



Greece Considering Legal Action Against U.S. Banks for Crisis

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By Timothy R. Homan



May 16 (Bloomberg) -- Greece is considering taking legal action against U.S. investment banks that might have contributed to the country's debt crisis, Prime Minister **George Papandreou** said.

"I wouldn't rule out that this may be a recourse," Papandreou said, in response to questions about the role of U.S. banks in the crisis, in an interview on CNN's "Fareed Zakaria GPS." The program, scheduled for broadcast today, was taped on May 13. Neither Papandreou nor Zakaria mentioned any banks by name.

U.S. stocks fell and the euro slumped on concern that Europe wouldn't be able to contain the debt crisis stemming from Greece. The Standard & Poor's 500 **Index** declined 1.9 percent May 14, while the euro fell below \$1.24 for the first time since November 2008.

Papandreou said the decision on whether to go after U.S. banks will be made after a Greek parliamentary investigation into the cause of the crisis.

"Greece will look into the past and see how things went," Papandreou said. "There are similar investigations going on in other countries and in the United States. This is where I think, yes, the financial sector, I hear the words fraud and lack of transparency. So yes, yes, there is great responsibility here."

Speculators

In the days leading up to the May 10 announcement of a loan package worth almost \$1 trillion to halt the spread of Greece's fiscal woes, European Union regulators were examining whether speculators manipulated the prices of bonds and equities and contributed to the crisis.

The Committee of European Securities Regulators said on May 7 it was investigating "exceptional volatility" in the markets and would work with other regulators, including the U.S. Securities and Exchange Commission, as part of a coordinated clampdown.

European Central Bank President **Jean-Claude Trichet** said May 6 that he was concerned about speculation in bond markets using credit default swaps. "By first buying the CDS and then trying to affect market sentiment by going short on the underlying bond, investors can make large profits," he said.

Credit-default swaps are derivatives that pay the buyer face value if a borrower -- a country or a company -- defaults. In exchange, the swap seller gets the underlying securities or the cash equivalent. Traders in naked credit-default swaps buy insurance on bonds they don't own.

In the CNN interview, Papandreou said many in the international community have engaged in "Greek bashing" and find it easy "to scapegoat Greece." He said Greeks "are a hard-working people. We are a proud people."

"We have made our mistakes," Papandreou said. "We are living up to this responsibility. But at the same time, give us a chance. We'll show you."

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