

This Week in Wall Street Reform | September 10–16, 2016

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THE WELLS FARGO CASE

[In Wells Fargo Scandal, the Buck Stopped Well Short](#) | NY Times (Susan Ochs)

Is it fair to blame the supervisor of 94,000 people for the actions of a small portion of them? Yes. First, illicit behavior involving thousands of people and two million fraudulent accounts cannot be dismissed as the work of a few bad apples. Systemic problems like this are exactly what top executives are supposed to address. Second, the problems here stemmed from “cross-selling” — soliciting customers to buy multiple products — which Wells Fargo has promoted as the cornerstone of its retail business model.

Ms. Tolstedt was charged with running that retail business during the five years these fraudulent practices took place, and has heard about them since 2013. A Wells Fargo spokeswoman said internal controls detected the behavior, and the response of the bank’s managers was to significantly strengthen “training, monitoring, oversight and compensation structure.” How Ms. Tolstedt oversaw any reform efforts and why the behavior persisted for five years have not been explained.

[Wells Fargo scandal hurts Wall Street's bonuses battle](#) | Denver Post

“This Wells Fargo scandal has become Exhibit No. 1 for those who support a tough clawback rule,” said Ian Katz, who tracks regulatory developments at Capital Alpha Partners in Washington. He said public outrage over the \$185 million of fines imposed on the San Francisco-based bank makes softening the proposal less likely...

If the regulators finish the rule soon, the Wells Fargo incident will be fresh in their minds. Marcus Stanley, policy director for **Americans for Financial Reform**, is counting on Wells Fargo acting as a shield against bank lobbying.

“I think it will make it more difficult,” Stanley said. “What I’m hoping is that it’ll make it easier for us to lobby to make it tougher.”

[Wells Fargo urged to clawback bonuses over fake accounts](#) | Financial Times

Two top institutional shareholders in the world’s most valuable bank by market capitalisation have demanded answers over [payments to Carrie Tolstedt](#), who headed the division where the episode took place.

Brian Simmonds Marshall, policy counsel at **Americans for Financial Reform**, said: “Those who are responsible for the misconduct should not be getting bonuses for costing their shareholders and their customers money.”

[How Regulation Failed with Wells Fargo](#) | New Yorker (Adam Davidson)

The basic math of financial regulation is heartbreaking, a sign of just how little effect even the harshest penalties have on the industry. The relative size of the two groups—the watchdogs and those they watch—is fundamentally lopsided. The entire budget of the C.F.P.B. is a little more than six hundred million dollars a

year. Wells Fargo's revenues are more than eighty billion dollars. And Wells is just one of thousands of banks, insurance companies, and other institutions that the C.F.P.B. is mandated to monitor.

It is not easy—or cheap—for a large bank to monitor every one of its quarter million employees. It's not something that senior executives are going to take on with enthusiasm unless they are forced to by a fear, deep in their gut, that they will pay a much higher price if they don't. Bad behavior should lead to fines large enough to infuriate shareholders and cost C.E.O.s their jobs. What's more, these executives need to know that they will face criminal prosecution when they direct or ignore criminal activity.

[Wells Fargo Offers Regrets, but Doesn't Admit Misconduct](#) | NY Times

Wells Fargo was flowing with regrets on Friday, taking out ads in nearly a dozen newspapers saying the bank took "full responsibility" for creating sham bank accounts without its customers' permission. The bank's chief executive officer, John Stumpf, even called one prominent Democrat in Congress to express his willingness to assume personal responsibility for the mess. The bank fired at least 5,300 employees and refunded millions of dollars to customers.

But with its banking regulators, Wells Fargo was not as contrite. The bank agreed to pay \$185 million in fines and hire an independent consultant to review its sales practices, but it was able to settle the investigation into the questionable accounts without officially admitting to any of the suspected misconduct. It was classic Wall Street. Since the financial crisis, regulators have brought dozens of cases against banks and other financial firms, hitting them with tens of billions of dollars in fines and requiring the companies to overhaul their business practices. But frequently, regulatory cases are settled without a bank having to admit doing anything wrong.

[Treasury Sec. Lew says financial system is dangerous without protections](#) | CNBC.com

Cases like Wells Fargo's creation of phony accounts for customers highlight the need for strong banking regulation, Treasury Secretary Jack Lew said Tuesday. Speaking at the 2016 Delivering Alpha conference, Lew declined comment on specifics about the Wells Fargo case. "This ought to be a moment where people stop and remember how dangerous the system is when you don't have the proper protections in place," Lew said. "This is a wake-up call and should remind all of us that culture and compensation make a difference. How you reward people, how you motivate people and what values you hold people to matters."

[More trouble for Wells Fargo](#) | Washington Examiner

Noting that the executive who oversaw the consumer banking division in question departed the company with a major payout, the advocacy group **Americans for Financial Reform** called for the government to claw bank those payments and for the consumer bureau and the Office of the Comptroller of the Currency to refer the findings of their investigations to federal prosecutors.

Others called for accountability for CEO John Stumpf and other executives.

"Either Mr. Stumpf and his senior executives set an inappropriate culture and expectations, or they can't get their arms around their own organization, it's as simple as that," said Camden Fine, head of the trade group Independent Community Bankers of America, speaking in an interview on CNBC Wednesday. Fine, whose organization represents small banks, has been critical of government rescues of big banks.

[Wells Fargo still faces lawsuits from customers, ex-employees](#) | Santa Cruz Sentinel

As at many other banks, Wells Fargo customers sign a contract requiring them to bring any disputes with the bank to a private arbitrator rather than to court. Those arbitration clauses have stymied customers' attempts to sue the bank, even over accounts they never agreed to open. But one such case, rejected by a federal district court in San Francisco and later appealed to the 9th U.S. Circuit Court of Appeals, could soon be headed toward a settlement rather than to arbitration.

[Next Test for Wells Fargo: Its Reputation](#) | Wall St. Journal

[Wells Fargo to eliminate sales goals at heart of massive fraud probe](#) | Washington Post

[Why It's Unlikely Anyone Will Go to Jail Over Wells Fargo's Massive Fraud](#) | New York Magazine

[Wells Fargo bank scandal makes its watchdogs' case](#) | Sacramento Bee (Editorial)

The epic rip-off – apparently prompted by aggressive sales targets – went on for years before authorities were able to stop it. According to federal regulators, bank employees – told they would lose their jobs if they failed to make gargantuan sales quotas – forged signatures and used fake email addresses to sign up bank customers for extra products without informing them. Customers often didn't find out until a check bounced or an odd fee showed up on a statement. When they tried to sue, mandatory arbitration agreements signed with their original accounts prompted judges to dismiss their cases.

[Senate Banking Committee to Host Wells Fargo Hearing](#) | Wall St. Journal

[Federal prosecutors launch probe into Wells Fargo's sales tactics](#) | Washington Post

[You Couldn't Pick a Worse Time to Weaken Bank Regulation](#) | American Banker (Ken Marlin)

This week the House of Representatives took up a bill to revise the Dodd-Frank Act that was passed after the global financial crisis of 2008. It will never become law. Even if the House passes it, the Senate probably won't — and if both do President Obama has vowed to veto it.

Good. It's dumb legislation. I won't go into all the reasons why it is foolish to scrap the Volcker rule that puts up some barriers to permitting banks to borrow at near-zero interest rates from the Fed and use that money to speculate, or why it's not smart to end the authority of the Financial Stability Oversight Council to designate financial firms as "too big to fail," or any of the other many reasons why politicians are on the wrong side of this one. You would have thought that last week's announcement that Wells Fargo had agreed to pay \$185 million in penalties over claims employees had opened unauthorized customer accounts would be enough to remind policymakers that we need regulations. And I'm a banker.

[Elizabeth Warren Just Trolled Wells Fargo's CEO So Hard](#) | Huffington Post

Stumpf is not only chairman of the board at Wells Fargo. He's also the bank's chief executive officer. When Warren asks him to re-evaluate prior executive payouts, she's asking him to consider ponying up part of his own fortune. She and her four Democratic colleagues in the Senate who co-signed her letter to Stumpf weren't shy about its implications for his own bank account.

"Will Wells Fargo take action to claw back any or all parts of any other senior executive's incentive compensation — including your own — as a result of the settlement with the CFPB and other entities?" they wrote.

[A Culture of Corruption](#) | Good Jobs First (Phil Mattera)

John Stumpf has earned himself a place in the corporate hall of shame for putting the blame on underlings for carrying out a fraud that must have been sanctioned by top officials at the bank, which has a reputation for pushing new products on customers. He may have been inspired by Volkswagen, whose senior people have been claiming that they knew nothing about systematic cheating on auto emissions tests.

After the [announcement](#) that Wells would pay \$185 million to settle the case, Stumpf did a self-protective [interview](#) with the *Wall Street Journal* in which he insisted that the misconduct was in no way encouraged by management and was inconsistent with the bank's internal culture. Few seem to be buying that argument, and Wells is facing various federal investigations.

[Wells Fargo Scandal Offers a Chance to Punish Big Bank Executives](#) | NY Times (Gina Chon)

Top executives at small lenders have been punished harshly in the past for misdeeds. If Wells Fargo executives escape any such fate, it could escalate tension over the accountability divide.

[Wells Fargo Exec Who Headed Phony Accounts Unit Collected \\$125 Million](#) | Fortune

[Wells Fargo urged to clawback bonuses over fake accounts](#) | Financial Times

[5,300 workers got fired, but the executive in charge is retiring with \\$125 million.](#) | **Washington Post**

When Wells Fargo was hit last week with \$185 million in fines after thousands of its employees were caught setting up fake accounts customers didn't ask for, regulators heralded the settlement as a breakthrough... But the fines being levied against Wells Fargo pale in comparison to the bank's yearly profit -- more than \$20 billion in 2015.

It is also less than the more than \$200 million that the stock in the company held by company's chief executive, John G. Stumpf is worth.

[Here's what you can do when your bank opens accounts you didn't ask for](#) | **Sacramento Bee**

Some, like RBC's Morford, expect Wells Fargo's settlement will cause the industry to examine its cross-selling practices, to make sure they are focusing on what's best for customers and less on quotas.

Brian Simmonds Marshall, policy counsel for Washington, D.C.-based **Americans for Financial Reform**, doesn't expect a major retreat from cross-selling in the industry because of the fees it generates. "Not at all," he said. "It's a significant profit center for the banks."

[Wells Fargo scam shows importance of a watchdog press](#) | **Fresno Bee**

[In afterglow of Wells case, U.S. consumer agency faces fight for its life](#) | **Business Insider**

[Wells Fargo Execs Should Not Profit from the Company's Misdeeds](#) | **AFR blog (Alexis Goldstein)**

[Senators Ask If Wells Fargo Will Rescind \\$125 Million Pay Package](#) | **International Business Times**

[Pressure Intensifies on Wells Fargo's Stumpf to Claw Back Pay](#) | **Bloomberg**

[Wells Fargo Case Throws Harsh Spotlight on 'Managing to Metrics'](#) | **American Banker**

[Can Wells' Stumpf Survive Storm Over Phony Accounts?](#) | **American Banker**

CONSUMER FINANCE & THE CFPB

[Banking on Justice: Climbing Out of Poverty in the Mississippi Delta](#) | **Jackson Free Press**

Most major banks do not operate in poor rural areas, but Community Development Financial Institutions are eligible for government monetary rewards if they provide 50% of their services to low-income communities through non-predatory means. These banks are essential to providing stable loans to many residents in low-income and rural areas while not creating a debt trap. Mississippi has the most CDFI per capita in the US.

[Missouri Regulators Disallow Utility Payments at Payday Lenders](#) | **St. Louis Business Journal**

A new Missouri law prevents utility companies from offering contracts to predatory lending offices to serve as payment stations. In the past, customers who were not able to pay for utility bills could receive a loan from payday loaning stations, which were endorsed and recommended by the utility companies.

Missouri has the highest loan cap in the country, with a 1950 law placing it at 75%. However new legislation acknowledges the national standard of 36% as the cap at which a loan becomes predatory.

[CFPB Wins Court Case Against CashCall](#) | **West Side Gazette (Charlene Crowell)**

The CFPB recently won the right to investigate California-based CashCall for predatory and deceptive lending practices. CashCall claimed that due to their partnership with Western Sky Financial in Nevada, they were subject to tribal instead of state law. However a federal court dismissed these claims, stating that CashCall is a true lender and needs state financial oversight.

[Shark-Free Savings](#) | **St. Louis American**

New research finds that due to new regulation on the predatory lending industry, 90 million Americans are saving a collective \$2.2 billion dollars a year. Furthermore, consumers have found ways to make ends meet without using payday financial services, dismissing the main argument used by loan sharks to justify their business.

[Payday lenders prey on vulnerable Mainers](#) | **Bangor Daily**

[Payday Lenders May Face New Regulations](#) | **Los Angeles Wave**

[Industry lobbyist Dennis] Shaul said, "Payday lenders meet a need in the American economy that traditional lenders are unable or unwilling to provide. ... The availability of small-dollar, short-term credit is a benefit to the consumer that cannot easily be replaced, if at all. Banks that once provided [it] no longer do so."

Gynnie Robnett, campaign director for **Americans for Financial Reform**, had a different assessment. "Payday lenders target low-income [people] and communities of color," she said. "It is an abusive scheme that has dragged countless lower-income Americans into bankruptcy, destroyed their credit and trapped them in financial quicksand."

[Californians paying over \\$700 million in payday loan fees](#) | **My News LA**

[Circuit Split Widens Over Arbitration Agreements with Class Action Waivers](#) | **National Law Review**

[Debate over CFPB's arbitration rule intensifies in comment letters](#) | **Compliance Week**

[CFPB Reform 'Dead on Arrival' Thanks to Wells Fargo](#) | **American Banker**

[How the careless errors of credit reporting agencies are ruining people's lives](#) | **Washington Post**

['I Agreed To What?' – Court Decision May Increase Scrutiny Of Online Terms](#) | **Mondaq**

Can a consumer be bound by an arbitration agreement contained in online terms and conditions by merely signing in to an Internet-connected service? In a recent opinion that should strike a note of caution among businesses, a federal judge in New York held such an arbitration agreement unenforceable. This decision should serve as a reminder to businesses operating online to ensure that consumers are given clear, conspicuous notice of online terms and conditions, an opportunity – and encouragement – to review those terms, and, where possible, a manner of actively assenting to the terms.

DERIVATIVES, COMMODITIES & THE CFTC

[CFTC chair seeks to delay planned expansion of U.S. swap-dealer oversight](#) | **Reuters**

Smaller swap-dealing firms may get a one-year reprieve from oversight as the chairman of the agency that regulates the U.S. derivatives market on Thursday urged delaying the planned expansion of a requirement determining which dealers must register with the federal government.

Since 2012, any dealer with more than \$8 billion in swap activity has been required to register with the Commodity Futures Trading Commission, which subjects it to stricter federal oversight. That swap activity value in dollars, known as the "de minimis" threshold, is now poised to fall to \$3 billion by the end of 2017. CFTC Chairman Timothy Massad said the planned drop will force dealers to begin tracking their activity from Jan. 1 to determine if they would need to register.

See [AFR statement](#) on CFTC delay of de minimus standard.

[Treasury floats gold jewelry ban for banks](#) | **The Hill**

The Department of the Treasury is proposing a ban on gold jewelry for banks. Investing in gold jewelry and certain other precious metals does not fall within the "business of banking," the Treasury Department said Wednesday in the "Federal Register." As such, the Treasury Department's Office of the Comptroller of the

Currency is looking to block national banks and federal savings associations from buying and selling metals that are “primarily suited for industrial or commercial use,” such as gold jewelry, copper cathodes, and aluminum T-bars. “The [Treasury Department] does not believe that dealing or investing in these metals is appropriate for national banks,” the agency wrote.

DODD-FRANK (AND CONTINUED ATTACKS)

[Wall Street Ramps up Attacks on Wall Street Reform](#) | ConnPIRG (Blog, Ed Mierzwinski)

The vote on [HR5424](#), the so-called “Investment Advisers Modernization Act of 2016” was [261-145](#). (Nay is the Public Interest Vote). **Americans for Financial Reform**, PIRG and others had a letter in opposition; this New York Times [story](#) has more. From our letter:

“H.R. 5424 would exempt private fund advisers from many basic investor protection requirements. This legislation would eliminate restrictions over advertisements containing testimonials and past recommendations, which tend to be fraudulent and misleading. In addition, it would eliminate key systemic risk information for regulators by dramatically reducing the number of funds who must report complete information on their leverage and holdings on a confidential form used to track risks to the financial system (Form PF). At a time when the Securities and Exchange Commission has found serious investor protection issues at [over half of the private equity funds they examined](#), Congress should be increasing oversight at private funds, not pushing dangerous deregulation.”

[Chamber proposes financial regs overhaul](#) | The Hill

[Bill to Replace Dodd-Frank Passes House Panel](#) | Think Advisor

[Why Democrats Washed Their Hands of House Reg Relief Bill](#) | American Banker

[After Massive Bank Fine, Congress Considers Bill to Gut Financial Reform](#) | AFR blog (Alexis Goldstein)

EXECUTIVE PAY

[Corporate Executives Are Making Way More Money Than Anybody Reports](#) | The Atlantic

FEDERAL RESERVE

[Clinton, Democrats face landmines in seeking to shake up Fed](#) | Politico

HEDGE FUNDS AND PRIVATE EQUITY FUNDS

[Critics Are Lining Up to Oppose Changes to Dodd-Frank Law](#) | NY Times

Buyout firms are at the forefront of Capitol Hill. They have successfully promoted legislation to roll back regulatory disclosures required under the postcrisis Dodd-Frank legislation, even as they settle cases over misleading investors. If the bill is enacted, however, there is a risk of repercussions. The House passed the plan on Friday. If it is made into law, private equity firms will no longer have to notify clients when there is a management change of a fund, or provide brochures about fees and other information if it has already been disclosed elsewhere. The American Investment Council, an industry lobby group, says the bill is needed to update rules for a growing industry.

Critics are starting to rally. The **Americans for Financial Reform** group, the California pension giant known as Calpers, the A.F.L.-C.I.O. and other influential groups oppose the bill. They say it would exploit investors and

threaten retirement savings. Senator Elizabeth Warren, Democrat of Massachusetts, has also criticized the proposal and is positioned to fight against it when it reaches her chamber.

[House Approves Bill Easing RIA Advertising](#) | Financial Advisor

Last month, Rep. Maxine Waters, D-Calif., who sits on the House Financial Services Committee, and Rep. Carolyn Maloney, D-N.Y., a member of the Financial Services subcommittee overseeing the SEC, said the bill would like face a veto from Obama, as [reported previously](#).

Opponents of the bill, which include the Consumer Federation of America and **Americans for Financial Reform**, say the bill would gut Wall Street regulations and hurt retirement savers.

INVESTOR PROTECTION AND THE SEC

[SEC will finalize transparency rules for dark pools, White Says](#) | Wall Street Journal

U.S. market regulators plan to finalize a rule proposal in the coming months that would require dark pools to disclose how they treat customers, a step that follows years of regulatory scrutiny of the opaque trading platforms. The Security and Exchange Commission's 2015 proposal would require that dark pools, many of which are owned by large banks or broker-dealers, disclose their rules of operation, including whether they grant preferential treatment to any particular traders.

[Wall Street whistleblowers reap millions](#) | The Hill

The Securities and Exchange Commission (SEC) has paid out more than \$100 million in a new whistleblower program aimed at rooting out bad behavior on Wall Street. The SEC says the program, created by the 2010 Dodd-Frank financial reform law, is beginning to yield valuable information from inside the nation's largest financial institutions.

[Regulator Tells Betterment to Revise Policies After June Trading Halt](#) | Wall St. Journal

[SEC Must Move Corporate Political Spending Into the Light](#) | Public Citizen (Rachel Curley)

MORTGAGES & HOUSING

[House Flipping Is at a 6-Year High](#) | Money Magazine

House flipping, the practice where the same home is sold twice in a 12-month period, is at a six-year high, according to data from [RealtyTrac](#).

Over 51,000 single family homes and condos were flipped in the second quarter of 2016, 14% more than in the first quarter and 3% higher than a year ago and the most overall since 2010. Almost 40,000 investors flipped a house in Q2, also a six-year high.

Why is house flipping back in vogue? "Home flipping is becoming more accessible for smaller operators thanks to an increasingly competitive lending environment with more loan options for real estate investors, who are also benefitting from the historically low mortgage interest rates."

[Deutsche Bank: DOJ demanding \\$14B fine](#) | USA Today

POLITICAL INFLUENCE OF WALL STREET

[Lobbying registrations are down, but the influence industry is flourishing](#) | Washington Post

This year, for the ninth consecutive time, the number of registered lobbyists in Washington has fallen. The figure has dropped nearly 30 percent from about 14,800 in 2007 to 10,500 today, according to the Center for Responsive Politics, which tracks lobbying activity. But ask virtually any member of Washington's booming influence industry and they will tell you: there aren't fewer lobbyists, there are just fewer people labeling themselves as such. Eschewing the lobbyist label in favor of more palatable designations — policy adviser,

strategic counsel or government relations adviser are popular ones — is not new. But it appears to have grown more prevalent during the two terms of President Obama, who put greater restrictions on lobbyists working in the executive branch than any other president.

[Is Mitch McConnell attacking consumer rights to protect his own wallet?](#) | Huffington Post (Robert Weissman)

REGULATION IN GENERAL

[House bill to block Obama regs advances](#) | The Hill

[Independent Agencies not likely to be part of midnight rulemaking](#) | Regblog (Daniel R. Perez)

[Survey: Small biz concerned about regs](#) | The Hill

RETIREMENT SECURITY & FIDUCIARY DUTY RULE

[For Family Offices, Fiduciary Rules Mean Thinking About Clients](#) | Wall St. Journal (Alex Coppola)

STUDENT LOANS & FOR-PROFIT EDUCATION

[The Significant Impact of Student Debt on Communities of Color](#) | CFPB Blog

Federal government data shows that over 90 percent of African-American and 72 percent of Latino students leave college with student loan debt, compared to 66 percent of white students and 51 percent of Asian-American students...

Borrowers of color are more likely to experience delinquency or default... Some research suggests higher rates of student loan defaults and delinquencies in ZIP codes populated primarily by minorities with higher income levels.

Borrowers of color continue to face economic barriers that cause them to borrow at higher rates. African-American and Latino households were significantly impacted by the financial crisis. Even as the economy has recovered, research shows that the wealth gaps between African-American, Latino, and white households have steadily increased since the end of the Great Recession. These economic barriers continue to make it hard for these African-American and Latino families to save and pay for college without having to take on large sums of debt.

[CFPB takes action against two for-profit schools](#) | The Hill

Financial regulators took action against two for-profit colleges on Monday. Bridgepoint Education Inc., which operates as Ashford University and the University of the Rockies, is being forced to forgive and refund more than \$23.5 million in loan payments, and it must pay an \$8 million penalty to the Consumer Financial Protection Bureau. The CFPB claims the school has been duping students into taking out private loans that cost more than advertised.

[For-profit schools lash out at administration](#) | The Hill

The Obama administration's aggressive handling of for-profit colleges has some accusing it of unfairly targeting the industry. The Department of Education has taken action against at least six for-profit schools in the last two years. One of those schools, Corinthian Colleges, filed for bankruptcy in May 2015 after the department issued a \$30 million fine. A second school, ITT Technical Institute, last week announced it was closing all 130 of its campuses due to federal sanctions. Advocates of for-profit education say the administration is trying to put the industry out of business.

[Florida ITT Tech Campus Used 'CSI Miami' Pitch to Sign Students](#) | NBC News

The difference between national and regional accreditation can be confusing to many students, according to

Alexis Goldstein, a senior policy analyst at the non-profit **Americans for Financial Reform** who studies for-profit education.

"Employers are not interested in schools that are not regionally-accredited, and students feel that they were betrayed when they were told that their for-profit school was accredited," Goldstein said. "As a student, you hear that a school is nationally accredited and you don't know [what that means] and so you say, 'that sounds great.'"

[ITT Tech students announce debt strike after campus closures](#) | Think Progress

On Wednesday, former students of ITT Technical Institutes—the predatory for-profit college that announced its closure earlier this month after receiving sanctions from the U.S. Department of Education—announced that they refuse to pay their student loans. This action is referred to as a “debt strike” and 108 students are participating so far.

More than 1,500 former ITT students organizing with the Debt Collective, an offshoot of Occupy Wall Street, have submitted defense to repayment applications to get their student loans discharged, a decision separate from the debt strike.

[Lawsuits Over ITT Shutdown Are Just Starting](#) | NY Times

ITT has already telegraphed its intent to sue the department over its actions, calling them “unwarranted” and “unconstitutional.” Such a lawsuit might form the basis for any payout to ITT’s creditors, and perhaps even shareholders, because it is hard to believe that its other assets will result in real value.

[ITT Tech parent company to cease all operations](#) | The Washington Post

[College operator ITT Educational Services plans bankruptcy: sources](#) | Reuters

[Muted GOP Defense of For-Profits](#) | Inside Higher Ed

[Dept. of Education rule hurts poor students, private institutions](#) | The Hill (Opinion, Lili Carneglia)

SYSTEMIC RISK

[Fed Becomes Latest Cheerleader for Glass-Steagall-Like Reform](#) | American Banker (Saule Omarova)

In a surprising move, the Fed recommended removing statutory provisions that authorize big banks to operate in-house private equity funds and to run physical commodity empires. Though carefully avoiding any reference to restoring Glass-Steagall, the Fed nevertheless took a crucial step in the direction of much-needed restructuring of the U.S. financial sector. Now, the next presidential administration — whoever is at its helm — has a concrete set of regulator-backed legislative measures on which to start building its Wall Street reform agenda.

The Fed's recommendation is part of a long-awaited multiagency report that Congress mandated with Dodd-Frank back in 2010, in an effort to get a clearer picture of what exactly our banks had been doing to grow so big and risky. U.S. bank regulation has traditionally been based on the fundamental principle of keeping banking separate from any and all nonbanking, commercial business. Strict activity limitations are designed not only to protect publicly insured banks from unnecessary risks, but also to ensure that banks allocate credit to commercial firms in a fair and efficient manner.

[New Laws Haven't Made Big Banks Safer, Paper by Lawrence Summers Says](#) | Wall Street Journal

Big Wall Street banks are no safer today than they were before the 2008 financial crisis, despite a raft of new rules aimed at safeguarding the system, according to a new paper co-authored by former Treasury Secretary Lawrence Summers. In research to be presented Thursday at a Brookings Institution conference, Harvard University economist Natasha Sarin and Mr. Summers use a range of financial market data to measure bank risk, including gauges of volatility and expected returns. The idea that banks are better capitalized, they argue,

should be reflected in their stock prices—the less risky they are, the lower the expected return on bank debt, bank preferred stock and common stock. That is not what they found when they looked at the biggest U.S. banks and their counterparts around the world.

[Federal Reserve Stress Test May Be Illegal: Banking Group](#) | NY Times

The Federal Reserve may have violated the law in adopting key parts of the bank stress tests, according to a study released on Thursday from a group whose members include large Wall Street banks. The paper from the Committee on Capital Markets Regulation, a not-for-profit organization whose members include executives from banks including Goldman Sachs Group Inc, JPMorgan Chase & Co, Wells Fargo & Co and UBS Group AG details the latest argument that banks could make if they sued the Federal Reserve over the tests. It is rare for banks to sue their regulators but sources familiar with the matter have said that a potential lawsuit is being considered.

[Basel Committee Is Cautioned to Hold the Line on Bank Capital Requirements](#) | Wall St. Journal

[Does "shadow insurance" lead to dangerous debt deals?](#) | CBS News

In 2008, trillion-dollar insurer American International Group's (AIG) house of cards collapsed with a thud and -- along with phony mortgages -- helped send the U.S. spiraling into recession. Now some regulators and consumer advocates are challenging a concept known as "shadow insurance." It allows life insurers to take massive amounts of debt off their books and transfer it to wholly owned "captives," which are in reality just units of the company, in return for "parental guarantees" to pay those subsidiaries if they get into financial trouble. The problem: Those arrangements -- and there are lots of them -- are kept secret. Only the insurer and the insurance department in the state where the deal was worked out know what the terms are.

OTHER TOPICS

[A tax loophole for U.S. companies operating overseas just got tighter](#) | Washington Post

The Treasury Department sought Thursday to limit the benefits that U.S. companies can claim when they pay taxes overseas, an effort to cushion the blow from Europe's demand that Apple pony up \$14.5 billion in unpaid taxes. In new guidance, the department tightened regulations requiring American businesses to bring foreign profits back home -- a process known as repatriation -- if they want to get credit for taxes paid in that country. Treasury issued the rule last year to prevent companies from enjoying a foreign tax credit when the related profits remained offshore. But businesses circumvented it by shifting money within their foreign subsidiaries, and Thursday's guidance aimed to end that practice.

[Lew meets with lawmakers on offshore tax rules](#) | The Hill

Treasury Secretary Jack Lew met with House Ways and Means Committee members Wednesday as the Obama administration works to finalize rules aimed at curbing offshore tax deals. The rules, proposed in April, have drawn concerns from business groups and lawmakers on both sides of the aisle. They would treat some inter-company debt as equity. The rules were designed to take aim at a tax-avoidance strategy called "earnings stripping" that is used by companies that participate in "inversions" — transactions in which U.S. companies move their headquarters overseas to lower their taxes. However, stakeholders say the proposal is too broad and would hurt routine businesses transactions.