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## AMERICANS FOR FINANCIAL REFORM

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### THIS WEEK IN WALL STREET REFORM April 12 - 18, 2014

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## HIGH-FREQUENCY TRADING AND THE SPECULATION TAX

### [N.Y. Attorney General Sends Subpoenas to High-Speed Firms](#)

**Scott Patterson, Wall Street Journal, 4/16/14**

"New York Attorney General [Eric Schneiderman](#)'s office sent a first wave of subpoenas to more than a half-dozen high-frequency trading firms in an investigation into whether some of the firms have an unfair advantage over other trading outfits, according to a person familiar with the investigation. The attorney general is seeking details about whether the trading firms have secret arrangements with stock exchanges or other trading venues, such as dark pools, that give them the ability to trade ahead of other investors, this person said...

"One strategy under review is known as 'latency arbitrage,' in which a firm takes advantage of differences in delays, or latencies, of trade information distributed between trading venues. While most high-frequency firms subscribe to superfast data feeds, many other investors, as well as certain trading venues, rely on slower feeds for trade data. Firms using faster feeds can detect trades before other investors can see them and take advantage of the information, traders say."

### [Money Managers Also Drive High-Speed Trading, Berman Says](#)

**Dave Michaels, Bloomberg, 4/16/16**

"The speed and complexity of modern stock markets is partly driven by long-term investors who have adopted strategies pioneered by high-frequency traders, according to a top U.S. securities regulator.

"Trading patterns analyzed by the Securities and Exchange Commission found that money managers use sophisticated computer programs to fill their orders on a variety of private trading venues, including dark pools and over-the-counter markets. Their goals require 'an unavoidable increase in the complexity of our markets, and in a very real sense is also driving the need for more and faster technologies,' said Gregg Berman, one of the SEC's top authorities on high-frequency trading."

### **CME Sued on Claims High-Frequency Traders Bought Access**

**Andrew Harris and Matthew Leising, Bloomberg, 4/14/14**

“[CME Group Inc. \(CME\)](#), owner of the world’s largest futures market, was sued by three of its users who alleged the company sold access to order information to high-frequency traders ahead of other market participants.

“Traders William C. Braman, Mark Mendelson and John Simms claimed the owner of the [Chicago](#) Mercantile Exchange and the Chicago Board of Trade perpetrated “a fraud on the marketplace,” according to a complaint filed April 11 in Chicago federal court.”

### **High-Speed Trader Virtu Said Questioned in N.Y. Inquiry**

**Keri Geiger and Sam Mamudi, Bloomberg, 4/17/14**

### **High-Frequency Traders Get Curbs as EU Reins In Flash Boys**

**Jim Brunsten, Bloomberg, 4/14/14**

“The curbs are part of revamped EU markets legislation ranging from commodity derivatives speculation to investor protection. The high-frequency trading limits include standards meant to keep the price increment for securities from being too small, mandatory tests of trading algorithms and requirements that market makers provide liquidity for a set number of hours each day.

“With these rules the EU is putting in place one of the strictest set of regulations for high-frequency trading in the world,’ EU financial services chief [Michel Barnier](#) said in an e-mail. ‘While HFT trading might bring some benefits, we need to make sure that it doesn’t cause instability, and isn’t a source of market abuse. That’s what these rules set out to achieve’.”

### **High-Frequency Fightback Starts in Foreign Exchange**

**Lucy Meakin, Bloomberg, 4/17/14**

“Foreign-exchange dealers say they have the solution to the high-frequency trades eroding banks’ profits across financial markets. A currency-dealing platform known as [ParFX](#), established in 2011 by firms from Deutsche Bank AG to Citigroup Inc., was approached last month by banks asking if its technology could be applied to other asset classes, Chief Executive Officer Dan Marcus said this week. The system works by pausing trades at random to prevent dealers with high-powered computers from jumping in front of investors and gaining an advantage...”

“Relatively light regulation and high volumes make the \$5.3 trillion-a-day foreign-exchange market a prime target for high-frequency traders. More than 35 percent of spot currency volume in October was by speed traders, up from 9 percent five years earlier, according to the Boston-based consultancy Aite Group LLC. About 30 percent to 35 percent of currency transactions on ICAP Plc’s EBS system were high-frequency trades, the [Bank for International Settlements](#) said in a December [report](#).”

### **Goldman Says It Has No Plans to Exit Dark Pool Business**

**Rachel Abrams, New York Times, 4/17/14**

### [Michael Lewis Is Right: Our Trading System Is Broken](#)

**David Sirota, Salon, 4/17/14**

“The technical architecture of high-frequency trading is right out of a sci-fi movie: The schemes rely on algorithms that seem artificially intelligent, and the velocity of transaction signals approach light speed. As Lewis recounts, all that technological wizardry is marshaled to let insiders know information before everyone else, which consequently lets those insiders extract wealth from the market.

“The good news is that a financial transaction tax can at once raise public resources and disincentivize the most predatory schemes. The even better news is that structural changes in the industry have made such a tax more economically viable than ever... The idea is that if a tiny fee is slapped on securities transactions — say, a cent — the tax will barely affect the average investor but will force high-frequency, high-volume traders to pay a lot. Consequently, those predators might see less of an upside from — or even abandon — their market-rigging schemes. And if they don’t, then at least the government will generate new resources to enforce laws protecting average investors.”

### [High-Frequency Trading Firm Virtu Postpones IPO](#)

**CNBC.com, 4/17/14**

### [Chicago Firms Subpoenaed in High-Speed Trading Probe](#)

**Crain’s Chicago Business (Bloomberg), 4/17/14**

## **EXECUTIVE COMPENSATION**

### [Executive Pay: Invasion of the Supersalaries](#)

**Peter Eavis, New York Times, 4/12/14**

“[T]he median compensation of a chief executive in 2013 was \$13.9 million, up 9 percent from 2012, according the Equilar 100 C.E.O. Pay Study, conducted for The New York Times. The 100 C.E.O.s in the survey took home a combined \$1.5 billion last year, a slight rise from 2012. And the pay-for-performance metrics — particularly the idea of paying executives with stock to align their interests with shareholders — may even have amplified that trend. In some ways, the corporate meritocrat has become a new class of aristocrat.

“Economists have long known that high executive pay has contributed to the widening gap between the very rich and everyone else. But the role of executive compensation may be far larger than previously realized...

“In coming months, a new corporate disclosure could add fuel to the debate over executive pay and inequality. In 2010, as part of the Dodd-Frank Act, Congress passed a rule that requires public companies to disclose the ratio of the C.E.O.’s pay to the median compensation at the firm. The main objective was to give shareholders a yardstick for comparing pay practices across companies, said Senator Robert Menendez, Democrat of New Jersey, who sponsored the provision.”

### [The Pay at the Top](#) (Graphic)

**Alastair Dant and Karl Russell, New York Times, 4/12/14**

### [The Pay's the Thing: How America's CEOs Are Getting Rich Off Taxpayers](#)

**Susan Holmberg, Next New Deal, 4/16/14**

“Congress is long overdue to close the performance pay loophole. The Supreme Court just made that harder. Thanks to *Citizens United* and now the *McCutcheon* decision, the same CEOs who are benefitting from the loophole are much freer to draw upon the corporate coffers to donate big money to politicians to maintain these loopholes.

“Nevertheless, there is potential for getting it done. Senators Blumenthal (CT) and Reed (RI) have introduced the Stop Subsidizing Multi-Million Dollar Corporate Bonuses Act (S. 1476), which would finally end taxpayers’ subsidies to CEOs by closing the performance pay loophole and capping the tax deductibility of executive pay at \$1 million. In the House, Rep. Lloyd Doggett (D-Texas) has introduced a companion bill, HR 3970.”

### [U.S. CEOs Made 331 Times Average Worker, Says AFL-CIO](#)

**Brian Wingfield, Bloomberg, 4/15/14**

“April 15 is known across America as a day of reckoning, when many workers must fork over unpaid taxes. AFL-CIO President Richard Trumka says that for corporate executives, tax day “represents making massive sums of money from the sacrifice of others.”

“The labor federation today released its annual ‘Executive Paywatch,’ website showing that CEOs of the Standard & Poor’s 500 Index companies made 331 times more than the average worker last year. It’s part of the group’s broader campaign to nudge Congress to raise the federal minimum wage to \$10.10 an hour from \$7.25.”

### [Pay for Performance? It Depends on the Measuring Stick](#)

**Gretchen Morgenson, New York Times, 4/12/14**

“Year after year, as [executive pay](#) continues its inexorable climb, it’s amusing to watch corporate directors try to justify the piles of shareholder money they throw at the hired help. Check out any proxy filing for these arguments, which usually center on how closely and carefully the executives’ incentive compensation is tied to the performance of company operations.

“But pay for performance is only as good as the metrics used to determine it. And as a [recent study](#) shows, some metrics — including the most popular — are downright ineffective at motivating executives to create shareholder value.”

## **CONSUMER FINANCE AND CFPB**

### [How Payday Lenders Prey Upon the Poor — and the Courts Don’t Help](#)

**Emily Bazelon, New York Times Magazine, 4/18/14**

“In 2003, Tonya Burke was living in North Carolina with her two children when she got into financial trouble. She had fallen \$500 behind on her rent and utilities, and neither of her boys’ fathers was able to chip in. Then she needed to take time off from work when her younger son, who was only 8 months old, had to have emergency intestinal surgery. After his recovery, she started working for \$11 an hour as a secretary, ‘but my paychecks weren’t enough to cover the back bills and the new ones too,’ she says. ‘I was at a point in my life where I didn’t want to ask anyone else for help.’ There was a payday lender across the street from her office. ‘It seemed like a good solution.’

“Even though North Carolina made payday lending illegal in 2001, five lenders got around the law by affiliating with out-of-state banks to offer short-term, high-interest loans. So Burke was able to walk into a storefront owned by Nationwide Budget Finance and leave with a cashier’s check for \$600. When the loan came due on her next payday, however, she couldn’t pay it and immediately began to fall behind on the fees. So she took out another loan to cover the first one. And then took out another to cover that one — and then another and another. Eventually she wound up with seven loans, each for only hundreds of dollars, but with annual interest rates of 300 to 500 percent. It wasn’t long before the lenders started calling, she says, threatening with jail if she couldn’t make her payments.”

### **[Banks to Payday Lenders: Quit the Business or We’ll Close Your Account.](#)**

**Danielle Douglas, Washington Post, 4/14/14**

“LePage is part of a wave of payday lenders who say they are being persecuted by banks at the behest of federal regulators. Already under siege by the Obama administration for flouting state laws, payday lenders now face a more subtle but potentially devastating assault from banks threatening to cut off their access to the financial system unless they stop offering the high-interest, small-dollar loans...”

“But the FDIC and the Office of the Comptroller of the Currency both recently warned banks against offering a payday-like loan known as a ‘direct-deposit advance,’ in which banks give customers quick cash in exchange for authority to draw repayment directly from their paychecks or disability benefits. All six large banks that offered the service, including Wells Fargo, got out of the business earlier this year.

“The regulators also told banks to expect greater scrutiny of clients who offer such loans, prompting some bankers to complain that they are being forced to police their customers.”

### **[Fifth Third, Capital One Cut Off Payday Lenders](#)**

**Kevin Wack, American Banker, 4/16/14**

### **[Predatory Payday Lenders Try to Hide Behind Indian Tribal Immunity; Public Justice Urges High Court Review](#)**

**Leslie Bailey and Paul Bland, Public Justice, 4/16/14**

“Now, some payday lenders are trying a new tactic: claiming that they are owned by Indian tribes, which have immunity from many state laws. The problem is that most of these arrangements are a joke—the Indian tribe lends its name to a pre-existing lending enterprise, and corporate documents are drawn up to give the impression of a tribal business, but all the money is put up by a few non-Indians who are near billionaires, and nearly all the profits are funneled away from the tribes and into the pockets of the non-Indians who call the shots.”

### **[When ‘Liking’ a Brand Online Voids the Right to Sue](#)**

**Stephanie Strom, NY Times, 4/16/14**

“General Mills, the maker of cereals like Cheerios and Chex as well as brands like Bisquick and Betty Crocker, has quietly added language to its website to alert consumers that they give up their right to sue the company if they download coupons, “join” it in online communities like Facebook, enter a company-sponsored sweepstakes or contest or interact with it in a variety of other ways...”

“Credit card and mobile phone companies have included such limitations on consumers in their contracts, and in 2008, the magazine Mother Jones published [an article](#) about a Whataburger fast-food restaurant that hung a sign on its door warning customers that simply by entering the premises, they agreed to settle disputes through arbitration.”  
Would be better to use quote that explains what's new and far reaching about this, rather than this pretty isolated example about whatta burger.”

### **[CFPB Gets Results for Consumers... and Taxpayers, Too](#)**

**Ed Mierzwinski, US PIRG, 4/14/14**

“Last week, the [CFPB ordered Bank of America to refund \\$727 million to consumers](#) for deceptive marketing of credit card add-on products, including identity theft protection and payment protection/debt cancellation insurance. I've written extensively about just how [tawdry and junky these products are](#).

It's the CFPB's 5th such case against a big credit card company. Total refunds to consumers for all five cases, including the 4 others against Capital One, Discover, American Express and JPM Chase, total nearly \$1.5 billion dollars. Add the refunds to consumers from CFPB's two other cases for different credit card violations, against AmEx and GE Capital Retail Bank, and refunds directly to consumers from credit card wrongdoers alone total \$1.6 billion. The CFPB is certainly getting results for consumers. The PIRG-backed **Americans for Financial Reform** has a [running chart listing all the CFPB's enforcement actions](#).

“But since tomorrow is tax day, it's also important to recognize that taxpayers also benefited from CFPB's action. [CFPB's consent agreement ordered BofA not to take a tax writeoff \(nor seek indemnification\) on the \\$20 million civil penalty](#) it also was required to pay into the CFPB's Civil Penalty Fund...”

### **[Customers Can Lose When Banks Shuffle Payments](#)**

**Ann Carrns, New York Times, 4/11/14**

“While some banks have made changes, half of the country's big banks still may reorder your daily transactions in a way that maximizes the potential fees you will pay if you overdraw your account, according to a report released this week by the Pew Charitable Trusts.

“The report scrutinized the practices of 44 of the largest banks based on deposits. It found that half still reorder transactions from the largest amount to the smallest amount — known as “high to low” posting — rather than processing them either from the smallest to largest amount, or in chronological order. High-to-low posting tends to result in fees being applied to several smaller amounts, rather than one fee applied to a single, larger amount.”

### **[CFPB Adds Five Years to Remittance Fees Disclosure Rule](#)**

**Nicholas Ballasy, Credit Union Times, 4/15/14**

“The CFPB proposed changes on Tuesday to its international money transfer rule. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, banks and credit unions are able to estimate third-party fees and exchange rates when providing remittance transfers to their accountholders until July 21, 2015.

“If finalized, the CFPB’s proposal would extend the temporary exception by five years until July 21, 2020. ‘Insured institutions can only use this exception when they cannot determine the exact amounts for reasons beyond their control,’ the CFPB said.”

### [CFPB Proposes Rule Change So Banks Can Send Your Money Overseas](#)

**Ashlee Kieler, Consumerist, 4/15/14**

## **DERIVATIVES & THE CFTC**

### [Advocates Fear Sabotage of Wall St. Rules](#)

**Peter Schroeder, The Hill, 4/13/14**

“Advocates for tougher rules on Wall Street are crying foul about legislation that is rapidly moving through Congress, arguing it would unravel key protections put in place after the financial crisis... But advocates for cracking the whip on Wall Street say the measure would handcuff the derivatives regulator and make it significantly easier for the financial industry to operate in the shadows...”

“For example, the legislation requires the CFTC to conduct a cost-benefit analysis when proposing any new rules. In a letter opposing the measure, the group **Americans for Financial Reform** said the CFTC already has to conduct some of this analysis, and that the bill would more than double the factors that they have to consider. The end result would allow the industry to ‘indefinitely delay’ new rules or defeat them in court, the group warned.”

### [Some Investors Warn: Mandatory U.S. Derivatives Backstop Not Safe Enough](#)

**Katy Burne, Wall Street Journal, 4/14/14**

“Some large investors are warning that the plumbing touted by regulators as a key safety net for the financial system still isn’t safe enough, a year after it became mandatory in the U.S. to use clearinghouses to backstop certain derivatives.

“[BlackRock](#) Inc., the world’s largest asset manager with \$4.3 trillion under management, and Pacific Investment Management Co., which oversees \$1.9 trillion, want clearinghouses to have more of their own money at risk to cushion against potential defaults. Banks and large investors want the clearinghouses to share more of the burden for backstopping potential failures by members, they said...”

“Clearinghouses seek profits by charging fees to guarantee that trading partners honor their financial obligations by holding on to collateral. They guarantee that obligations such as payments or delivery of securities are completed even if clearinghouse members default, which happened during the financial crisis when banks collapsed and markets tumbled.”

### [SEC Advances Final Set of Swaps Rules](#)

**Andrew Ackerman, Wall Street Journal, 4/17/14**

## ENFORCEMENT

### [SEC Catching Minnows, Not Sharks](#)

**Darrell Delamaide, USA Today, 4/15/14**

“Few fishermen would take as much pride displaying the catch of a minnow as the Securities and Exchange Commission did last month when a federal judge imposed an \$825,000 fine on a Goldman Sachs junior executive for misleading customers about a dubious investment.

“A good six years after wildly speculative trading by Wall Street banks delivered hundreds of millions in bonuses to top executives while bringing the global financial system to its knees and billions in losses to investors, the best the SEC can manage against these big banks and their executives is this single judgment of a bit player who was only 28 at the time.”

### [Trillion-Dollar Firms Dominating Bonds Prompting Probes](#)

**Lisa Abramowicz, Bloomberg, 4/14/14**

“[Bill Gross](#) and [Larry Fink](#) manage a \$3 trillion pile of bonds -- an amount almost as big as Germany’s economy. Their firms, Pacific Investment Management Co. and [BlackRock Inc. \(BLK\)](#), doubled holdings since 2008, outpacing the market’s growth of 50 percent.

“Some of the largest hedge-fund firms, including Bridgewater Associates LP and BlueCrest Capital Management LLP, have also more than doubled their investments in debt, data compiled by Bloomberg show. At the same time, [Wall Street](#) banks are shrinking their stakes in bonds, Federal Reserve data show.

“The lopsided [bond market](#) has caught the attention of the U.S. Securities and Exchange Commission. Not only is the SEC examining whether the biggest players get preferential prices and access because of their influence, it’s also worried about what happens when the five-year [bond rally](#) ends as U.S. policy makers prepare to raise [interest rates](#).”

### [First Fed Enforcement Meeting Since 2010 Follows Warren Request](#)

**Jeff Kearns, Bloomberg, 4/17/14**

“The Federal Reserve Board of Governors met to consider bank enforcement actions for the first time since November 2010, after Chair [Janet Yellen](#) pledged to Senator [Elizabeth Warren](#) in February to step up the board’s involvement in bank supervisory and regulatory matters.

“Yellen, in a Feb. 27 [appearance](#) before the Senate Banking Committee, agreed to a request by Warren, a Democrat from Massachusetts, for greater board involvement in supervision. The Fed oversees about 6,000 banks. Yesterday’s board meeting was closed to the public, and a [notice](#) on the agenda said only that governors considered an enforcement matter and were briefed on financial markets, institutions and infrastructure. Still, the gathering represents a step toward greater transparency because board deliberations are more likely to be made public in the future than staff meetings, according to Mark Calabria, a former Senate Banking Committee aide.”

### [Lawsky Said to Subpoena Credit Suisse in Tax-Evasion Case](#)

**Greg Farrell and David Voreacos, Bloomberg, 4/16/14**

“[Benjamin Lawsky](#), the superintendent of New York’s Department of Financial Services, sought records from the firm’s New York operations, including e-mails, travel records, calendars, payroll information and material on hard drives, according to the person. He also is seeking information on Roger Schaerer, a former top manager at the New York office, and on executives who worked with Schaerer, the person said, asking not to be identified because the probe is confidential.

“Lawsky opened the inquiry last month, asking the bank for documents, as well as materials gathered by the U.S. Senate’s Permanent Subcommittee on Investigations, which also has examined the bank. Credit Suisse has been looking to resolve an earlier federal investigation of its alleged role in helping Americans evade taxes, a probe that already prompted the Zurich-based bank to book more than \$1 billion in legal provisions and fines.”

### [N.Y. Financial Regulator Sends Subpoena to Credit Suisse in Tax Evasion Probe](#)

**Andrew R. Johnson, Wall Street Journal, 4/15/14**

### [SEC Files Charges in Pyramid Scheme Targeting Immigrants](#)

**Maria Armental, Wall Street Journal, 4/17/14**

## **FEDERAL RESERVE**

### [Yellen Lays Groundwork for Rules on Short-Term Credit Markets](#)

**Ryan Tracy, Wall Street Journal, 4/15/14**

“Federal Reserve Chairwoman [Janet Yellen](#) began building the case for more regulation of the short-term credit markets that seized up during the financial crisis. [Ms. Yellen on Tuesday](#) said reining in “shadow banks” that operate in the multitrillion-dollar short-term markets, combined with additional curbs on the largest financial firms, may provide ‘social gains’ that outweigh the costs...

“While the Fed already has adopted a number of new rules for the biggest banks, Ms. Yellen and other regulators are concerned more work remains to address the dangers posed by a system that is reliant on short-term funding, which can freeze up during times of market stress.

“The Fed has coalesced around two options. One would force banks to hold more capital to guard against losses in the short-term credit markets. The other would target firms that aren’t traditional banks by forcing everyone in the markets to hold a minimum amount of collateral, which could reduce the risk of widespread calls to pay back loans during a panic.”

### [Yellen Says Higher Capital Rules May be Needed for Big Banks](#)

**Steve Matthews, Bloomberg, 4/15/14**

“A study by the Basel Committee on Banking Supervision ‘provides some support for the view that there might be room for stronger capital and liquidity standards for large banks than have been adopted so far,’ Yellen said in prepared remarks for a speech in Stone

Mountain, [Georgia](#). ‘Tightening risk-based capital and liquidity requirements would, on net, provide economic benefits’...”

“Some ‘measures -- such as requiring firms to hold larger amounts of capital, stable funding, or highly liquid assets based on use of short-term wholesale funding -- would likely apply only to the largest, most complex banking organizations.’”

**[Yellen Says Federal Reserve Considering Tougher Rules For Big Banks](#)**  
**Jim Puzzanghera, Los Angeles Times, 4/15/14**

**[Senators Urge Ban on Banks’ Physical Commodity Ownership](#)**  
**Cheyenne Hopkins and Jesse Hamilton, Bloomberg, 4/17/14**

“U.S. banks including [Goldman Sachs Group Inc. \(GS\)](#) should be banned from owning commodities businesses because they could threaten the institutions and global supply chains, Senators Sherrod Brown and [Elizabeth Warren](#) told the [Federal Reserve](#).

“Financial holding companies ‘should be prohibited from owning physical assets like warehouses, pipelines and tankers,’ Democrats Brown of Ohio and Warren of [Massachusetts](#) said in a letter to the Fed yesterday. “These activities pose significant safety and soundness, legal and reputational risks to the institutions.”

“The Fed yesterday concluded a comment period on risks posed by bank ownership and trading of commodities such as oil, gas and aluminum, and the possible benefits of imposing additional capital standards on such activities. The Fed announced on January 14 that it was seeking comment on curtailing banks’ involvement in the physical commodities business and other non banking activity.”

**[Reform Group Questions Fed On Big Bank Commodity Ownership](#)**  
**Mark Melin, Value Walk, 4/17/14**

“Should banks own and trade commodities? Citing a recent trend towards manipulative behavior, **Americans for Financial Reform** argues that the Fed should take for strong action to reduce bank ownership of [physical commodities](#).

“‘Episodes of market abuse raise serious questions as to whether bank participation in commodities provides a clear public benefit, questions that the Board has not adequately answered,’ the financial reformers said in a letter to the US Federal Reserve.”

See [AFR Letter](#) of 4/16/14

## **INVESTOR PROTECTION AND THE SEC**

**[SEC’s Mary Jo White Defies Political Meddling in Year One](#)**  
**Dave Michaels, Bloomberg, 4/11/14**

“Mary Jo White took over the Securities and Exchange Commission with a back-to-basics plan to toughen enforcement and clear a backlog of regulations aimed at the last financial crisis.

“Now White and the SEC may be confronting the next crisis: claims that the stock market is rigged. Ending her first year as SEC chairman, White faces a surge of pressure to rein

in high-frequency traders portrayed as the stock market's scalpers in [Michael Lewis's](#) new book, 'Flash Boys.'

A former litigator renowned for her independent streak, White said the agency won't be knocked off its course. The regulator is taking a long view, examining all features of the hyper-fast markets, including high-frequency traders, and using a 'data-driven, disciplined approach'."

### **No, the SEC Didn't Collude With Goldman Sachs On CDOs**

**Matt Levin, Bloomberg View, 4/11/14**

"So, sure: The SEC and the banks often work together toward common goals; often their interests are aligned. Sometimes that alignment is over getting regulation right, or agreeing on what banks can and cannot do. But sometimes they find common ground in the midst of disagreement: When the SEC thought the banks had committed fraud, and the banks thought they hadn't, they found that it was in both of their interests to resolve the cases in a way that made the SEC look good. That's how compromises are made."

### **SEC Charges Advisory Firm with Misleading Investors**

**Matthias Rieker, Wall Street Journal, 4/15/14**

## **MORTGAGES, FORECLOSURES & HOUSING**

### **Fannie Mae Selling to Investors Backpedals on Homebuyers**

**Heather Perlberg, Bloomberg, 4/11/14**

"[Fannie Mae \(FNMA\)](#) is selling more of its foreclosed properties to investors as prices rise, limiting homebuyers' access to cheap housing.

"When a Fannie Mae-owned loan defaults, the mortgage company acquires and sells the property. Fannie Mae, one of the largest sources of foreclosed homes on the market, sold 55 percent of its repossessed houses to individuals, non-profits and local governments last year, compared with 57 percent in 2012 and 59 percent two years earlier, according to a regulatory document."

### **A Settlement on Soured Mortgages May Raise Questions on What Is Enough**

**Peter Eavis, New York Times, 4/16/14**

"One of the unsettled questions from the financial crisis is whether the big banks have paid enough to cover the mortgage abuses they committed before the market collapsed. A settlement announced Wednesday that involves [Bank of America](#) indicates that, in some cases, the banks could have been made to pay more than they have.

"Bank of America agreed to pay a combined \$950 million to the Financial Guaranty Insurance Company, a bond insurer, and a group of investors that includes Fir Tree Partners, a New York hedge fund. In litigation, Financial Guaranty contended that [Countrywide Financial](#), the mortgage giant that Bank of America bought in 2008, had packaged defective home loans into bonds that were then sold to investors."

### **Bank of America, Weighed by Legal Costs, Posts Loss**

**Michael Corkery, New York Times, 4/16/14**

“The bank recorded \$6 billion in legal costs, which led it to report a \$276 million loss in the quarter. The bank’s results, which were released on Wednesday, missed analysts’ expectations and obscured otherwise decent results in its consumer and investment banking businesses.

“The disappointing news shows how Bank of America is still paying for its mortgage problems nearly six years after the financial crisis. And other large pending mortgage cases could continue to weigh on future earnings, including those involving the Justice Department and multiple state regulators.”

### **JPM Cut 3,000 Mortgage Employees in 1Q**

**Brian Collins, American Banker, 4/11/14**

### **Ginnie Mae Nixes Bank of America Mortgage Servicing Transfer**

**Kate Berry, National Mortgage News, 4/15/14**

“Ted Tozer, the president of Ginnie Mae, says he has held up the transfer of servicing rights by B of A "for an extended period" because the bank is not complying with agency’s guidelines that require all mortgage documents be delivered to custodians in a timely manner...

“For now, the Government National Mortgage Association, known as Ginnie Mae, is trying to assess the magnitude of the problem of missing documents. Ginnie now plans to send letters this month to about 10 of the largest mortgage servicers – including B of A, JPMorgan Chase (JPM) and Wells Fargo (WFC) – that take part in a special program to expedite servicing transfers.”

### **Quelle Surprise! Ginnie Mae Says Bank of America Has Lots of Servicing Documents Missing; MERS Also in Hot Water**

**Yves Smith, Naked Capitalism, 4/17/14**

“An article by Kate Berry in American Banker earlier this week hasn’t gotten the attention it deserves. Anyone who was paying attention to the mortgage beat in 2010 through 2012 knew that mortgage securitization originators and servicers were playing fast and loose with critical documents like mortgage notes because they couldn’t be bothered to observe their own contracts and transfer them to the mortgage trust as stipulated.”

### **Wells Fargo, JPMorgan Vexed by Low Demand for Mortgages**

**Zachary Tracer, Bloomberg, 4/11/14**

“Slack demand for home loans continued to drag on earnings at [Wells Fargo & Co. \(WFC\)](#) and [JPMorgan Chase & Co. \(JPM\)](#), as the two largest U.S. mortgage lenders grappled for pieces of a shrunken market.

“Even as interest rates hovered near [historically low levels](#), new home loans tumbled 67 percent to \$36 billion in the first quarter at San Francisco-based Wells Fargo, the biggest originator. JPMorgan posted a 68 percent drop to [\\$17 billion](#), and the bank predicted it would lose money on mortgage production for the full year.”

## STUDENT LOANS AND FOR-PROFIT COLLEGES

### [States Crack Down on For-Profit Colleges, Student Loan Industry](#)

**Adrienne Lu, Stateline, 4/14/14**

“[Thirty-two states](#) are now working together under the leadership of Kentucky Attorney General Jack Conway to investigate potential abuses in the for-profit college industry, which saw enrollment more than triple between 1998 and 2008, according to the Consumer Finance Protection Bureau.

“One reason for the concern is the amount of taxpayer dollars involved: Some for-profit colleges receive 90 percent or more of their revenue from the federal and/or state governments in the form of student aid.

“While some for-profit schools offer quality training and legitimate diplomas, we have found that this industry often markets subpar programs to veterans and low-income students who depend on federal aid,” Massachusetts Attorney General Martha Coakley said. “When students don’t receive the training they sign up for, or default on their loans, it not only greatly impacts their future but it also impacts taxpayers who have backed these loans in the first place.”

### [Do 72 Percent of For-Profit Programs Have Graduates Making Less Than High School Dropouts?](#)

**Glenn Kessler, Washington Post, 4/11/14**

“For-profit education institutions are now one of the fast-growing areas in higher education and have a different business model than private universities, which generally don’t pay taxes, and community colleges, which receive state subsidies. For-profit institutions tend to have higher tuition, and a vast majority of their students take out federal loans to pay for that tuition. One [study](#) found that tuition and fees in 2009-2010 for public community colleges averaged just \$2,300 for in-state students, while for-profit two-year colleges charged more than six times as much, averaging \$15,000.

“Academic research suggests there are real differences in earning power between attendees of for-profit colleges and high school dropouts. That’s also intuitive, suggesting there is something basically wrong with the statistic. It’s possible a large percentage of for-profit programs are not serving students well — and that students are emerging from those programs with heavy debts. But this statistic is too fishy to make that case.”

## SYSTEMIC RISK

### [The End of Our Financial Illusions](#)

**Simon Johnson, New York Times, 4/16/14**

“The good news is that the official consensus was shattered in 2008, and is not coming back. Systemic risk slapped everyone in the face with an undeniable wake-up call.

“However, the process of reforming the financial system is still at an early stage. The [Dodd-Frank financial reforms](#) of 2010 represent a useful start — including the [Volcker](#)

[Rule](#)'s restrictions on excessive risk-taking — and the recently adopted [Basel III framework](#) for capital regulation nudges equity requirements higher.

“But the world’s largest banks will, by one informed estimate, end up — as things currently stand — with about 3 percent equity and 97 percent debt as the average structure of their balance sheet liabilities. In the United States, if the [latest leverage rule](#) is implemented and enforced properly, this will become 5 percent equity and 95 percent debt for the biggest eight banks by 2018. While 20:1 is better than 50:1, this is still not enough equity to assure a reasonable degree of financial stability in the foreseeable future.”

### **Raising Big Banks' Leverage Ratio Good, But Not Nearly Enough** **Gerald Epstein, Common Dreams, 4/14/14**

### **European Parliament Approves Laws on Banking Overhaul** **James Kanter, New York Times, 4/15/14**

“The creation of structures that officials have grandly dubbed a ‘banking union’ is one of the biggest steps toward European financial integration since the introduction of the euro more than a decade ago. The negotiations pitted prosperous northern countries like Germany and Finland against France and struggling southern countries like Greece over the issue of how much liability to share for bank failures...

“But even as the union establishes new structures for assessing the health of banks and for rescuing some, and shuttering others that cannot be salvaged — even introducing an element of burden sharing — critics say the plan still is checkered with uncertainties and weaknesses.”

### **Biggest Banks Face Tougher Basel Rule on Risk Concentration** **Jim Brunsten, Bloomberg, 4/15/14**

“Banks identified as systemically important to the global economy face tighter rules on how much business they can do with each other as part of a push to limit the chance a single failure would drag down multiple lenders.

“The [Basel Committee on Banking Supervision](#) published rules that from 2019 will cap one too-big-to-fail bank’s financial dealings with another at an amount no greater than 15 percent of its capital. The measures also refine an existing rule capping the amount of business that a bank can do with a single counterparty at no more than 25 percent of its capital.”

### **Basel Rule Spurs Big-Bank Borrowing From U.S. Home Loan Banks** **Clea Benson, Bloomberg, 4/16/14**

“Four of the nation’s largest banks, led by JPMorgan Chase & Co. ([JPM:US](#)), are driving a surge in borrowing from the Federal Home Loan Bank system as they raise funds to buy assets that meet new liquidity requirements.

“Lending at the 12 regional Home Loan Banks rose 30 percent to \$492 billion between March of 2013 and December 2013, largely the result of advances made to JPMorgan, Bank of America Corp ([BOA:US](#)), Wells Fargo & Co. ([WFC:US](#)) and Citigroup Inc., according to a report released today by the Federal Housing Finance Agency Office of the Inspector General.

“The concentration of Home Loan Bank lending in four large institutions could present safety and soundness risks, the report said. In addition, auditors questioned whether lenders created to support housing finance should be providing funds so banks can meet standards set under the international Basel III accord.”

### [FSB's Carney Seeks Help to End Too-Big-To-Fail](#)

**Jason Douglas and Geoffrey T. Smith, Wall Street Journal, 4/11/14**

“Bank of England Gov. Mark Carney issued a plea to finance ministers and central bank governors this month to get behind efforts to fix one of the thorniest issues in postcrisis financial reform: how to handle the collapse of a bank that operates in many different countries.

“As chairman of the Financial Stability Board, the Group of 20 developed and developing economies’ task force on financial regulation, Mr. Carney wrote April 4 asking for policy makers’ support in the final push to come up with a workable blueprint for “cross-border resolution,” according to a letter published by the FSB Friday.”

### [Why Banking Is Still Too Complex](#)

**Video, American Banker, 4/11/14**

## OTHER TOPICS

### [Elizabeth Warren: White House Wanted Me To Be A "Cheerleader"](#)

**Jake Miller, CBS News, 4/16/14**

“Warren was initially considered a likely nominee to chair the CFPB, but that possibility was derailed after the banking industry expressed concern that she would be too aggressive in the powerful post, throwing the likelihood of her Senate confirmation into doubt...

“According to [the Boston Globe](#), Warren says that an administration official - whom she does not identify - approached her with a proposal: Someone else would be nominated to chair the CFPB, while Warren could serve as the agency's ‘cheerleader.’ Warren recalls how President Obama explained his decision to nominate someone else for the chairmanship instead of her due to objections from Republicans and the banking community.

“‘You make them very nervous,’ Mr. Obama said, according to the memoir.”

### [How Wall Street Avoids Paying Its Fair Share in Taxes](#)

**Marcus Stanley, US News, 4/16/13**

“Like many Americans, you’ve probably just spent a good bit of time figuring out how much you owe in taxes. Most of us fill in the forms and follow the rules. But the rules are a lot more flexible for the largest U.S. corporations, and especially for the major Wall Street financial institutions and their top executives and owners. Banks and financial companies capture more than 30 percent of the nation’s corporate profits, but manage to pay only about 18 percent of corporate taxes while contributing less than 2 percent of total tax revenues, according to the [Bureau of Economic Analysis](#) and the [International Monetary Fund](#).

“What’s more, the owners and senior managers of our major financial institutions can exploit the loopholes in our individual income tax on a far greater scale than the rest of us...”

### **Morgan Stanley and Goldman Sachs Adjust to New Banking Climate**

**Peter Eavis and Rachel Abrams, New York Times, 4/17/14**

“In contrast, Goldman’s \$2.03 billion of net income was a 10 percent drop. Morgan Stanley’s shares, which have soared over the last year, climbed an additional 2.9 percent on Thursday, while Goldman’s edged 0.14 percent higher.

“More than bankers’ bragging rights is at stake, though. The firms’ divergent first-quarter results provide important clues to assess the degree to which Wall Street is changing in the face of an onslaught of new regulations since the crisis. To some analysts, Morgan Stanley’s solid first quarter provides further evidence that it has adapted better than its rivals to a regulatory environment in which banks are less able to swing for the fences.

“Morgan Stanley still does a lot of trading, and that business contributed considerably to its first-quarter performance.”

### **Blackstone Profit Rose 30% in First Quarter**

**William Alden, New York Times, 4/17/14**

### **Bank of America Not Alone in Reporting Anemic Results**

**Antony Currie, New York Times, 4/16/14**

### **Regulator Without Peer**

**Editorial, Wall Street Journal, 4/16/14**

“Drawing largely on government statistics, Mr. Crews estimates that the overall cost of regulatory compliance and its economic impact is about \$1.9 trillion annually. This means that the burden of complying with federal rules costs roughly the annual GDP of Australia, Canada or Italy.

“This regulatory tax makes U.S. businesses less competitive, but it also burdens every American because it is embedded in the prices of all goods and services. Mr. Crews estimates that ‘U.S. households ‘pay’ \$14,974 annually in regulatory hidden tax,’ or 23% of the average income of \$65,596.

“All of this is the fruit of [ObamaCare](#), [Dodd-Frank](#), and the manifold other expansions of government that have marked the Obama years. By far their greatest and most tragic cost has been slower economic growth, which has meant fewer jobs, lower incomes and diminished economic possibilities for tens of millions of Americans.”

### **We Really Don’t Need Eight Banking Agencies**

**Danielle Douglas, Washington Post, 4/11/14**

“Arguably, all of these regulators are needed to keep an eye on the unwieldy, complex operations of today’s big banks. But a [new study](#) from the Bipartisan Policy Center suggests that there are too many cooks in the regulatory kitchen.

“In their role as prudential supervisors, these agencies are out to ensure that banks have enough capital to lend, are not doing things that are too risky and are generally not

endangering the entire financial system. It's not like they don't work together toward that end, but the study argues that each agency has a specific mission that leads regulators to pursue different objectives. As a result, there is duplication of expertise, human resources, operations, planning and management.

“The solution? Consolidation.”

#### **[Ex-CFTC Commissioner Bart Chilton to Join DLA Piper as Policy Adviser](#)**

**Jacob Gershman, Wall Street Journal, 4/14/14**

“Former Commodity Futures Trading Commissioner Bart Chilton is joining DLA Piper as a senior policy adviser, the law firm announced Monday.

“As a CFTC commissioner from 2007 to 2014, Mr. Chilton pushed for tougher Wall Street regulation, [raising alarm](#) about the risks posed by traders who take large speculative bets with certain commodities...

“After helping to craft the complex requirements at the agency, Mr. Chilton will now advise DLA Piper clients on how to comply with them, the law firm said.”

#### **[Why Aren't We Having a Public Debate on Investment Policies in the TTIP?](#)**

**AFL-CIO Blog, 4/17/14**