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Weekend Journal: Dancing on Gehry's Rooftops

THE WALL STREET JOURNAL.

DOWJONES A News Corporation Company **** FRIDAY, SEPTEMBER 19, 2008 ~ VOL. CCLII NO. 68 ★★★★ $2.00

DJIA 11019.69 ▲410.03 3.9% **NASDAQ** 2199.10 ▲4.8% **NIKKEI** 11489.30 ▼2.2% **DJ STOXX 50** 2569.45 ▼1.1% **10-YR TREAS** ▼7/32, yield 3.436% **OIL** $97.88 ▲$0.72 **GOLD** $892.70 ▲$46.10 **EURO** $1.4305 **YEN** 105.65

U.S. Drafts Sweeping Plan to Fight Crisis As Turmoil Worsens in Credit Markets

Paulson Briefs Congress on Idea to Buy Bad Assets From Banks, Insure Money-Market Funds; Stocks Rebound Sharply

BY DEBORAH SOLOMON AND DAMIAN PALETTA

WASHINGTON—The government is working on a sweeping series of programs that would represent perhaps the biggest intervention in financial markets since the 1930s, embracing the need for a comprehensive approach to the financial crisis after a series of ad hoc rescues.

At the center of the potential plan is a mechanism that would take bad assets off the balance sheets of financial companies, according to people familiar with the matter, a device that echoes similar moves taken in past financial crises. The size of the entity could reach hundreds of billions of dollars, one person said.

Another proposal would be the creation of federal insurance for investors in money-market mutual funds, coverage akin to the insurance that currently safeguards bank deposits. The move is designed to stem an outflow of funds as consumers start to worry about even the safest of investments, a sign of how the crisis is spreading to Main Street. There is $3.4 trillion in money-market funds outstanding.

In addition, the Securities and Exchange Commission is set to propose a temporary ban on short-selling. It's not clear how broadly the ban might extend, but it is expected to apply to financial stocks.

Details of the plan were still being worked out Thursday night and could be delivered to Congress in "hours," said Senate Majority Leader Harry Reid of Nevada.

The administration had been taking a patchwork approach to the financial crisis, putting each fire out one at a time. These moves represent an effort to take a more systematic approach, after a spiral of bad debts, credit downgrades and tumbling stocks brought down venerable names from investment bank Lehman Brothers Holdings Inc. to insurance giant American International Group Inc. Banks have grown unwilling to lend to one another, a sign of extreme stress, because financial markets work only when institutions have faith in each other's ability to meet their obligations. (See articles on Pages A9 and C1.)

Word of the plan came the

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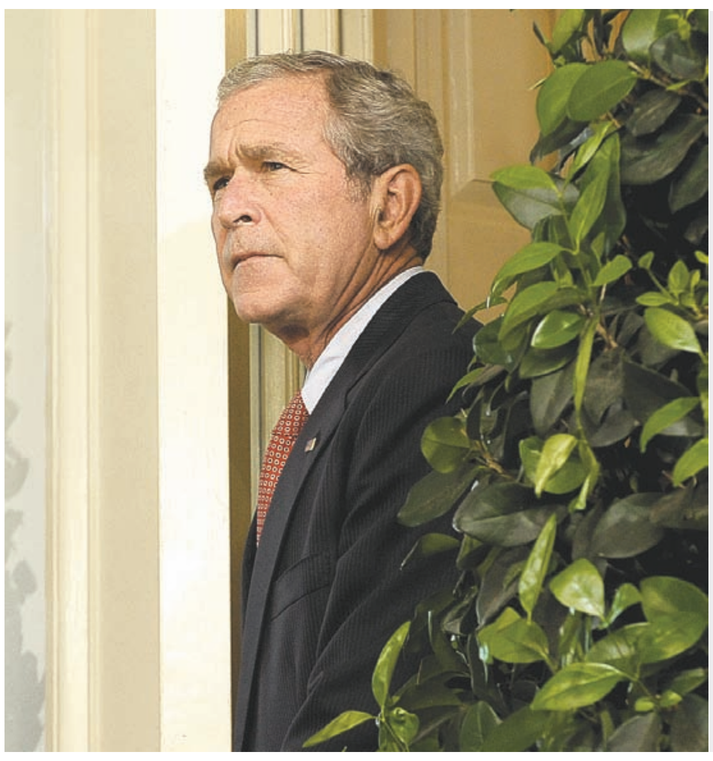
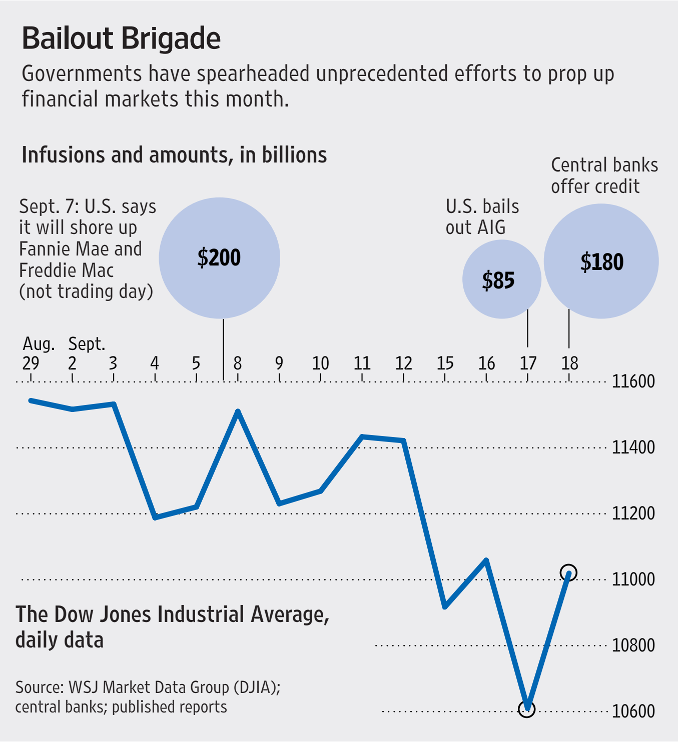


European Pressphoto Agency

President **George W. Bush** arrives to make a statement regarding the economy in the Oval Office Colonnade at the White House Thursday.



SEC Is Set To Issue Temporary Ban Against Short Selling

By Kara Scannell, Deborah Solomon, Craig Karmin and Gregory Zuckerman

The Securities and Exchange Commission prepared an aggressive assault against short-sellers, saying it would temporarily prevent investors from making bets on stock declines in an attempt to stem some of the worst stock-market slides in years, according to people briefed on the proposal.

The SEC was convening a late-night commission meeting to consider several items, some of which could be announced as early as today, a person familiar with the matter said. It's unclear whether the halt will be limited to a certain number of financial stocks or how long it would last.

Following a late meeting with Congress, Mr. Cox said, "We're going back to work tonight and in fact the entire commission is in formal meeting right now."

He declined to comment on a temporary ban on short sales. In short selling, traders borrow shares of stock and sell them, hoping the price of the shares decline and they can profit by buying them back at a lower price. Short-sellers have become scapegoats for the big declines in the share prices of weakened companies including Lehman Brothers Holdings Inc. and American International Group Inc., though it is unclear whether they were the cause of the declines.

Earlier Thursday, the U.K.'s Financial Services Authority said it would ban short selling in financial stocks until January. The FSA said it would review the ban in 30 days. The FSA also announced additional disclosure requirements from hedge funds of short sales if a certain threshold is met.

U.K. Treasury Chief Alistair Darling, who was involved in the FSA's decision, said in a statement Thursday he welcomed the

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What's News—

Business & Finance

The government is working on a sweeping series of programs that could mark the biggest intervention in financial markets since the 1930s. At the center of the potential plan is a mechanism to take bad assets off balance sheets of financial companies. Federal insurance for investors in money-market mutual funds is also being considered. **A1**

■ **The SEC plans** to temporarily ban investors from making bets on stock declines, joining a similar move by the U.K. to halt short selling. **A1**

■ **The Fed expanded** its currency-swap lines by $180 billion and unveiled new programs to give foreign central banks access to dollars. **A4**

■ **Actions by central banks** did little to alleviate lending markets as banks held onto the newly injected funds. **A9**

■ **The Dow industrials soared** 410.03 points, or 3.9%, to 11019.69, boosted by reports that a plan is being considered to bail out troubled banks. **C1**

■ **Russia unveiled** an expanded $120 billion rescue package for the nation's financial system as fears of an economic slowdown grew. **A8**

■ **China plans** to buy shares and take other measures to halt a stock-market slide and boost investor sentiment. **A8**

■ **Turmoil in the U.S.** financial sector is showing signs of spreading to other industries. The index of leading indicators fell by 0.5% in August. **A3**

■ **AIG's new CEO said** in an interview that he hopes to keep large insurance operations intact after selling assets to pay back the government. **A3**

■ **Citigroup is considering** making a bid for WaMu, while other suitors are reviewing the thrift's books. **C1**

■ **Morgan Stanley CEO** John Mack went on the offensive, lobbying for intervention and rule changes targeting short selling. Shares rose 3.7%. **C3**

■ **Freddie Mac said** Lehman hasn't made principal payments of $1.2 billion plus interest on short-term loans. **A4**

■ **Buffett's MidAmerican** Energy is paying $4.7 billion for Constellation Energy. **B1, C12**

■ **Dow Jones said** Kraft Foods will join the Dow Jones Industrial Average on Monday, replacing AIG. **C5**

World-Wide

■ **Bush sought to reassure the public about markets.** In a live-TV statement on the financial crisis, the president defended the government's recent moves and said "markets are adjusting." His comments had little immediate effect on financial markets, though stocks surged on suggestions the White House is considering bigger bailout steps. Democrats blasted Bush's comments as insufficient. **A6, A7**

McCain said he would fire the SEC chairman if he were president, blaming Cox for poor handling of the crisis.

■ **House Democrats** are moving to include a narrowed list of stimulus proposals in a stopgap spending bill. **A13**

■ **Israel's foreign minister** began efforts to build a coalition government after her party chose her as prime minister. **A16**

■ **Pakistan's foreign minister** said the U.S. hadn't informed Islamabad before it launched a drone missile attack. **A17**

■ **The White House** is reviewing its Afghan strategy as violence spreads, Gates said.

■ **The Pentagon said** a malfunction likely caused a helicopter crash in southern Iraq that killed seven U.S. soldiers. **A17**

■ **At least 25 militants** with suspected al Qaeda ties were arrested in the deadly attack on the U.S. Embassy in Yemen.

■ **Palin's husband refused** to testify in the Alaska Legislature's investigation of his wife's alleged abuse of power. **A12**

■ **The FDA proposed** rules on regulating genetically engineered animals, likely paving the way for their sale as food. **A12**

■ **North Korea appears** to be taking a harder line in nuclear talks with its leader's health in question, U.S. officials said. **A16**

■ **A commuter-train engineer** was apparently text-messaging shortly before last week's fatal crash near Los Angeles. **A11**

■ **A U.S. psychologists' group** voted to ban members from taking part in interrogations that violate international law. **A13**

■ **Crane operators** will have to pass a certification test under proposed rules, OSHA said. **A13**

■ **The WHO halved** its estimated number of malaria cases world-wide to 247 million.

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Street Scenes: The Players Remaking Financial World

History has thrown a handful of men together this week with a task that they themselves might have brushed off as unthinkable just days ago: Give the U.S. financial system its biggest makeover since the 1930s. And do it quickly.

By Susanne Craig, Carrick Mollenkamp, Deborah Solomon and Dan Fitzpatrick

They hail from all parts of the financial world, a banker from North Carolina, a London financial executive, the U.S. Treasury chieftain who himself once ruled a Wall Street powerhouse. Along with small cadre of other men, they are struggling to shore up the foundations of Wall Street, on the fly.

It's too early to know whether the choices they've made—rapid-fire acquisitions of Wall Street icons Merrill Lynch & Co. and Lehman Brothers Holdings Inc., government seizure of one of the world's biggest insurers, American International Group Inc.—were the right ones. Rarely are decisions on the trillion-dollar scale made so hastily and with so little vetting.

Now, the government appears ready to embark on yet another attempt to stem the financial carnage. The Treasury Department and the Federal Reserve are considering ways to

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Associated Press

Henry Paulson, right, and **John Thain** on the NYSE trading floor during better days.

Wall Street's Ills Seep Into Everyday Lives

BY JENNIFER LEVITZ, ILAN BRAT AND NICHOLAS CASEY

Bradford Roth, the 56-year-old chairman of a Chicago law firm, had a clear strategy for dealing with Wall Street's gyrations when he stopped by a local Fidelity Investments branch Wednesday.

He'd make a deposit to his cash-management account, but he wasn't going to check the balance of his retirement account.

"The less you know," he said, "the better you feel. There's nothing wrong with working in your 80s."

The crisis gripping global finance is filtering into the everyday lives of Americans, spawning confusion and denial, avarice and anxiety, stoicism and black humor. For some it has meant, putting off retirement or long-planned moves. For others, it meant moving their money out of stocks and bonds and into foreclosed homes, gold, livestock or even just having a good time.

"I've been talking to my banker and telling him to get all my money out of the market," said Pat Hurley, a 57-year-old electrical contractor from Phoenix. "I'm really worried—I think the stock market is going to get worse and worse," he said.

Mr. Hurley has $440,000 in his retirement fund, a sizable chunk but not nearly the million dollars he was hoping for. "I finally got back to where I was in 2001 and now the stock market's diving again," he said.

Bob Conrad, a 59-year-old budget director at the U.S. District Court in Dallas, sees his chance

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The House Takes a Hit as Casinos Ban Cigarette Smoking

* * *

Several States Are Kicking the Habit, But Gamblers Leave Slots for Nicotine

BY TAMARA AUDI

JOLIET, Ill.—At one point during her Saturday evening on Harrah's casino barge anchored outside Chicago, Tensi Beavers needed a cigarette. But Illinois had recently banned smoking in casinos. So Ms. Beavers did something that is making gambling executives choke on their smoke-free casino air: She walked away from her game.

"I like to play and smoke, but you can't, so...," Ms. Beavers said, clutching a pack of cigarettes and searching for the smokers' lounge, located just off the casino floor but too far from the nearest slot machine to gamble.

To players like Ms. Beavers, smoking and gambling go hand in hand—cigarette in one hand, slot-machine button in the other. "You take a pull and hope you hit it," Ms. Beavers said.

Now, that ritual is being upended in several states where casino smoking bans have been implemented or are on the way. The bans are hitting casinos at a time when larger economic woes—such as airline flight reductions, cash-strapped consumers and the credit crisis—are driving down casino revenues from Las Vegas to Connecticut.

"The smoking ban is having a major impact," said Tom Swoik, head of the Illinois Casino Gaming Association. Casinos in Illinois have posted double-digit declines in revenue since the smoking ban took effect in January.

Casino officials say steep revenue losses threaten to force staff cuts, and drastically reduce state tax revenues generated by casinos. They point to a 2005 research paper by the Federal Reserve Bank of St. Louis that says Delaware's "racinos"—race-

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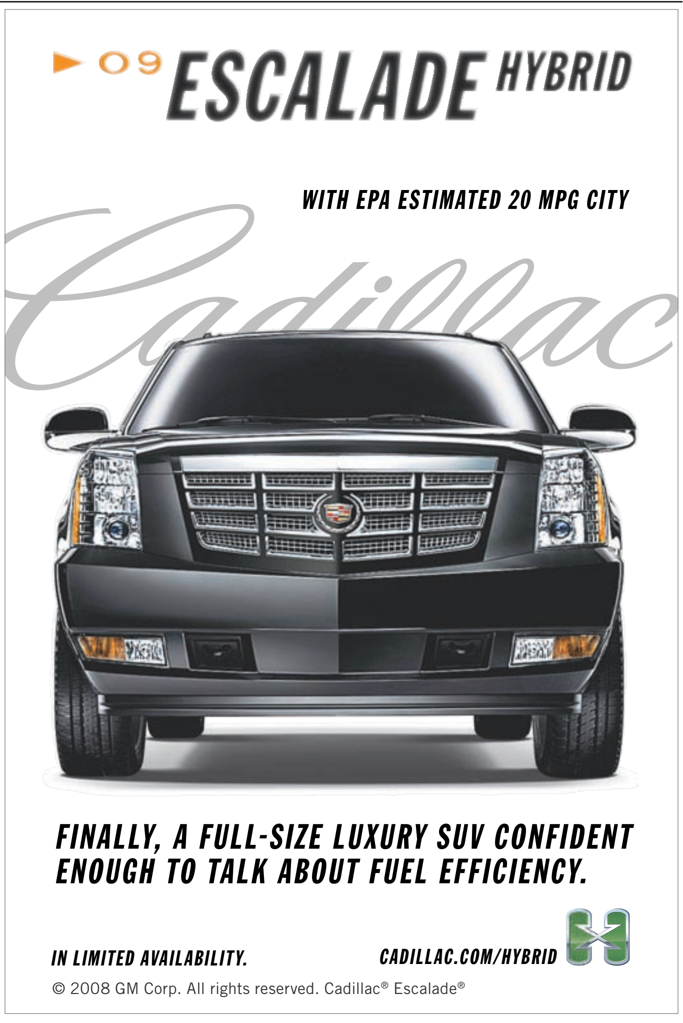

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