AFR Americans for Financial Reform

This Week in Wall Street Reform | July 1 — 7, 2017

Please share this weekly compilation with friends and colleagues.
To subscribe, email press@ourfinancialsecurity.org, with "This Week" in the subject line.

TRUMP ADMINISTRATION AND WALL STREET

Cabinet's Tough Task: Lack of Funding, Support for Agency Mission | Washington Post
As the Trump administration sets out to overhaul the federal government, a small group of Cabinet secretaries may have the most daunting task. They are running departments with missions they have sometimes disparaged, with employees who are secretly — and on occasion publicly — hostile.

Across the agencies, these Cabinet members have made very public efforts to court their staff, yet frequently are crafting key initiatives in private. They are forming alliances where they can and skirmishing where they cannot. For the most part they have erected small, secluded citadels within each department, where they can advance policies that reflect the priorities of the -president.

At the Education Department, Secretary Betsy DeVos has been trying to build rapport with a leery staff, dining at times in the employee cafeteria and convening a group of LGBT employees to talk about hot-button issues relating to transgender students. But some employees complain they are being cut out of decision-making. The head of the financial aid division resigned in May, warning in a farewell email of severe constraints being placed on the ability of career officials to "make decisions and deliver on the organization's mission."

Regulators Make New Push to Roll Back Obama Rules | The Hill
The Trump administration is on the hunt for ways to repeal or roll back some of the most controversial Obama-era rules that are already on the books. Federal agency heads have released a flurry of requests for comment in recent weeks, calling on the public to provide data and information that can be used to revise existing rules.

Who Is Wilbur Ross? | The American Prospect
The Senate confirmed Wilbur Ross as Trump's new secretary of commerce by a vote of 72 to 27, with Democrats closely divided. Democrats are understandably conflicted over this appointment. A private-equity billionaire, Ross has also done deals with unions. He poses as a friend of labor, a savior of bankrupt companies, a creator of jobs, a turnaround wizard. He can sound like an economic nationalist. Now, as secretary of commerce, he is the architect of government policies to create jobs in this country. What will that mean?

Ross is worth an estimated $2.5 billion to $2.9 billion, according to various industry estimates. He has made his billions by buying up struggling or bankrupt companies on the cheap. He has used bankruptcy laws to dump health and pension benefits for workers when buying distressed companies. He has relied on the North American Free Trade Agreement and the World Trade Organization to offshore manufacturing jobs to Mexico and Asia; and has taken advantage of tax laws that privilege debt-financing and allow private-equity returns to be taxed at the low capital gains rate. Now as the architect of Trump's infrastructure investment strategy, his stated policy plan would use billions in federal tax dollars to subsidize Wall Street tycoons like himself.

Trump's 'Small Business' Office Solicits Update for Anti-Safeguards Propaganda | Center for Progressive Reform (James Goodwin)

CFPB AND CONSUMER FINANCE

CFPB Protects Americans from Predatory Loan Sharks | The Hill (Michael Calhoun)
Since its inception, the CFPB has brought nearly $12 billion in relief to consumers who have been illegally harmed by financial businesses. Approximately 29 million Americans have directly benefited from this relief. An untold number of other Americans have benefitted as lenders have been deterred and steered away from unscrupulous behavior by CFPB enforcement and supervisory actions.

The bureau has fundamentally changed the mortgage market by cracking down on illegal foreclosure practices, establishing a new standard that requires lenders to verify borrowers' ability to repay their loans and making the terms more straight-forward and easier to understand. It levied a record fine against Wells Fargo for opening accounts without its customers' permission, and it is working now to protect families from abusive payday loans and unfair forced arbitration actions.

The CFPB and its director, Richard Cordray, have been effective in promoting a fairer consumer financial market that has companies compete on value instead of engaging in a race to the bottom.

Consumer Bureau Fights for Veterans | Billings Gazette (Ronald E. Burnum)
With all the controversies brewing in Washington, the Trump Administration probably didn't expect much push back over plans to roll back Wall Street regulation and undermine the Consumer Financial Protection Bureau. Speaking as a citizen, a veteran and a retired lieutenant colonel of the U.S. Army Medical Corps, I am here to say: Not so fast, White House!

The Consumer Bureau was created after the 2008 financial crisis to safeguard Americans against fraud and deceit in a marketplace filled with both. It has gotten off to an excellent start, delivering nearly $12 billion in relief to more than 29 million Americans cheated by banks, payday lenders, debt collectors, and other financial malefactors.

By law, the bureau has a special mandate to protect military families and veterans, because they have long been a target demographic for some of the financial industry's slimiest operators. Since it opened its doors in 2011, the CFPB has closed down a sleazy debt collection scam that used illegal threats to steal more than $2 million from military consumers; gone after "buy here pay here" car dealers, purveyors of phony retail "discounts" and other fraudsters who proliferate around military bases; and worked with the Defense Department to finally put teeth into a 10-year-old law that set a 36 percent annual interest-rate cap on all consumer loans to service members and their families.

CFPB: Five Never, Three Maybe, One for Now | CU Times (Michael Fryzel)
As each day goes by it becomes more likely that Director Cordray will soon voluntarily leave his position, head back to Ohio and run for the Democrat's nomination for Governor.

By just being patient, President Trump will be able to fill the vacancy without having to have fired Mr. Cordray, thereby preventing an issue that would have surely been used in the Ohio contest to benefit Cordray.

Whitepaper Highlights MAPR's Negative Effect on Access to Credit | American Financial Services Association
Until the advent of the "all-in" Military Annual Percentage Rate (MAPR), state legislation that sought to impose interest rate caps used Annual Percentage Rate (APR) definitions consistent with the Truth in Lending Act (TILA). After 2007, a minor trend emerged with some lawmakers attempting to incorporate the MAPR method of calculation into lending laws that applied to all consumers, not just active military personnel. AFSA's white paper provides an overview of measures taken by states to impose rate caps with APR variants more broad than TILA on certain forms of lending. It also highlights legislative trends and recent state legislation that would set rate caps using an APR calculation consistent with TILA.

Redefining APR broadly based on the Department of Defense's MAPR model would have a severe detrimental effect on the ability of financial institutions to continue to provide credit to consumers. All-in rate caps undermine the decades-old, well-understood, and reliable standard set by the TILA calculation of APR and risk creating widespread confusion as to appropriate disclosures for consumers and artificially lowering effective APR.

Judge Approves Credit Repair Companies' $1.5 Million CFPB Settlement | Law 360
A federal judge in Los Angeles on Friday gave his sign-off on a $1.5 million settlement between the Consumer Financial Protection Bureau and a group of consumer credit repair companies for allegedly charging improper fees and making inflated promises about their ability to improve credit scores.

U.S. District Judge John E. McDermott approved the settlement, which will see the credit repair companies — Prime Credit LLC, IMC Capital LLC, Commercial Credit Consultants — as well as two of the firms' top executives — Blake Johnson and Eric Schlegel — pay a total of $1.5 million and engage in compliance monitoring after the bureau accused them of making "misleading, unsubstantiated claims" that they could take nearly any disparaging remark off of consumers' credit reports, according to the CFPB. The companies also charged consumers advance fees before fixing any problems, the CFPB alleged. Such fees are illegal, the CFPB said.

Hensarling Threatens Cordray with Contempt | Politico Pro
House Financial Services Chairman Jeb Hensarling threatened CFPB Director Richard Cordray with contempt, saying he has failed to respond fully to a subpoena request. In a July 5 letter, Hensarling said the bureau missed a May 2 deadline for sending communications related to a proposed rule governing arbitration agreements.

The committee had asked for, among other things, all communication between the bureau and consumer advocates, including the American Association for Justice, the National Consumer Law Center, the National Association of Consumer Advocates and the Alliance for Justice. Any effort to issue a final arbitration rule before complying with the subpoena "may lead to contempt proceedings," Hensarling wrote.

A bureau spokesman did not immediately respond to a request for comment.

Courts, Regulators Must Stop Wells Fargo's Rigged Arbitration System | Morning Consult (Ira Rheingold)
The country's largest banks, such as JPMorgan Chase and Bank of America, eventually made

amends and settled with their customers; all told, the total settlements were more than $600 million on just the largest banks alone. Wells Fargo, on the other hand, refuses to reimburse its customers. Instead, the bank has spent years trying to force its customers into a complicated arbitration process, which would in reality provide little chance of recovering the money that was stolen through these overdraft fees. According to a study from the Consumer Financial Protection Bureau, most customers simply give up when forced to arbitrate, especially for small-dollar claims, considering the time and expense. In the handful of arbitration claims filed in 2010 and 2011, only 9 percent of consumers with affirmative claims obtained relief, recovering only 12 cents of every dollar claimed. In contrast, 93 percent of companies won their claims in arbitration, recovering an average of 98 cents on the dollar.

McWatters to CFPB: Give Us Consumer Protection Authority Over Big CUs | CU Times

AT&T: It's Not 'Forced Arbitration' Because No One Forced You to Have Broadband | Boing Boing

What the D.C. Circuit Decision Vacating Stay of EPA Rule Could Mean for Final CFPB Arbitration and Payday Loan Rules | Consumer Finance Monitor

If Congress Kills Class Actions, The Consequences Could Be Deadly | The Hill (Paul Bland & Leah M. Nicholls)
Class action suits may no longer be possible if an anti-class action bill (H.R. 985) before Congress becomes law. It's already made it through the House and is headed to the Senate. The goal of the bill is to eliminate class actions, exactly like this one, that address defective products.

Representatives of the U.S. Chamber of Commerce (which has vigorously supported the bill and lobbied heavily for its passage) and the bill's sponsor, Rep. Bob Goodlatte (R-Va.), have repeatedly argued that if only some subset of a type of product will manifest a defect, that it should not be possible for everyone who bought the product to bring a legal claim. Instead, the sponsors of the bill argue that only those persons hurt by a product that acted in the defective manner should be able to bring a lawsuit.

Goodlatte's approach may serve the interests of corporations that don't want to be sued (which is probably why so many of them donate money to his campaigns), but we shouldn't have to wait for each dangerously defective gun to unintentionally shoot someone before it can be taken off the streets.

The Trump Justice Department's Aversion to Class Actions Will Have Wide Impact | Law.com
The recent switch by the Trump administration's U.S. Justice Department from opposing to defending bans on class actions in workplace arbitration agreements will have consequences beyond a trio of challenges the U.S. Supreme Court is set to hear this fall.

On June 16, acting solicitor general Jeffrey Wall informed the justices that the Justice Department was reversing its position in a key labor case, National Labor Relations Board v. Murphy Oil, which tests employee arbitration agreements. The government said it would no longer support the NLRB's position that arbitration agreements barring class actions violate federal labor law.

A group of consumer advocates on Thursday, in an amicus brief in the Fifth Circuit, said the Justice Department reversed "its position without justification." The groups, including **Americans for Financial Reform**, Better Markets and Consumer Federation of America, said the issues in the Supreme Court's Murphy Oil case are distinct from those presented in the Fifth Circuit fiduciary rule litigation.

10th Circuit Won't Revisit Revival of TCPA Tribal Immunity | Law 360

How to Read the Fine Print of Credit Card Offers | Atlanta Journal-Constitution (Gregory Karp)
Reading mouse print and legal jargon may not be your idea of fun. But it's worth the effort to examine terms and conditions of a card offer. And it's easier if you know what to look for among those few thousand words. Better to know the details upfront than incur surprise fees or not qualify for the perks and rewards you expect. Besides terms and conditions, look for other fine print. Cardholder agreements. The fine print doesn't contain all bad news. Many of the unsung goodies lie within. You might find details on such card benefits as purchase protection, extended warranty coverage and car rental insurance. However, it also probably includes details about binding arbitration — your promise not to sue the card issuer in court. Consumer advocates say arbitration favors issuers.

EXECUTIVE COMPENSATION

CEO-Worker Pay Ratio Generates Outrage - And Some Insight | Wall St. Journal
A controversial new metric on executive pay is on Congress's chopping block. Shareholders should want it to survive, even if it only provides a sliver of insight into the companies they own.

Beginning next spring, possible repeal notwithstanding, companies will be required to publish a Bigwig vs. Regular Joe pay ratio, or the total earnings of the chief executive compared with those of the median employee.

Supporters of the rule, part of the post-financial crisis Dodd-Frank Act, hope disclosure at an individual-company level might focus more attention on inequality and sky-high CEO pay. The ratio has ballooned since the 1970s: The bosses of America's 350 largest companies made on average 276 times the money of their rank-and-file subordinates in 2015, up from 30 times in Republicans want to repeal the requirement, along with other controversial bits of Dodd-Frank, as a way to trim compliance costs for companies.

FEDERAL RESERVE

Some Fed Officials Want to Start Reducing Assets 'Within a Couple Months,' Minutes Show | LA Times
Several Federal Reserve officials wanted to start reducing the trillions of dollars of assets held by the central bank "within a couple of months" to accelerate the return to a more normal monetary policy after years of battling the Great Recession, according to an account released Wednesday of their most recent meeting. After that meeting, the Fed announced it planned to start reducing the balance sheet sometime this year but provided no timetable.

The amount of assets on the Fed's balance sheet more than quadrupled to $4.5 trillion since 2008 as the central bank bought Treasury bonds and mortgage-backed securities to try to stimulate the economy. Economists said the asset purchases helped lower mortgage rates and spur investment activity.

The Federal Reserve Is Divided Over Its Longer-Term Path | Washington Post
The minutes also showed central bankers divided over precisely when to begin reducing the Fed's massive balance sheet, a task they have indicated will begin before the end of the year. Some officials argued for beginning to shrink the balance sheet in the next few months, while others advocated waiting to see how the economy progresses.

Stress Tests – Less Stressful Than Ever | Medium.com (Marcus Stanley)
[T]he stress tests appear to have been less stressful than ever this year, with the total estimated impact of a severe economic downturn reducing bank risk-based capital levels by just 330 basis points (3.3 percentage points). That's a level significantly lower than previous years and far lower than estimates of the capital losses suffered by banks during the financial crisis. For example, a 2013 study by the Boston Federal Reserve found that the ten banks with the largest capital losses during the financial crisis lost an average of 6.6 percentage points in capital over that period, with many becoming insolvent.

That's likely a significant underestimate since it doesn't take into account all the extraordinary assistance received during the financial crisis; a more recent estimate by the Federal Reserve finds even higher financial crisis losses.

INVESTOR PROTECTION AND THE SEC

Clayton's SEC: A Maternity Ward for Unicorns | Politico Pro
The SEC said on June 29 that every company would be allowed to confidentially submit registration statements for initial public offerings. The change expands a popular provision of the 2012 JOBS Act to all companies, not just small firms. The change, which begins July 10, will give businesses more flexibility to plan public offerings, the SEC said.

But don't expect the change to open up the floodgates for an IPO renaissance, lawyers who follow the agency said. Up to 90 percent of recent IPOs have already taken advantage of the confidential filing process, including Snapchat's parent company when it went public in March.

Instead, the change will help businesses with more than $1 billion in annual revenue. These companies could be unicorns, or businesses valued at more than $1 billion, as well as those held by private equity firms that those investors want to cash out of.

SEC Lets More Companies Ignore Shareholder Proposals in 2017 | Wall St. Journal

'Bad Broker' Focus by U.S. Regulators Means Advisers Should Plan for Supervision, Checks | Complinet
The Securities and Exchange Commission has been performing examinations focusing on the supervision practices of firms that have employed or employ individuals with a history of disciplinary events, including individuals that have been disciplined or barred from a broker-dealer. In addition, SEC Chairman Jay Clayton recently expressed aims to simplify and enhance tools for investors to conduct background searches of investment professionals during his remarks to the SEC's Investor Advisory Committee. While the exam focus is limited to firms hiring risky representatives, Clayton's plan seeks to enhance disclosures and information regarding all registered individuals and, in the process, exposing whether an advisory firm has any compliance weaknesses concerning representative reporting and disclosure.

MORTGAGES AND HOUSING

Why Washington Can't Fix the New Housing Crisis | Politico
Donald Trump campaigned on restoring the "American dream," a 1931 metaphor for economic success that has become political shorthand for homeownership. But as president, Trump faces a unique challenge delivering on that promise: The country is in the grip of a new kind of housing crisis

that Washington has virtually no power to solve.

The crisis is a shortage of houses… There were so few houses for sale in May that buyers pushed prices to a new record high. The scarcity has helped push homeownership among young adults to its lowest in at least a generation, according to Bank of America. Today's millennials are less likely to be homeowners than their parents or grandparents were at their age.

Fed Governor Powell: Here Are 5 Principles for Housing Finance Reform | Housing Wire

Here's How Small Lenders Can Support GSE Reform | Housing Wire

PRIVATE EQUITY

Will Private Equity Eat Itself? | Institutional Investor
For private equity managers, it is a tale of two markets. Fundraising is going through the roof, but valuations are sky-high and exits are on the decline — a sign, market observers say, that the private equity market is nearing the end of its cycle, which could be bad news for managers looking to put new capital to work.

In the middle of the last decade, private equity firms sought a frenzy of new funds and deals, but that activity tailed off after the global financial crisis of 2008, when the private equity industry experienced a slowdown in new fund launches. In recent years, fundraising has bounced back with a vengeance and is now at record highs. But the 2009 to 2011 slowdown is coming back to haunt managers in the form of a decline in private equity-backed exits, which is increasing valuations and creating a seller's market just as things are getting hot again.

Private Equity and Passive Investors Are on a Collision Course | Bloomberg
In what can only be described as a perverse role reversal, mom-and-pop investors have piled into passive investments, hoping for decent valuations that produce stable returns at ultra-low fees. Moody's projects that passive products' market share of U.S. bonds and stocks will hit 50 percent as soon as four years from now, from 30 percent today.

Meanwhile, private equity, which made its bones producing outsize returns by moving in for the kill when there's blood in the Street, is raising record sums even as valuations press historic highs. If anything, the Street is paved with gold, which presents a challenge to deploying the record $1.5 trillion in dry powder, or investable funds, private equity firms are holding globally.

Call it the latest in a long line of unintended consequences thanks to interest rates being held too low for too long. For those keeping count, this is the third time in 30 years that a Federal Reserve easing cycle has stretched so long that it catalyzed market distortions. While the culminations of the Nasdaq and housing bubbles have left scars, most are hoping this time will be different, which appears to be the case. For now.

REGULATION IN GENERAL

Tangling Life-Saving Regulations In Red Tape | The Hill (Dan Farber)
"Regulatory reform" is a popular battle cry for congressional Republicans these days, so long as "reform" actually means restricting the ability of agencies to protect the public.

In one of the few efforts with any Democratic support, Sens. Rob Portman (R-Ohio) and Heidi Heitkamp (D-N.D.) have co-sponsored a Regulatory Accountability Act that made it out of committee on May 17 and is headed to the floor soon. The sponsors may be speaking for corporate interests, playing defense with next year's elections in mind, or may actually think the bill will improve the regulatory process. But it's a bad idea – one that will make it harder to clean up our air, water and food. For instance, if this bill passes, it might take years to tighten standards to prevent another Flint drinking-water crisis.

The Heitkamp-Portman bill has myriad flaws, but two stand out in particular. First, it would require agencies to use courtroom procedures for evaluating important rules, complete with cross-examination of witnesses in front of a judge. Nowadays, agencies get evidence and comments in writing, a faster, less expensive, more deliberative process. And second, once a regulation is adopted, the bill would give federal judges hearing challenges more power to second-guess agencies in a number of key areas, including assessing the scientific basis for the agency's action, the meaning of agency rules, and the economics of agency cost-benefit analysis. Both provisions are steps in the wrong direction.

The Senate Bill That Puts the Public At Risk | CNN (Rhea Suh)
As early as this summer, the US Senate could take up a bill that would dramatically tilt the scale from public interest to corporate interest on common sense safeguards for consumers, workers, safety, health and the environment.

The bill, a version of which passed in the House earlier this year, was introduced by Sen. Rob Portman, R-OH., and is cynically named the Regulatory Accountability Act. What it would do is put people at needless risk. Proponents… claim it would make federal regulations more transparent to promote public input. But, in reality, it would do the opposite -- empower the small, political Office of Information and Regulatory Affairs in the White House to wield authority over our health, safety and welfare, operating far from public view.

The bill was crafted to provide Wall Street, fossil fuel companies, industrial polluters and others with new tools to grind the wheels of public protections to a halt, making it harder for individuals to hold corporations to account.

The Trump Era of Light-Touch Regulation Dawns | Financial Times
Marcus Stanley, a progressive activist and policy director of **Americans for Financial Reform**, the investor group, grimly agrees with the lobbyist. "The Treasury incorporated about 75 per cent of the banking industry's recommendations in that core principles report they just published, so I would expect them to be very responsive to Sifma on the regulation of asset managers."

See the D.C. Attorney General's **Press Release** on the Letter from Him and 12 Other Attorneys General Opposing the Regulatory Accountability Act.

RETIREMENT INVESTMENT AND DOL FIDUCIARY RULE

Labor Department Seeks More Input on Fiduciary Rule | Wall Street Journal
The Labor Department said it is seeking more public feedback on the fiduciary rule, a sign that the retirement-savings regulation could still be revised before it takes full effect. The heart of the fiduciary rule, which requires stewards of some $3 trillion in retirement assets to act in clients' best interest, began to take effect June 9 after a two-month delay. The final compliance deadline is currently January 1.

In a notice published Friday, the Labor Department said it would reopen the comment period to solicit feedback from investors, advisers and businesses. The agency is specifically asking for input that could form the basis of changes and new exemptions to the fiduciary rule. It will accept such comments for 30 days, and will also seek feedback for 15 days on whether to postpone the January 1 deadline.

Public Pensions Should Weigh Pros and Cons of Alternative Investments | Plan Sponsor
In order to hedge against investment risk and seek higher returns, public pension plans have looked toward alternative investments, notes a study by the Center for Retirement Research at Boston College. Between 2005 and 2015, the allocation to real estate dropped sharply, while investments in hedge funds rose significantly. However, hedge funds have not performed well relative to other asset classes since the financial crisis, the research notes. In terms of returns, a 10% increase in the average allocation to alternatives was associated with a reduction of 30 to 45 basis points, primarily due to hedge funds.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

DeVos Is Discarding College Policies That New Evidence Shows Are Effective | NY Times (Kevin Carey)
In June, the secretary of education, Betsy DeVos, announced plans to dismantle a set of Obama-era policies devised to protect students and taxpayers from predatory for-profit colleges. Yet data released in the final days of the previous administration shows that the existing rules have proved more effective at shutting down bad college programs than even the most optimistic backers could have hoped.

The gainful employment test turns out to be an accurate way of identifying programs that for-profit colleges themselves don't think are worth saving, as well as identifying programs run by colleges that are on the brink of bankruptcy and dissolution.

DeVos Loosens For-Profit College Rules; More State Cash May Head to Religious Schools | NPR

Education Dept. Delays Compliance Deadline for Gainful-Employment Rules | Chronicle of Higher Education
The U.S. Department of Education will give colleges and universities an extra year, until July 1, 2018, to comply with the controversial gainful-employment regulations by reporting certain data to the department, it announced late Friday afternoon in a news release. The regulations aim to judge career-training programs based on the debt of graduates relative to their earnings. Programs with failing gainful-employment numbers can risk losing access to federal student aid.

Education Department Announces New Delays for Gainful Employment | Inside Higher Ed

See Public Citizen's **Press Release** on Lawsuit Against the Education Department Regarding Its Delay of the Gainful Employment Rules

18 States Sue Betsy DeVos Over Student Loan Protections | NY Times
Democratic attorneys general from 18 states and the District of Columbia filed a lawsuit on Thursday against the Education Department and its secretary, Betsy DeVos, challenging the department's move last month to freeze new rules for erasing the federal loan debt of student borrowers who were cheated by colleges that acted fraudulently.

The rules, known as borrower defense, were finalized in October by the Obama administration after years of negotiation and review, and they had been scheduled to take effect on July 1. But after President Trump took office, Ms. DeVos paused the planned changes, citing a federal lawsuit filed in May by an association of for-profit colleges in California that is seeking to block the rules.

18 States Sue Betsy DeVos | Medium.com (Alexis Goldstein)
Since taking over the Department of Education, DeVos has rolled back important protections for students while siding with predatory companies that have a record of scamming borrowers. Most recently, she delayed an update to a rule that lets students pursue cancellation of their federal student loans if their school broke the law. That's why eighteen states and the District of Columbia, as well as Public Citizen and the Project on Predatory Lending at Harvard Law School have all filed lawsuits against Secretary DeVos today.

SEC Settles Fraud Charges Against Defunct For-Profit College Company ITT | Washington Post

SYSTEMIC RISK

Ban on Banks' Risky Trading Set for Revamp | Politico Pro
Regulators are moving to streamline a controversial rule that restricts banks' ability to take short-term risks, and they don't need Congress' help to do it.

The regulation, aimed at preventing banks from making unsafe bets with depositors' money, was mandated by the Dodd-Frank Act, the landmark law passed in the wake of the financial crisis. It has cost big banks millions of dollars to comply with and perhaps billions more in revenue. No fewer than five agencies oversee it.

The rule's proponents, however, say it has helped make the banking system safer and offered another layer of protection for depositors. The so-called Volcker rule — named after the former Fed chairman who came up with the concept — is already under the gun from congressional Republicans: It would be repealed altogether under legislation passed by the House. Yet that's a nonstarter in the Senate, and even smaller changes could be a heavy lift.

A Hated Rule That Benefits Investors | Wall St. Journal
The Republican authors of the Financial Choice Act, a sweeping deregulatory bill that passed the House last month, argue that excessive curbs on risk-taking and corporate governance have saddled businesses with costs and red tape, hurting investment and job creation. But what if at least one very unpopular rule has been shown to benefit investors?

That's the upshot of a recent paper by accounting professors at the University of Washington and Georgetown University. The paper examines a requirement that public companies have auditors opine on their "internal controls"—the accounting systems and corporate policies intended to prevent errors or fraud in financial reporting.

Some members of Congress and business groups have been gunning to repeal or water down the provision ever since it became law through the 2002 Sarbanes-Oxley Act. Critics' main gripe is that audits are expensive, and the cost might deter small companies from going public. That complaint led Congress to carve out the smallest firms from the requirement in 2010. Lawmakers exempted a raft of bigger firms in 2012. The Choice Act would further exempt any public company with a market capitalization of $500 million or less.

Bank Health, Imperiled | NY Times (editorial)
In the first systemwide all-clear since the financial crisis, the Federal Reserve announced last week that all of the nation's big banks are healthy.

Hold the applause. The banks are certainly healthier now than they were in 2011, when the Fed began annual "stress tests" to assess their ability to withstand financial and economic downturns. But to the extent they are healthy, credit belongs in large part to banking reforms enacted after the crisis. And it is precisely those reforms that are now in the cross hairs of the Trump administration.

The reforms were aimed at improving lending standards, restricting trading practices and strengthening capital requirements. Better loan standards and less trading have kept banks away from the reckless practices that precipitated the crash, while more capital helps to ensure that the banks can absorb any losses that may occur.

Banking Could Be at Historic Turning Point with Successful Stress Tests | Washington Examiner

AIG, Prudential Get Year-Long Extension of Living Will Deadline | Politico Pro

TAX POLICY

Conservatives Revolt Over Talk of Keeping ObamaCare Tax | The Hill
Conservative groups are warning GOP senators against keeping an ObamaCare tax on investment income in their healthcare bill, an idea that has gained some traction among lawmakers.
GOP lawmakers have floated keeping ObamaCare's 3.8 percent net investment income tax to help pay for more generous healthcare subsidies for low-income people. Democrats criticized an earlier version of the Senate's healthcare bill for eliminating the tax because it generally applies to high earners. But prominent conservatives argue Democrats will criticize the bill regardless of what happens with the tax. They say the tax is harmful to economic growth and should be repealed.

OTHER TOPICS

Coastal House Members Resist Flood Insurance Plan | Politico Pro
Lawmakers representing coastal states are protesting House Republican proposals that would scale back the National Flood Insurance Program as part of a reauthorization bill. The pushback from House members, coupled with opposition from like-minded industry groups, is complicating efforts to pass legislation drafted by the House Financial Services Committee before the program expires at the end of September.

"This bill can't pass right now," Rep. Garret Graves (R-La.), one of the critics of the committee's proposals, said in an interview. At issue is a set of provisions that would phase out coverage for new construction in high-risk areas and potentially raise costs for homeowners who rely on the program to protect themselves from the financial risks of flooding.