

ACCORDING TO FSA to Oversee Libor

■ Oversight of Libor will be handed to the U.K.'s financial regulator, and dozens of the currencies and maturities that make up the benchmark axed, under proposals designed to revive confidence in a rate tarnished by scandal. The British Bankers' Association, the lobby group that has overseen the rate, should be stripped of that duty and other organizations invited to replace it, Financial Services Authority managing director **Martin Wheatley** said as he unveiled his report in London today. More than 100 Libor rates tied to currencies and maturities where there isn't enough trading data to set them properly should be scrapped, and a code of conduct introduced for how lenders contribute to the benchmark backed by criminal penalties for those who break it, he added. "Governance of Libor has completely failed," Wheatley said. "This problem has been exacerbated by a lack of regulation and a comprehensive mechanism to punish those who manipulate the system." Wheatley, managing director of the Financial Services Authority, began his review at the request of Chancellor of the Exchequer **George Osborne** after Barclays Plc paid a record \$470 million fine in June for manipulating Libor.

— Ben Moshinsky and Lindsay Fortado

Yale Beats Harvard

■ Yale University reported that its endowment gained 4.7 percent on its investments. The size of the fund fell to \$19.3 billion from \$19.4 billion because of distributions to support academic operations. Harvard University lost 0.05 percent on its investments in the 12 months through June, the second drop in four years. Stanford University reported that its endowment had a 1 percent return on investments. That compares with the 22 percent increase a year earlier. The fund's value climbed 3.2 percent to \$17 billion.

— Michael McDonald

DIARY

Goldman Settles Massachusetts Pay-to-Play Suit

Neil Morrison brought his experience as a Massachusetts deputy treasurer and a year working on Wall Street to Goldman Sachs Group Inc. when the firm hired him as a Boston-based public-finance banker in 2008.

While Morrison, now 38, would help the bank pull in \$7.5 million in fees for underwriting \$9 billion of state bonds before he was fired in 2010, his methods ultimately backfired. Yesterday, Goldman Sachs agreed to pay \$14.4 million to settle state and federal charges that Morrison broke rules meant to prevent peddling influence to win government bond business.

"Pay-to-play is an inevitable consequence of bankers seeking lucrative fees controlled by politicians," said **Joseph Franco**, a law professor at Suffolk University in Boston and former assistant general counsel at the SEC. "Firms create incentive structures for their bankers that fuel this sort of conduct."

Morrison made improper in-kind campaign contributions to former Treasurer **Tim Cahill** while seeking bond work from Massachusetts, according to the SEC. While a vice president at the bank, Morrison helped Cahill's unsuccessful run for governor from November 2008 to October 2010, according to the agency.

"While rules designed to curb conflicts will never eliminate this kind of behavior, strict enforcement of such rules is critical to changing the day-to-day dynamics of politicians, firms and individual bankers," Franco said.

The Cahill campaign work by Morrison disqualified Goldman Sachs from underwriting bonds for Massachusetts and its agencies for two years. Yet the New York-based bank subsequently participated in 30 offerings, improperly receiving more than \$7.5 million in fees, according to the agency.

Goldman Sachs agreed to pay \$12 million to the SEC, partly offset by about \$1.5 million paid to Massachusetts and \$607,645 handed over to the Massachusetts Water Pollution Abatement Trust. The firm also delivered \$2.4 million to Attorney General **Martha Coakley's** office, a separate state settlement shows.

— Michael McDonald

States' Economic Health Hits Nine Month Low

Most U.S. states' economies showed signs of worsening during the second quarter, the weakest results in nine months, illustrating the economy's faltering recovery leading into a presidential election.

The economic health of 36 states, including Michigan, California and Connecticut, declined in April through June from three months before, according to the Bloomberg Economic Evaluation of States index. It was the worst showing since the third quarter of 2011, when all but five states declined.

The retreat reflects the drop in hiring by businesses, which restrained workers' incomes and weighed on stock prices. Tax collections also grew more slowly in some states, reflecting the weaker pace of economy's expansion.

"Firms are behaving quite cautiously with respect to fixed business investment and hiring across the nation," said **Joseph Brusuelas**, a senior economist with Bloomberg LP. "We're feeling the drag all over, even where things are slightly better."

The BEES Index is based on the performance of local-company shares, tax collections, home prices, mortgage delinquencies, job growth and personal income, giving equal weight to each component. It is intended to indicate the direction of each economy, rather than absolute health, so a state that's quickly rebounding will receive a higher rank than one with a steady but slower pace of growth.

Ten states showed signs of improvement in the second quarter, driven by energy producers, including North Dakota, Colorado and Texas, compared with gains for 35 states during the previous three months. Four states showed no change in economic direction, including Iowa and Massachusetts, according to the index.

— William Selway and Ilan Kolet