The President Discusses the “Unfinished Business” of Financial Reform
Kai Ryssdal, Marketplace, 7/3/14
Obama: Well, keep in mind that the goal of Dodd-Frank was to prevent another catastrophic financial crisis. It wasn't expected that it was going to solve all the problems…

“[W]e have massively increased the capitalization requirements in banks, and what that means is that they've got more of a cushion. If they screw up and make a bad bet, they are less likely to need to be bailed out because they've got to have a certain amount of capital on hand. We have mandated that they all have what we call living wills, so that if they do screw up, there is an orderly process of winding them down, and their creditors and shareholders are taking hits, so that taxpayers don't have to do so. The consumer finance protection provisions in the law make a big difference in preventing ordinary families from being taken advantage of by predatory lenders of the sort that helped to cause the crisis in 2007, 2008. So, those aren't small steps, those are big steps, and relative to what's been done in other parts of the world, we are way ahead in terms of regulating the financial sector.

Here's the problem, the problem is that for 60 years, we've seen the financial sector grow massively. Now, it's a great strength of our economies that we've got the deepest, strongest capital markets in the world, but what has also happened is that as the financial sector has grown, more and more of the revenue generated on Wall Street is based on arbitrage -- trading bets -- as opposed to investing in companies that actually make something and hire people. And so, what I've said to my economic team, is that we have to continue to see how can we rebalance the economy sensibly, so that we have a banking system that is doing what it is supposed to be doing to grow the real economy, but not a situation in which we continue to see a lot of these banks take big risks because the profit incentive and the bonus incentive is there for them. That is an unfinished piece of business, but that doesn't detract from the important stabilization functions that Dodd-Frank were designed to address.

Ryssdal: Would we be better off if banking was boring again?

Obama: Absolutely. And I've said that repeatedly. Some of the work to get that done, though, involves restructuring the banks themselves -- how they work internally. Right
now, if you are in one of the big banks, the profit center is the trading desk, and you can
generate a huge amount of bonuses by making some big bets; you will be rewarded on
the upside. If you make a really bad bet, a lot of times you've already banked all your
bonuses… That's going to require some further reforms."

**President Obama Sounds Ready to Take on the Big Banks**
Zachary Goldfarb, Washington Post, 7/2/14
“President Obama on Wednesday said restructuring Wall Street banks so they make
less of their profit through trading and pose fewer risks to the economy remains an ‘an
unfinished piece of business,’ in one of his most detailed critiques of the financial
industry since his early days in office.

"'We have to continue to see how can we rebalance the economy sensibly, so that we
have a banking system that is doing what it is supposed to be doing to grow the real
economy, but not a situation in which we continue to see a lot of these banks take big
risks because the profit incentive and the bonus incentive is there for them," Obama said
in an [interview](http://www.marketplace.org) with the Marketplace radio show."

**Obama Says Further Changes to Banking Industry Are Needed**
Damien Paletta, Wall Street Journal, 7/2/14
“Mr. Obama's latest comments, particularly those taking take aim at the trading desks at
large banks, come at a time when anti-Wall Street sentiment is running high among both
Democrats and conservative Republicans. Lawmakers on both sides of the aisle
continue to insist that the problem of "too big to fail"—or banks so large their failure
would necessitate a government bailout—persists. Earlier this year, Republican Rep.
Dave Camp of Michigan proposed a tax on financial firms with assets greater than $500
billion. Mr. Obama has supported a similar bank tax.

"Whether there is an appetite for further changes to banking regulations could depend
on the outcome of the November elections and whether Republicans take control of the
Senate."

**Barack Obama Says Further Reform of Wall Street Needed**
Dave Clarke, Politico, 7/4/14
“The president’s comments are significant because since the enactment of Dodd-Frank,
Obama administration officials have mostly preached patience while the law is being
implemented to those calling for more to be done to crack down on big banks.

"What I’ve said to my economic team is that we have to continue to see how can we
rebalance the economy sensibly so that we have a banking system that is doing what it
is supposed to be doing to grow the real economy, but not a situation in which we
continue to see a lot of these banks take big risks because the profit incentive and the
bonus incentive is there for them,’ he said in the interview. ‘That is an unfinished piece of
business, but that doesn't detract from the important stabilization functions that Dodd-
Frank were designed to address.’"
Obama Decries Big Bonuses to Bank Trading Desks as Risky
Mike Dorning, Bloomberg, 7/3/14
“Financial regulators already have the authority to carry out Obama’s message, said Marcus Stanley, policy director for Americans for Financial Reform. The Dodd-Frank Act required banks and Wall Street broker-dealers to ban bonuses that encourage dangerous levels of speculation and risk-taking.

“A proposal issued by the Treasury Department, Federal Reserve and other agencies in 2011 would have required delayed bonus pay-outs for executive officers or leaders of major business lines. Separately, a bank’s board of directors would have to approve bonus structures for employees whose trading could expose an institution to hefty losses…

“It’s just a very weak rule,” Stanley said in a phone interview. ‘It didn’t go beyond what banks were doing, and in some cases, didn’t go beyond what banks were doing before the financial crisis.’ Regulators also can curb risk-taking as they enforce how banks are responding to the Volcker Rule, which banned proprietary trading by federally insured banks, Stanley said. ‘If this is a signal about prioritizing these issues, they are all issues you can really move on without having to go through Congress.’"

How Obama Can Rein in Wall Street Without Going Through Congress
Danielle Douglas, Washington Post, 7/5/14
“Remember Dodd-Frank? The nearly 900-page law is full of reform measures to address the sort of reckless risk-taking that continues to ruffle Obama's feathers. Most measures are already in place (we’ll go into that later), but some have languished in regulatory limbo (again, we’ll go into that later).

"There is tremendous authority to restructure Wall Street banks that is already there in Dodd-Frank," said Marcus Stanley, policy director of Americans for Financial Reform. ‘The regulators have the statutory authority. The question is whether they are going to use that authority.”

CONSUMER FINANCE AND CFPB

House Bill Aims to End Operation Choke Point
Kevin Wack, American Banker, 6/27/14
“Luetkemeyer's bill, the End Operation Choke Point Act of 2014, would offer legal protection to banks and credit unions as long as their merchant customers meet one of three criteria. In order for a bank to qualify for the so-called safe harbor, the merchant would have to be licensed to offer the product or service it's selling; be registered as a money transmitting business; or provide a legal opinion that demonstrates the legality of its business operations.

“That last provision could help provide cover for banks to do business with online payday lenders that are based offshore or affiliated with Indian tribes, but don't hold licenses in states where their customers live. Online payday lenders have been among the industries hit hardest by Operation Choke Point.”
The Odd Crusade Against 'Operation Choke Point'
Jim Lardner, US News, 7/2/14

“The idea behind Operation Choke Point is simple: stop banks and third-party payment processors from abetting fraud… How, then, to explain the protest and indignation? One obvious factor is the political power of the financial industry.

“Many bankers work hard to avoid the legal and reputational problems that come from doing business with lawbreakers. Others, though, seem to angrily reject the notion that they have a responsibility to exercise due diligence; and, as often happens in Washington, the banking establishment has decided to stick up for its worst elements rather than its best. ‘When you become a banker, no one issues you a badge, nor are you fitted for a judicial robe,’ American Bankers Association CEO Frank Keating argued in a recent Wall Street Journal op ed, summing up the ‘we can’t be bothered’ attitude of some of his constituents and allies.”

“In addition to the banks and payment processors and their respective trade associations, the forces of opposition appear to include online gamblers and payday lenders… [A] crackdown on the processing of illegal payments clearly poses a threat to their ability to make loans that violate the law. (And even licensed payday lenders and money transmitters have sometimes been unable to get bank accounts; but that’s an old industry complaint – one that long predates the 2013 launch of Operation Choke Point.)”

Defendants Vowed to Revoke Consumers’ Driver Licenses; Made Other Illegal Threats, FTC Alleges
Press Release, Federal Trade Commission, 7/1/14

“At the request of the Federal Trade Commission, a U.S. district court has halted a Georgia-based operation from using deception and threats to collect $3.5 million in phantom payday loan “debts” that consumers didn’t owe pending trial. The court had previously ordered the defendants’ assets frozen to preserve the possibility that they could be used to provide redress to consumers, and appointed a receiver.

“Norcross, Georgia resident John Williams and two companies he controls used a variety of false threats to bully consumers nationwide into paying supposed payday loan debts, the FTC charged. Williams; Williams, Scott & Associates, LLC; and WSA, LLC falsely claimed to be affiliated with federal and state agents, investigators, members of a government fraud task force, and other law enforcement agencies, and pretended to be a law firm, according to the FTC complaint. The defendants also allegedly told consumers their drivers’ licenses were going to be revoked, and that they were criminals facing imminent arrest and imprisonment.”

Important Tools, Tips And Resources For Consumers
Wisconsin Rep. Ron Kind, Dunn County News, 6/25/14

“I’ve heard it said before that government cannot fulfill every need, but what’s important is that government steps in when there is a real need.

“The Consumer Financial Protection Bureau (CFPB) is a great example of that principle. Created in 2010, this new agency is dedicated to protecting American consumers and safeguarding against the kinds of financial abuses that led to the economic collapse we experienced in 2008. It is the nation’s first-ever independent consumer watchdog and the only financial regulator focused entirely on consumer protection..."
“Additionally, the CFPB has also put rules in place to protect consumers from financial abuses and is making sure that those rules are enforced. It has improved disclosure requirements so that consumers are better informed before making critical financial decisions, and is working to prevent credit discrimination based on factors like age, race and marital status.”

**Debt Collector’s Assets Frozen in Payday Loan Crackdown**
Kevin Wack, American Banker (paywalled), 7/2/14

**Inspector General Criticizes Consumer Bureau Headquarters Renovation**
Jim Puzzanghera, Los Angeles Times, 7/2/14
“The inspector general’s report, released Wednesday, said bureau officials have been ‘unable to locate any documentation of the decision to fully renovate the building.’

"We cannot conclude whether a complete analysis would have altered the decision to approve funding for the renovation,’ said the report… ‘However, without this analysis, the value of the IRB process as a funding control is diminished and a sound business case is not available to support the funding of the renovation…”

**IG Report: CFPB’s Renovations Spiral to $215M In Rented Building**
Tim Devaney, The Hill, 7/2/14

**GOP Barks at Watchdog’s Building Plans**
Alan Zibel, Wall Street Journal, 7/2/14
“A ‘place of rest and contemplation’ featuring a 42-inch waterfall and a tree-shaded reflecting pool and seating area has become ground zero in a long-running Republican-led fight over a new federal consumer watchdog.

“GOP lawmakers are seizing on the Consumer Financial Protection Bureau’s plan to renovate its six-story building near the White House. Their concerns, which range from the building’s cost to its amenities, have triggered testy exchanges at Senate and House hearings this summer and an inspector-general investigation.”

**DERIVATIVES, COMMODITIES & THE CFTC**

**Another Failure to Regulate Derivatives**
Editorial, New York Times, 7/2/14
“By the time the Securities and Exchange Commission finalized a rule last month to regulate derivatives under the Dodd-Frank financial reform law, the big banks that dominate the multitrillion-dollar market had already figured out how to game it.

“This is not a tale, however, of how wily banks always find a way around the rules. In this case, the S.E.C. has written and passed a rule that is custom built for evasion, all the while insisting, unconvincingly, that it does not have the legal authority to be any tough.”

**Wall Street Defends Overseas Swap Trading From U.S. Regulation**
Silla Brush, Bloomberg, 7/1/14
“Responding to warnings from U.S. regulators that banks are finding ways around new curbs on financial risks, Wall Street is mobilizing to defend its latest tactic to keep
overseas derivatives beyond the reach of U.S. rules. The industry’s main lobbying group is prepping a strategy to explain why the new practice -- removing guarantees from U.S. banks’ overseas trading -- is a lawful response to the 2010 Dodd-Frank Act and not an effort to take advantage of a loophole, according to a two-page memo obtained by Bloomberg News…

“The Sifma memo says that CFTC guidance on cross-border trading issued last year indicates that the test of a guarantee is whether a U.S. firm incurs risks on specific new trades, and ‘not whether the non-U.S. affiliate might have had U.S. guarantees in the past.’”

“We had been warning for years about this loophole in the CFTC’s cross-border guidance,” Marcus Stanley, policy director for American for Financial Reform, a coalition including the AFL-CIO labor federation, said yesterday in a phone interview. “Now CFTC seems to be letting it become an exit-ramp from Dodd-Frank.”

ENFORCEMENT

The Second Circuit and the Separation of Powers: Limiting Judicial Scrutiny of SEC Settlements
Jonathan Sack, Forbes, 7/2/14
“A three-judge panel of the Second Circuit Court of Appeals vacated a widely publicized 2011 decision by U.S. District Judge Jed Rakoff, which rejected a settlement between the U.S. Securities and Exchange Commission and Citigroup Global Markets, Inc. The settlement resolved allegations that Citigroup had misled investors in connection with the structuring and marketing of a fund holding assets that were linked to subprime securities. The settlement called for a civil penalty of $285 million but did not include admissions of fact or liability by Citigroup.

“Judge Rakoff held that the settlement was ‘neither fair, nor reasonable, nor adequate, nor in the public interest’ chiefly because the parties did not give the court ‘a sufficient evidentiary basis to know whether the requested relief is justified under any of these standards.’ Without ‘some knowledge of the underlying facts,’ in Judge Rakoff’s opinion, ‘the court becomes a mere handmaiden to a settlement privately negotiated on the basis of unknown facts, while the public is deprived of ever knowing the truth in a matter of obvious public importance.’ Following that decision, other federal judges closely scrutinized the terms of agreements in government civil enforcement actions and criminal investigations.

“On appeal, the Second Circuit flatly rejected, as exceeding a federal court’s proper role, the nature and scope of judicial review articulated by Judge Rakoff.”

BNP’s $8.97 Billion U.S. Fine Sets Bar for European Banks
Shane Strowmatt, Fabio Benedetti and Sonia Sirletti, Wall Street Journal, 7/1/14
“A U.S. crackdown on financial institutions for alleged sanctions-busting threatens to penalize more European banks after France’s BNP Paribas SA (BNP) was fined a record $8.97 billion for dealing with blacklisted countries.

“French lenders Credit Agricole SA (ACA) and Societe Generale SA (GLE), Germany’s Deutsche Bank AG and Commerzbank AG (CBK), and UniCredit SpA (UCG), Italy’s
largest lender, are among other financial institutions being investigated by U.S. authorities…"

**BNP Paribas Seen Rerouting Dollar Clearing to Retain Customers**  
*Yalman Onaran, Bloomberg, 7/1/14*  
“BNP Paribas SA, barred from some dollar transactions for a year, will use a six-month grace period to set up alternate payment systems for clients to keep them from taking their business elsewhere…

“Under the settlement with U.S. regulators and prosecutors, BNP Paribas agreed not to clear transactions initiated by its oil-and-gas trade-finance departments in Geneva, Paris, Singapore, Rome and Milan for a year. The firm also agreed not to serve as a correspondent bank for other lenders based in New York and London…”

**Penalties for Companies, but Executives Often Emerge Unscathed**  
*Peter J. Henning, New York Times, 7/1/14*  
“Like so many corporate criminal prosecutions, no individuals have been accused of wrongdoing, although some employees lost their jobs at BNP… [F]or the top executives of global banks who allow wrongdoing to persist by never asking hard questions… there seems to be little threat of criminal prosecution.

“In remarks about the settlement, James M. Cole, the deputy attorney general, said, ‘This failure to cooperate had a real effect – it significantly impacted the government’s ability to bring charges against responsible individuals, sanctioned entities and satellite banks.’ What is unclear is how much of an effect the lack of cooperation really had. BNP was not accused of obstruction of justice. And unanswered is the question of whether the United States government can successfully pursue individuals for misconduct in a large organization based outside the country.”

**Goldman Agrees to $800,000 Fine Over Dark Pool**  
*Bradley Hope, Wall Street Journal, 7/1/14*  
“Goldman Sachs Group Inc. agreed to pay an $800,000 fine relating to a problem in its dark pool in 2011 that led to nearly 400,000 mispriced trades. During an eight-day period starting July 29, 2011, trades executed in the dark pool, called Sigma X, traded at a price inferior to the best bid or offer in the markets at the time, according to the Financial Industry Regulatory Authority’s description of the violations.

“As part of its settlement, Goldman didn’t admit or deny the allegations of the Finra rule violations in the case. Goldman had already sent clients checks amounting to a total of $1.67 million to compensate them for the trades, according to Finra, Wall Street’s industry-financed regulator.”

**Judge Whittles Down Insider Trading Charges Against Rajaratnam’s Brother**  
*Matthew Goldstein, New York, Times, 7/2/14*
Whistleblowers Are Increasing on Wall Street
Kevin Dugan, New York Post, 6/30/14
“This year has marked a turning point for regulatory action against the country’s largest financial institutions, with federal and state agencies moving beyond the misdeeds of the 2008 financial crisis and devoting attention to other fraudulent schemes, including money-laundering, tax-dodging and predatory trading. That’s because frustrated Wall Street workers — emboldened by a beefed-up whistleblower program as part of Dodd-Frank financial reform — are finding it easier and potentially more lucrative to rat out wrongdoers within their own ranks, experts say...

“The three-year-old whistleblower program — which guarantees anonymity, protects against retaliation and can provide much bigger payouts, including a $14 million award for a single tipster — is generating better tips for regulators, Andrew Cereseney, the Securities and Exchange Commission’s co-head of enforcement, said at a conference last month.”

The SEC’s Whistleblower Program Means It Pays to Snitch
Jesse Atlas, Forbes, 7/3/14
“Just this year, two whistleblowers were rewarded with $875,000 each for providing information. Last year a whistleblower was awarded $14 million for his tip. While $14 million is nothing to scoff at, the future may hold much higher payouts — in the hundreds of millions. With insider trading collections going into the billion dollar range (with firms like SAC Capital), there is no telling how high rewards for whistleblowers will go.

“Eighty percent of whistleblower awards to date have been more than the median US household income, and there has been a rapid increase in the mean dollar figure per award since the program started in 2011.”

Workplace Secrecy Agreements Appear to Violate Federal Whistleblower Laws
Scott Higham and Kaley Belval, Washington Post, 6/29/14
“Fear of retaliation for reporting fraud in the workplace is on the rise, according to surveys of federal employees and workers on Wall Street. The U.S. Office of Special Counsel is investigating reports that the Department of Veterans Affairs retaliated against 37 workers who had come forward with allegations of wrongdoing. Some of those employees had tried to report problems with the VA’s medical appointment scheduling system, which is now the subject of a growing national controversy.”

The SEC Puts Teeth Into Dodd-Frank, Takes a Bite for Whistleblowers
Erika Kelton, Forbes, 6/27/14
“For the past two years, Securities and Exchange Commission officials have frequently stated that the SEC won’t tolerate retaliation against whistleblowers who report suspected wrongdoing to the commission. Last week, the SEC showed that it really means what it says. The SEC announced that it had for the first time charged a firm with violating the anti-retaliation provisions of the Dodd-Frank Act.

“The firm, Paradigm Capital Management, and its owner, Candace King Weir, agreed to pay the SEC $2.2 million to settle an unnamed whistleblower’s allegations of wrongdoing, including charges the company engaged in employment retaliation. The SEC alleged Weir failed to provide effective written disclosure to a hedge fund client of
her ownership of the broker-dealer that was executing securities transactions for the hedge fund.”

**Ex-Goldman Banker Korenberg Is Told SEC Galleon Probe Closed**
Patricia Hurtado and Edvard Pettersson, Bloomberg, 7/2/14

**EXECUTIVE COMPENSATION**

**The Pitchforks Are Coming... For Us Plutocrats**
Nick Hanauer, Politico, July/August, 2014

“But let’s speak frankly to each other. I’m not the smartest guy you’ve ever met, or the hardest-working. I was a mediocre student. I’m not technical at all—I can’t write a word of code. What sets me apart, I think, is a tolerance for risk and an intuition about what will happen in the future. Seeing where things are headed is the essence of entrepreneurship. And what do I see in our future now?

“I see pitchforks… The divide between the haves and have-nots is getting worse really, really fast. In 1980, the top 1 percent controlled about 8 percent of U.S. national income. The bottom 50 percent shared about 18 percent. Today the top 1 percent share about 20 percent; the bottom 50 percent, just 12 percent...

“Some inequality is intrinsic to any high-functioning capitalist economy. The problem is that inequality is at historically high levels and getting worse every day. Our country is rapidly becoming less a capitalist society and more a feudal society. Unless our policies change dramatically, the middle class will disappear, and we will be back to late 18th-century France. Before the revolution.”

**FEDERAL RESERVE**

**Janet Yellen Says Fed Will Emphasize Stronger Regulation**
Binyamin Applebaum, New York Times, 7/2/14

“In a discussion with Christine Lagarde, the I.M.F.’s managing director, Ms. Yellen expressed particular concern about so-called shadow banking, or financial firms like hedge funds that are not subject to many of the strictest regulations.

“‘That is going to be a huge challenge to which I don’t have a great answer,’ she said.”

**Fed’s Yellen Says Regulating Shadow Banks a ‘Huge Challenge’**
Pedro Nicolaci da Costa and Ben Leubsdorf, Wall Street Journal, 7/2/14

“Federal Reserve Chairwoman Janet Yellen said Wednesday that regulating activity outside the traditional banking sector remains very difficult but the central bank has boosted its monitoring activities to stay on top of possible risks...

"'We simply have to expect that when we draw regulatory boundaries, and supervise intensely within them, that there is the prospect that activities will move outside those boundaries and we won't be able to detect them, and if we can, we won't have adequate regulatory tools,' Ms. Yellen said. ‘That is a huge challenge to which I don't have a great answer.'"
**Yellen Sees 'Pockets of Increased Risk-Taking'**  
Annalyn Kurtz, CNN, 7/2/14

“Yellen acknowledged she sees ‘pockets of increased risk-taking across the financial system,’ but said it's up to financial regulation -- not interest rates -- to nurture a resilient financial system.”

**HOUSING, MORTGAGES & FORECLOSURES**

**Servicers' Rapid Growth Poses Danger to GSEs, Watchdog Warns**  
Kate Berry, American Banker, 7/1/14

“Borrowers whose loans are backed by Fannie or Freddie ‘may not have their loans properly serviced’ by nonbanks, says Russell Rau, a deputy inspector general for audits who wrote the 17-page report. Rau recommends that FHFA develop a formal framework that would include routine exams, reviews and testing to ensure nonbank servicers can meet current servicing requirements.”

**Nonbank Servicers Pose Fannie-Freddie Risk, Says Audit**  
Clea Benson, Bloomberg, 7/1/14

**Financing for Mortgage Servicing Makes a Comeback — with a Twist**  
Bonnie Sinnock, American Banker, 6/25/14

“Mortgage companies are exploring ways to finance their servicing rights, a notoriously difficult asset to fund, and at least one has tried to build a better mousetrap. Ocwen Financial introduced a novel derivative financing structure with Freddie Mac's blessing… Stonegate Mortgage also has received Freddie Mac approval for a more typical funding facility from Barclays to finance the publicly traded mortgage company's MSRs.

“Other players large and small have recently been increasingly looking into MSR financing as well as selling MSRs, says Tom Millon, president and chief executive of the Capital Markets Cooperative in Ponte Vedra Beach, Fla. Selling is easier, but financing provides more flexibility.”

**Regulators Issue New Guidelines on Home Equity Lines of Credit**  
Brian Collins, American Banker, 7/1/14

**In Home Loans, Subprime Fades as a Dirty Word**  
Shaila Dewan, New York Times, 6/28/14

“Despite the notoriety that subprime loans gained as a prime cause of the financial crisis, they are re-emerging, under much more careful control, as one answer to the tight lending standards that have shut out millions of would-be homeowners. ‘We call it the sane subprime,’ said Brian O’Shaughnessy, chief executive of the Athas Capital Group, which gave the Arroyos their loan…

“Governed by an encyclopedia’s worth of new regulations, Athas's loans generally require down payments of at least 20 percent and documentation of income or assets, as well as an assessment of the borrower’s ability to make the payments…”

**Rep. Grisham Introduces National Homeowners Bill of Rights**  
Press Release, Office of Rep. Michelle Lujan Grisham, 7/2/14
INVESTOR PROTECTION AND THE SEC

This "Tough-As-Nails" Banking Watchdog Isn’t That Tough-As-Nails
Erika Eichelberger, Mother Jones, 7/3/14

"White has made some aggressive moves—she slapped more than 60 penalties on financial firms for violations including insider trading and refusals to cooperate with investigations. Last year, she announced that the SEC will start to force more bad-behaving banks into admissions of wrongdoing instead of allowing firms to just settle without admitting or denying guilt. But overall, White has not been the hard-nosed, take-no-prisoners reformer Obama and his fellow Democrats promised.

"The few regulations that the SEC has completed over the past year are 'weak,' says Marcus Stanley, the policy director at Americans for Financial Reform. A measure the SEC finalized about a year ago, for example, makes it easier for start-ups to go public, but it does not contain enough protections for investors, Stanley says. And reformers say that a rule the SEC finished up last fall, which was supposed to curb abuses in certain parts of the bond market, has a number of crucial loopholes."

Proxy Advisers Must Disclose Conflicts of Interest, SEC Says
Dave Michaels, Bloomberg, 7/1/14

"Companies that recommend to investors how to vote in corporate elections must disclose conflicts of interest that could be viewed as affecting their advice, the U.S. Securities and Exchange Commission said.

"The SEC guidance released yesterday responds to criticism from the U.S. Chamber of Commerce and other critics of proxy advisers, whose recommendations can influence the outcome of elections on executive pay and boards of directors. Proxy advisers such as Institutional Shareholder Services Inc. also consult for some companies that are the subject of their voting recommendations."

REVOLVING DOOR & POLITICAL POWER OF WALL STREET

Rand Paul Slams ‘Fat Cats’ - With Hedge Fund in Top Donors
Dan Kopecki, Bloomberg, 7/1/14

"'We cannot be the party of fat cats, rich people, and Wall Street,’ the Kentucky Republican told the audience at the Freedom Summit in New Hampshire in April. 'Corporate welfare should once and for all be ended.'

"At the same time, the founders and employees of Mason Capital Management, a $13.6 billion New York hedge fund, have become leading contributors to Paul's political aims. The hedge fund has offices in London and San Francisco and offers clients offshore investments through a limited partnership in the Cayman Islands, among other strategies…

"In all, 17 of the company’s 33 employees have given at least $75,000 to Paul and funds he controls since he started his first U.S. Senate campaign in 2010, according to Federal Election Commission data compiled by Bloomberg. Mason Capital staff members have been Paul's second-largest source of campaign funds, according to Opensecrets.org, a website operated by the nonpartisan Center for Responsive Politics."
STUDENT LOANS AND FOR-PROFIT SCHOOLS

Next VA Chief Must Crack Down On For-Profit Colleges
Editorial, Sacramento Bee, 7/1/14
“Corporate executive Robert McDonald, who was nominated Monday to be the new secretary of Veterans Affairs, faces a gargantuan task to get the agency back on track... It’s also cracking down on for-profit colleges that are raking in millions from the post-9/11 GI Bill, while veterans – and taxpayers – are not getting anywhere close to their money’s worth.

“California is the ‘epicenter’ of what can only be called a scandal, according to a story from the Center for Investigative Reporting. Of the $1.5 billion in federal GI Bill benefits spent in California since 2009, more than 40 percent – $638 million – has been scooped up by for-profit schools that offer such a substandard education that they have been cut off from receiving state financial aid at least once in the last four years, the center’s Aaron Glantz reports.”

GI Bill Funds Go to For-Profit Schools
Ashly McGlone, U-T San Diego, 6/28/14
“More than $600 million in federal financial aid for veterans has been spent in the past five years on schools in California that don’t meet the state’s own requirements for financial aid programs, according to a new report. The Center for Investigative Reporting, based in the Bay Area, focused its report on Saturday on for-profit schools, saying they can leave veterans with worthless degrees and few job prospects, although the report said no state or federal agency tracks whether veterans graduate or find jobs.

“The news outlet singles out the University of Phoenix campus in San Diego, which accepted the most GI Bill aid for Iraq and Afghanistan veterans at $95 million.”

Corinthian Colleges Is Closing. Its Students May Be Better Off as a Result.
Kevin Carey, Degrees of Education, 7/2/14

Corinthian College Students Await Their Fate as Breakup Looms
Janet Lorin, James Nash and Kelly Blessing, Bloomberg, 7/1/14

Corinthian Puts Heald College Up for Sale
Goldie Blumenstyk, Chronicle for Higher Education, 7/1/14

For-profit College Group APSCU Has Consistently Harbored Fraudulent Schools
David Halperin, Huffington Post, 6/30/14
“The facts concerning ATI, FastTrain, American Career Institute, Corinthian, and other schools suggest that APSCU has engaged in a pattern of harboring companies that engage in systematic fraud and abuse of their students. Bad for-profit college companies tend to remain APSCU members until they cease to exist. The idea that Arthur Benjamin, whose institution was caught committing egregious fraud on his watch, remains affiliated with APSCU through another for-profit college, shows how little APSCU cares about appearances, let alone the welfare of students.

“At the same time, Donald Graham and Steve Gunderson have been among the most persistent advocates against reforms that would hold accountable such schools that
repeatedly disserve their students. By pressuring the executive branch and Congress to weaken or cancel the gainful employment rule, the incentive compensation rules, and other accountability measures, and by going to court with the aim of striking these rules down, APSCU has pushed to retain a status quo under which institutions like ATI, FastTrain, and Corinthian can act with impunity, until the weight of student and staff complaints and financial irresponsibility bring them down.”

**Higher One Partner Fined**
Michael Stratford, Inside Higher Ed, 7/2/14

“In federal and state regulators on Tuesday ordered a Chicago bank to pay a total of $4.1 million over its relationship with the campus debit card provider Higher One, which officials accused of misleading and deceiving students.

“The Federal Reserve Board and Illinois’s Department of Financial and Professional Regulation took the action against Cole Taylor Bank, which partnered with Higher One until last August to provide college students with debit cards on which they can access refunds of their federal student aid. Under the order issued Tuesday, to which Cole Taylor agreed, the bank will pay $3.51 million to the Federal Reserve and $600,000 to the Illinois regulators.”

**SYSTEMIC RISK**

**Big Banks & IMF: No Structural Reform**
Bretton Wood Project, 6/20/14

“In late May, the Fund’s managing director Christine Lagarde said: ‘A big gap is that the too-big-to-fail problem has not yet been solved. A recent study by IMF staff shows that these banks are still major sources of systemic risk.’ However, the Fund has ignored demands for deeper changes in financial systems.

‘The size and interconnectedness of too-big-to-fail banks is a serious challenge,’ said Greg Ford of Brussels-based NGO Finance Watch. ‘That is why structural reform of banks is the most important among the various measures proposed to tackle too-big-to-fail, as it can tackle the problem at source: the separation of trading from credit would reduce the funding subsidies that help banks become too big and too interconnected to fail in the first place.’

“Marcus Stanley of US-based NGO Americans for Financial Reform agreed, noting that in the US the IMF “do[es] not really have a direct impact on regulatory decision-making”. He concluded “the large universal banking model has become central to globalised financial markets over the past two decades and apparently regulators see it as easier to increase loss absorbency within that model than to change the model more fundamentally.”

**The Unregulated Shadow Banking System Triggered the 2008 Financial Crisis**
Robert Lenzner, Forbes, 6/30/14

“As Yale economist Gary Gorton put it in his book, Misunderstanding Financial Crises: Why We Don’t See Them Coming, only a late bold move by the Fed and Treasury to guarantee the commercial paper market, to guarantee bank deposits up to $250,00, and inject the banks with tens of billions, saved the day. We learned that banks cannot
survive without the substantial injection of short term funds from a sudden panicky withdrawal in the repo market, the money market mutual funds or commercial paper. A chart in the Financial Crisis Inquiry Commission Report underscored the significance of ‘shadow banking’ by showing it as a larger dollar amount than traditional banking from 2004 until 2008…

“There was no regulation then and the situation has not been rectified. It is the reason Gorton predicts we will be blindsided again by the next financial crisis… Curious, isn’t it, that until very recently the financial media has had very little focus on the ‘shadow banking system,’ as distinct from the regular banking system represented by giant institutions like J.P. Morgan Chase, Citigroup and Bank of America…

“Lately, we have had a cover story from the Economist called ‘Shadow and Substance,’ which raises the question of whether the world of finance is safer now that ‘shadow banks are taking on a growing share of their business’ away from traditional banks… The Financial Times has published a series of pieces on the ‘shadow banking’ phenomenon including a column by Paul Tucker, former deputy governor of the Bank of England, who wrote recently that ‘tightening banking regulation is not sufficient to prevent excessive liquidity risk and leverage among so-called ‘shadow banks’ brewing another crisis down the road.’”

U.S. Regulators Release Latest 'Living Wills' for Big Financial Firms
Ryan Tracy and Leslie Scism, Wall Street Journal, 7/2/14
“U.S. regulators released the public portion of so-called "living wills" for 17 banks and other financial firms. The plans are intended to provide officials with a road map to help avoid a repeat of the 2008 financial crisis, when regulators scrambled to understand complex financial firms and eventually bailed some out to avoid a global economic meltdown.

“Among those filing a living will for the first time was American International Group Inc., which was rescued by taxpayers during the financial crisis after regulators worried about the ripple effect that the giant insurer’s collapse could have on the financial system. AIG, Prudential Financial Inc. and General Electric’s financing arm, GE Capital—which were designated by regulators as "systemically important" last year and subjected to Federal Reserve oversight—are now required to submit such plans annually.”

Quickie Stock Sales Toy With Spirit of Volcker Rule
Antony Currie, Globe Mail, 7/2/14

OTHER TOPICS

Goldman ‘Boys Club’ Accused of Mocking Women as 'Bimbos' and 'Party Girls'
Bob Van Voris and Max Abelson, Bloomberg, 7/2/14
“Female vice presidents earned 21 percent less than men and female associates made 8 percent less, the former employees claimed. About 23 percent fewer female vice presidents were promoted to managing director of the New York-based bank relative to their male counterparts, they said.”

Goldman Braces to Slash Fixed-Income Staff Amid Trading Swoon
Julie VerHage and Charlie Gasparino, Fox Business, 7/1/14
“Executives at the biggest U.S. investment bank have now indicated to Wall Street analysts that they could make significant cuts in their fixed-income trading staff amid a sharp slowdown in business conditions. FOX Business Network has also learned that Goldman is likely to provide guidance on the size and scale of the cuts when its reports second-quarter earnings on July 15 as investors become increasingly focused on the shrinking profitability of the firm’s once-mighty bond trading desk...

“Since then, regulations like the Dodd-Frank financial reforms have limited Goldman’s ability to take risk—the full effect of which has now started to kick in. Some analysts say the firm may have to make dramatic changes to its business model as part of the job cuts. During the 1990s internet boom, Goldman considered buying electronic brokerages E*Trade and Charles Schwab Corp., and some bankers say Goldman may have to revisit such moves to adapt to the current regulatory environment.”