This Week in Wall Street Reform | Jan 13 - 18

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Alexandria Ocasio-Cortez Is One Of Many Reasons To Care About The House Committee That Oversees Banking | Vox
Ocasio-Cortez isn't the only reason you should be paying attention. Maxine Waters (D-CA) just took over as chair of the committee, and a number of progressive Democrats in the mix beyond Ocasio-Cortez are sure to make some noise from their perches.

Waters announced the list of 16 new Democratic appointees to the financial services committee overnight Wednesday. Eight of them are members of the Congressional Progressive Caucus, a left-leaning group of members. That list includes Ocasio-Cortez as well as Reps. Katie Porter (D-CA), Ayanna Pressley (D-MA), and Rashida Tlaib (D-MI).

Ocasio-Cortez, the most high-profile new member of Congress, confirmed she would be joining the Financial Services Committee ahead of the official announcement this week. She's also laid out her agenda there — and why she thinks her addition matters. She pointed out that financial services has historically been what's known as a "money committee" — a good spot for members to fundraise for reelection.

Wall Street Braces For Leftward Lurch Of Key House Committee | Washington Post Finance 202 Newsletter
The House Financial Services Committee is lurching to the left.

So far, Wall Street isn't sweating it.

As Rep. Maxine Waters (D-Calif.) takes the helm of the panel overseeing the financial services industry, she pledged Wednesday to hold "many hearings" examining big bank misconduct. And she'll be getting reinforcements soon: A platoon of liberal freshman Democrats are set to join the committee, a group that includes rising national star Alexandria Ocasio-Cortez (N.Y.), Elizabeth Warren protege Katie Porter (Calif.), as well as Rashida Tlaib (Mich.) and Ayanna Pressley (Mass.).

At a minimum, the new regime should generate headline headaches for the industry and make for some uncomfortable moments for top executives under the committee's hot lights.

But industry sources say banking leaders priced in those public relations pains when Democrats retook the House. Beyond that, they don't expect a divided government to pass major legislation.

Maxine Waters Intends To Use Her Gavel | Forbes
Chairperson of the House Financial Services Committee, Representative Maxine Waters, presented the ambitious agenda she intends to pursue under her leadership. Speaking at the Center for American Progress Action, an independent, nonpartisan policy institute and advocacy organization, Representative Waters promised to put consumer and investor protection as her top priority. In presenting Representative Waters, Neera Tanden, CEO of the Center for American Progress Action Fund happily stated that "Democrats have taken over the House Financial Services Committee for the first time in eight years." According to the CAPA, "The House Financial Services Committee is at the center of the new House's most important economic policy work: affordable housing, access to credit, consumer protection, financial stability, monetary policy, capital markets that work for working Americans, racial equity in credit, small business entrepreneurship, accountability for the Trump administration and independent financial regulators."

Waters And McHenry Introduce Bipartisan Legislation To Curb Insider Trading | House Financial Services Committee Press Office
Today, Congresswoman Maxine Waters (D-CA), Chairwoman of the House Committee on Financial Services, and Congressman Patrick McHenry (R-NC), Ranking Member of the House Committee on Financial Services, announced the introduction of H.R. 624, the Promoting Transparent Standards for Corporate Insiders Act, bipartisan legislation which requires the Securities and Exchange Commission (SEC) to consider certain types of amendments to Rule 10b5-1 that would ensure corporate insiders are unable to indirectly engage in illegal insider trading through changes to their trading plans.

Warren Questions Nation's Largest Banks On Their Assistance To Americans Affected By Government Shutdown | Elizabeth Warren Press Office
United States Senator Elizabeth Warren (D-Mass.) yesterday sent letters to the CEOs of Bank of America, Citigroup, JP Morgan Chase, US Bancorp, and Wells Fargo seeking information asking how the nation's largest retail banks are helping workers and businesses facing financial hardship due to President Trump's government shutdown. The letters follow

a request made last week by federal regulators encouraging financial institutions to work with customers affected by the ongoing federal government shutdown.

The shutdown is now in its 26th day-the longest in history-and over 800,000 federal workers have either been furloughed or have been forced to work without pay. In addition, hundreds of thousands of federal contract workers, businesses that are dependent on these workers, and large and small businesses in need of federal government services are also facing lost paychecks and profits - with some "on the brink of financial ruin."

On January 11, 2019, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the National Credit Union Administration, and the Consumer Financial Protection Bureau sent a letter to financial institutions encouraging them to "work with customers affected by the federal government shutdown." Credit unions and small banks have announced plans to provide financial assistance to federal employees in the form of payroll advances, low-interest loans, allowing delayed payments on loans, and providing access to additional financial counseling services. The five large banks have also made similar promises.

Wall Street And Top New York Donors Hear From Democratic Governors Considering 2020 Presidential Campaigns | CNBC
Several Democratic politicians – known collectively as "the governors" among elite donors – have been in contact with Wall Street's top political financiers as they each consider running for president in 2020, CNBC has learned.

The group includes former Colorado Gov. John Hickenlooper, former Virginia Gov. Terry McAuliffe, Washington Gov. Jay Inslee and Montana Gov. Steve Bullock, according to business leaders with knowledge of the discussions who declined to be named.

The four men are among a large group of Democrats considering whether they should take a shot at trying to unseat President Donald Trump next year. The first primary contests of the presidential election season are a year away, and several possible Democratic candidates are expected to announce their plans in the coming weeks and months.

It's Official: Wall Street Topped $100 Billion In Profit | Bloomberg
The six biggest U.S. banks have never had a $100 billion year. Until now.

Goldman Sachs Group Inc., JPMorgan Chase & Co. and their peers have already reported more than $111 billion of profit for 2018. Morgan Stanley will only make that number bigger when it releases its fourth-quarter results Thursday.

They have Republican tax cuts to thank, along with rising interest rates, a surge in dealmaking and a retail-banking boom.

Wall Street Struggles With The Bad Kind Of Volatility | Wall Street Journal
Fourth-quarter trading revenue is expected to be roughly flat, collectively, with a year ago at Bank of America Corp., Citigroup Inc.,C +0.87% Goldman Sachs Group Inc., GS -0.42% JPMorgan ChaseJPM +0.06% & Co., and Morgan Stanley, according to data from market-

data firm Autonomous Research. Those banks are scheduled to report earnings the week of Jan 13.

The likely trading results underscore the tension between trading profits and safety at these firms in the years since the Dodd-Frank financial overhaul. Uncertainty and volatility can be a boon for Wall Street, as clients race to place big bets and firms collect significant fees—as was the case in early 2018. But market action in recent months has been marked instead by big funds and other traders scaling back activity in a bid to reduce risk, according to traders and analysts.

As a result, the fourth quarter was marked by a decline in liquidity, a measure of how long it takes to complete a trade without significantly affecting prices. The decline in liquidity was especially notable in the futures market, where many traders place or hedge big bets on the expected direction of shares.

Goldman Sachs' Tactics In Malaysian Fraud Case: Smear An Ex-Partner | New York Times

They sound like the ingredients of a pulpy thriller: Bigamy. Secret religious conversions. A doctorate from a mail-order diploma mill. Affairs with powerful women.

The sordid list — a mixture of facts, accusations and insinuations, packaged in a glossy slide show — represents the crux of a well-orchestrated campaign by Goldman Sachs to discredit one of its former partners and to minimize the Wall Street bank's role in the looting of a big Malaysian investment fund.

In recent presentations to American regulators and law enforcement authorities, according to people familiar with their contents, Goldman executives and their lawyers have depicted Tim Leissner, a former top investment banker, as a master con man, someone so sneaky that even the retired military intelligence officers who work for the bank couldn't sniff him out.

The scorched-earth tactics, especially against someone who had been a star banker, reflect just how worried Goldman is about the criminal investigations into its role in the theft of at least $2.7 billion from the 1Malaysia Development Berhad, or 1MDB, sovereign wealth fund.

Malaysia May Discuss Dropping Goldman's 1MDB Charges For $7.5 Billion | Bloomberg

An apology from Goldman Sachs Group Inc. doesn't cut it for Malaysia, which said it may consider a discussion to absolve the bank of blame for its role in the 1MDB scandal for $7.5 billion.

The country filed criminal charges against the lender in December, the first for Goldman, and may discuss dropping those allegations if the bank pays the sum, Finance Minister Lim Guan Eng told reporters on Friday. Units of the bank were accused of making false statements in documents submitted to a local regulator in arranging $6.5 billion bond offers for troubled state fund 1MDB.

"Goldman Sachs should understand the agony and the trauma suffered by the Malaysian people as a result of the 1MDB scandal," Lim said in the administrative capital of Putrajaya.

“An apology is just not sufficient. Not enough. There must be the necessary reparations and compensations.”

America’s Best And Worst Banks 2019 | Forbes
U.S. banks fired on all cylinders in 2018 with three straight quarters of record profitability. The industry’s $62 billion third-quarter net income was up 29% from a year ago, and the 1.41% return on assets was the highest in the 32 years the FDIC has tracked the data.

“The largest banks are operating from a position of strength,” says Chris Vanderpool, senior analyst at S&P Global Market Intelligence. “Banks are enjoying strong balance sheets at the moment, and sustained net interest margin expansion has helped drive record profits. Credit quality also continues to be pristine.”

But some cracks might be showing, as JPMorgan Chase and Wells Fargo both fell short of Wall Street expectations in fourth-quarter results released this week. "As we head into 2019, we urge our country's leaders to strike a collaborative, constructive tone, which would reinforce already-strong consumer and business sentiment," JPMorgan CEO Jamie Dimon said in a statement.

CONSUMER FINANCE AND THE CFPB

Joint Letter: Letter To CRAs Urging Credit Relief For Federal Workers Impacted By Government Shutdown

Joint Letter: Letter To CRAs Urging Credit Relief For Federal Contractors And Small Businesses Affected By The Shutdown

Joint Letter: Letter To CRAs Urging Credit Relief For Consumers Affected By Natural Disasters

Read: Joint Letter To The CFPB On The Data Governance Program And Its Data Collections

CFPB To Scrap Key Underwriting Portion Of Payday Lending Rule | American Banker
The Consumer Financial Protection Bureau is expected to eliminate underwriting requirements in a highly anticipated revamp of its payday lending rule, according to sources familiar with the bureau’s proposal.

The CFPB in October signaled its interest in "revisiting" the ability-to-repay provisions in the 2017 small-dollar lending rule issued under former Director Richard Cordray.

But sources familiar with the agency's thinking say the CFPB — now led by Trump appointee Kathy Kraninger — has concluded the best approach is to remove those provisions altogether. Under the current rule, which has not yet gone fully into effect, lenders must verify a borrower's income as well as debts and other spending, to assess one's ability to repay credit while meeting living expenses.
The CFPB — now led by Trump appointee Kathy Kraninger — has concluded the best approach is to remove the ability-to-repay provisions altogether from its payday lending rule

[Federal Register Eases Publishing Guide For Government Shutdown](#) | Bloomberg Government

The Trump administration just made it easier to publish rules during the government shutdown, which could open a logjam that's blocked federal regulations such as those addressing what credit monitoring agencies can charge consumers and the public release of an EPA power plant emissions standard.

Significant rules from across the government have been stuck since the partial shutdown closed the office that publishes the U.S. government's official journal, which has been unfunded. Under previous guidance, the office could only publish emergency regulations, such as ones needed to safeguard human life or protect property.

An Office of the Federal Register bulletin updated Jan. 16 notified agencies they can bypass that high standard by certifying that delaying publication until the government reopens would prevent or significantly damage funded functions..

Justices, With Kavanaugh Sidelined, Rebuff Challenge To Consumer Bureau | National Law Journal

The U.S. Supreme Court on Monday turned away a challenge to the constitutionality of the Consumer Financial Protection Bureau.

Even though the Trump administration agreed with the challengers that the bureau's director has too much authority, the government had urged the justices not to take the case. The Justice Department pointed to the likely recusal of Justice Brett Kavanaugh, who would not have taken part in ruling on the merits.

"Justice Kavanaugh previously participated in this case while a judge on the D.C. Circuit, authoring the court of appeals' decision addressing petitioners' standing to challenge the constitutionality of the Bureau's structure," then-acting Solicitor General Jeffrey Wall wrote in the government's response to the petition. "Particularly for a question of this magnitude, the court may wish to wait for a vehicle in which all nine Justices are likely to participate."
The justices, without comment, denied review in State National Bank of Big Spring v. Mnuchin, and Kavanaugh, as expected, did not participate in that action.

CFPB Seeks New Authority To Police Military Lending | Politico Pro

Consumer Financial Protection Bureau Director Kathy Kraninger is asking Congress to grant the agency clear authority to supervise compliance with the Military Lending Act.

Kraninger's predecessor, former Acting Director Mick Mulvaney, maintained that the bureau did not have such authority when he suspended routine MLA compliance exams in August, sparking bipartisan criticism.

"The Bureau is committed to the financial well-being of America's service members. This commitment includes ensuring that lenders subject to our jurisdiction comply with the Military Lending Act so our service members and their families are provided with the protections of that law," Kraninger said in an emailed statement.

A Remedy For 'True Lender' Lawsuits Already Exists | American Banker (Mark Dabertin)
Online lenders continue to be plagued by "true lender" lawsuits that challenge whether the named lender in loans made through a partnership between a nonbank lender and a regulated bank is actually an artifice in a "rent-a-bank" scheme.

In such lawsuits, the plaintiff indirectly alleges that the bank is not the lender by arguing that the nonbank, which typically markets, services and invests in loans made under the program, is in fact the true lender. Because the nonbank lacks the legal ability to charge the rate of interest being assessed by the bank, the result of a successful true lender lawsuit is that the loans are deemed unlawful and unenforceable.

The objective in such cases is to unmask the nonbank party to a loan program relationship as, in other words, a "wolf in sheep's clothing."

Consumer Financial Protection Bureau Settles Claims With Sterling Jewelers Inc. | CFPB Press Office
The Consumer Financial Protection Bureau (Bureau) and the People of the State of New York today settled claims against Sterling Jewelers Inc.

The Bureau's and the State's parallel investigations found that Sterling violated the Consumer Financial Protection Act of 2010 by opening store credit-card accounts without customer consent; enrolling customers in payment-protection insurance without their consent; and misrepresenting to consumers the financing terms associated with the credit-card accounts. The Bureau also found that Sterling violated the Truth in Lending Act by signing customers up for credit-card accounts without having received an oral or written request or application from them. The State of New York found that Sterling violated several provisions of state law.

Navient Files For Partial Summary Judgment In CFPB Case | Politico Pro
Navient, the nation's largest student loan servicer, today filed a motion for a partial summary judgment on two of the 11 counts the Consumer Financial Protection Bureau has brought against it, accusing the CFPB of failing to provide evidence of its claims.

The CFPB filed suit in January 2017, alleging that Navient had "steered hundreds of thousands of federal student loan borrowers experiencing long-term financial hardship" into forbearance, which allows borrowers to temporarily stop making payments, while providing little or no information about alternative repayment plans, among other counts.

"Two years after filing suit — and more than five years after launching its investigation — the CFPB has not only failed to show that 'hundreds of thousands' of borrowers were harmed, it has not identified a single borrower who supports its allegations of 'steering,'" Navient said in the motion today.

'Acting' In Name Only: Mulvaney Staffs Up West Wing | Politico
Mulvaney recently hired Rob Blair, an associate director of national security programs at the Office of Management and Budget, as the White House's new senior adviser to the chief, according to one administration official and the Republican close to the White House. Blair

will join four other budget agency veterans who moved into the West Wing in late December, including the new principal deputy-chief-of-staff Emma Doyle.

And next week, John Czwartacki, chief communications officer at the Consumer Financial Protection Bureau, will join the White House as the senior adviser to chief-of-staff for strategy. Czwartacki helped Mulvaney navigate his confirmation process to become OMB director during the Trump transition and then worked for him in top jobs at the budget agency and bureau. In the process, he became one of Mulvaney's most trusted aides alongside Doyle.

DERIVATIVES, COMMODITIES & THE CFTC

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

Government Shutdown Could Push Back SEC's Reg BI Timeline | Pensions And Investments
The Securities and Exchange Commission's final rule for its standards of conduct package could be delayed because the partial government shutdown has furloughed the vast majority of SEC employees.

The SEC is aiming to issue its final rule on the package, also known as Reg Best Interest, by September, but David G. Tittsworth, a lawyer at Ropes & Gray, said all rule-making is effectively on hold during the shutdown and the timeline for proposed rules could be pushed back.

In the agency's shutdown plan posted on its website, it said "all non-emergency rule-making; non-emergency interpretive advice, staff no-action letters and processing new or pending applications for exemptive relief" will be discontinued during the shutdown.

EXECUTIVE COMPENSATION

MORTGAGES AND HOUSING

Joint Letter: Letter To The USDA Urging For A Stop The Foreclosures During Government Shutdown

Joint Letter: Letter To FHA Urging Stay On Foreclosures During Government Shutdown

IRS Restarts Mortgage Income Verifications That Were Idled During Government Shutdown | Bankrate
Mortgage lenders breathed a sigh of relief after the Internal Revenue Service announced that it would resume its income verification program called Income Verification Express Service, or IVES, which was suspended when the partial government shutdown began more than three weeks ago.

The service, which provides tax transcripts for mortgage applicants, is critical in processing loan applications for people who are self-employed since their taxes aren't backed up by pay stubs or a W-2 wage report.

Self-employed borrowers without the IRS verification will find it almost impossible to get a mortgage, says Julie Aragon, a mortgage lender in Santa Monica, calling the lack of IRS verification a "dealbreaker."

Microsoft Pledges $500 Million For Affordable Housing In Seattle | New York Times
The Seattle area, home to both Microsoft and Amazon, is a potent symbol of the affordable housing crisis that has followed the explosive growth of tech hubs. Now Microsoft, arguing that the industry has an interest and responsibility to help people left behind in communities transformed by the boom, is putting up $500 million to help address the problem.

Microsoft's money represents the most ambitious effort by a tech company to directly address the inequality that has spread in areas where the industry is concentrated, particularly on the West Coast. It will fund construction for homes affordable not only to the company's own non-tech workers, but also for teachers, firefighters and other middle- and low-income residents.

Microsoft's move comes less than a year after Amazon successfully pushed to block a new tax in Seattle that would have made large businesses pay a per-employee tax to fund homeless services and the construction of affordable housing. The company said the tax created a disincentive to create jobs. Microsoft, which is based in nearby Redmond, Wash., and has few employees who work in the city, did not take a position on the tax.

Bipartisan Housing Finance Reform: A Blatant Giveaway To Special Interests | Forbes (Norbert Michel)
The week before Christmas, the House Financial Services Committee held a hearing titled "A Legislative Proposal to Provide for a Sustainable Housing Finance System: The Bipartisan Housing Finance Reform Act of 2018." (A video clip and transcript of my testimony can be found here.)

As the title suggests, the proposal in question is being sold as a way to build a sustainable housing finance system, but that is exactly why Americans should be scared.

The witnesses supporting the bipartisan approach represent the following groups: the Housing Policy Council, the National Low Income Housing Coalition, the National Association of Realtors, the Mortgage Bankers Association, the National Association of Home Builders, the Community Home Lender Association, the National Association of Federally-Insured Credit Unions, and the U.S. Mortgage Insurers.

They all claim they want to make housing more affordable, improve access to credit, and improve competition in the market. But what truly unites them is the desire for some form of federal guarantees, ranging from explicit federal backing of securities to legal protections for long-term, low down-payment mortgages.

FHFA Will No Longer Defend Agency's Constitutionality In Court | American Banker

The Federal Housing Finance Agency will no longer defend the constitutionality of its single-director leadership structure in court, according to a new case filing with the U.S. Court of Appeals for the Fifth Circuit in Texas.

In July, the federal appeals court reversed the previous court's decision and agreed with the shareholders that the FHFA was "unconstitutionally insulated from executive control" since its single director — as opposed to a board or commission — cannot be fired by a sitting president without cause. If upheld, the decision could render the agency's actions void.

Investors have argued that the FHFA violates the separation of powers because its single-director structure means shareholder interests may not be properly considered.

Watch: A Look At Current CRA Lending Trends As Modernization Begins | Urban Institute

PRIVATE FUNDS

This Obscure Company Is Doing More To Destroy A Free Press In America Than Trump | Philadelphia Inquirer (Will Bunch)

The problem really hit home for Dave Krieger — the now-former editorial page editor of the Daily Camera in fast-growing Boulder, Colorado — when a lawyer friend sent in a letter to the editor questioning what was happening at his hometown newspaper. The attorney said he didn't understand why the price of his subscription was just jacked up 20 percent when the actual paper kept showing up with fewer and fewer pages.

Krieger knew exactly why, but at that moment it dawned on him that most citizens in Boulder didn't know what he knew: That the newspaper's shrinkage was the direct result of a distant Wall Street hedge fund that — through its investment vehicle with the Orwellian-like dishonest name of Digital First Media — had since 2013 been sucking money in full vampire-squid mode out of the Daily Camera's newsroom revenue stream. Much of the cash that formerly paid reporters, editors and photojournalists instead went into the pocket of billionaire Randall Smith as Smith added to his collection of multi-million-dollar mansions around Palm Beach and the Hamptons (said at one point to be 18 — that's not a typo — and counting).

"The daily paper is the community's storyteller," Krieger, a 60-something veteran of a half-dozen newsrooms, thought to himself, "and we've never told this story." So Krieger sat down to write an editorial pleading for help, and what happened next was truly astounding. Randall Smith read it, saw the error of his ways, sold his mansions, and moved into a modest ranch house as he used the real-estate proceeds to hire a small army of investigative reporters that has begun exposing corporate greed and venal politicians from Key West to Kalamazoo.

Ha ha, just kidding ... everything in that last sentence was made up.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Fed Says Student Debt Has Hurt The U.S. Housing Market | Wall Street Journal
The Federal Reserve has linked rising student debt to a drop in homeownership among young Americans and the flight of college graduates from rural areas, two big shifts that have helped reshape the U.S. economy.

The effect of student debt on the economy has been debated in recent years, as the total has soared to $1.5 trillion, surpassing Americans' credit-card and car-loan bills. Congress and various White House administrations have pointed to federal student loans as a key way for Americans to pay for college and boost their career earnings. Critics have said the debt is damaging the economic prospects of a generation of Americans.

The Fed research published Wednesday didn't offer a verdict on those assertions. But it showed that student debt is linked to key life decisions for some—including whether to buy a home and where to live.

Roiled Over Rules On Regional Accreditors | Inside Higher Ed
Trump administration officials say that the rules governing college accreditors have become too prescriptive and too limiting of innovation in higher ed -- a problem they're trying to tackle by overhauling the regulations for the higher ed watchdogs.

But a proposal offered as part of a regulatory rollback by the Education Department could create huge disruptions for the regional accreditors that oversee more than 3,000 colleges across the country. The department wants to require that regional accreditors operate in no fewer than three but no more than nine contiguous states, a standard multiple organizations would fail to meet.

The issue is among a number of disputed ideas up for consideration during a negotiated rule-making process that has gotten off to a contentious start at the Education Department this week and will continue for the next two months.

Department Of Education Plans To Change Rules For Regulating Colleges | NPR
The Education Department unveiled a plan to rewrite and roll back important rules that govern colleges and their accrediting agencies. The department says it wants to reduce obstacles to innovation, but critics worry this will lower school standards and hurt students.

SYSTEMIC RISK

Is There Something Missing From The U.S. Regulatory Toolbox? | American Banker
As U.S. regulators take steps to rightsize the post-crisis regulatory regime — emphasizing risks posed by the largest institutions and tailoring rules for smaller firms — a key bloc of the regulatory brain trust still sees a weakness in its tool chest.

The current and former chairs of the Federal Reserve Board, speaking together on a panel at a recent conference in Atlanta, highlighted how other countries still have more effective policy levers to respond to macroprudential risks that can creep up out of nowhere.

The Financial Stability Oversight Council was created by Dodd-Frank to identify sources of systemic risk across the U.S. financial system and take steps to curb excesses where they can be identified. But **Marcus Stanley, policy director for Americans for Financial Reform,** said that in practical terms the only real authority vested in FSOC is the ability to designate individual nonbank firms as Systemically Important Financial Institutions subject to enhanced prudential standards.

Hedge Fund Leverage Risk Comes Under Scrutiny | Financial Times
Two decades after the near-collapse of Long-Term Capital Management threatened to demolish Wall Street, regulators are still struggling to understand whether hedge funds could endanger the stability of financial markets.

Global regulators want to analyse hedge funds' use of leverage as part of the debate over whether more investment managers should be deemed "systemically important", and so subject to increased supervision.

Asset managers have resisted efforts to classify their businesses as systemically important financial institutions, or Sifis. In contrast, the world's largest banks and insurers have had onerous constraints since the 2007-08 financial crisis.

Regulators Rethink Volcker Overhaul To Solve Accounting Glitch | Risk.net
More US regulators are considering whether to re-propose amendments to the Volcker rule, to tackle industry alarm that a change intended to soften it might end up making it tougher. The Volcker rule bars deposit-taking banks from engaging in speculative proprietary trading and contains criteria for assessing whether a trade is speculative. Amendments proposed by the five regulatory agencies in May 2018 were designed to ease the application of the regulation and included a new 'accounting prong' to clarify how to identify speculative intent. But market participants fear this prong would broaden the number of trades captured well beyond the original rules completed in December

"If the accounting prong goes through as proposed, it will wipe away all the regulatory benefits," says Hugh Conroy, a partner at Cleary Gottlieb Steen & Hamilton. "It will increase the scope of Volcker, at least on the trading side, and increase compliance costs." The accounting prong is intended to replace a 'short-term intent prong' in the 2013 rule, which assumes trades held for less than 60 days are speculative unless the bank can provide evidence to rebut the assumption. Instead, all instruments recorded at fair value would be considered part of the trading account for Volcker rule purposes. This far-reaching definition would encompass not only trading securities, but also items reported as available-for-sale securities, which could capture derivatives hedges and liquidity reserves.

Sources say regulators were struck by the level of criticism from the industry, and are now mulling whether to produce a new draft to avoid drawing in large numbers of holdings that are not speculative in nature. This would mean opening up a fresh round of consultation before the rule is finalised. "It appears that the agencies are thinking about the rule and really trying to dig into the comments," says Conroy.

Fintech Firms Want To Shake Up Banking — And That Worries The Fed | Reuters
The U.S. Federal Reserve is wary of giving "fintech" firms such as OnDeck Capital Inc (ONDK.N) or Kabbage Inc. access to the country's financial infrastructure, putting the central bank at odds with other regulators looking to bring them into the fold.

The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) are exploring granting federal bank-like licenses to tech-driven firms that offer financial services, such as money transfers and lending.

The plan is part of a broader push by President Donald Trump's administration to boost small businesses and promote job growth.

Federal licenses would allow fintech firms, which currently operate under a patchwork of state rules, to reduce their regulatory costs and expand into new regions and products.

The Sub-Prime Timebomb Is Back: This Time Companies Are Lighting The Fuse | The Guardian
When an expert in financial risk at one of the world's most powerful private equity outfits tells investors to scale down their exposure to a specific corner of the debt market, it is worth taking notice.

Henry McVey, who sits on the risk committee at KKR, said last week that the leveraged loan market – a $1.3tn (£1tn) pile of risky corporate loans – had been on a "great run in recent years" but the firm was now cutting its exposure to the asset class to zero.

McVey is not alone in his caution. A growing chorus of global leaders spent 2018 warning that the leveraged loan mountain was getting dangerously large and inviting comparisons with the financial crisis a decade ago.

Stimulus Worked In 2009. Next Time, It Will Have To Work Better. | Bloomberg (Peter Orszag)
It's been a decade since Congress approved a huge emergency package of spending projects, payments to individuals and tax cuts to stimulate a U.S. economy staggered by the 2008 recession. We know now that it worked, limiting the damage caused by the downturn and vindicating the idea that government spending during periods of economic weakness saves jobs and speeds recovery. We also know that it could have worked better.

As an admittedly biased participant — I was the U.S. budget director when President Barack Obama signed the stimulus legislation on Feb. 17, 2009 — I offer eight lessons based on recent history and amid fears that the next recession might not be far away.

Fed's Kashkari Says Financial System Safer; Audience Disagrees | Reuters
Neel Kashkari, president of the Federal Reserve Bank of Minneapolis and a critic of the Fed's recent round of interest rate hikes, on Wednesday said the U.S. central bank is as well positioned now as before the 2007-2009 financial crisis to fight a downturn.

Kashkari made the comments in a public debate held by Intelligence Squared U.S. in New York City, in which he and Harvard University professor Jason Furman defended the notion that the financial system is safer than it was 10 years ago.

A live audience in New York, however, was unconvinced. After the 60-minute debate they sided, by a 22-point margin, with the pair that took the opposing view. It was not clear which part of Kashkari and Furman's views they disagreed with.

Flashing Red Indicator Warns Of Rising Risk Of Financial Crisis | Investopedia
The demand for debt issued by the U.S. federal government has been plunging despite rising yields, and this is a worrisome sign to some observers. During 2018, the U.S. Treasury issued notes and bonds worth $2.4 trillion, but the bid-to-cover ratio, which compares the value of bids received to the value of debt actually sold in Treasury auctions, was at its lowest since the financial crisis year of 2008, per data from Bloomberg reported by Business Insider (see below). "All financial crises begin with a declining bid-to-cover ratio," warns Torsten Slok, the chief international economist at Deutsche Bank.

TAXES

Tax Cut Helped Banks' Earning Growth — But Not For Much Longer | Wall Street Journal
The 2017 tax overhaul was a boon. The reduction in the corporate tax rate sent billions of additional dollars flowing to banks' bottom lines, helping earnings grow sharply.

But fourth-quarter results, due to start this week, will mark the last period in which the new law's drop in the rate to 21% from 35% magnifies earnings growth. The boost came from favorable comparisons to year-earlier periods in 2017, when taxes were higher. And while Wall Street estimates suggest most big banks will announce solid results, growth will be muddled because year-ago results were hit by big special charges many banks took related to the tax-law changes.

Come April and first-quarter earnings, banks for the first time will be measuring growth against a period when the lower tax rate had taken effect. The result: Banks' 2019 earnings growth won't likely be as robust as in 2018.

Tax Foundation Sees Ocasio-Cortez's Tax Proposal Generating At Most $292B | Politico Pro
Rep. Alexandria Ocasio-Cortez's proposal to raise the top marginal tax rate to 70 percent would generate at most $292 billion, according to the Tax Foundation.

That's if the proposal is applied only to ordinary income above $10 million, the conservative-leaning group says.

The specifics of how her proposal would work are unclear. Earlier this week on "60 Minutes," Ocasio-Cortez (D-N.Y.) said: "You look at our tax rates back in the '60s, and when you have a progressive tax rate system, your tax rate, you know, let's say, from zero to $75,000, maybe 10 percent or 15 percent, etc.

There were lots of arguments by economists supportive of the idea – if we are putting this item in on it we should put at least something else…

OTHER TOPICS

The Shutdown's Impact On Financial Services | American Banker

The government shutdown is now the longest in American history, officially hitting that mark over the weekend. Though only a partial shutdown, it is having an outsize impact on banks, credit unions and mortgage lenders across the country. Some of these have been mitigated due to actions by the Trump administration, while others continue largely unaddressed.

With President Trump refusing to end the shutdown until Democrats agree to fund a wall on the southern border, it is unclear when the shutdown will end. Some predict Trump may eventually give up and instead seek to invoke emergency powers to build the wall, a strategy that carries significant legal risk. Others argue Trump will keep the shutdown in place in the hopes pressure builds on Democrats to deal.

Following is a look at where financial services are most affected.

Shutdown Is Starting To Hurt Trump's Financial Deregulation Agenda | Reuters
The U.S. government shutdown over President Donald Trump's call for Congress to fund a wall he promised to build on the U.S.- Mexican border is threatening another campaign pledge to make rules easier to navigate for banks and corporations.

The partial shutdown, sparked by a standoff between Democrats and Republicans over how to address Trump's demand, is already the longest ever, entering its 27th day on Thursday with no signs of a resolution.

The Trump administration has outlined plans to ease bank rules, overhaul corporate governance, and boost financial innovation, sparking hopes among executives that they would already start to feel the benefits this year.

'Could You Make These Guys Essential?' Mortgage Industry Gets Shutdown Relief After Appeal To Senior Treasury Advisors | Washington Post
After an intense lobbying campaign by the mortgage industry, the Treasury Department this week restarted a program that had been sidelined by the partial government shutdown, allowing hundreds of Internal Revenue Service clerks to collect paychecks as they process forms vital to the lending industry.

The hasty intervention to restore the IRS's income verification service by drawing on revenue from fees — even as 800,000 federal employees across the country are going without their salaries — has intensified questions about the Trump administration's un-or-tho-dox efforts to bring certain government functions back online to contain the shutdown's impacts.
Critics, including many former IRS officials, described the move as an act of favoritism to ease the burden on a powerful industry.

"It seems crazy to me that a powerful bank or lobby gets to bring their people back to do their work," said Marvin Friedlander, who served as a senior IRS official in the mid-2000s. "How about the normal slob who can't even pay his rent?"

Trump Administration Doubles Estimate Of Shutdown Cost To Economy From Original Forecast: Source | CNBC

The Trump administration now estimates that the cost of the government shutdown will be twice as steep as originally forecast.

The original estimate that the partial shutdown would subtract 0.1 percentage point from growth every two weeks has now been doubled to a 0.1 percentage point subtraction every week, according to an official who asked not to be named.

The administration had initially counted just the impact from the 800,000 federal workers not receiving their paychecks. But they now believe the impact doubles, due to greater losses from private contractors also out of work and other government spending and functions that won't occur.

Shuttered IRS Is Sending Warnings Of Asset Seizures, With Nobody To Call To Stop Them | The Intercept
The letter from the IRS is dated December 24, 2018, the Monday after the start of the government shutdown. The headline reads, “Notice of intent to seize (levy) your property or rights to property.” It describes how the recipient, Aaron Caddel, owner of a small chain of boutique bakeries called Mr. Holmes Bakehouse, has 30 days to pay the tens of thousands of dollars allegedly owed the government or face seizure of the funds from his company’s bank account.

Caddel, who has two stores in Los Angeles and one in San Francisco, insists that the entire issue is a misunderstanding, one he had been working with the IRS to resolve before the shutdown. But now, though, as computer-generated delinquency letters continue to get sent, Caddel can’t find a live human being at the IRS to respond to him and prevent the asset seizure. “Right now, we’re reaching dial tones,” Caddel said.

The Intercept called the phone number provided on the letter for recipients wishing to contest the seizure, and got the following message: “Welcome to the Internal Revenue Service. Live telephone assistance is not available at this time. Normal operations will resume as soon as possible. … We apologize for any inconvenience.”

The Push To Break Up The Boys’ Club At The Fed | NPR
The field of economics has a problem. At a time when more women than men are graduating from college and earning doctorates, just a third of Ph.D.s in economics go to women. That statistic has hardly budged in decades.

The lack of gender diversity has trickled its way into one of the field's biggest employers of economists: the Federal Reserve, which crafts U.S. monetary policy. For most of its existence the Fed has been dominated by men. That's why it was such a big deal when Janet Yellen became the first woman to run the Fed in 2014.

But Lael Brainard, a Federal Reserve governor, says the central bank "has a lot of work to do to have a truly diverse set of leaders." Brainard, an economist, has spent much of her career as one of the few women in the room when major policy decisions are made.

White House Considering Indra Nooyi To Head World Bank | New York Times

The White House is considering Indra K. Nooyi, the former chief executive officer of PepsiCo, for the position of World Bank president, according to several people familiar with the process.

Ms. Nooyi, who stepped down from her role at PepsiCo last August after leading the company for 12 years, has been courted as an administration ally by Ivanka Trump, the president's eldest daughter, who is playing a role in the selection of a nominee.

The decision-making process for the top post at the World Bank is fluid and in its initial stages, and early front-runners and candidates often fall off the radar, or withdraw from consideration, before the president makes his ultimate pick. Mr. Trump often makes his own gut decisions about whom to chose.

Wells Fargo Discloses Which Types Of Jobs It's Going To Cut Next | Charlotte Observer

Wells Fargo said Tuesday that it slashed thousands of jobs last year by shedding management positions, centralizing functions and other steps — and that more cuts are in store for 2019.

Wells, which has its largest employment hub is in Charlotte, announced plans last year to trim employment companywide by about 5 to 10 percent over a three-year period to operate more efficiently. On Tuesday, the San Francisco-based bank said it has cut jobs in its branches, call centers, mortgage operations and other areas where it expects additional reductions this year.

The bank made the disclosures as it reported financial results for the last three months of 2018. Also Tuesday, Wells announced that it expects to remain under a Federal Reserve cap that limits its growth through the end of this year — longer than the bank previously expected.

The Federal Reserve Reaches Truce With Markets, But Pays A Price | Boston Globe

The Fed was making clear it was taking investors' concerns to heart, and Powell promised to be "flexible and patient" when charting the course of interest rates. Wall Street took the comments to mean that the two rate hikes penciled in for this year were not set in concrete, and maybe would never happen. The Fed Freakout was over.

But it's too soon to sound the all-clear. Global growth is still weakening, the United States and China have yet to reach a trade deal, and fourth-quarter earnings reports, which begin in earnest this week, could bring some nasty surprises. On Monday morning, US stock futures are down after China reported weaker-than-expected trade data.

Moreover, key questions linger: Did the central bank back down to appease investors and Trump? Will the president think he can improve his reelection chances by jawboning the Fed into keeping interest rates low through 2020? Has the Fed's all-important independence from Congress and the White House taken a permanent hit?

Jack Bogle Was Proud He Wasn't A Billionaire | This clip makes no sense…New York Times

In the summer of 2012, I called John C. Bogle to discuss his favorite subject: index funds and the plight of rank-and-file investors. He had urged me to reach out to him "anytime I needed him," and I took him up on that offer regularly.

This time, it took a while to reach him. When I finally got through, he immediately apologized.

"I'm sorry, I've been having a hard time," he said. I replied I was sorry to hear that and asked what the problem was.