This Week in Wall Street Reform | Mar 17 – 23

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THE TRUMP ADMINISTRATION, CONGRESS AND WALL STREET

Business development company language added to spending bill | InvestmentNews
The increase in BDC leverage allowed by the bill will benefit fund managers but potentially harm retail investors, the advocacy group Americans for Financial Reform said in a Thursday statement.

"BDCs already charge much greater fees to investors than comparable investment products," AFR said. "This change simply serves to increase profits for private-equity managers while harming ordinary investors."

Congress Is About to Do a Big Favor for Private Equity Predators | The Nation (David Dayen)
With this provision, BDCs could borrow twice as much money as they hold in equity, compared to a 1:1 relationship under current rules. This increase in leverage increases returns and risk—if you gamble with someone else's money and win, you make more for yourself, but if you lose, you have nothing to pay back the lenders. Americans for Financial Reform adds that the leverage in the corporate holdings of BDCs is already 5:1 or greater. So this would enable BDCs to borrow at least $10 for every $1 in equity.

Apollo to Ares Get a Surprise Win in $1.3 Trillion Spending Bill | Washington Post
Private-equity titans including Apollo Global Management LLC and Ares Management LP are poised to score a big win after lawmakers attached a measure to the must-pass $1.3 trillion spending bill that could expand the companies' businesses.

In a last-minute addition to legislation that funds federal agencies, lawmakers included language Wednesday that would allow investment companies controlled by private-equity firms to borrow more money and increase their lending. Apollo, Ares and other firms have been aggressively lobbying over the issue, which eases rules for what are known as business development companies...

Permitting BDCs to double their leverage will “significantly” raise the likelihood that one or more of the companies will fail in a market downturn, according to Mercer Bullard, a professor at the University of Mississippi School of Law, who testified before Congress on the issue last year.

See AFR statement, "Omnibus Contains Yet More Gifts to Wall Street"
U.S. House lawmaker urges banks to push Senate on further rule-easing | Reuters
Representative Jeb Hensarling, who is leading House discussions on the first rewrite of the 2010 Dodd-Frank reform law, made his case to industry lobbyists at a private meeting on Monday, three people with direct knowledge of the meeting told Reuters.

Hensarling’s strategy will likely increase pressure on moderate Democrats in the Senate, which is in a standoff with the House over the bipartisan legislation to ease rules on small lenders. The Senate passed the bill last week. Those Democrats, who helped write and pass the Senate bill, have said they will walk away if the House pushes for further rule easing. But Hensarling, who chairs the House Financial Services Committee, has been adamant that the lower chamber will not rubber-stamp the Senate version.

Senate to House: Don’t Risk Upending Deal on Dodd-Frank Rollback | Wall St. Journal
Sen. Thom Tillis (R., N.C.) met on Thursday with House Whip Steve Scalise (R., La.) and other House lawmakers, telling them that adding House-favored provisions could scuttle support in the Senate, particularly among Democrats whose backing is crucial to the bill, according to people familiar with the meeting.

Mr. Tillis said Senate Republicans would have pushed for a broader overhaul of the 2010 Dodd-Frank law if they didn’t need Democratic support. The relatively modest Senate bill, he added, reflects the political reality of what can be accomplished in the Senate, where Republicans hold 51 seats and generally need support from nine Democrats to pass legislation.

“We need to get this done,” Mr. Tillis said, according to one of the people.

Why Democrats voted to roll back Obama-era banking rules | Wall St. Journal
Opponents pointed to financial contributions from industry members. Over the past six years, the average supporter of the bill received $277,000 in campaign contributions from banks, credit unions and similar industries, more than double the average amount received by opponents of the bill, according to an analysis by MapLight, a nonprofit organization that studies the effect of money in politics.

An aggressive lobbying push may have also helped put the bill over the top. The Financial Services Roundtable, a D.C.-based lobbying firm that represents many of the United States' largest banks, devoted a team to pushing the bill and hired outside consultants for the effort. The week of Feb. 28, representatives of the nation's community banks brought thousands of people to Washington to “take every opportunity we could find” to meet with lawmakers and their staffs, said Ryan Donovan, a spokesman for the Credit Union National Association. More than 30 banks said at the end of 2017 that they had lobbied over the bill, including JPMorgan, Goldman Sachs and the Bank of Mellon New York, according to public records.

Is this Jeb Hensarling’s last stand? | Credit Union Journal
Rep. Jeb Hensarling, R-Texas, has less than a year left in office — and he seems to be spoiling for one last fight… "Jeb is and always has been an ideologue — ideology drives Hensarling’s policymaking to the point that during much of his tenure as chairman of the [committee], ideology trumped compromise," said one senior financial services lobbyist on condition of anonymity…
A second senior financial services lobbyist concurred, warning that Hensarling will be blamed if the bill now fails.

**House committee advances slate of financial bills to full chamber** | Compliance Week
The House Financial Services Committee, on March 21, approved eight bills, bringing the total number of bills reported out of the Committee this Congress to 99.

“These eight important measures continue the Committee's efforts to ensure that hardworking Americans have access to credit; to ensure that the regulatory burden does not fall disproportionately on our smaller banks and credit unions; and to make sure that our startup businesses and our entrepreneurs have access to capital while balancing very legitimate concerns for the stability of our financial system,” Chairman Jeb Hensarling (R-Texas), said in a statement.

**House panel passes bill handling Federal Reserve control over ‘Volcker Rule’** | Reuters
As 16 of the committee’s Democrats joined with Republicans in supporting the bill, the degree of bipartisan support for the measure could suggest House lawmakers will endeavor to include it in a broader bill easing bank rules that previously passed the Senate. Large banks have aggressively lobbied Congress for relief from the Volcker Rule for months.

See [AFR statement](https://www.afr.org/bill-tracking) on six bills marked up by House Financial Services Committee

### CONSUMER FINANCE AND THE CFPB

**Trump official quietly drops payday loan case, mulls others** | Reuters (Patrick Rucker)
The top cop for U.S. consumer finance has decided not to sue a payday loan collector and is weighing whether to drop cases against three payday lenders, said five people with direct knowledge of the matter...

Such lenders charge triple-digit interest rates prohibited in many states. The companies have argued such loans are permitted when they are originated on tribal land. The CFPB under Cordray concluded that NCA had no right to collect on such online loans, no matter where they were made.

Mulvaney has dropped the matter and the case is “dead,” Sarah Auchterlonie, a lawyer for NCA, told Reuters this week. She noted the agency appeared to be backing off issues involving tribal sovereignty.

See [Stop the Debt Trap statement](https://www.stopthedebttrap.org/news) on Mulvaney action.

**CFPB to Work With FTC on Policing Debt Collectors** | Wall St. Journal
“From now on, we will be working closely with the FTC to enforce [federal debt-collection laws] while protecting the legal rights of all in a manner that is efficient, effective and accountable,” Mr. Mulvaney said in a statement that accompanied the agency’s annual report on debt collection.

**Bankers' Robberies: Is Wells Fargo America's most odious bank?** | The Baffler (Chris Lehmann)
just as the Senate was moving in cloddish bipartisan concert last week to repeal the quite
minimal regulatory protections against financial-industry fraud and thievery enacted in the 2010 Dodd-Frank law, the board of Wells Fargo—one of the nation’s largest, and undeniably the worst, mortgage lender—moved to boost compensation for CEO Tim Sloan by a cool 35 percent, or $4.6 million. For mere civilians in the mogul-led financial sector, it’s worth noting Sloan’s total compensation of $17.6 million a year works out to $48,219 a day. By way of edifying comparison, the median household annual income in the United States peaked just north of $59,000 in 2016.

This metric is especially telling in Wells Fargo’s case, since an average day’s work for the bank’s executives usually involves shaking down middle-class and minority borrowers and account holders for all they can.

**OCC once wanted payday lenders to 'stay the hell away' from banks. No longer. | American Banker**

More than a decade has passed since federal regulators cracked down on partnerships between payday lenders and banks that had been designed to circumvent state interest rate caps. Now the Office of the Comptroller of the Currency, operating under newly installed leadership, has taken a notable step in the opposite direction.

The agency said Friday that it has terminated a 2002 consent order with Ace Cash Express… While the action involves only one company, its implications could be substantial…

“It’s a sea change in terms of the atmosphere on small-dollar lending,” said Richard Eckman, a lawyer at Pepper Hamilton who structured numerous partnerships between banks and payday lenders in the early 2000s.

**A hands-off CFPB might cause trouble for fintechs | American Banker**

Under the new regime, it is not yet clear whether the CFPB’s overall scaling back of enforcement activity will affect its approach to the data-driven fintech space. But should the CFPB leave these issues to state authorities, fintech companies may, counterintuitively, have more to worry about.

The perception that federal enforcers have left a field open may embolden the agency’s state counterparts to step into the fray. It was not that long ago that Eliot Spitzer’s aggressive enforcement of New York law led news outlets to dub him the “Sheriff of Wall Street,” amid questions about the SEC’s scaled-back role in the securities markets. Indeed, state attorneys general have been indicating for months that they intend to step up to fill gaps left by federal authorities. (It is possible, of course, that other federal regulators, such as the FTC, could also seek to fill a perceived vacuum.)

**Mulvaney’s revamp of CFPB should include its innovation hub | American Banker (Lisa McGreevy)**

**Florida Gives Payday Lenders a Boost | Wall St. Journal**

Florida eased restrictions on payday lending, allowing companies to make bigger, longer loans in a move aimed at bypassing a federal rule that clamps down on the industry. Gov. Rick Scott, a Republican, signed the change into law Monday after state lawmakers passed legislation
earlier this month with bipartisan support, a result attributed in part to intense industry lobbying...

Florida is the first state to relax rules for payday lenders as they try to weather a tough rule from the Consumer Financial Protection Bureau... The state currently allows loans of up to $500 paid off in a lump sum within 31 days, with annual interest rates often exceeding 300%. The federal rule places tough limits on such short-term loans, a move the industry says will make them unviable.

To get around the CFPB rule, Florida will permit loans of up to $1,000, to be paid back in installments in 60 days or 90 days. The federal regulation doesn’t generally cover loans lasting 45 days or longer.

**New Florida law will loosen small-dollar lending rules | American Banker**

**Legislator Takes up the Cause of Payday Lenders | Orlando Sentinel (editorial)**

By co-sponsoring a bill that would let Florida payday lenders circumvent pending federal consumer protections, [Janet Cruz], the leader of state House Democrats offered cover to her party’s members to support the measure over vehement opposition from advocates for the poor, seniors, veterans and the faith community. The bill doubled the borrowing limit for payday loans, and nearly doubled the allowable fees. Those changes created a new category of loans in Florida that would fall outside a pending federal requirement that lenders determine up front whether borrowers can afford to repay their loans and fees.

Payday lenders, led by Tampa-based Amscot, have hired ex-legislators as lobbyists and have distributed millions of dollars in campaign contributions among Republicans and Democrats, including Cruz, who is also from Tampa. Legislative staff who wrote this year’s bill actually sent drafts to industry leaders for approval. Not everything runs into a roadblock in Tallahassee.

**Are payday advance services worth it? | KHOU (Houston)**

José Alcoff, director of the Stop the Debt Trap coalition at Americans for Financial Reform, says there are many employer-based loan and paycheck advance programs across the country, many of them offering the service at no interest. Although it’s a nice gesture for workers who are living paycheck to paycheck, it's not a long-lasting solution for chronic financial insecurity, he warns.

"A payday advance program may or may not be a responsible lending solution, but it is not a solution to poverty and to the kinds of financial crunch that a lot of low-income workers have on a daily basis," Alcoff said.

**Chamber of Commerce calls for restructuring CFPB | Washington Examiner**

The U.S. Chamber of Commerce called for a range of changes to the Consumer Financial Protection Bureau on Thursday, including shifting it to a bipartisan commission and bringing its funding under Congress' control. The Chamber, the biggest business lobby, is set to release a report Friday outlining 23 proposed changes to the bureau, which is responsible for regulating mortgages, credit cards and other consumer financial products.
DERIVATIVES, COMMODITIES & THE CFTC

Congress proposes cut in CFTC budget | PoliticoPro

Why Everyone Missed the Most Mind-Blowing Feature of Cryptocurrency | Medium (Daniel Jeffries)

Chasing rags-to-riches dreams, bitcoin investors get very upset when the price declines | MarketWatch

EXECUTIVE COMPENSATION

How Your Pay Stacks Up to Your CEO’s | Bloomberg
Executive compensation in the U.S. has never been higher, with the average S&P 500 CEO making more than $10 million annually. This year marks the first time U.S. publicly traded companies must disclose how much they pay their chiefs compared with the median worker. The 2010 Dodd-Frank Act requires that businesses disclose the ratio in regulatory filings for fiscal years starting on or after Jan. 1, 2017, with some exceptions.

The ratio is calculated by dividing the CEO’s compensation by the pay of the median employee, meaning half of a company’s workers make more and half make less. Honeywell International Inc., which was one of the first large U.S. companies to disclose it, had a ratio of 333-to-1 last year. The ratio at Hanesbrands Inc. was 1,830-to-1 while Zynga Inc.’s Frank Gibeau had a ratio of 12-to-1. These are the companies that have filed, including those with the median, lowest and highest CEO pay ratios.

JPM Chief Executive Dimon Pay Ratio Among the Highest of Big U.S. Banks | Wall St. Journal
JPMorgan Chase said that in 2017 Chief Executive James Dimon earned 364 times as much as the median bank employee… JPMorgan in mid-January disclosed that Mr. Dimon received $29.5 million in total compensation in 2017, up 5.4% in 2016. Mr. Dimon earned the most out of the six largest U.S. bank CEOs...

JP Morgan has among the highest ratios of its peers. Citigroup CEO Michael Corbat’s pay in 2017 was 369 times that of the median employee’s at the global bank, according to its proxy. Bank of America Corp. said in its proxy that CEO Brian Moynihan earned 250 times as much as the median bank employee. Wells Fargo & Co. said its CEO Timothy Sloan earned 291 times as much as the median WFC salary, according to its proxy.

Blackstone’s golden coffin: Lucrative perk granted to CEO’s heirs | Crain’s NY Business
The chief executive of Blackstone Group will be making money from his private-equity firm until death do they part—and well after that.

As part of a new package of benefits granted to Steve Schwarzman, who was paid $835 million last year, Blackstone will allow the CEO’s estate to invest the firm’s funds for a decade after his death without paying fees. Under a prior agreement, Schwarzman had to be alive in order to invest in Blackstone funds without fees, according to The Wall Street Journal, which reported the perk.
The benefit, which could be worth tens of millions of dollars to Schwarzman’s heirs, is unusual but not unheard of. In the past, many companies granted so-called “golden coffins,” which are benefits doled out to heirs after a top executive meets his ultimate demise. Golden coffins were paid by Verizon, Comcast, Disney and others until around a decade ago when shareholder advocates began trying to put a lid on them, arguing that it makes no sense to pay someone who is unable to render services.

**Blackstone Grants New Rewards to CEO Schwarzman | Wall St. Journal**

**Eleven "Small" Banks That Would Gain From the Senate Banking Bill Sport Hefty Pay Gaps | Truth-Out (Sarah Anderson)**
The core of the bill is a provision to eliminate most of the risk controls at banks with $50 billion to $250 billion in assets. While not as gargantuan as the likes of JPMorgan Chase or Bank of America, this tier received almost $50 billion in federal bailout money after the 2008 crash, according to **Americans for Financial Reform.**

<table>
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<th>Banks that stand to benefit from deregulation bill</th>
<th>CEO pay in 2017</th>
<th>CEO-worker pay ratio</th>
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**INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS**

**Do Financial Advisers Have to Act in Your Interest? Maybe. | NY Times (Tara Siegel Bernard)**

Scottrade. Ameriprise. Wells Fargo. Within the last month, two of these financial-service providers were accused of deceiving retirement account customers, while Wells Fargo revealed that it was the subject of an investigation exploring whether it made questionable recommendations to 401(k) customers, among other things.

It isn’t easy for consumers to figure out what kind of professional they can trust with their money,
especially when any annuity salesperson with a business card can masquerade as a bona fide financial adviser.

**SEC sets record for highest whistleblower payout** | The Hill
The SEC announced Monday that it had rewarded two whistleblowers with $50 million to be split between them and gave another roughly $33 million. The previous record for the largest whistleblower reward issued by the SEC was $30 million, set in 2014.

**SEC Urges Exchanges to End Standoff on Trading Data** | Wall St. Journal
The chairman of the Securities and Exchange Commission on Monday pressed exchanges to end a standoff that has delayed the launch of a massive database meant to track all activity in the stock and options markets. “I’m not happy,” SEC Chairman Jay Clayton told a conference in Orlando, Fla., sponsored by the principal trade association for stockbrokers. “We can’t dilly around. The main markets regulator should have access to a forensic trail that enables us to assess what happened if a market event occurred.”

The SEC ordered the creation of the Consolidated Audit Trail in 2012, after regulators found they didn’t have enough data to explain a wild trading session in May 2010 known as the flash crash. The project has been managed by a committee made up mainly of stock and options exchanges, not the SEC itself. The exchanges missed a November 2017 deadline to report trades to the database, meaning they have violated rules requiring them to send data to the CAT. Exchanges have said they need more time to make sure investors’ information provided to the CAT will be safe from hackers.

**NHPF Survey Finds One-Third of Baby Boomers Have No Retirement Budget** | Builder

**Tom Perez’s Fiduciary Flop** | Wall St. Journal (editorial)

**Study establishes link between fee pressure and audit quality** | Compliance Week

**MORTGAGES AND HOUSING**

**When the rent isn’t too high — but the security deposit is** | Marketwatch
Housing experts say far too many consumers are trapped in low-quality or unsafe rental situations, unable to access better homes that they might be able to afford, if they could only come up with the first month’s rent and security deposit.

A new program in Great Falls, Montana, is experimenting with a way to solve this problem. Ready to Rent is a pilot project from the Great Falls chapter of NeighborWorks America, a national organization that may be better-known for its efforts to help promote sustainable homeownership, especially among low- and moderate-income Americans who may not otherwise have a shot at it.

**It’s a Bad Time for Lenders to Get Lax on Compliance, Experts Say** | Builder

**Chase rarely lends to people of color in DC – and it’s probably legal** | Reveal
PRIVATE FUNDS

Private Equity: Looting "R" Us | The American Prospect (David Dayen)
[It] was a leveraged buyout in 2005 that dumped over $6 billion in debt on Toys “R” Us, making it liable for $450 to $500 million annually just in interest payments. Take away that and the company was profitable, with growing operating income the past three years. Last year, it was responsible for 1 out of every 5 toys sold in the U.S.; no company should hit bankruptcy with that market share. But the debt proved too burdensome for Toys “R” Us to survive.

In other words, it was a classic private-equity bust-out. The firms in the deal—private-equity giants KKR and Bain Capital and real-estate firm Vornado—made back their small personal investments through advisory and management fees. Bankruptcy or liquidation doesn’t hurt them, only the tens of thousands of families who depend on Toys “R” Us for their livelihoods. It’s a familiar story: private equity loads up companies with debt, strips out the profits, and leaves the carcass along the road in the aftermath.

REGULATION IN GENERAL

Mulvaney, Acosta Override Regulatory Office to Hide Tips Rule Data | Bloomberg BNA

STUDENT LOANS AND FOR-PROFIT COLLEGES

DeVos More Out of Touch on Student Debt Than You Thought | The American Prospect (Mark Huelsman)
New public opinion research by Demos and Lake Research Partners finds broad and deep support for policies that would eliminate the need for many students to take on debt at all. More than 90 percent of American adults surveyed view student debt as a somewhat or very serious problem, and they overwhelmingly cited the price tag when asked about the biggest barriers standing between students and a degree or credential.

More striking though, is that 78 percent of adults support a policy agenda that would guarantee that all students graduate without debt from a public two- or four-year college; while 71 percent of adults favor proposals to make public college tuition-free, regardless of income.

Consumer lawyers want to end Dept. of Ed’s partial student debt relief plan | Washington Post

Veterans Blast GOP Bill as Giveaway to For-Profits | Insider Higher Ed
Supporters of the PROSPER Act like Representative Virginia Foxx, the chief author of the legislation, argue that it cuts down on burdensome regulation and unnecessary reporting requirements for institutions.

But veterans’ organizations almost across the board stated their opposition to provisions of the bill eliminating key accountability standards… Those declarations could make it more difficult for Foxx and the bill’s backers to gather enough support within the GOP caucus for a vote during an election year… “It’s a great bill for bad schools,” said Will Hubbard, vice president of government affairs at Student Veterans of America.
Vets Say For-Profit School Didn’t Warn Them GI Bill Funding Was Threatened, and Now It’s Gone | Republic Report (David Halperin)

Education Department Sued Over Defrauded Borrowers | Inside Higher Ed
Four plaintiffs who attended Corinthian Colleges programs are suing Secretary Betsy DeVos and the Department of Education in U.S. district court over a plan to award partial relief of student loan debt to borrowers defrauded or misled by their institutions…

The plaintiffs asked the court to order the Department of Education to grant complete loan relief to borrowers with approved claims and argued that its use of the earnings formula violates the Administrative Procedure Act and constitutes "arbitrary and capricious" rule making.

The For-Profit Education Old Guard Has More to Worry About Than Government Regulation | E Learning Inside News

SYSTEMIC RISK

Biggest Three Banks Gobble Up $2.4 Trillion in New Deposits Since Crisis | Wall St. Journal
Americans are parking more money with the biggest banks than ever before, cementing the firms’ dominance of the financial industry less than a decade after the 2008 crisis.

The three largest U.S. banks by assets have added more than $2.4 trillion in domestic deposits over the past 10 years, a 180% increase, according to a Wall Street Journal analysis of regulatory data. That amount exceeds what the top eight banks had in such deposits combined in 2007…

It marks a new phase of consolidation in the banking industry, one driven first by the acquisitions and then by customers' attraction to the digital tools and ubiquitous locations of the biggest banks. Last year, about 45% of new checking accounts were opened at the three national banks, even though those lenders had only 24% of U.S. branches, according to research by consulting firm Novantas. Regional and community banks, by contrast, had 76% of branches but got only 48% of new accounts, the firm said.

Fix the flaw in financial self-regulation | The Hill (Benjamin Edwards & Hugh Berkson)

OTHER TOPICS

The Financial Services Roundtable’s Dangerous Policy Agenda | AFR Blog
The Financial Services Roundtable (FSR) “2017 Year in Review,”—an outline of their priorities and successes—is a remarkable catalogue of attacks on families’ economic security and rights, and on financial stability, in pursuit of still higher returns for the already profitable behemoths of finance. The “year in review” is full of deeply dishonest assertions that the policies they lobby for are good for the public, when they are in fact sought by the big banks, and opposed by groups representing consumers, seniors, veterans and service members, unions and communities.

FSR members include some of the biggest Wall Street banks, asset management, and credit card companies. The group was led from 2012 to 2018 by Tim Pawlenty—a former Majority
Leader of the Minnesota House of Representatives and former Governor of Minnesota. FSR recently announced plans to merge with the Clearing House Association, which is owned by the world's largest commercial banks—e.g., Bank of America, Wells Fargo, JPMorgan Chase, Deutsche, Citibank, HSBC, among others.

**Dems offering bill aimed at curbing stock buybacks** | The Hill
Groups such as the AFL-CIO, Take On Wall Street and Americans for Financial Reform are supporting the bill. Heather Slavkin Corzo, director of the office of investment at the AFL-CIO, said that Baldwin's bill "will give workers a seat at the table to ensure that our economy once again rewards work instead of just wealth."

The bill comes as Democrats have been highlighting companies' plans for stock buybacks following the passage of Republicans' tax-cut law.

**To Curb Corporate Abuse of Stock Buyback ‘Bamboozle,’ Baldwin Bill Would Bolster Worker Power** | Common Dreams
While specifically citing the estimated quarter-trillion dollars in stock buybacks that have already occurred since passage of the Republican Party's "tax scam" reform in December, Sen Tammy Baldwin (D-Wis.) on Thursday introduced a new bill designed to rein in the corporate practice that enriches wealthy executives and stockholders at the expense of workers and their families...

Initial cosponsors of Baldwin's bill are Sens. Elizabeth Warren (D-Mass.) and Brian Schatz (D-Hawaii). It also has the support of the AFL-CIO, Americans for Financial Reform, Take on Wall Street and Public Citizen.

**Does the U.S. have too many financial regulators?** | Marketplace

**JPMorgan Chase Announces $1 Million Investment to Support Women Entrepreneurs of Color in Tech** | Webwire

**Citi becomes first big bank to press clients to restrict gun sales** | PoliticoPro