

This Week in Wall Street Reform | Feb. 13–Feb. 19, 2016

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CONSUMER FINANCE & THE CFPB

[Director Cordray signals no change in direction regarding arbitration](#)

Alan S. Kaplinsky and Mark J. Levin, CFPB Monitor, 2/19

At a [presentation](#) on February 18, 2016 to the American Constitution Society, CFPB Director Richard Cordray devoted most of his remarks to the subject of consumer arbitration. Director Cordray revealed that the effect on consumers of mandatory predispute arbitration clauses "has been on our radar screen since the very beginning," and he confirmed that the CFPB strongly favors class actions over arbitration and is "considering whether to prohibit companies from using arbitration clauses to block class actions" through rulemaking.

It appears that the CFPB is still on track to implement the proposals it outlined last fall which would prohibit class action waivers in consumer arbitration agreements while permitting individual arbitrations to continue subject to certain disclosure requirements. While Director Cordray stated that the CFPB is analyzing "a broad range of feedback we received in response to the outline, with a particular focus on feedback from small businesses," his discussion of the proposals that the CFPB is considering does not appear to differ from the [earlier outline](#).

[State AGs, Lawmakers Tell CFPB to Back Off on Payday Rule](#)

Rachel Witkowski, American Banker, 2/11

State regulators and House lawmakers warned the Consumer Financial Protection Bureau not to preempt state laws when the agency issues its proposal to regulate payday-type loans. Speaking at a House Financial Services subcommittee hearing on Thursday, several Republicans argued that the states were doing a good job in regulating such products.

"I find it offensive that you would say that people aren't smart enough to make decisions for themselves," said Rep. Mia Love, R-Utah. "So you have to go into states, you have to go into cities, you have to go into all these other places to say, 'trust Washington, we know what's best for you... don't worry, your states aren't doing a great job. They don't understand what your needs are, we understand more than anybody else.'"

[Debt Collector Urges 4th Circ. To Revisit Payday Loan Ruling](#)

Andrew Westney, Law360, 2/18

A Nevada collection agency with ties to a South Dakota tribe urged the Fourth Circuit to reconsider its recent decision that the company cannot arbitrate claims from a putative class of payday loan borrowers, saying the decision flouts tribal law and could lead to widespread invalidation of arbitration agreements. On Feb. 2, the appeals court reversed a Virginia district court decision, ruling that an arbitration clause in loan agreements from Delbert Services Corp., which collected loans on behalf of a now-defunct online lender owned by a member of the Cheyenne River Sioux Tribe, was really just a guise to skirt federal laws.

[Bank or No Bank, Fintech Must Be Regulated](#)

Rob Nichols, American Banker, 2/18

For customers, a loan is a loan and a payment is a payment. They don't care whether a bank provides the service. Because of some regulatory gaps and uncertainty, they should. For example — as [Slate reported](#) last year — customers

of the popular peer-to-peer payment company Venmo have found themselves subject to lapses in data security and transparency that a bank regulator would never allow.

The features may be the same regardless of whether the company has a charter or not, but the confusion about who regulates whom — and in what ways — is leading to gaps in consumer protection. Will privacy be respected? Will data be protected? Are fintech startups cybersecurity ready? Customers need clarity. Many nonbank fintech firms also crave a clearer regulatory environment so they can show investors that their growth won't be erased if the regulatory environment sees sudden shifts.

Bank Branches Are Still Good for at Least One Thing

Robert Barba, American Banker, 2/17

For the banking industry, consumers' perhaps fickle nature presents a chicken-and-egg problem: Do consumers want a mix of digital and in-person banking, or does the inadequacy of current digital offerings effectively force them to use a second channel? "Today," opening an account digitally "is a process that is not easy; banks have not made it crystal clear or very easy for consumers to become customers via digital channels," said David Albertazzi, a senior analyst at Aite Group.

Rep. Keith Ellison Responds to Protect America's Consumers (Video)

Rep. Keith Ellison YouTube Channel, 2/17

DODD-FRANK (AND CONTINUED ATTACKS)

Who's Ready to Throw Out Dodd-Frank? Swing Voters

Douglas Holtz-Eakin, American Banker, 2/19

On the surface, it may appear that the debate over financial regulation is stuck in a time warp. Candidates continue to rail against Wall Street and threaten to "break up the banks!" Rulemaking for the costly and often counterproductive Dodd-Frank legislation grinds along, with dozens of rules and billions in compliance costs yet to come. But a closer look at voters' attitudes indicates that Dodd-Frank is ripe for reform.

That's the message of new polling by the American Action Forum. Importantly, the poll pays special attention to competitive swing districts whose crucial voters support reforms. For example, competitive district voters thought the inability of borrowers to afford credit caused the 2008 meltdown, rather than regulatory gaps.

The banking industry's rough year could finally test whether Dodd Frank is strong enough

Renae Merle, Washington Post, 2/18

THE ELECTION AND WALL STREET

Progressive and Reform Groups Press Clinton, Sanders to Name Names Who Will Challenge Wall Street

ValueWalk, 2/14

With Thursday's presidential debate shining the spotlight on Wall Street influence and the next president's ability to achieve big change, four progressive and Wall Street reform organizations are launching a joint campaign called Presidential Appointments Matter. The groups are invoking Elizabeth Warren and Chuck Todd, who have each pressed presidential candidates on whether they would appoint people who will challenge Wall Street power to key positions like Treasury Secretary, Attorney General, and SEC Chair.

Rootstrikers, the Progressive Change Campaign Committee, Revolving Door Project, and Public Citizen's Congress Watch are [launching the campaign](#) with supportive statements from **Americans for Financial Reform** and Better Markets.

Left Starts a Petition

Ben White, Politico, 2/16

Via the Progressive Change Campaign Committee, Revolving Door Project, **Americans For Financial Reform**, Rootstrikers, and Public Citizen's Congress Watch: "Wall Street influence is a major issue in the 2016 election. One of the

most consequential things a president can do is appoint people who have a record of challenging Wall Street power. ... As Senator Elizabeth Warren says: Personnel is policy.

"Please give the public some specific examples of people you would consider for key posts that our nation relies on to challenge Wall Street power — including Treasury Secretary, Attorney General, and SEC Chair. And please be transparent about factors you will use when making appointments for these key positions."

[**Director of 'The Big Short' on Clinton: I really want her to see my movie**](#)

Glenn Thrush, Politico, 2/15

"I'd really like her to see it," he said, in a half-hour sit-down for POLITICO's "Off Message" podcast, where he described his discomfort with Clinton's coziness with Wall Street and her opposition to re-imposing Glass-Steagall banking regulations that were repealed on her husband's watch.

"I've been tracking money and politics for a lot of years," McKay told me, still buzzing after his first meeting with Warren, at her Capitol Hill office. "There's greed within Wall Street, but it really happened just because our government got captured by the banks. That's it. The government was bought by the banks... So finally I got to the point where Bernie Sanders steps up and he goes, 'I'm not taking any money from banks, from oil companies, Super PACs, weirdo billionaires.' And I'm like, I'm tired of playing this game, that's my guy."

EXECUTIVE PAY

[**Bank of America CEO Now Making Millions Of Dollars More For No Reason**](#)

Ben Walsh, Huffington Post, 2/17

Last year was not a big year for raises in America. Collectively, Americans ended the year seeing their compensation rise just 2 percent. But bank executives are different from you and me. Case in point: Bank of America chairman and CEO Brian Moynihan. On Friday in filing, the bank said it handed Moynihan a 23 percent raise, bringing his 2015 pay to \$16 million at a time when antipathy to Wall Street has become a central theme of the U.S. presidential election.

"Trying to find a persuasive rationale for this kind of pay package is a fool's errand. It's just more evidence of a system run amok," said spokesman Jim Lardner of **Americans For Financial Reform**, a financial group that is pushing for regulators to pass rules on executive compensation as laid out in the Dodd-Frank financial reform law passed in 2010.

FEDERAL RESERVE

[**Federal Reserve's Risky Decision to Loosen Bank Capital**](#)

Antony Currie and Gina Chon, NY Times, 2/18

The Federal Reserve is playing with fire on bank capital. The watchdog is allowing Capital One to buy back \$300 million more in stock than was initially permitted under the most recent Dodd-Frank Act stress tests last year. That's good news for lenders, but it singes the central bank's reputation for toughness.

The buyback will not put Capital One in danger of being undercapitalized. It represents around 0.11 percentage points of risk-weighted assets, according to Evercore ISI, and the bank passed last year's stress test with a level of capital reserves more than 3 percentage points above required minimums. The purchase also fits squarely within a loophole that allows banks to increase buybacks under certain conditions.

[**NY Fed Warns Asset Managers**](#)

Robbin Wigglesworth, Financial Times, 2/19

The New York Federal Reserve has warned that asset managers are vulnerable to quasi-bank runs that can cause 'significant negative spillovers' across financial markets. The combination of deteriorating trading conditions - especially in corporate bonds - combined with the swelling of the US mutual fund industry that promises investors the ability to redeem money at a moment's notice has become an increasing concern for some policymakers, fund managers and analysts...

HEDGE FUNDS AND PRIVATE EQUITY FUNDS

[North Dakota has 'big concern' with hedge funds buying oil assets](#)

Ernest Scheyder, Reuters, 2/17

North Dakota's energy regulator said on Wednesday he is worried about hedge funds and other investment groups buying oil assets in the state and conducts background checks on potential acquirers. Billions of dollars in investment capital have started to flow toward the oil industry, with fund managers and others sensing a long-term buying opportunity for wells, pipelines and other energy assets. Lynn Helms, head of North Dakota's Department of Mineral Resources, said he is worried some buyers might have a lack of experience running oil or natural gas facilities, which normally pose safety risks.

"It is a big concern," Helms said on a conference call with reporters to discuss monthly oil production. Under North Dakota law, producers must bond their wells so the state has insurance to pay to plug wells in case an operator abandons an oil field. Because the state regulator has control over those bonds, Helms or his supervisors at the North Dakota Industrial Commission could block potential asset sales by not approving a bond transfer, a nightmare scenario for an industry eager for any kind of cash infusion.

HIGH SPEED TRADING AND FINANCIAL TRANSACTION TAX

[What Would Happen if Bernie Sanders Taxed Wall Street?](#)

John Carney, Wall St. Journal, 2/14

Bernie Sanders wants to raise a lot of money from Wall Street. Mr. Sanders's plan isn't to ask Wall Street for money. It's to demand it in the form of a financial-transaction tax. Proponents claim the tax would collect tens of billions of dollars, discourage speculative and high-frequency trading, and make markets safer and less volatile. Its opponents say the revenue estimates are overstated and the tax will actually make markets more volatile.

Mr. Sanders wants to use funds raised by this tax to pay for his college-education agenda, which includes making public colleges free, cutting interest rates on student loans and increasing financial aid. The costs of these proposals—\$75 billion per year by Mr. Sanders's count—could be fully paid by the tax, according to Mr. Sanders.

INVESTOR PROTECTION AND THE SEC

[White vows to forge ahead on fiduciary duty, third-party exams despite diminished SEC](#)

Mark Schoeff Jr., Invesntment News, 2/19

Despite missing two of its five members, Securities and Exchange Commission Chairwoman Mary Jo White said Friday the agency will forge ahead on rules to raise investment-advice standards and enhance oversight of advisers.

"At the moment, as you know, we are a commission of just three members, but — as has occurred in the past — we can carry forward all of the business of the commission," Ms. White said at the Practising Law Institute conference in Washington. "And, while we look forward to welcoming new colleagues, Commissioners Stein, [Michael] Piwowar and I are fully engaged in advancing the commission's work."

[SEC's Stein: ETFs need more scrutiny](#)

Patrick Temple-West, Politico, 2/19

Increasingly-exotic exchange-traded funds (ETFs) should face greater scrutiny to determine if the popular investments are suitable for all investors, the SEC's Democrat commissioner said today. As investors are pulling cash out of actively-managed mutual funds and investing in passive ETFs, new types of these products are being offered that are complex and risky. To make sure investors are properly protected, the SEC needs to pay more attention to ETFs, Commissioner Kara Stein said in a speech.

Watchdog clears U.S. SEC's in-house judges of bias allegations

Suzanne Barlyn, Reuters, 2/16

An investigation into allegations that U.S. Securities and Exchange Commission in-house judges are prodded to favor the agency in enforcement cases did not uncover evidence to support those claims, the agency's watchdog said in a report. The investigation by the SEC's Office of Inspector General followed a May 6, 2015 story in the Wall Street Journal, suggesting that chief SEC administrative judge Brenda Murray tried to sway agency judges to rule against defendants.

Murray's remarks to the judges, however, were not related to outcomes in cases they handled, but whether their decisions were timely and procedurally sound, according to a 26-page report sent by SEC Inspector General Carl Hoecker to SEC Chair Mary Jo White on Feb. 9.

Ex-Deutsche Bank Analyst to Pay \$100,000 Over Ratings

Liz Moyer, NY Times, 2/17

The [Securities and Exchange Commission](#) on Wednesday [settled with a former stock analyst](#) over accusations that he had failed to tell investors what he really believed about the value of a company's shares he was promoting. Charles P. Grom, who worked for [Deutsche Bank](#), will pay \$100,000 to settle charges by the regulator that his recommendation to buy shares of the retailer Big Lots was inconsistent with his own negative view of the stock, which he privately expressed to a few colleagues and hedge fund clients.

White: Decision on accounting regulator should wait for new SEC commissioners

Patrick Temple-West, Politico, 2/19

Q&A: Nasdaq Inc. CEO Robert Greifeld

Patrick Temple West, Politico, 2/16

MORTGAGES & HOUSING

Clinton housing plan would rely on Congress

Jon Prior, Politico, 2/16

Hillary Clinton has released [a plan](#) to boost mortgage lending in neighborhoods that have stubbornly lagged behind more affluent areas since the housing market's collapse in 2008. But the bulk of the policy will rely on a Congress that remains split over the government's role in lending. A Republican-controlled House would likely balk at Clinton's proposals to provide help with down payments or offer discounts on government-backed home loans through housing counseling programs. However, Clinton could still put part of her plan to work through executive action.

Clinton's campaign pointed to statistics showing 42 percent of black and 47 percent of Latino households own a home, compared with 72 percent of white households. She is framing the proposal around broader plans to address systemic inequality as the primaries turn to states, like South Carolina, that have more minority voters than Iowa or New Hampshire.

Fannie, Freddie Regulator Warns of Risks of Shrinking Capital

Joe Light, Wall St. Journal, 2/18

A top housing regulator on Thursday warned of the risks of shrinking capital at mortgage-finance giants Fannie Mae and Freddie Mac, renewing a call for broad changes to the U.S. housing-finance system. The speech by Federal Housing Finance Agency Director Mel Watt was his most vigorous statement to date that the current state of Fannie and Freddie, which the FHFA regulates, isn't sustainable.

"The challenges and risks we are managing are escalating and will continue to do so the longer the [companies] remain in conservatorship," said Mr. Watt in the speech at the Bipartisan Policy Center in Washington.

See [statement by Wade Henderson](#), President of the Leadership Conference on Civil and Human Rights.

[After Setbacks, Newark Alters a Program to Encourage Home Building](#)

Matt Chaban, NY Times, 2/15

Newark remains undeterred, and on Sunday, it unveiled a new phase of the project in time for Cupid's return: The city will now team up with about half the couples from [the program](#) to build a house for them, which they would then buy. The new plan is intended to remove obstacles that have slowed the process, including designing a home, getting permits or, most challenging of all, finding a bank willing to provide not just a mortgage but a construction loan in one of the most depressed real estate markets in the country.

"We learned that people want this, they are hungry for it," Baye Adofo-Wilson, the deputy mayor for economic and housing development, said at City Hall last week. "We just have to make sure they have the capacity to build a home, and if not, we will help them do the rest."

[Five Star's Delgado Asks Castro to Address Vacant and Abandoned Properties Issue](#)

Brian Honea, DSNews, 2/17

MUNICIPAL FINANCE

[Be wary of who circles in CPS' desperate hours](#)

Kristi Culpepper, Crain's, 2/12

If you look at what most distressed municipalities across the country have in common, one feature sticks out: the persistent use of financial engineering and unconventional debt structures.

Traditionally, municipalities issue fixed-rate, amortizing bonds to finance projects with long useful lives or to refund existing debt at a lower interest rate. In recent years, however, some municipal borrowers (and the professionals hired to advise them) have co-opted less frequently used debt structures. Three motives explain the use of these products in the marketplace: (1) to circumvent statutory debt limits; (2) to avoid enacting politically unpopular spending cuts or tax measures; or (3) to make a final gamble for redemption before filing for bankruptcy. These abusive debt structures include the use of capital appreciation bonds, capitalized interest, and "scoop-and-toss" refundings to postpone making debt payments until future budget cycles. They also include some types of derivatives and pension obligation bonds.

REGULATORY "REFORM"

[Moderate Democrats helped Wall Street avoid regulation in the '90s. They're doing it again.](#)

Mike Konczal, Vox, 2/18

The problem is that financial regulations are just fundamentally different from, say, pollution regulations, or office safety rules, in at least three key ways:

1. The financial system is "constructed" through economic rules in a way more "natural" systems of health and environment are not. Since the effects of financial regulations are determined by economic institutions and other financial regulations, it is virtually impossible to get reliable numbers by considering regulations by themselves.
2. As opposed to more static, natural systems, financial systems are dynamic, evolving constantly to both market conditions and the rules themselves. Static cost-benefit analyses aren't able to correctly compute or conceptualize these changes.
3. Disagreements about the costs and benefits in natural systems can turn to the hard sciences to try to solve them. Disagreements about constructed systems must turn to economists, who use varying economic theories with intractable disagreements. Combined with the problems above, the results are no better than "guesstimates," which will cause weaker rule writing.

There's also a case to be made for the limits of cost-benefit analysis in general, as it tends to undercount benefits even when used in realms for which it's better suited. What's more, empowering OIRA to directly intervene in financial regulations could overwhelm the tiny office. As **Americans for Financial Reform** notes, OIRA "has only 50 employees, as opposed to tens of thousands of employees at the various [financial] regulatory agencies" and "lacks substantive expertise in financial matters.

RETIREMENT SECURITY & FIDUCIARY DUTY RULE

Congress Must Reject Bills That Offer Phony Protections to Retirement Savers

Barbara Roper, Morning Consult, 2/15

As the Department of Labor's rule to strengthen protections for retirement savers moves closer to final adoption, lobbyists for the finance sector are putting up a last ditch effort to stop the rule in its tracks. Toward that end, they have thrown the full weight of their support behind companion House bills that purport to require all retirement investment advisers to act in their customers' best interests, but which would instead further entrench the harmful industry practices the DOL rule is intended to cure.

This issue is vitally important for working families and retirees who struggle to afford a secure and independent retirement. For too long, the financial professionals retirement savers turn to for advice have been free to steer them into investments that are profitable for the firm and the adviser but that expose the saver to unnecessary risks, subpar performance, and excessive costs.

Chamber of Commerce May Sue Over DOL Fiduciary Rule

ThinkAdvisor, 2/17

The U.S. Chamber of Commerce may take legal action or seek a legislative remedy if the Department of Labor's final rule to amend the definition of fiduciary on retirement accounts fails to fix the "significant concerns" raised during the rule's comment period, said David Hirschmann, president and CEO of the Chamber Center for Capital Markets Competitiveness. During a Wednesday briefing at Chamber headquarters in Washington, Hirschmann said that while it's too early to predict whether the next step in opposing DOL's rule to change the definition of fiduciary under the Employee Retirement Income Security Act will be "legislative or in the courts," the Chamber will "only go to court when our members say complying with the rule is impossible."

STUDENT LOANS & FOR-PROFIT EDUCATION

How the student debt crisis affects African Americans and Latinos

Marshall Steinbaum & Kavya Vaghul, Washington Center for Equitable Growth, 2/17

Our first [Mapping Student Debt](#) interactive released this past December revealed [a striking negative relationship](#) between income and delinquency across zip codes. Not surprisingly, we found that higher levels of income are associated with fewer problems with student loan delinquency. In this second installment of the [Mapping Student Debt](#) project, we document that the geography of delinquency is highly racialized.

Zip codes with higher shares of African Americans or Latinos show much higher delinquency. What's more, our analysis finds that among minority student borrowers, those most adversely affected are the middle class—those who have taken out debt to go to college but who haven't been able to find jobs or don't have sufficient family wealth to pay it back.

Regulating Education for Profit

Editorial, Wall St. Journal, 2/16

President Obama's Department of Education has been waging a seven-year war against for-profit colleges. So it's a lesson in the self-interested ways of the modern regulatory state to see a veteran of that war now seeking to profit from education.

Students Testify: For-Profit Colleges Stole Our Futures

David Halperin, Huffington Post, 2/18

Makenzie Vasquez, age 22, told how the San Jose campus of Everest College, operated by noxious Corinthian Colleges, lied to her and left her \$30,000 in debt with no degree. In 2012, recruiters for the school's medical assisting certificate program welcomed her and led her to a room where they promised big salaries. They told her only two people in the last class had failed to graduate. Vasquez's parents had not attended college. She was excited.

Her program, however, was marked by "teachers who weren't there." A student with two months' experience showed other students how to draw blood. Vasquez's budget was tight, and she faced difficulty when Everest started asking

students for an additional \$50 a month. She told the administration that she barely had money for food, and they told her "I needed to get my priorities straight."

[**Education Department Letting For-Profit Schools Off Because They're 'Too Big To Fail,' Report Says**](#)

Shahien Nasiripour, Huffington Post, 2/17

Some giant for-profit colleges are ripping off students and squandering billions of taxpayer dollars, and the U.S. Department of Education is doing little about it because it considers them "too big to fail," a [new report](#) alleges. Chris Hicks, a consultant to unions on student debt issues, argues that the Education Department's refusal to use its vast authority to penalize schools that violate state or federal rules amounts to an abdication of its responsibility to protect students and the integrity of the federal student aid program.

[**Education Dept. Seeks to Clear a Path to Loan Forgiveness and Recover Lost Loans**](#)

Kelly Field, Chronicle of Higher Education, 2/17

Student-loan borrowers who were defrauded by their colleges would have clearer paths to loan forgiveness — and the federal government would be more likely to recover its losses on the debt — under changes being proposed by the Education Department.

The changes, which a panel of negotiators will take up on Wednesday as part of a rule-making process that began last month, would create a new federal standard for judging borrowers' appeals for debt relief and for determining how much forgiveness they should receive. The department's proposal also suggests several warning signs that could serve as "triggers" requiring colleges to submit letters of credit to the department.

[**A year after the student debt strike policymakers are battling over the way forward**](#)

Danielle Douglas-Gabriel, Washington Post, 2/18

[**The Four Ways Colleges Keep Fraud Hidden**](#)

Tariq Habash, The Century Foundation, 2/17

[**New Criteria for Debt Relief**](#)

Michael Stratford, Inside Higher Ed, 2/17

SYSTEMIC RISK

[**Minneapolis Fed's Kashkari Calls for Breaking Up Largest Banks**](#)

Vivien Lou Chen, Bloomberg, 2/16

Dodd-Frank Act didn't "go far enough," biggest banks are "still too big to fail and continue to pose a significant, ongoing risk to our economy," Minneapolis Fed Pres. [Neel Kashkari](#) said in his 1st speech as central banker.

- "We won't see the next crisis coming," Kashkari said in text of speech Tuesday in Washington; he becomes FOMC voter in 2017; doesn't mention monetary policy outlook
- Now is "right time" for Congress to consider going further than Dodd-Frank; risks of not acting "are just too great"
- Must give "serious consideration" to options that include breaking up large banks, turning them into "public utilities" with so much capital they "virtually can't fail," taxing leverage throughout financial system

See [statement](#) from Public Citizen.

[**Banks blindsided by former Bush official**](#)

Zachary Warmbrodt, Politico, 2/16

Kashkari is staking a claim that a handful of banks are still so entrenched in the economy that the government would bail them out in a meltdown. He argues that regulatory safeguards enacted by Democrats and President Barack Obama after the 2007-2009 financial crisis didn't go far enough. And Kashkari is going beyond where other policymakers in his shoes have been willing to go, suggesting the way to fix the problem might be breaking up the biggest banks or forcing them to hold so much capital that they become public utilities.

"There have been a number of regulators who have stated that we still have a too big to fail problem, but they have been reluctant to take that logical next step and say that we need to break up these institutions," **Americans for Financial Reform** Policy Director Marcus Stanley said.

Fed's Neel Kashkari Says Banks Are 'Still Too Big to Fail'

Binyamin Appelbaum, NY Times, 2/16

"There are lines in your speech I can imagine a Bernie Sanders or Elizabeth Warren saying," David Wessel, a former economics editor at The Wall Street Journal who moderated the Brookings event, told Mr. Kashkari during a panel discussion after the speech. "It's not what one expects from a Goldman Sachs Republican."

Bank Breakups: Citigroup Forced to Put Breakup Study Proposal to Vote

Owen Davis, IB Times, 2/19

The Securities and Exchange Commission ruled this week management at the nation's third-largest bank by assets must float a shareholder proposal that, if approved, would require Citigroup to study options for breaking up and to report the findings within 10 months.

According to the language of the proposal, the company would have to appoint a committee "to address whether the divestiture of all noncore banking business segments would enhance shareholder value." Noncore divisions include any part of the company outside of its federally insured retail banking center, Citibank N.A. In other words, Citigroup would have to tell investors whether its parts are more valuable than the company as a whole. The man responsible for the proposal is Bartlett Naylor, a financial policy advocate for the Washington watchdog group Public Citizen.

Dodd-Frank's Risk 'Council' Is Just an Unfocused Bureaucracy this should go in systemic risk not here

Edward Yingling, American Banker, 2/16

Let's look at just how we arrived at the current FSOC. Even before a systemic regulator was proposed by President Obama as part of this big reform package unveiled in June 2009, an FSOC-like concept was under discussion... While ABA and others were advocating a small council with a narrow focus, the original Obama plan went further. It proposed a "Financial Services Oversight Council" consisting of eight agency heads, with a mandate to "facilitate information sharing and coordination, identify emerging issues, [and] advise the Federal Reserve on the identification of firms whose failure could pose a threat to financial stability."

Note that the administration plan had the Fed, not the FSOC, designating "Tier 1" institutions that would be subject to stronger regulation. Once the administration opened up the membership of the council to an unwieldy list of agencies and broadened its scope, it should come as no surprise that Congress, doing what it does best, increased the council's size to a ridiculous 14 members (including 10 voting members), gave it even more powers (including designating "systemically important financial institutions"), and created a large staff to crunch data in the new Office of Financial Research.

The Next Financial Crisis Could be Predicted by a Smarter Economic Model, Experts Say

Amy Nordrum, IB Times, 2/19

A group of financial experts, including the chief economist of the Bank of England, issued a call to action Thursday in a major scientific journal asking scientists for help in building a better economic model. Specifically, they want to incorporate complexity theory, which is already used by scientists to understand webs and systems in physics, computer science, biology and epidemiology. The model they hope to create will allow regulators and central bankers to forecast the impacts of new policies and possibly even anticipate the next financial crisis.

"Truth be told, the workhorse model in economics and finance, God bless it, does come with some strong simplifying assumptions, some of which mean it's not often well equipped to deal with situations of stress," Andy Haldane, chief economist at the Bank of England who co-authored the proposal in Science, said.

[Deutsche Bank and the Big Short](#)

Nick Dunbar Blog, 2/15

I may be late writing about the movie ‘The Big Short’ but it somehow makes sense to have watched it in the week that Deutsche Bank suffered an unprecedented exodus of investors. Leaving aside the maverick hedge fund managers whom Michael Lewis (and this film) have made famous, Deutsche Bank sits at the heart of the story, via its former mortgage derivative trader Greg Lippmann. Ryan Gosling plays the character based on Lippmann in the film, depicting him as a smooth, amoral facilitator for the other characters.

Having met Lippmann and written about him in “The Devil’s Derivatives,” I was left wanting more. While the film hints about Lippmann’s proprietary position against subprime, which was greater than all the other characters’ positions put together, it doesn’t tell us that Lippmann used his short trade to create built-to-fail synthetic CDOs that Deutsche Bank sold to investors around the world, amplifying the financial crisis.

OTHER TOPICS

[How Wall Street Reform Could Give Low-Income Families a Big Boost](#)

Sarah Anderson, Marc Bayard, John Cavanagh, Chuck Collins, Josh Hoxie and Sam Pizzigati, The Nation, 3/7 Edition

A tax on Wall Street, for example, could support a federal “baby bond” program that would grant every American born into a “wealth-poor” family a trust fund accessible at age 18. Individual Development Accounts offer another promising approach: The federal Assets for Independence program allows participants to receive matching funds toward purchasing a home, starting up a business, or enrolling in postsecondary education. Many states have created similar programs, and the Corporation for Enterprise Development has identified 235 organizations that have done the same.

Unfortunately, most of these programs lack the resources necessary to help all of the families that could benefit from them. Taxing Wall Street’s biggest banks could remedy this funding squeeze...

After Senator Elizabeth Warren introduced the 21st Century Glass-Steagall Act, **Americans for Financial Reform** and other allied groups gathered more than 600,000 signatures in support.

[If Pending Supreme Court Consumer or Class Cases End in a 4-4 Tie](#)

Stuart Rossman, NCLC, 2/17