

## IN THE NEWS

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### Economic News

The plight impacting banks is now world-wide. For example, following in the path of Iceland, the United Kingdom (UK) nationalized the Royal Bank of Scotland [1]. Additionally, the UK will secure a controlling ownership of the HBOS bank [2]. Europe has recognized the need to strengthen confidence in the banking system and has placed \$2.3 trillion on the line [3]. In Hong Kong, foreign reserves will be used to guarantee all deposits following the run on the Bank of East Asia Ltd last month and the collapse of Lehman Brothers [4]. In an effort to ensure banks remain healthy, Germany has approved their own bill estimated to cost \$ 674 billion [5]. Malaysia has announced it will guarantee all bank deposits [6]. Similarly, South Korea announced they will guarantee foreign currency-denominated loans [7]. Earlier in the week, Standard & Poor's placed seven Korean banks on credit watch for possible downgrade [8]. On the bad news side, the small country of Iceland remains on the verge of bankruptcy after the fall of its major banks [9]. Currently, there are over 120 British municipal governments, universities, hospitals and charities that had deposits stranded in blocked Icelandic bank accounts [10]. This illustrates how money is distributed around the world in various financial institutions.

Once a financial institution has shuttered, it's too late to mitigate the damage. The next atypical step is to see if any sacrificial lambs can be found to make those that lost money feel better. Case in point, in the aftermath of the Lehman Brothers bankruptcy, there are now three criminal probes and twelve subpoenas issued for people to testify [11]. Federal prosecutors are also investigating the collapse of Washington Mutual [12]. The driving reason appears to be public interest and to assure the public that investigators are looking into the matter [13]. However, it seems that Washington Mutual was under investigation for some time and investigators rightly did not want to instill fear by advertising their work [14]. Recall the effort to bring former Enron CEO Ken Lay to justice ended when he died while vacationing in Aspen at age 64 [15]. In the end this did not help any of the Enron people that lost out. We hope the investigations will explore cybercrime and other contributing events as part of their efforts. By understanding the total picture contributing to a collapse, more meaningful models might better predict trouble well in advance.

What comes next depends on many factors. Chairman Bernanke has suggested regulation and oversight will need to be re-examined in a big way [16]. The global response to the financial crisis shows an unprecedented collaborative effort to starve off further angst. Ultimately stakeholder panic must be brought under control.

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### Voter Fraud

The election is fast approaching and voter fraud has once again been a topic in the news. Trying to identify voter fraud can involve many approaches. For example, in Florida, over 30,000 felons that may not legally be entitled to vote are registered to vote [1]. Similarly in Washington state, an

investigative reporter for KIRO TV identified 24,000 felons getting ballots [2]. In Texas, one report rejected by election officials that uses Census estimates for population, identified four counties with more registered voters than eligible voters [3]. Felons, dead people, and more voters than people are

examples of one type of fraud. There are a number of controls to help identify voter fraud, including the use of driver's license databases. For example, in Minnesota, Secretary of State's Office will start using driver's license data received from the Department of Public Safety to weed out people ineli-

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#### Special points of interest:

- Europe puts \$2.3 trillion on the line to protect banks

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*Bankruptcy is a legal proceeding in which you put your money in your pants pocket and give your coat to your creditors—Joey Adams*

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## Voter Fraud

(Continued from page 1)

- gible to vote [4]. The Minnesota example illustrates the need to have strong identification and verification that the person is entitled to vote. Clearly there are a number of existing databases that could be used for this purpose. Perhaps a more serious concern is with the computers and software that will register the ballots might be exploited. After Congress appropriated \$ billions for electronic voting machines, the resulting equipment has been described as problem laden, easy to subvert, and impossible to audit [5]. To date, voting machines in 10 states have received poor grades on safeguard controls [6].
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  4. Brunswick, Mark, Star Tribune, *Driver's license data will be used to stop voter fraud*, October 18, 2008.
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## Technology Exploits

There are a number of older technology smart cards still in use within Government and industry. These lack the cryptographic strength of the Personal Identity Verification (PIV) card but are still in wide use. A European group cracked the Mifare Classic chip encryption by cutting layers from the chip, taking photographs, and reverse engineering the encryption algorithm used in silicon [1]. The exploit was done earlier and was presented at the 24th Chaos Communications Congress (organized by the Chaos Computer Club) [2]. Dutch researchers used the exploit to clone cards and ride the London transit system for free [3]. It is estimated there are 3.5 billion of these RFID cards are deployed throughout the world and many transit card systems are vulnerable

[4]. What has changed since the earlier news of the exploit is the details are widely available [5].

In U.S. Government related news, the IRS is under fire for inadequate security controls for the Customer Account Data Engine (CADE) and Account Management Services (AMS) systems [6]. To get an idea of the system size, the CADE is expected to cost over \$1 billion to develop and operate through 2012 [7]. Finally, the FBI is warning the use of bot-nets to spread malicious code is on the rise [8].

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6. AP, *Treasury office faults IRS computer security*, October 16, 2008.
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## Fear and History

A few years ago, in Baghdad, there was a religious procession; when someone in the crowd declared there was a suicide bomber, a stampede resulted killing 965 people [1]. As it turned out, there was no bomber [2]. This illustrates the influence of fear over rational thinking. Today, the economic landscape is confronted with fear driven news on a daily basis. Amongst the turmoil, the Fed chairman signaled that the U.S. economy is sure to get worse [3]. It is difficult for some to avoid panic when even the Fed Chairman continues to contrast the current crisis with the Great Depression [4]. Then there are the reports of investors worried their investments will disappear based on the fear of a stock market cash [5].

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Perhaps one of the better pieces of news come from Warren Buffett who announced he is purchasing stock [6]. The tone of the news presented by the media to the people is a contributing factor. Fortunately, there are some signs that the reporting is starting to take on a positive tone. For example, one report suggests the worse is over and that it is time for banks to start lending again [7].

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6. Stempel, Jonathan, Reuters, *Buffett's "buy now" call gets lukewarm reception*, October 17, 2008.
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*The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it—*

*John Kenneth Galbraith*

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## China's Educated Base

In the latest effort to tap the emerging overseas technology base, IBM is expanding its research efforts in China [1]. The new IBM center opened in Shanghai joins a second Beijing research facility that was opened in 1995 [2]. The work that will be performed is expected to include cloud computing, information analytics, Web-delivered service computing, and stream computing [3]. It should be noted that IBM announced strong quarterly earnings and pointed out that although 28% of its income comes from banks, insurers and other

finance companies; only 7% originates from U.S. financial services [4].

Other companies with major R&D centers in China include Intel, Microsoft, Motorola and LG [5]. Moreover, Microsoft is expanding its R&D efforts in China by adding a new \$280 million building expected to be completed in 2010 with a capacity to accommodate up to 5,000 people [6].

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## Crime

Bad actors that used the *DarkMarket* forum to exchange cyber crime information and services may have insomnia following news the operation was run by the FBI [1]. *DarkMarket* was an online forum where stolen identities were sold or exchanged [2].

In Florida, four men face criminal charges in a \$40 million mortgage fraud scheme [3]. In California, a health care provider pleaded guilty to a \$1,640,000 identity theft and Medicare fraud [4]. In Vermont, two were indicted for a \$26 million mortgage fraud scheme [5]. In New Jersey, a man was sentenced to 47 months for defrauding insurance companies out of \$2.5 million [6]. In Michigan, three were indicted for a \$5 million investment fraud scheme [7]. In Miami, a man was sentenced for a \$1 million Medicare fraud scheme [8]. In Houston, the local FBI office is suggesting the downturn in the economy may be responsi-

ble for the increase in bank robberies [9].

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5. FBI, *Former operators of the Highgate Manor indicted in \$26 million mortgage fraud scheme*, October 15, 2008.
6. FBI, *East Brunswick Man Sentenced to 47 Months in Prison for Defrauding Insurance Companies of More than \$2.5 million*, Octo-

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*Money power denounces,  
as public enemies, all who  
question its methods or  
throw light upon its crime—  
William Jennings Bryan*

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**Pennsylvania Bank Robber—FBI**