This Week in Wall Street Reform | June 1 - 7

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

One Of The White House's Top Economic Officials Is Stepping Down | CNN

Kevin Hassett, chairman of the White House's Council of Economic Advisers, is leaving his post. President Donald Trump tweeted Sunday evening that Hassett, who had been in the position since September 2017, "will be leaving shortly." "I want to thank Kevin for all he has done - he is a true friend!" Trump tweeted.

The Council of Economic Advisers is "charged with offering the President objective economic advice on the formulation of both domestic and international economic policy," according to the White House website. The chairman of the council is generally seen as the White House's chief economist.

CONSUMER FINANCE AND THE CFPB

CFPB Delays Compliance Date For Key Parts Of Payday Lending Rule | American Banker

The Consumer Financial Protection Bureau issued a final rule late Thursday to delay the compliance date for mandatory underwriting provisions of the 2017 payday lending rule.

The move, which was expected, delays the compliance date for those provisions by 15 months, until Nov. 19, 2020.

In February, CFPB Director Kathy Kraninger proposed rescinding the strict underwriting requirements initially finalized under her predecessor, Richard Cordray, in 2017. That was necessary before separately delaying the compliance date, which was the agency's move this week.

US Consumer Watchdog Delays Existing Payday Lending Rule Compliance | Reuters

The U.S. Consumer Financial Protection Bureau on Friday said it is once again extending the compliance date for an ability-to-repay provision of a rule cracking down on payday lenders.

Payday firms will now have until Nov. 19, 2020 to begin ensuring borrowers have the means to repay a loan, as well as meet other living expenses, when the loan comes due, typically within 30 days.

Chase is Bringing Forced Arbitration Clauses Back to its Most Popular Credit Cards | MarketWatch

Unhappy Chase credit-card customers may be prevented from getting their day in court, thanks to a new policy the bank is rolling out.

Chase JPM, +3.08% is re-introducing forced arbitration clauses to many of its popular credit cards, including the Sapphire, United MileagePlus UAL, +3.60% and Slate cards. Over the past week, existing customers have received emails notifying them that their account terms were being changed, Fast Company first reported.

The Chamber Speaks: Forced Arbitration Is Actually Good For Workers! | American Prospect

Bipartisan commitment to a good and important cause is great news, but to achieve reform in the context of a split government, it's necessary to account for the needs of workers as well as the interests of business. In that context, the report issued by the Chamber Institute for Legal Reform should have been a welcome addition, an effort to engage with the issue from the Chamber's perspective. Instead the report (entitled "Fairer, Faster, Better," with a race car on the cover) is riddled with analytical flaws so glaring that the report concludes that arbitration is better for workers. The serious deficiencies of this report must now be highlighted in order to re-establish common ground for reform to progress.

Read: CFPB Debt Collection Rule Must Protect Consumers, Not Abusive Collectors | National Consumer Law Center

Calif. Firm Will Ask Justices To Review CFPB Constitutionality | Law360
A California law firm told the Ninth Circuit on Friday that it plans to appeal the court's ruling affirming the constitutionality of the Consumer Financial Protection Bureau's leadership structure, raising the stakes in the firm's battle against the agency with a potential trip to the U.S. Supreme Court.

Seila Law LLC raised its constitutional challenge to the CFPB as part of an effort to get out from under one of the agency's administrative subpoenas. But a Ninth Circuit panel declined last month to overturn a lower court order requiring the firm to comply with the subpoena, ruling that it isn't unconstitutional for the CFPB to be led by a single director who can't be fired by the president except for cause.

In filings on Friday, Seila asked the Ninth Circuit to stay its decision to uphold the subpoena while the firm seeks Supreme Court review, arguing that there's a decent chance the high court will take up the case and that allowing the subpoena to be enforced in the interim would cause the firm to "suffer the exact prejudice it seeks to avoid" by appealing.

Senators Say Fair Debt Collection Practices Act Proposal Puts Industry Ahead of Consumers | USA Today (group the debt collection pieces together - so this goes near NCLC Link

More than 20 U.S. senators are calling on the Consumer Financial Protection Bureau to reconsider a proposal that would allow debt collectors to send unlimited texts and emails to consumers, as well as call them seven times a week per debt.

Led by Sens. Bob Menendez, D-N.J., and Sherrod Brown, D-Ohio, 19 Democratic and two Independent senators have signed a letter expressing their concerns that the proposed update to the Fair Debt Collection Practices Act would allow debt collectors to contact consumers more than they already do. Signees include 2020 presidential hopefuls Sens. Kamala Harris, D-Calif.; Kristin Gillibrand, D-N.Y.; Cory Booker, D-N.J.; Elizabeth Warren, D-Mass.; and Bernie Sanders, I-Vt. Read the letter in its entirety at the bottom of this article.

How Payday Lenders Spent $1 Million At A Trump Resort — And Cashed In | ProPublica

In mid-March, the payday lending industry held its annual convention at the Trump National Doral hotel outside Miami. Payday lenders offer loans on the order of a few hundred dollars, typically to low-income borrowers, who have to pay them back in a matter of weeks. The industry has long been reviled by critics for charging stratospheric interest rates — typically 400% on an annual basis — that leave customers trapped in cycles of debt.

The industry had felt under siege during the Obama administration, as the federal government moved to clamp down. A government study found that a majority of payday loans are made to people who pay more in interest and fees than they initially borrow. Google and Facebook refuse to take the industry's ads.

On the edge of the Doral's grounds, as the payday convention began, a group of ministers held a protest "pray-in," denouncing the lenders for having a "feast" while their borrowers "suffer and starve."

But inside the hotel, in a wood-paneled bar under golden chandeliers, the mood was celebratory. Payday lenders, many dressed in golf shirts and khakis, enjoyed an open bar and mingled over bites of steak and coconut shrimp.

"It's a way of keeping themselves on the list, reminding the president and the people close to him that they are among those who are generous to him with the profits that they earn from a business that's in severe danger of regulation unless the Trump administration acts," said Lisa Donner, executive director of consumer group Americans for Financial Reform.

Listen: Pay Day At The Trump Doral | Trump, Inc

Read: Consumer Psychology And The Problem Of Fine Print Fraud | Stanford Law Review

Ex-Wall Street Lawyer Is Behind Plan To Have Post Office Compete With Banks | Wall Street Journal - This goes in consumer issues, not here

More Democrats are touting a proposal to offer banking services through the post office to people who lack bank accounts or credit cards. Many of them—including U.S. Sens. Kirsten Gillibrand of New York and Elizabeth Warren of Massachusetts and U.S. Rep. Alexandria Ocasio-Cortez of New York—have consulted with Ms. Baradaran, a law professor who is about to join the University of California-Irvine.

Ms. Baradaran first began writing about postal banking six years ago, calling it a "public option" for banking, akin to what many argue is needed in health care. She contends that private banks have failed to address the needs of millions of households and that a government-backed option can close the gap.

Her interest had its origins in her work at Davis Polk & Wardwell LLP, which represents such Wall Street clients as Morgan Stanley . Before the crisis, Ms. Baradaran did research on bank charters that firms were considering using that would limit the government's involvement in their business.

DERIVATIVES AND THE CFTC

Senate Confirms Tarbertt To Lead CFTC | Politico Pro

The Senate today confirmed Heath Tarbert to serve as the next chairman of the Commodity Futures Trading Commission.

The lawmakers approved his appointment to the derivatives regulator in a 84-9 vote.

Tarbert, a lawyer who has been serving as the Treasury Department's acting undersecretary for international affairs, will succeed Christopher Giancarlo as CFTC chairman.

EXECUTIVE COMPENSATION

Here's One Powerful Way to Control CEO Pay | MarketWatch

Company shareholders are well-positioned to address income inequality by clamping down on sky high corporate pay, but new research says they'll have to put their mouth where their money is.

Shareholders — everyone from a retail investor with a 401(K) to asset management firms with vast pools of money — need the incentives and power to question exorbitant corporate pay in the companies where they invest money, according to a new paper from the Economic Policy Institute,.

For shareholders to get to that point, the left-leaning nonprofit think tank said necessary steps would include tax penalties against companies with high worker-CEO pay ratios and rules giving real consequences when shareholders vote down proposed C-suite pay packages.

Read: Reining In CEO Pay And Curbing The Rise Of Inequality | Economic Policy Institute

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

News Release: Statement on SEC Approval of Reg BI

Advisory: Media Advisory: Teleconference With SEC Commissioner Robert Jackson

SEC Adopts New Rules For Brokers That Consumer Advocates Say Are Toothless | New York Times

Regulators have new rules for Wall Street brokers providing investment advice: Put the customer first. But consumer advocates argue that the rules amount to little more than a marketing slogan.

The Securities and Exchange Commission on Wednesday voted to pass the so-called Regulation Best Interest. The commission said the changes would simplify consumers' lives and tighten the standards governing brokers who sell investment products.

"When working people seek out investment advice, they expect and deserve to be able to rely on the people providing that advice to prioritize their need for a secure financial future over the financial professional's interest in getting rich," said Heather Slavkin Corzo, a senior fellow at Americans for Financial Reform and director of capital markets policy at the A.F.L.-C.I.O. "The S.E.C., in finalizing this rule, has failed to set rules that meet that basic standard."

Also ran in [The San Francisco Chronicle]

SEC Moving To Require Brokers Only To Reveal Conflicts For Advice | Associated Press

Federal regulators are moving to require that brokers provide their customers with detailed disclosures of their potential conflicts of interest when dispensing advice for retirement planning and other investments.

But critics say the Securities and Exchange Commission's new measure, supported by the financial industry, doesn't go far enough to protect retail investors against abuses. They say a stricter standard advanced under the Obama administration should apply to brokers.

The stricter fiduciary duty rule required all financial professionals — not just registered investment advisers — to act as trustees obligated to put their clients' interests before their own. It was targeted for watering-down by President Donald Trump in early 2017 and defeated in the courts by the industry.

"The regulations the agency is set to approve are a betrayal of the 'Mr. and Ms. 401(k)' investors (Clayton) pledged to protect when he undertook this rulemaking," the Consumer Federation of America and Americans for Financial Reform said in a joint statement. "The drain on people's hard-earned savings will continue."

Also ran in The Washington Post, MarketWatch, FoxBusiness, Tampa Bay Times, Fox5NY, The Daily Journal, MyStateline.com (WTVO/WQRF), Cadillac News, The Joplin Globe, The Daily Herald, The Elko Daily Free Press, and The Alton Telegraph

SEC Adopts Rule To Protect Ordinary Investors, But Critics Say It's Too Lax | CNBC

The Securities and Exchange Commission on Wednesday adopted a new regulation that calls for brokers to act in the best interest of their clients when making investment recommendations.

In a 3-to-1 vote, commissioners approved the Regulation Best Interest, along with other regulatory actions intended to enhance disclosures and clarify certain advisors' existing responsibility to put their clients' interests before their own.

The SEC's action, supported by the broker-dealer industry but opposed by consumer and investor advocates as not going far enough, comes a year after regulators first proposed most of the changes included in the approved package.

"It's The Trumpification Of The SEC:" As Standards Are Lowered For Investment Pros, "Mr. And Ms. 401(k)" Could Be Screwed | Vanity Fair

It's an Orwellian turn of events, and unnecessarily upends much of the calculus that has been around for decades between people who manage other people's money for a living and their clients. "It's the Trumpification of the SEC and of [Jay] Clayton, [the SEC chairman]," says Carter Dougherty, the communications director for Americans for Financial Reform, an organization that opposes the change, "where we're going to say, 'Up is down and right is left, and two plus two equals five.' They have imported this disdain for the truth into the commission now, and this has a very real implication on a day-to-day basis for your average investor, or what Clayton likes to call 'Mr. and Ms. 401(k).' It's that your broker will be able to look you in the eye and say, 'I am complying with Regulation Best Interest of the SEC,' but in fact [they] are not creating a relationship here that requires that your broker acts in your best interests in the manner that, say, a doctor or a lawyer is obligated to act in your best interests."

New Sec Rule Aids and Abets Wall Street Predators | The Hill (Dennis Kelleher and Stephen Hall)

The SEC stridently proclaims that these standards will better protect investors from advisers with conflicts of interest. The releases are lengthy and complex and will take some digesting, but it now appears clear that the SEC's claims are simply false and that all three releases are indefensibly weak.

In fact, if the anti-fraud provisions in the securities laws applied to the SEC's own bold and self-congratulatory claims about the rule, the agency would have something to answer for in court.

First, Reg BI itself does not actually require advisers to act in the best interest of their customers, instead essentially adopting the feeble "suitability" standard that has been on the books for years.

Will Reg BI Be Hammered By Lawsuits? | Think Advisor

Industry officials anticipate a little-changed Regulation Best Interest as well as potential lawsuits after the Securities and Exchange Commission approves on Wednesday its controversial Reg BI for brokers, part of the agency's four-pronged advice standards package.

"Litigation is certainly possible after the final rules are adopted," said David Tittsworth, former president and CEO of the Investment Adviser Association who's now an attorney with Ropes & Gray in Washington.

Before lawsuits are filed, however, Tittsworth said he expects "a lot of plain old legal digging — including [of] those all-important footnotes — to try to figure out what the new rules require and what changes will be required by brokers, investment advisors and dual registrants to comply with the new rules."

What The New DOL Fiduciary Rule Might Look Like | Investment News

The form and substance of the Department of Labor's new fiduciary rule, set to be unveiled by the end of the year, is anybody's guess. But there are a few clues, and attorneys who specialize in fiduciary and retirement law have mined them to offer some likely scenarios.

In early May, Labor Secretary Alexander Acosta told lawmakers the agency was collaborating with the Securities and Exchange Commission, which is expected to issue a final advice reform rule next week. Many took this to mean the DOL fiduciary rule, which would amend advice standards in retirement accounts, would largely mirror whatever the SEC finalizes. But that's not exactly possible.

"It's a foregone conclusion that that's not going to happen," said Jason Roberts, partner at the Retirement Law Group and CEO of the Pension Resource Institute.

Forget the Sec Advice Rule — Broker-Dealers More Concerned with CFP Board Expanded Fiduciary Standard | Investment News

Lawyers across the brokerage industry are busily reading and digesting the Securities and Exchange Commission's investment advice reforms approved this week. But some firms are also gearing up for more changes promulgated by the organization that administers one of the most sought-after designations in the industry: the Certified Financial Planner, or CFP.

The Certified Financial Planner Board of Standards Inc. in 2018 approved a new code of ethics and standards of conduct, expanding a fiduciary standard as part of its revamp to the designation's conduct requirements. Under the new standards, all CFPs — including brokers — must act in the best interests of their clients when providing financial advice.

Will Edward Jones Stop Advisors From Using The CFPB Designation? | Financial Planning

Friction between the CFP Board and Edward Jones over the board's new professional standards of ethics and conduct is leading some advisors at the firm to question whether they'll be permitted to use the industry's most popular credential.

The discord, spurred by recent Edward Jones messaging to advisors about the board's efforts to update its standards, including a stronger fiduciary duty, has prompted some of the nearly 2,000 CFP professionals at the company to take their questions directly to the CFP Board.

"Edward Jones as a firm does not act as a fiduciary," an advisor wrote to the board, according to a person who shared details of this and other letters. "Can you provide light on my situation? Will I be forced to choose between my designation or the firm where I have worked for more than 20 years?"

Risky Options May Be Coming to Your 401(k) | New York Times

Americans may soon see some welcome changes to the rules governing their retirement savings plans, including the ability to contribute to their individual retirement accounts longer or tap them to help pay for the arrival of a new child.

But the same bipartisan bill could also make retirement planning even more confusing, particularly for workers hoping to recreate the pensions of a bygone era.

Among the two dozen or so rule changes is a provision that is strongly supported by insurance companies but has consumer advocates worried. It would eliminate some of the liability for employers who add annuities to the menu of options for their 401(k) plans — including expensive and complex products that purport to offer the peace of mind of a guaranteed income stream.

PRIVATE FUNDS

Hedge fund buys struggling book retailer Barnes & Noble | MSN

Struggling bookseller Barnes & Noble said Friday it was being sold to hedge fund Elliott Management, which already owns British-based book retailer Waterstones.

The deal worth an estimated $683 million including the assumption of Barnes & Noble debt comes after years of efforts by the US book chain to compete against Amazon and the move to online commerce.

After the close of the deal, Barnes & Noble and Waterstones will operate independently but will share a common chief executive and benefit from the sharing of best practice between the companies, according to a statement.

Billionaire Art Collector Leon Black Reveals Private Equity's 'Scream-Worthy' Problem | Observer

"The unfairness of so many [great] investments we lead and how our stock is undervalued. That's most worth screaming about, I think," Black said, half jokingly, to his private equity fellow, Carlyle Group founder David Rubenstein during The David Rubenstein Show on Tuesday at a Bloomberg studio in New York.

Art jokes aside, Black's statement about his firm's stock being undervalued is actually a very serious issue—not only to Apollo but also to publicly traded private equity firms more broadly.

Advent Raises $17.5bn for One of the Largest Private Equity Funds Ever | Financial News

Global private equity firm Advent International said Thursday it raised $17.5bn for its latest flagship buyout fund. The fund, which surpassed its $16bn goal, is one of the largest ever raised for leveraged buyouts and is the biggest the firm has raised in its 35 year history.

The bumper haul reflects continuing appetite for top performing private equity managers from institutional investors such as US pension plans and sovereign-wealth funds. Firms globally have raised record sums in recent years as investors seek alternatives to high priced stocks and bonds.

Teneo Agrees to Sell Majority Stake to Private-Equity Firm | Wall Street Journal

Teneo Holdings LLC—the communications and advisory firm known for counseling the CEOs of some of the world's largest companies—has agreed to sell a slight majority stake to private-equity investor CVC Capital Partners, according to people familiar with the matter.

The deal values Teneo, slightly less than half of which is currently owned by private-equity firm BC Partners LLP, at more than $700 million, the people said. BC Partners, which first invested in 2014, will sell its stake as part of the deal and management will sell a small portion of its shares but continue to own nearly 50% of the company, they said.

MORTGAGES AND HOUSING

Letter to Regulators: **Coalition Comment on Opportunity Zone Data Collection**

Letter to Regulators: **AFR Education Fund Comment on Opportunity Zone Data Collection**

FHFA To Seek More Powers From Congress This Month | Politico Pro

Federal Housing Finance Agency Director Mark Calabria, who is pushing for a sweeping overhaul of the nation's housing finance system, said he will seek additional regulatory powers from Congress as early as this month.

"I'm going to submit some requests for additional authorities — I don't think any of them will be surprises to Congress," Calabria told POLITICO in a brief interview this morning. "I hope, probably by the end of the month."

Calabria says he wants to ask Congress to grant him the authority to issue charters for new companies to compete with Fannie Mae and Freddie Mac, the two companies he oversees that dominate the mortgage-financing market. He has not yet been asked to testify, he said.

Cory Booker's Housing Plan Would Offer Tax Credit To Help Tenants Pay Rent | Bloomberg

Democratic presidential candidate Cory Booker wants to cut housing costs with a tax credit for Americans who spend more than 30 percent of their income on rent.

"Making sure all Americans have the right to good housing is very personal to me," Booker said in a statement that accompanied the release of his housing proposals on Wednesday. "I'm determined to tear down the barriers that stand in the way of every American being able to do for their families what my parents did for mine."

Nearly half of the tenants in the U.S. spend more than 30 percent of their before-tax income on housing expenses. Under Booker's plan, they would be eligible for a refundable renters' credit. The amount provided would be worth the difference between the 30 percent of their income and their neighborhood's fair market rent.

Rep. Pressley Seeks Answers From HUD On Anti-Trans Rules For Homeless Shelters | Washington Blade

Rep. Ayanna Pressley (D-Mass.) is leading a quartet of House Democrats in seeking answers from the Department of Housing & Urban Development over a proposed rollback in transgender non-discrimination protections at homeless shelters.

In a June 3 letter to Secretary of Housing & Urban Development Ben Carson, Pressley and the lawmakers denounce the proposed rule from HUD, which critics say will enable federally funded homeless shelters to turn away transgender people.

"This proposed rule released by HUD robs thousands of Americans from adequate shelter and safety and puts their lives at risk," the lawmakers write.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Civil Rights Groups Urge Consumer Bureau To Root Out Discrimination In Student Loan Servicing Industry | Washington Post

Civil rights organizations are urging the director of the Consumer Financial Protection Bureau to step up oversight of the student-loan servicing industry and root out discrimination.

It has been two years since the bureau identified student-loan servicing as posing substantial risk of credit discrimination and pledged further investigation into disparate outcomes for borrowers. That level of evaluation requires records and data from servicing companies that manage student-loan payments on behalf of the federal government and private lenders.

But recent evidence suggests the bureau is no longer receiving or pursuing the information and has quietly abandoned its pledge to prioritize the fair-lending issue.

In response to an inquiry, the consumer bureau's director, Kathleen Kraninger, told Sen. Elizabeth Warren (D-Mass.) in April that servicing companies have refused since December 2017 to produce federal student-loan records under the direction of the Education Department. She said the consumer protection bureau has pursued options to obtain the information, but she did not elaborate on whether those efforts have been successful.

Tobacco Commission Considering Student Loan Forgiveness Program to Help Rural Areas | WSLS Virginia

"What we need is the right number of new, high-skilled individuals who can come and fill these jobs that we're having trouble filling. We have a high confidence that this is the best practice in this field," Tobacco Commission Executive Director Evan Feinman said.

People in certain non-health care professions can get $12,000 of their student loan paid off a year for up to four years.

For health care workers, the Tobacco Commission will work with the Virginia Department of Health, which already has a loan forgiveness program.

SYSTEMIC RISK

Letter to Congress: Comment on HFSC Leveraged Lending Hearing

Letter To Regulators: Comment on Bank Ownership of Unsecured G-SIB Debt

6 Policy Responses to Leveraged Lending Fears | American Banker

As policymakers debate the nature of the risk presented by leveraged loans, some have been quick to recommend policy prescriptions to safeguard the financial system.

"There is very wide agreement that leveraged lending even at the levels it's at now … is probably going to act to amplify the next recession," said Marcus Stanley, policy director at Americans for Financial Reform. "It's going to make the next recession more harmful for workers and communities.

"We've allowed nonfinancial institutions to accumulate a lot of debt. This debt has not really driven higher investment. … Instead a lot of this debt has been used for private equity investment and share buybacks."

Congressman Gregory Meeks Wants To Make Sure Leveraged Loans Do Not Lead To A Financial Crisis | Forbes (Mayra Rodriguez-Valladares)

Democratic New York Congressman Gregory Meeks and Chair of the Subcommittee on Consumer Protection and Financial Institutions, is holding a hearing, "Emerging Threats to Stability: Considering the Systemic Risk of Leveraged Lending," on June 4 at 2:00 pm. The very rapid rise of leveraged loan volumes, rightly has Congressman Meeks and other Democratic legislators concerned enough to call for a public discussion about leveraged loan risks, and how they could cause a significant market disruption in an economic downturn, or at worst, could pose a financial systemic threat.

Presently, leveraged loans outstanding are about $1.2 trillion, an over 70% rise since 2007. Just from December 2017 to December 2018, leveraged loans outstanding rose 21%.

In 2007, less than 20% of leveraged loans were covenant-lite. Whereas now, over 80% of these loans are covenant-lite, which means that in a downturn, the lenders will have few protections if the borrowers default.

Financial Crisis, Toys R Us Downfall Guide Tuesday Leveraged Lending Hearing | Reuters

Ten years out from the financial crisis and legislators and regulators are sounding the alarm about risks in the US$1.2trn leveraged loan market, concerned that loosening lender protections and aggressive terms in the asset class could weigh on the overall US economy.

On Tuesday, a Congressional committee will discuss risks in leveraged lending with a panel of professors as the credit crisis and high-profile bankruptcy filings including Toys 'R' Us, the well-known toy store that encouraged everyone to be a Toys 'R' Us kid, weigh on committee members' minds.

"In 2008, we went through the greatest financial crisis since the Great Depression and I don't want to ever get back there and do that again," said US Representative Gregory Meeks, who chairs the House Financial Services subcommittee overseeing the hearing.

The Shadow Banks Are Back With Another Big Bad Credit Bubble | Washington Post (Steven Pearlstein)

Federal Reserve Chair Jerome Powell gave a speech a couple of weeks back that showed that financial regulators have learned many lessons from the 2008 financial crisis, but not the most important one, namely:

If regulators wait to act until they can say with certainty that a credit bubble is about to burst, they've waited too long.

That's particularly true when it comes to the opaque and unregulated "shadow" banking system on Wall Street that has now supplanted regulated banks as the leading source of credit for businesses and consumers. This shadow system gets its money from big investors rather than depositors, and it revolves around hedge funds, investment banks and private equity funds rather than banks. These shadow banks have made borrowed money cheaper and easier to get, but they have also made the financial system and the U.S. economy more susceptible to booms and busts. And with another giant credit bubble ready to burst — this one having to do with business borrowing — we're about to learn that painful lesson again.

TAXES

Carried Interest And Charity: Two Loopholes Are Better Than One | Forbes

Many critics, including Warren Buffett, complain that carried interest—the principal form of compensation received by people who work as private equity and hedge fund managers—is taxed at the 20% capital gains rate rather than at the 37% ordinary rate paid by people who work doing other things. Others bemoan that the tax deductibility of charitable contributions makes all taxpayers de facto partners in the gifts made by the wealthy. Yet few critics seem to appreciate how these elements of the tax code interact to create an even greater injustice.

Imagine a private equity investment fund with a standard "two and twenty" arrangement whereby the manager receives an annual fee equal to 2.0% of the capital plus a "carried interest" equal to 20% of the profits. Most funds—even those with mediocre overall results—usually have at least a few very successful investments into private companies that are later listed on the stock market. For the sake of illustration, let's assume that the fund invested into a private company—call it "HomeRun" Inc.—that is later listed on the stock market at a valuation many multiples of the fund's initial investment.

In this case, the manager would likely receive some of his (the vast majority of private equity partners are men) carried interest in HomeRun shares rather than cash. (In private equity speak, he would receive a "distribution" of HomeRun shares.) While the manager still pays tax (at the 20% capital gains rate) on the carried interest he receives in HomeRun shares, it is only due when he sells the shares. This leaves him the option of giving them away instead.

Yes, Taxing The Rich Is Possible | New York Times (David Leonhardt)

For a long time, there was a predictable response to any proposal for increasing taxes on the rich: It will wreck the economy. You don't hear this response quite so often anymore, however, because it's become so obviously false. If anything, the economy in recent decades has grown more quickly when Washington taxes the rich more, not less.

Instead, you often now hear a new argument: There's no point in trying to tax rich people, because they'll just figure out a way to avoid paying taxes.

The Washington Post ran a big news article recently making this case (and parts of the argument have appeared elsewhere too, including in The Times). The Post article claimed that Elizabeth Warren's plan to introduce an annual wealth tax relies on a set of "assumptions that defy a long history of U.S. policymaking": namely, "that the country's wealthiest taxpayers won't find ways to evade the targeted tax hike she proposes."

But this claim is wrong, too. The long history of American policymaking actually shows that raising taxes on the wealthiest taxpayers is entirely possible.

ELECTIONS, MONEY, AND POLITICS

Rahm Emanuel, Ex-Chicago Mayor, Is Going To Wall Street | Wall Street Journal

Former Chicago mayor and longtime Democratic operative Rahm Emanuel will join boutique investment bank Centerview Partners LLC, bringing a Rolodex built over a 30-year political career.

Mr. Emanuel, who left office last month, will open a Chicago office for Centerview and advise clients on merger deals and other matters, he said in a joint interview Wednesday with Centerview co-founders Blair Effron and Robert Pruzan.

"Our job is to help clients make big decisions," Mr. Pruzan said. "Rahm has spent his career in the room where big decisions are being made."

The 59-year-old won't be the first high-profile politician to land a job in finance—he won't even be the first at Centerview, where former Treasury Secretary Robert Rubin is an adviser. Moelis & Co. hired Eric Cantor, the House majority leader, after he lost his seat in 2014. One of Mr. Rubin's successors at Treasury, Timothy Geithner, is a top executive at private-equity firm Warburg Pincus LLC.

Freshmen Dems Bash Mitch McConnell While Calling For A Senate Vote On Their Reform Bill | HuffPost

Nearly every freshman House Democrat sent a letter on Wednesday to Senate Majority Leader Mitch McConnell (R-Ky.) calling on him to bring the sweeping campaign finance and election reform bill passed by the House to the Senate floor for a vote.

The For The People Act (H.R. 1) would create a system of publicly financed House elections, expand voting rights by mandating early voting and automatic voter registration, enhance election security and enact ethics reforms like requiring presidential candidates to disclose their tax returns. It passed the House on a 234-193 party-line vote on March 8. Sen.

Tom Udall (D-N.M.) has introduced a companion bill in the Senate backed by every Senate Democrat.

McConnell, a fierce opponent of campaign finance reform, has attacked the bill a "power grab" by the Democratic Party and refused to bring it to the Senate floor for a vote. As majority leader, he is under no obligation to bring any piece of legislation to the Senate floor for a vote.

OTHER TOPICS

Everything Is Up For Review At The Fed's Big Policy Confab In Chicago | Bloomberg

For Americans, from wealthy investors to minimum wage-earners, the two-day conference starting Tuesday could be a big deal if it paves the way to a new strategy for managing inflation and fighting recessions.

In the immediate future, that would probably mean lower interest rates for longer, as central bankers step aside and let the job market keep heating up. President Donald Trump, chipping away at the barrier that's supposed to separate central bankers from elected politicians, has been urging them to go even further.

The Chicago conference is billed as the main event in a yearlong review of how the Fed tackles the goals it's been given by Congress: maximum employment and price stability.

Wall Street Pins Its Hopes on Fed Rate Cuts | New York Times

Traders are betting the Fed will bail them out again. If they're wrong, things could get ugly.

Expectations that the Federal Reserve will start cutting interest rates have surged in recent days, and the Fed funds futures market suggests a better than 50-50 chance that the central bank will announce a cut at its meeting in July.

This stark change in expectations coincides with a deterioration in the outlook for growth, after a month of worsening trade relations and slumping stock markets.

The stakes are high. Throughout the decade-long bull market, stock investors have repeatedly taken their cue from the Fed's interest rate decisions, which have infused fresh life into stocks.

Powell, Eyeing Trade War, Says Fed Will Act To Sustain Expansion | New York Times

Federal Reserve Chairman Jerome H. Powell said on Tuesday that the central bank is prepared to act to sustain the economic expansion should fallout from President Trump's trade actions on China and Mexico threaten the United States economy.

"We do not know how or when these issues will be resolved," Mr. Powell said of trade negotiations between the United States and other nations. "We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2 percent objective."

While Mr. Powell did not explicitly say that the Fed will cut interest rates, markets are likely to interpret his comments as a signal that the central bank is prepared to do so in order to offset any economic fallout from Mr. Trump's ongoing trade wars. Mr. Powell spoke from remarks prepared for delivery at a conference in Chicago.

Financial Disaster May Prompt Self-Destructive Behavior | US News

If England's 2008 financial crisis was any indication, self-harm often follows economic ruin.

Researchers examined self-poisoning (which largely means drug overdoses) and self-injury events in three British cities and found that one-quarter of all self-harm emergency department visits were made by men and women aged 40 to 59.

Risk of further self-harm was high, with 25% of patients being seen at a hospital for self-harm again within 12 months, the findings showed.

A Lawsuit Over Ferguson's "Debtors Prison" Drags On | ProPublica

The city slowly stopped jailing people for not being able to pay fines as the news media showed the victims were primarily black and the Justice Department made clear that what Ferguson had been doing was wrong. But four years after a federal class-action suit was filed against the city on behalf of thousands of people who claimed they were jailed for their inability to pay fines, the plaintiffs are still waiting for redress.

The city has sought to have the lawsuit dismissed, filing a succession of motions, arguing among other reasons that instead of suing the city, the plaintiffs should be suing the municipal division of the state court. All three of the motions have been denied by the judge, Audrey G. Fleissig, of the U.S. District Court in St. Louis, though one of the rulings was appealed and that took about a year to resolve.

Why Walmart Should Put Workers On Its Board | Roosevelt Institute (Lenore Palladino and Kristina Karlsson)

Mega corporations like Walmart run their companies with an ideology called "shareholder primacy" that is used to justify putting shareholder wealth over just about anything else, including increasing wages. This narrow focus on making already-wealthy shareholders more rich explains Walmart's support for a starting wage of $11 an hour that keeps Walmart associates in poverty even when they work full-time. At the same time, the Walton family, which holds over 50 percent of Walmart's stock, made $14 billion in the first six weeks of 2019 alone, as Walmart share prices went up, inflated by corporate stock buybacks.

If a stakeholder governance model was implemented in the US, workers would be included on boards, giving them a say in corporate decisions (for a full description of what we mean by stakeholder governance, see our brief "Towards Accountable Capitalism" and Susan Holmberg's report Fighting Short-termism with Worker Power. This means that extractive choices like authorizing billions in stock buybacks (in order to artificially increase the value of a company's stock)—a practice that drives stagnant wages—would be more likely to face far more scrutiny than when boards are elected entirely by (and for) shareholders.

Trump's Trade Wars Have Cost The Stock Market $5 Trillion And Counting: Deutsche Bank | CNBC

President Donald Trump's trade battles are costing the U.S. stock market $5 trillion and counting, according to Deutsche Bank.

Given the bulk of equity returns come from stock price appreciation, in an escalated trade war with China and now Mexico, the U.S. is losing trillions of dollars in foregone returns as markets sink on the negative headlines, the bank said Friday.

"The costs of the trade war in our view are about its indirect impacts," Deutsche Bank's chief strategist, Binky Chadha, said in a note to clients. "The trade war has been key in preventing a recovery in global growth and keeping US equities range bound. Foregone US equity returns from price appreciation (12.5% annual rate) for 17 months are worth $5 trillion."