:48:00] they understand accountability, but they also understand why that accountability exists. Because a building failure or design failure can kill

Jamie Bartlett: that's it. Yeah.

Bill Harrington: They get it and, but. People see this in all sorts of enterprises that are not finance oriented. And so what I simply say is I, I, I talk about the broad outlines about there being no real plans that can be objectively measured.

Um, that the, that this, this system exists basically to pay the people who are in the system, um, and people get it immediately. So whether they get all the linkages that interests me because I worked as an economist and I like business, but I also like anthropology. And I, and I like knowing how systems work and I can trace how I think it works because I have been in the system.

Jamie Bartlett: But do you

Bill Harrington: People may not be able to do that or not, but they get the big point that

Jamie Bartlett: They do. I'm sure they

Bill Harrington: point that this just not, it's not working for me. They get that point immediately. I don't even have to [00:49:00] spend more than three minutes saying it. They get it immediately.

Jamie Bartlett: but do you have, do you ever have to say, well, because, well, what will happen is. The, these systems will be bailed out again and you'll end up paying for it and you're gonna get poorer. And the way that investments is spread around the world is not actually a reflection of true economic value. So the markets are getting skewed.

So the economy's not, I mean, do you ever go into that level of, you know,

Bill Harrington: I ha you know what? I have to be careful because if the bailout doesn't happen, then I'm not, then I'm viewed as a Cassandra who was too worried. The way I would look at, at it is a different analogy of, say, a population with, uh, heart problems. And this population had a massive cardiac event in 2008, and, but.

They haven't been cured after that. They're just plotting along slowly, way below what they might wish they could do, way below what their potential is. And so it's like the arteries are still clogged and there's not much activity going. And oh, by the way, look how unhappy our [00:50:00] s our societies are. I think part of that results directly from these, um, self-serving financial systems.

But even if it was fixed, it's not like all of a sudden there would be, uh, you know, rainbows and, and money showering from the sky. It would just work a little bit better. But things work so poorly right now that a little bit better would start having material impact, if not directly on someone, then indirectly on someone they know.

Uh, and I do think that,

Jamie Bartlett: as well.

Bill Harrington: right. So, but that's the whole point. I don't think for this system, which again drives economic activity and investment that it's. It succeeds so long as it doesn't cause another bailout. I think that if, if a bank goes down, it's gonna get bailed out again, for sure. Um, but I don't think that's the bright line.

And for credit rating companies, it's not a pass fail test. They have these different gradations of ratings and risk. If it was just [00:51:00] solvent insolvent, that's a different type of rating. Um, so I do always look for an analogy that will work without getting too far away, but it's more, it's always easier when I speak to people.

If you're a doctor or a nurse, another medical practitioner, you're in pharmaceuticals, you have all these health protocols you have to follow. If you're in pharmaceuticals and the protocols don't work, you shut down the, the testing right away. And in medicine you keep checking protocols to see what will work better and they get, get it, that there's no protocols in finance.

And I already mentioned building, I think of air traffic controllers. They can't be saying, oh, well no, there's no planes. 'cause that's an easier thing to do right now. I, I think people in most industries other than finance get it immediately.

Jamie Bartlett: I get that. You mentioned the Bank of England a couple of times and that, that, that in the UK we're still doing things, um, that you, that you're trying to expose and, and in the US that aren't allowed. Just explain to me a little bit what, what that is and [00:52:00] what you've been trying to sort of lobby the Bank of England to.

Bill Harrington: The reason I'm lobbying the Bank of England is because financial regulations around the world are dumbing down to the lowest standard. And in the US there, the financial regulators, such as the SEC, the

CFTC. Harp on, I think a, a theory that should be discredited, which is the International Harmonization of regulations for complicated finance.

I don't think it makes sense because the legal systems, the tolerance for bailouts, the size of the banks differ by countries. So the regulations should be different. But nonetheless, there is a strong push for international harmonization, and that's the biggest risk I see to the undoing of the rules that I like in the US is that the other major economies, including the uk, don't have that rule.

And so one of the things I mentioned is I don't have any direct traction, so I have to create it for [00:53:00] myself. I set up an open record using US law, um, in the form of a petition to the Securities Exchange Commission, which is a very mainstream thing to do to permanently outlaw the type of finance that I critique.

And I'd have the same with the US Commodity Futures Trading Commission. That means every time I submit evidence, it goes directly into the public file of these two entities.

Jamie Bartlett: sorry, bill, can I, bill, can I interrupt for one second really quickly? When you say sort of outlaw the sort of finance that I, I, you know, I don't think should exist, what's the simplest description of that finance that you can give?

Bill Harrington: I can't give this, there's no simplest because there's only the, there's only the term that I've coined because I, I wanna show how complicated, and so it's a, it's a, it's a quadruple barrel name, a flip clause swap contract, and I always hyphenate all, all four words. Um, and so it's a swap contract. And the first thing is, I don't wanna call it a swap because it's swaps are contracts and [00:54:00] this.

Unnecessarily complicated. Finance is based on contracts and even if people don't understand unnecessarily complicated finance, people generally understand what a contract is, and then a flip clause is a provision in them, which exposes a bank to big losses. As I mentioned, Lehman Brothers did. If it itself defaults and these contracts, the flip clause, SWAT contract has many other Debilities as well, but.

The flip clause is so obvious because it's the elephant in the room. It's the secret that nobody wishes to acknowledge. So I lead with that, but it, this swap really outperforms in causing damage. And so I want the flip clause swap contract to be permanently barred in the us. But one of the points I have to make is the

Bank of England and the Bank of Ireland and the Bank of Canada and the Australian Central Bank and the Japanese Central Bank and the South African Central Bank have all made a mistake in [00:55:00] allowing this, um.

The flip clause SWAT contract to continue to be part integral to their, uh, securitization markets, including their markets that securitize residential mortgages. So it's my US advocacy, but it obligates me. The ne the nature of it obligates me to tie in these other regulators. But I do this on the open records.

So when I submit to my evidence file, which goes directly to the public records of the US regulators, I address everything to a much wider and including the Bank of England. I've also met with Bank of England practitioners and went into the Bank of England and, and spoke with him about this. I kept the, uh, correspondence alive, uh, subsequent to that.

Um, 'cause I want to be really clear and on the record that regulators knowingly green light, bad finance. Um. It's just, that's the starting this, this, this bad [00:56:00] finance has so many bad actors. Any one of them could stand up and say, we're not doing it anymore, and it would stop. But since none of the private entities, like the credit rating companies or law firms or bankers are doing that, the regulators can and are actually think the regulators have a duty to do it.

There's actually another risk, though that's more prominent in Europe and the US as well, is that there's a circularity because the Bank of England also relies on credit ratings, including those that have the flip clause, swap contract, um, for collateral that it accepts from, uh, UK banks and possibly other entities.

And I was trying to think of an analogy for you, so let me see if this will work. Credit rating companies could just make up their ratings. Right. But that's, that's hard. That's too obvious. And you could just, as a journalist, could just make up a story. You might get caught, but you could just make it up.

But say you as a journalist want to influence the, the. Uh, communication channels that are, that are giving you [00:57:00] quotes for your story, but you can't do it directly. So you sort of participate in chats and you sort of put a word in an ear and what your hope is is that your own view is gonna come back, but stated by someone else.

And then you can quote them. Well, that, but okay. It's just, you know what,

Jamie Bartlett: no, I know what you mean. I know

Bill Harrington: Okay, but, okay, good. So they see I can, I can find an analogy with somebody that I've never met before, but it's not, it, it might even be that in certain instances that that information, excuse me, just liked my analogy and I almost tipped over a glass of water.

Um, it could even be that there's useful information there, but you have to say it's a degraded self-referencing, um, system to produce the information. And so in some ways, that information is compromised. It's the same with the Bank of England In their own regulation, they rely on credit ratings, which they and other policy makers in the UK allowed to be inflated.

And the problem when you come to the. Then they almost increase the risk of a [00:58:00] bailout down the road. But they also help stymie and clog out the system that they're osten to be trying to make us work as efficiently as possible. So in the US we don't have that right now, but we had it before and we may have it again, but in the UK and and Europe, you do have it where the central banks let this complicated finance, the securitizations and structured finance be posted as collateral and they had certain rating limits, but then the ratings are bogus.

So what is the point of those limits? And then the credit rating companies actually give rating up, rating, uplift to the bank. Based on potentially good policy by the Bank of England. I thought, wait a minute, it's circular. They're actually having less good policy. And you know, right now in the uk, not just with respect to what I'm describing here, but more generally, um, there is this idea that finance should be even let loose to do even more as a way of getting the economy to grow.

So [00:59:00] it it's one of the processes that everyone looks the other way and gives a pass and then relies on that pass that they look the other way to, to issue, to justify their own work. But the main reason I do it is not to tell the UK what they should be doing. Um, the main reason I do it is because I want to point to the US. By the way, the UK and Europe uses this tool, and yet they're very unhappy with the performance of their securitization markets. So it really hasn't even done the, the, the hoped for thing, which was get the securitization markets and therefore get the financing for residential mortgages or private student loans or cars, all of which can be financed via securitization.

It hasn't jumpstarted them anyway.

Jamie Bartlett: So if I, well, so if, if I, maybe this might need to be my last question. I'm sure Tom's gonna jump in in a second, but if that we are still doing

these flip clauses, flip clause, swap contracts that you are so worried about and they still exist and they were the hidden sort of elephant [01:00:00] underneath the original 2008 financial crisis, does that mean we are heading for another version of that crisis at some point soon?

Bill Harrington: Again, I would say we've been in a version of that crisis since 2008, which is just the disintegration of the social compact. Everything that emerges from that. So the answer is it's, it continues to cause a lot of damage on its own by facilitating the broader world of unaccountable finance and that in turn continually undermines certainly the social con.

Well, the flip, if you talked just about the flip floss swap contract, I don't think you would say the UK is a very happy, optimistic place right now, but I don't want to be saying we aren't in the US either, and we don't have the flip clause swap contract. So on its own, that is not the one thing that's gonna cause, uh, but it is, the one thing I can point to that shows how bad the credit ratings are, that shows how bad regulations [01:01:00] are.

That shows how poorly banks capitalize their own positions, which shows how the policy makers know that complicated finance is based on a fiction, and yet promote that fiction every day.

Jamie Bartlett: Brilliant. Okay. Um, well Bill, it's been a real pleasure talking to you.

Bill Harrington: Thank you, Jamie. You too.

Jamie Bartlett: so much. Yeah, that's great. I really enjoyed that.

Bill Harrington: My only frustration is I have to listen to six hours in January to figure out what part of mine you use, because I have to promote it. I will be promoting,

Jamie Bartlett: hours, it won't be six hours, it'll be three hours,

Bill Harrington: oh, it's a, oh, okay. Well, whatever it I see. Okay. That's a little better. I

Jamie Bartlett: But it'll be a great, listen, you'll really enjoy it. So it'll be an enjoyable three hours.

Bill Harrington: but not even that. I'm gonna promote the hell out of it too, so don't worry.

Jamie Bartlett: Oh, brilliant. Oh, I can't wait. Alright, well listen, thank you so much to Tom. You are there. Yeah, just, uh, do we just, we just shut the page down. Yeah.