Making A Deal

After Peter Fisher heard reports of distress at Long-Term Capital, he sprang into action.

- **Sept. 20:** Fisher leads a delegation of Fed and Treasury department officials to meeting at Long-Term Capital's headquarters
- **Sept. 22, 7:30 a.m.:** Fisher gathers officials from Goldman Sachs, Merrill Lynch and J.P. Morgan at New York Fed headquarters to discuss bailout
- **Sept. 22, 8:30 p.m.:** At New York Fed, Fisher warns Wall Street's biggest firms of market turmoil if bailout fails
- **Sept. 23:** Agreement reached at New York Fed around 6 p.m.

WSJ 11/2/98 B1

Long-Term Capital Bailout Spotlights a Fed 'Radical'

By JACOB M. SCHLESINGER
Staff Reporter of THE WALL STREET JOURNAL

On Sunday, Sept. 20, Peter Fisher left his parents' 50th anniversary party to get the government's first look at the books of **Long-Term Capital Management** LP.

Mr. Fisher, the No. 2 man at the Federal Reserve Bank of New York, was stunned by what he saw: The ailing Long-Term Capital, the huge, secretive and unregulated investment partnership founded by

WHO'S NEWS

John Meriwether, was "a lot bigger than anybody thought," he says, and far more intricately interwoven with major markets and market players. The fear of "this layer cake becoming unglued" and putting the world's financial markets at risk, as Mr. Fisher puts it, led him and his boss, New York Fed President William McDonough, to round up the biggest names on Wall Street to inject $3.625 billion into Long-Term Capital a few days later.

The move thrust 42-year-old Mr. Fisher out of the shadows where Fed staffers usually reside and into the public spotlight. It also set off a barrage of criticism for Mr. Fisher, his boss and the Fed.

W. Lee Hoskins, former head of the Cleveland Federal Reserve Bank, sums up critics' reasoning: "A perverse kind of incentive could be put in place, that investors can continue to make these bets on the hopes that the government will limit the downside risk." He adds: "As a general rule, one should err on the side of letting the market solve the problem."

Before the Fed was created by Congress in 1913, there was no government entity charged with maintaining financial stability. When the collapse of the Knickerbocker Trust Co. threatened to unleash a panic in 1907, the task fell to J.P. Morgan, the legendary banker, to rally Wall Street to keep markets functioning. In a sense, Messrs. Fisher and McDonough are Mr. Morgan's successors.

Peter Fisher

Mr. McDonough, 64, a former commercial banker, gets the bigger office and the big title. Mr. Fisher's primary job is to run the Fed's trading operation. When Fed Chairman Alan Greenspan decides to cut interest rates, Mr. Fisher and his staff actually do it by buying and selling government securities to maintain the desired rate in the market. When Treasury Secretary Robert Rubin decides to help prop up the value of the Japanese yen, Mr. Fisher sells the dollars and buys the yen.

In that capacity, Mr. Fisher is the Fed's eyes and ears on the inner workings of stock, bond, and currency markets and is given a wide degree of latitude about de-

Please Turn to Page B4, Column 3

Bailout Spotlights a New York Fed Official

WSJ 11/2/98

Continued From Page B1

ciding when certain events pose broader risks.

He begins most weekdays at 5 a.m. by checking the status of overseas markets on a small bedside computer in his Maplewood, N.J., home, and ends them by 11 p.m. the same way. In between, Mr. Fisher swaps intelligence and rumors with traders and dealers from his office in the Fed's 10th-floor executive suite that overlooks the trading floor he runs.

Mr. Fisher grew up in Cambridge, Mass., the son of prominent Harvard Law School professor Roger Fisher. He attended Harvard as an undergraduate and a law student. He joined the New York Fed's legal department straight out of law school in 1985, and then rose quickly through the ranks to his current post.

At 6 feet 3 inches tall, with sandy curly hair, Mr. Fisher stands out among his Fed colleagues—and not only in a physical sense. By the hidebound standards of the institution, he is a radical modernizer. He personally redesigned the archaic trading floor, not just upgrading the technology but taking a keen interest in the layout.

In mid-September, the New York Fed's traders were witnessing unsettling developments. After Russia's debt default and currency devaluation, investors were shunning risky assets, even in the U.S. Trading volume was thin, and prices were volatile. "These shocks were, in their own way, not unlike what the stock market suffered in October 1987," Mr. Fisher says.

Amid the turmoil, Mr. Fisher heard frequent rumors about numerous firms in trouble, but one name was coming up with increasing frequency: Long-Term Capital Management in Greenwich, Conn. Thus it was that on Sept. 20, he left his parents' party in Cambridge and headed for Greenwich.

After looking at Long-Term Capital's books, he realized some of the recent bond-market turmoil flowed directly from the hedge fund dumping its investments to raise cash. It underscored how much worse the markets would be if the firm collapsed. "I had an epiphany," he says. "I realized they would be in the eye of a hurricane."

Based on that assessment, Messrs. Fisher and McDonough spent the next three days putting the rescue plan in place. On the night of Sept. 22, while Mr. McDonough was returning from London, where he had delivered a previously planned speech, Mr. Fisher summoned some of the biggest names on Wall Street to the nearby imposing stone headquarters of the New York Federal Reserve Bank.

He offered warm sodas and no food to his guests, who stayed past 10 p.m. He spoke for just a few minutes at the outset of the two-hour meeting, but what he said was potent. He didn't ask any firm outright to do anything. He didn't even hint at the possibility of using public money. He just observed that a collapse of the investment partnership could be chaotic for markets and that there was "a public interest in a collective industry option" to keep Long-Term Capital afloat, according to participants in the session.

The decision to give that nudge—the crucial one—appears to have been made largely by Mr. Fisher and Mr. McDonough. Mr. McDonough consulted with Mr. Rubin and Mr. Greenspan by phone. But Mr. Greenspan told Congress that the decision was based on "the judgment of the officials at the Federal Reserve Bank of New York." The Fed's board of governors was informed, but not consulted.

Critics complain that by pulling together the Wall Street consortium, Messrs. Fisher and McDonough gave Long-Term Capital's Mr. Meriwether good reason to rebuff a buyout bid from billionaire Warren Buffett. That bid would have wiped out Mr. Meriwether and his partners, including a former Fed vice chairman, David Mullins. The Fed's move left them with their jobs and a 10% stake in the partnership. Messrs. Fisher and McDonough say that it would have been inappropriate for Fed officials to help Messrs. Buffett and Meriwether negotiate terms of a buyout, and that the rescue came together only after the Buffett bid evaporated.

"If you save a baby from getting hit by a truck, and the baby gets slightly bruised, you're going to get some criticisms for the bruises," Mr. McDonough says. "The baby we were concerned about was the credit markets, not Long-Term Capital. And we think the risks were worth it."