CREDIT FINANCIER | HIGH-YIELD BOND FINANCING

Michael Milken Turned Credit Risk Into Wall Street's Most Contested Source of Power

Michael Milken's career is defined by the rise of high-yield finance, the risks of Wall Street power and a contested second act in philanthropy.

Michael Milken changed corporate finance by proving that below-investment-grade debt could be a scalable capital market, then became the emblem of the legal, ethical and systemic risks that came with that power.

Sharemaestro Editorial Desk | 14 Aug 2026 | 12 sources | sharemaestro.com

In brief

Michael Milken's career at Drexel Burnham Lambert remade American finance by shifting speculative-grade corporate debt from a neglected corner of the bond market into a financing engine for entrepreneurs, takeovers, restructurings and entire industries. His method was built on research, cash-flow analysis, market access and the conviction that capital structure could alter corporate destiny. It also depended on confidence, concentrated distribution power and a culture in which dealmaking, loyalty and legal boundaries came dangerously close. Milken's guilty plea, $600 million settlement and lifetime securities-industry bar made him a cautionary figure, but the high-yield market survived Drexel and became a permanent part of global finance.

- Milken's central insight was that credit risk could be priced, diversified and distributed rather than simply avoided by institutions barred from lending to smaller or lower-rated companies.
- The modern high-yield market expanded from a niche to a major financing channel during the 1980s, with speculative-grade new issues rising sharply and the total market approaching $200 billion by the end of the decade.
- His process emphasized cash flow, capital structure, industry dynamics, management quality, market timing and the use of different securities rather than a single reliance on bonds.
- The same network that opened capital access also concentrated market power at Drexel and became entangled with takeover finance, regulatory scrutiny and illegal conduct.
- Milken's continuing relevance lies in both sides of the record: high-yield finance remains essential, but leverage, liquidity dependence and intermediary conflicts remain recurring sources of financial danger.

Performance markers

High-yield market growth	About $9 billion in 1977 to $180 billion at the end of 1988 GAO's summary captures the scale of the market's expansion before Drexel's collapse.
End-of-decade market scale	Nearly $200 billion by the end of the 1980s The Cleveland Fed described the market as growing from virtual nonexistence in 1980 to nearly this size by decade-end.
Speculative-grade new issuance	$1.5 billion in 1982 to $15 billion in 1984 The surge illustrates how quickly original-issue speculative-grade bonds became a significant financing channel.
Drexel underwriting concentration	Virtually 100 percent of new speculative-grade issues during 1982 to 1984 The market's early dependence on Drexel helps explain both its rapid development and its vulnerability to firm-specific shocks.
Legal settlement tied to guilty plea	$600 million total, including $200 million in criminal fines and penalties and $ The SEC described the payment structure connected with Milken's settlement and guilty pleas.
Modern U.S. corporate bond market	$11.7 trillion outstanding as of the first quarter of 2026 SIFMA's current corporate bond statistics show the scale of the broader credit market in which high yield is now an established category.

Charts and timelines

Risk	
Default risk	About 30 percent cumulative default rates on B-rated issues
Investment-grade contrast	About 1 to 2 percent cumulative default rates
Cycle sensitivity	$6 billion in total defaults
Market-liquidity stress	Prices declined sharply and secondary buyers became harder to find
Legal and conduct risk	Guilty plea, $600 million settlement and SEC bar

Timeline	
Milken joins Drexel predecessor	Career start at the firm that became Drexel Burnham Lambert
High-yield issuance accelerates	Speculative-grade new issues rose from $1.5 billion to $15 billion
Milken Family Foundation formed	Foundation co-founded
High-yield market reaches major scale	About $180 billion
Guilty plea and settlement	Six felony counts and $600 million settlement
SEC securities-industry bar	Permanent bar from association with broker-dealer and investment businesses

Philosophy	
Capital structure is active strategy	Debt, equity and hybrid securities should change with business risk
Cash flow over accounting labels	Focus on cash-generating ability rather than ratings alone
Six-factor financing cube	Company, industry, capital markets, economy, regulation and society
Raise capital before necessity	Issue when markets are receptive, not when liquidity is urgent
Human capital matters	People, knowledge and management can dominate asset value

Performance	
Market size	About $9 billion
Market size	$180 billion
New speculative-grade issuance	$1.5 billion
New speculative-grade issuance	$15 billion
U.S. corporate bonds outstanding	$11.7 trillion

The man who made risky debt respectable, then radioactive

In the mythology of modern Wall Street, few rooms carry more symbolic weight than Michael Milken's high-yield operation at Drexel Burnham Lambert. It was not the traditional image of American finance: no wood-paneled downtown club, no patrician syndicate desk, no old-line commercial bank rationing credit by social standing. Milken built his power from California, far from Wall Street's physical center, and his instrument was debt that many established investors had been taught to avoid. The label was unforgiving: junk bonds. His more careful phrase was high yield.

Milken's achievement was not merely that he sold risky bonds. Speculative-grade debt had existed before him, often as the residue of fallen angels that lost investment-grade ratings after financial trouble. His innovation was to make below-investment-grade issuance a deliberate, repeatable tool of corporate finance. He connected companies shut out of conventional capital markets with institutional investors hungry for return, and he framed credit risk not as a stigma but as a price. In that reframing, he helped alter who could borrow, who could buy companies, and who could challenge entrenched management.

The story matters because Milken's market did not vanish with his fall. The high-yield bond market became embedded in leveraged buyouts, restructurings, refinancing cycles, private equity, distressed investing and the broader architecture of capital access. Yet the same career also demonstrates how financial innovation can become a source of opacity, dependency and abuse when the market depends too heavily on a single intermediary and the pursuit of client advantage erodes legal limits. Milken is therefore not simply a pioneer or a felon. He is one of the clearest case studies in finance's dual nature: capital as liberation, capital as leverage, and capital as power.

From credit research to a new theory of access

Milken joined the firm that became Drexel Burnham Lambert in 1969 after studying at the University of California, Berkeley and the Wharton School of the University of Pennsylvania. The official account of his career stresses an early conviction that Wall Street had the hierarchy wrong. Sales and trading occupied the top of many firms' internal pyramids, while research sat beneath them. Milken's version inverted that order. If the market mispriced credit risk, research could be a weapon more valuable than social proximity or balance-sheet size.

His formative idea was simple in expression and radical in application: capital structure matters. The mix of debt, equity, convertibles, preferred stock, bank loans and other claims could change a company's risk, flexibility and value. To Milken, this was not an abstract classroom dispute. It meant that companies with viable cash flows, strong management or valuable intangible assets could be misjudged if lenders looked only at ratings, accounting earnings or hard collateral. The financing problem was not always the business. Sometimes it was the market's imagination.

That belief carried a democratic charge. Milken presented access to capital as a way to break old networks that favored large, established and investment-grade borrowers. In his telling, the companies that lacked elite sponsorship were not necessarily weak; many were growing enterprises in cable television, homebuilding, cellular communications, entertainment, health care, retailing and other industries. The article of faith was that properly priced risk could fund growth, expand competition and create jobs. The danger, visible later, was that a theory of access could also become a theory of almost limitless issuance when markets were receptive.

The neglected evidence inside low-grade bonds

The intellectual foundation of Milken's strategy rested on a long history of corporate credit. The postwar bond establishment treated investment-grade status as a dividing line between prudence and speculation. Milken studied what had happened when low-rated bonds were purchased as diversified portfolios rather than as isolated bets. The point was not that weak companies did not default. They did. The point was that investors could be paid enough spread, across enough issuers, to compensate for expected defaults and still earn attractive returns.

This was the move that made the high-yield market possible. Credit risk was converted from a binary judgment into a statistical and structural problem. The analyst had to ask whether a company's cash flow covered interest, whether management could endure a downturn, whether industry conditions were cyclical or secular, whether collateral mattered less than franchise value, and whether the coupon and covenants compensated for risk. Instead of relying on a bank to hold and monitor a loan, Milken sought to sell risk directly into the capital markets.

The Federal Reserve Bank of Cleveland later described one of the decade's key shifts as the substitution of credit-market debt for bank loans among middle-market companies. That shift gave Milken's approach its macroeconomic force. High-yield was not only a collection of deals; it was a change in the plumbing of corporate finance. Companies that once depended on bank officers could borrow from insurance companies, pension funds, mutual funds and other investors willing to buy securities. For Wall Street, this was underwriting. For borrowers, it was access.

A market grows from a niche into a financing engine

The numbers show the speed of the transformation. The U.S. high-yield market grew from about $9 billion in 1977 to $180 billion by the end of 1988, according to the Government Accountability Office. A Cleveland Fed study, looking back at the market as Drexel collapsed, described growth from virtual nonexistence in 1980 to nearly $200 billion by the end of the decade. This was not a marginal expansion. It was the formation of a new capital market in real time.

New issuance surged as the investor base widened. Speculative-grade new issues rose from $1.5 billion in 1982 to $15 billion in 1984, and the Cleveland Fed noted that Drexel underwrote virtually all new issues during that period. Insurance companies and pension funds supplied much of the early capital, while mutual funds later brought the public into the asset class more directly. That sequence mattered. The market's first phase was institutional and research-driven; its later phase was broader, more liquid and more exposed to sentiment.

The early issuers were not all takeover vehicles. The Cleveland Fed cited research showing that high-yield issuers between 1980 and 1986 had faster employment, sales and capital-spending growth than other industrial companies, and that only a small share in the sample used proceeds for merger or acquisition activity. That finding complicates the popular image of the market as nothing but raid finance. Milken's system helped fund expansion as well as control contests. Its later reputation, however, was shaped by the most visible and politically explosive uses of debt.

The Beverly Hills machine

Drexel's high-yield department became more than an underwriting desk. It was a network of issuers, investors, traders, salespeople, takeover specialists and loyal clients tied to Milken's ability to create financing where other banks hesitated. The official Milken account says his group used more than 50 types of securities in 14 asset categories. Whatever one makes of the promotional framing, the breadth is important. Milken's practice was not simply to sell a standard junk bond; it was to customize claims across the capital structure.

That breadth gave Drexel unusual influence. In conventional investment banking, a client brought a balance sheet, a rating and a transaction to market. In Milken's world, the financing idea could come first. If investors trusted the desk's research and the desk trusted the issuer's cash flow, capital could be assembled quickly. This speed changed bargaining power in corporate America. A buyer that once needed a bank syndicate and a long courtship could instead arrive with financing confidence. Management teams that once had no capital-market standing could suddenly refinance, expand or defend themselves.

The strength of this machine was also its fragility. A market built around a central dealer, a charismatic financier and a dense web of repeat investors depends heavily on reputation. The more Drexel became synonymous with liquidity, the more questions about Drexel became questions about the market itself. Milken's genius was to make investors believe that risk could be understood and distributed. The system's weakness was that too many participants came to treat the desk's willingness to finance as evidence that the deal deserved financing.

Capital structure as a discipline, not a slogan

Milken's most durable investment idea is not the defense of high-yield bonds in isolation. It is the broader claim that every business requires a capital structure suited to its particular risk. In his later writing, he argued that there is no fixed optimum debt-to-equity ratio applicable across companies or even across time for the same company. The proper mix depends on the company, industry, capital markets, the economy, regulation and society. That framework still sounds less like a bond sales pitch than a corporate-finance operating system.

The practical implications were clear. Stable, predictable businesses could support more leverage than volatile ones. A grocery chain with recurring demand could carry a different balance sheet from a technology company facing fast product cycles and uncertain cash flows. A company competing against a financially stronger incumbent might need excess liquidity to reassure customers and suppliers. A company whose industry faced social or regulatory hostility might need a more conservative structure, even if backward-looking ratios appeared comfortable.

This is where Milken's method can still be separated from the excesses associated with his era. The best version of the approach begins with business risk and works upward to securities design. It asks whether debt extends maturity, reduces dependence on banks, funds growth and enhances resilience. The dangerous version begins with market appetite and works backward to justification. It asks how much paper can be sold. The same vocabulary can describe both. That ambiguity is one reason Milken remains such an instructive figure.

Cash flow, human capital and the resistance to accounting literalism

Milken argued that reported earnings and book assets often understated the economic value of growing companies. He favored cash flow analysis and treated human capital as a critical part of enterprise value. The appeal of that view is obvious in industries where people, networks, brands, information systems or regulatory position matter more than plant and equipment. The risk is equally obvious: intangible value is harder to seize, harder to mark and easier to narrate into existence during a bull market.

His later writing placed finance in a social frame. The best investors, he argued, are social scientists who understand demographic change, consumer behavior, technology, regulation and shifting public preferences. That sensibility helps explain why he was drawn to companies in cable, cellular communications, health care, homebuilding and other sectors where capital could accelerate structural change. It also explains why traditional collateral lenders often missed the same opportunities. A cable franchise, a wireless license or a management team could be worth more than its accounting presentation suggested.

Yet there is a thin line between seeing what accounting misses and dismissing what accounting warns. Cash flow can deteriorate, intangible assets can prove transient, and debt contracts do not wait for a story to come true. Milken's strongest analytical contribution was to force investors to look beyond ratings and book value. His weakest legacy, when copied carelessly, is the temptation to treat every excluded borrower as misunderstood and every high coupon as adequate compensation.

How the model was supposed to control risk

Milken's theory of risk management was not that defaults could be avoided. It was that defaults could be priced, diversified and absorbed. A portfolio of high-yield bonds, properly researched and purchased at sufficient yield, could withstand failures better than a single lender concentrated in one borrower. The market's promise therefore depended on breadth: many issuers, many investors, active trading, reliable information and enough liquidity to distinguish credit impairment from temporary panic.

The historical evidence supported both confidence and caution. The Cleveland Fed study noted that B-rated issues had 10-year cumulative default rates around 30 percent, while investment-grade issues had cumulative default rates in the range of 1 or 2 percent. The same study emphasized that low-grade defaults are sensitive to business conditions. In 1989, total defaults reached $6 billion even though the economy had slowed but not stopped. High yield worked because it paid investors for risk, not because it repealed the credit cycle.

That distinction is central to Milken's legacy. The instrument itself is neither virtuous nor reckless. Its prudence depends on price, structure, leverage, diversification and timing. The system becomes dangerous when issuers add too much fixed obligation, investors reach for yield without enough analysis, or intermediaries convince the market that liquidity will always be there. Milken understood the first version of risk better than most of his peers. The market he built revealed the second version with equal force.

The takeover decade and the politics of debt

By the mid-1980s, high-yield finance had moved from growth capital into the center of the corporate-control battles that defined the decade. Debt gave raiders, management buyout groups and ambitious acquirers a way to challenge companies far larger than themselves. The high-yield bond did not create the desire to break conglomerates, force asset sales or pressure managers, but it provided the oxygen. A credible financing path changed what a bid meant.

The public argument quickly became moral as well as financial. Supporters saw debt-financed takeovers as discipline for complacent managements and liberation for shareholders trapped in underperforming companies. Critics saw asset stripping, layoffs, short-termism, insider favoritism and a transfer of risk to workers, creditors and communities. The GAO found that high-yield bonds directly provided 12 percent of financing for hostile corporate takeovers, while also noting that some initial financing sources were refinanced with high-yield bonds. The share was not everything, but the instrument's catalytic role was unmistakable.

Tax policy added fuel. The Cleveland Fed identified the Tax Reform Act of 1986 as a turning point, as changes to the tax code increased incentives to substitute debt for equity. By then, the market had shifted from many middle-market growth issuers toward more tax-driven restructuring. Milken's market became inseparable from a broader reengineering of corporate America. It financed productive challengers and aggressive deals alike, and public perception followed the headlines.

Access to capital and the Milken defense

The strongest defense of Milken's finance career is that he widened access to capital for companies and entrepreneurs that the established system ignored. His official biography and finance-career materials list thousands of companies financed and emphasize industries such as cable television, homebuilding, cellular communications, entertainment and health care. Those claims are self-interested, but they capture a real point: the high-yield market helped reduce dependence on bank lending and investment-grade ratings as gateways to growth.

Milken also framed capital access as a challenge to social exclusion. His official account says he financed minority and women entrepreneurs at a time when few investment-grade companies were controlled by such groups. The broader claim was that public capital markets could be more open than relationship banking if risk was analyzed and priced properly. That was one reason his message appealed beyond Wall Street's traditional hierarchy. Finance, in this telling, was not simply speculation; it was a mechanism for economic participation.

The counterargument is that access without discipline can become overextension. Borrowers excluded by old systems may be unfairly denied capital, but they may also be risky for good reasons. A market that prides itself on seeing hidden value can become vulnerable to charismatic borrowers, aggressive sponsors and optimistic projections. Milken's achievement was to break a financing monopoly. The unresolved question is how much of the subsequent boom reflected genuine correction of underpriced opportunity and how much reflected debt's ability to make almost any story actionable for a while.

The point where reputation became systemic risk

Drexel's dominance created a market structure problem. In the early phase of high-yield expansion, the Cleveland Fed said Drexel underwrote virtually all speculative-grade new issues. That concentration gave issuers and investors a powerful organizing mechanism, but it also made the market vulnerable to legal, reputational and liquidity shocks at a single firm. The question was not only whether individual bonds would default. It was whether the market's central sponsor could remain trusted.

Stress arrived before the recession fully did. From September 1989 through February 1990, lower-grade bond prices fell sharply, some investors struggled to find buyers in the secondary market, and new issues in January 1990 were only one-third of their value a year earlier. New issuance in 1989 fell 11 percent from the 1988 total of $27 billion, while mutual fund investment in high-yield bonds dropped from $34 billion to $28 billion. The market was discovering that liquidity was cyclical.

This is a recurring lesson in credit. A financing market can look broad when every participant believes the exit is open, then suddenly look narrow when sellers outnumber committed buyers. Milken's desk had helped persuade investors that below-investment-grade risk deserved a permanent allocation. But permanence had not yet been tested without Drexel's balance sheet, relationships and aura. When the firm faltered, the market had to prove that it was more than one man's distribution network.

The case that changed the meaning of the career

The legal record is the unavoidable hinge in any serious profile of Milken. In April 1990, the Securities and Exchange Commission announced final judgments expected to settle its civil injunctive action against Michael and Lowell Milken, entered simultaneously with Michael Milken's guilty plea to six felony counts. The SEC said its complaint alleged a fraudulent scheme that included insider trading, stock manipulation, fraud on Drexel clients, failure to make required ownership disclosures, margin-rule violations and other securities-law violations.

Milken agreed to pay $600 million: $200 million for criminal fines and penalties and $400 million in civil disgorgement to pay claims of public investors and others. He also agreed to cooperate with the Commission in continuing investigations and to testify as required. The court record in United States v. Milken states that on April 24, 1990 he pleaded guilty to a six-count felony information charging conspiracy, securities fraud, mail fraud, market manipulation and tax fraud.

The legal outcome did more than punish an individual. It recoded the public meaning of the high-yield revolution. What had been celebrated by admirers as a democratizing force in capital markets became, for critics, evidence that the

1980s credit boom was inseparable from manipulation and insider advantage. Both readings are too simple on their own. The market innovation was real. So was the misconduct. Milken's career cannot be understood by pretending either side cancels the other.

What the misconduct revealed about the model's shadow side

The most damaging legal findings were not merely about technical foot faults. They involved secrecy, undisclosed economic interests, false disclosure and the use of transactions to produce outcomes the market did not see. In SEC v. Drexel Burnham Lambert, the court described the Fischbach transactions, including allegations and admissions related to inducing Ivan Boesky to acquire and hold more than 10 percent of Fischbach stock, assurances against loss, and Schedule 13D filings that failed to disclose the true arrangement.

That matters because high-yield finance depended on confidence in information. Investors could accept credit risk if they believed the rules of disclosure, ownership and trading were reliable. When hidden guarantees, stock parking or misleading filings entered the picture, the issue was not only legal compliance. It was market integrity. The same networks that could mobilize capital quickly could also be used to coordinate behavior outside public view.

In March 1991, the SEC barred Milken from association with any broker, dealer, investment adviser, investment company or municipal securities dealer. That sanction drew a firm boundary between his continuing public role and the regulated securities business he had transformed. The bar also underscored a central paradox: Milken's intellectual influence in finance outlived his right to practice it. The market kept using the tools, while the man most associated with them was forced outside the industry.

Drexel falls, high yield survives

Drexel's collapse in February 1990 looked, at the time, like it might be the end of the modern high-yield market. The Cleveland Fed framed the question directly and answered it with caution rather than obituary. The economic forces that created the market, it argued, remained in place: companies still needed capital, investors still sought return, and tax and financial structures still gave debt a role. Recent events would likely make investors more careful, but the asset class was unlikely to disappear with the firm credited for its inception.

That judgment proved broadly right. High yield became institutionalized. It migrated from a Milken-centered market to a standard component of corporate finance, asset management, private equity and distressed investing. Later markets would have broader dealer participation, formal credit research departments, benchmark indexes, mutual funds, exchange-traded funds, loan alternatives and regulatory disclosure structures that were more developed than in the 1980s. The trade became less personal and more systematic.

The scale of today's corporate bond market shows how thoroughly credit-market finance has endured. SIFMA reported U.S. corporate bonds outstanding of $11.7 trillion as of the first quarter of 2026, with corporate bond issuance through July 2026 of $1.681 trillion. Those figures include investment-grade as well as high-yield debt, but they illustrate the larger point: the bond market is now central to corporate funding. Milken did not create all of that. He did help prove that public credit markets could reach borrowers once left to banks or shut out entirely.

The second career in philanthropy and convening

After prison and the securities-industry bar, Milken's public identity shifted toward philanthropy, medical research, education and policy convening. He had already formalized philanthropy in 1982 by co-founding the Milken Family Foundation. His official biography describes later work through the Prostate Cancer Foundation, FasterCures, the Milken Institute, education awards, public-health initiatives and the Milken Institute School of Public Health at George Washington University.

This second career is not an ornamental footnote. It is central to how Milken has sought to define his legacy. The same themes recur: speed, networks, incentives, access and the redirection of capital toward underfunded problems. In finance, those instincts built a market for companies that lacked conventional credit access. In medicine and education, they became a model of convening researchers, donors, policymakers and institutions around bottlenecks that slow discovery or mobility.

The reputational tension has never disappeared. In February 2020, President Donald Trump granted Milken a full pardon, placing him among several recipients of executive clemency announced that day. The pardon changed the formal political treatment of his conviction, but it did not settle the historical argument. Milken's supporters point to philanthropy, capital access and market innovation. Critics point to the guilty plea, the SEC allegations and the broader culture of the 1980s. Both sets of facts remain part of the same life.

The useful legacy and the dangerous myth

Milken's continuing relevance lies in the fact that the problem he attacked has not gone away. Capital is still rationed unevenly. Ratings still lag business change. Banks still retreat in stress. Smaller and mid-sized companies still need channels beyond traditional lending. Investors still earn returns by distinguishing mispriced risk from genuine impairment. In that sense, the Milken method remains useful: do the credit work, look beyond labels, design capital structure around business reality, and price risk rather than moralize about it.

The dangerous myth is that financing availability proves economic merit. The 1980s showed how quickly credit can validate ambition, accelerate takeovers and reward intermediaries before the underlying enterprise has earned the structure placed upon it. Milken's own later writing warns that companies with volatile revenue can be destroyed by too much debt and that the time to raise capital is when markets are receptive, not when desperation begins. Those principles are conservative. They are also frequently forgotten in every credit boom.

A balanced judgment has to hold two ideas together. Michael Milken helped make American finance more dynamic by converting speculative-grade debt into a permanent capital-market instrument. He also became the central figure in a scandal that exposed how innovation, opacity, personal power and legal shortcuts can converge. The high-yield market he championed is no longer an insurgent idea; it is infrastructure. That makes the lesson sharper, not softer. Credit can open doors that old systems kept shut, but once debt is issued, it has no memory of the social purpose that justified it.

Disclosure

Educational financial journalism and market research only. Not financial, investment, trading, tax, or legal advice. Market data and analysis may be delayed, incomplete, or inaccurate.

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