

February 28, 2019

Dear Senator,

On behalf of Americans for Financial Reform (AFR), we are writing to give an overview of our perspective on legislation under consideration in the Senate Banking Committee on Thursday, February 28th, 2019.¹ We oppose twelve of these measures because they would leave investors more vulnerable to harm and abuse, and make the nation's capital markets less safe. We support five of the measures because they could or would improve disclosures or investor protections. If the bills are considered as a package, however, we believe they are a net negative for the public interest. The measures we support do not counterbalance the negative impacts of other pieces of legislation that could do substantial damage to financial regulation. Beyond that, we think much more substantial steps are needed to effectively reform our financial system in the public interest.

AFR has previously opposed twelve of the bills being considered in this hearing. Our opposition letters are incorporated as an appendix to the written hearing testimony of Heather Slavkin-Corzo, who is testifying on behalf of AFR and the AFL-CIO. In our view a number of these bills represent significant weakening in important areas of financial regulation. Examples include:

- S. 588, the ‘Helping Angels Lead Our Startups (HALOS) Act’, would create an exception to the prohibition against general solicitation and advertising, allowing issuers to advertise securities offerings without complying with the registration requirements in the securities laws and permitting non-accredited investors to purchase stock in unregistered companies.
- S. 1117, the “Consumer Financial Choice and Protecting our Capital Markets Act,” would reverse a key post-crisis systemic risk reform by permitting prime money market mutual funds to once again report inaccurate valuations in a way that encourages investors to view these instruments as similar to bank deposits. As detailed in the Appendix B to Ms. Slavkin-Corzo’s written testimony, this risks a repeat of the bailout of these instruments during the 2008 financial crisis.
- S. 2756, the “Fair Investment Opportunities for Professional Investors Act”, would freeze in place outdated income and wealth thresholds to qualify individuals as accredited investors, preventing the SEC from establishing better protections for senior citizens targeted for inappropriately complex and risky investments. In addition to AFR, both the SEC’s Investor Advisory Committee and the North American Association of Securities Administrators (NASAA) oppose this idea.
- The “Exchange Regulatory Improvement Act,” would interfere with ongoing regulatory action by directing the SEC to propose a rule to define the "facility of an exchange." Anything outside the definition would not be subject to direct SEC oversight. This could result in the elimination of a significant set of existing regulations that protect investors.

¹ AFR is a coalition of more than 200 national, state, and local groups who have come together to advocate for reform of the financial industry. Members of AFR include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups. A list of coalition members is available at: <http://ourfinancialsecurity.org/about/our-coalition/>.

This bill is being considered just as the SEC is —for the first time — examining how the for-profit exchanges inhibit competition and charge unreasonable fees. Congress should allow the Commission to finish its work.

- S. 3723, the “Main Street Growth Act,” establishes venture exchanges that would tend to encourage excessive secondary market trading in venture shares and create the false impression that such shares are liquid instruments appropriate for retail investors. The availability of exchange trading for venture shares would also discourage companies from going public.

Again, we encourage interested parties to consult the more detailed AFR opposition letters attached to Ms. Slavkin-Corzo’s written testimony.

The bills under consideration also include a number of measures that AFR supports:

- S. 1744, the “Brokaw Act,” would increase transparency and oversight of the activities of activist hedge funds in a manner that would helpfully reduce financial incentives to excessively short-term and exploitative management of companies.
- S. 2499, the “Compensating Cheated Investors Act,” would require FINRA to establish a compensation fund for investors cheated by brokers, using the proceeds of penalties against brokers who have committed violations.
- HR 6320, the “Promoting Transparent Standards for Corporate Insiders Act,” mandates a study and rulemaking on the issue of insider trading by corporate executives.
- HR 6322, the “Enhancing Multi-Class Stock Disclosures Act,” improves disclosure of stock ownership in companies that have multiple classes of stock.
- HR 6324, the “Middle Market IPO Underwriting Cost Act,” requires a study of potentially excessive costs in IPO issuance by middle market companies.

In general, we support bills that improve disclosure and protections for investors and consumers, which the above bills do. In our view, however, these bills take only modest steps to address problems in the capital markets, and more significant action is needed. We urge the committee to turn its attention to proposals that can significantly improve the economic security of individuals and families.

Thank you for your attention. For more information please contact AFR’s Policy Director, Marcus Stanley, at marcus@ourfinancialsecurity.org or 202-466-3672.

Sincerely,

Americans for Financial Reform