AMERICANS FOR FINANCIAL REFORM

THIS WEEK IN WALL STREET REFORM
March 29 – April 4, 2014

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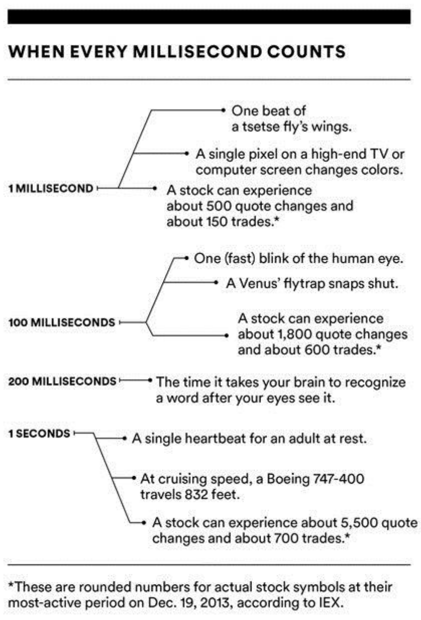
HIGH-SPEED TRADING



[The Wolf Hunters of Wall Street](#)
Michael Lewis, New York Times, 3/31/14
“Technology had collided with Wall Street in a peculiar way. It had been used to increase efficiency. But it had also been used to introduce a peculiar sort of market inefficiency. Taking advantage of loopholes in some well-meaning regulation introduced in the mid-2000s, some large amount of what Wall Street had been doing with technology was simply so someone inside the financial markets would know something that the outside world did not. The same system that once gave us subprime-mortgage collateralized debt obligations no investor could possibly truly understand now gave us stock-market trades involving fractions of a penny that occurred at unsafe speeds using order types that no investor could possibly truly understand. That is why Brad Katsuyama’s desire to explain things so that others would understand was so seditious. He attacked the newly automated financial system at its core, where the money was made from its incomprehensibility.”

High-Speed Traders Rip Investors Off, Michael Lewis Says
Nick Baker and Sam Mamudi, Bloomberg, 3/31/14
"The U.S. stock market is rigged when high-frequency traders with advanced computers make tens of billions of dollars by jumping in front of investors, according to author Michael Lewis, who spent the past year researching the topic for his new book 'Flash Boys'."

While speed traders' strategies, developed over the past decade with help from exchanges, are legal, 'it's just nuts' that they're allowed', Lewis said during an interview televised yesterday on CBS Corp.'s '60 Minutes.' The tactics are too complicated for individual investors to understand, he said.

"'The United States stock market, the most iconic market in global capitalism, is rigged,' Lewis, whose books 'Liar's Poker' and 'The Big Short' highlighted Wall Street excesses, said during the interview. The new book comes out today. 'It's crazy that it's legal for some people to get advance news on prices and what investors are doing,' he said."

Lawmakers Spurred by Lewis Book Try to Slow Flash Traders
Derek Wallbank, Bloomberg, 4/4/14
"Democrats in Congress today will renew a long-stalled push to levy fees on high-frequency trading in an effort to generate hundreds of billions of dollars -- or tax the practice out of existence. The move comes after Michael Lewis, author of the book "Flash Boys," charged that the stock market is rigged against investors because of high-frequency traders with advanced computers. That sparked a national debate, prompting lawmakers to take up what just last week had been a dormant issue.

"'These don't really add any value,' Minnesota Democrat Keith Ellison, the sponsor of one such measure, said in an interview. 'They're not market signals, they're just collecting checks because your computer's faster than somebody else's.'"

Lewis Likens Einhorn to 'Dumb Tourist' in Fixed Card Game
Nick Baker and Sam Mamudi, Bloomberg, 4/2/14

FBI Investigates High-Speed Trading
Scott Patterson and Michael Rothfeld, Wall Street Journal, 3/31/14

SEC Has 'A Number' of Investigations Into High-Frequency Trading
Andrew Ackerman, Wall Street Journal, 4/1/14
"Securities and Exchange Commission Chairman Mary Jo White said her agency has 'a number' of investigations into potentially unlawful trading practices by high-frequency trading firms. Ms. White, testifying before a House of Representatives Appropriations subcommittee Tuesday, said the SEC currently has several ongoing investigations regarding 'market integrity and structure issues, including high-frequency traders and automated traders'.

"Her comments come a day after revelations the Federal Bureau of Investigation is probing whether high-speed trading firms are engaging in insider trading by taking advantage of fast-moving market information unavailable to other investors."

FBI Seeks Help From High-Frequency Traders to Find Abuses
Keri Geiger and Patricia Hurtado, Bloomberg, 3/31/14
"The Federal Bureau of Investigation has openly solicited traders and stock-exchange workers to blow the whistle on possible front-running and manipulation via high-speed computers… The strategy to invite whistleblowers was prompted in part by the complexity of proving any misconduct, according to a person with direct knowledge of the matter."

High Speed Trading and Slow-Witted Economic Policy
Center for Economic Policy and Research, 4/1/14
"The issue here is that people are earning large amounts of money by using sophisticated computers to beat the market. This is effectively a form of insider trading. Pure insider trading, for example trading based on the CEO giving advance knowledge of better than expected profits, is illegal. The reason is that it rewards people for doing nothing productive at the expense of honest investors…

"There are many complicated ways to try to address this problem, but there is one simple method that would virtually destroy the practice. A modest tax on financial transactions would make this sort of rapid trading unprofitable since it depends on extremely small margins. A bill proposed by Senator Tom Harkin and Representative Peter DeFazio would impose a 0.03 percent tax on all trades of stocks, bonds, and derivatives. This would quickly wipe out the high-frequency trading industry while having a trivial impact on normal investors. (Most research indicates that other investors will reduce their trading roughly in proportion to the increase in the cost per trade, leaving their total trading costs unchanged.)The Joint Tax Committee projected that this tax would raise roughly $400 billion over a decade."

The More We Know about High-frequency Trading, the Stronger the Case for a Wall Street Speculation Tax
Jim Lardner, AFR Blog, 4/3/14

Taxing High Speed Trading
Interview with Rep. Keith Ellison, CNBC, 4/3/14

High-Frequency Traders Aren't Rigging Futures, Wetjen Says
Silla Brush, Bloomberg Government, 4/3/14
"I don't have the impression at the moment that futures markets are rigged," Wetjen said on the sidelines of a CFTC meeting. He was responding to comments by Michael Lewis, author of the book "Flash Boys," that investors are being robbed by traders using advanced computers to jump ahead of their trades…

"The CFTC joins the Federal Bureau of Investigation, Securities and Exchange Commission and New York Attorney General's office in probing high-speed trading. Authorities are examining practices in which firms use super-fast computers to post and cancel orders at rates measured in thousandths or even millionths of a second to capture price discrepancies."

CONSUMER FINANCE AND CFPB

Overdraft Fees at Banks Hit a High, Despite Curbs

AnnaMaria Andriotis, Wall Street Journal, 4/1/14

"Squeezed by falling revenue on deposit accounts, banks are turning to a familiar source of income: overdraft fees.

"Nearly four years after regulators tried to curb the fees, banks are lifting them to new heights. The median fee for withdrawing more from a checking account than a customer has on deposit increased to an estimated $30 in 2013—a record—up from $29 in 2012 and $26 in 2009, based on a survey of 2,890 banks and credit unions by Moebs Services Inc., an economic-research firm in Lake Bluff, Ill."

Someone Else's Debt Could Ruin Your Credit Rating

David Dayen, New Republic, 3/31/14

"According to statistics from the Federal Reserve, one in seven Americans is being pursued by a debt collector, up from one in 12 just ten years ago. And substantial numbers of these Americans report being hounded for debts they do not owe. A new report from the Consumer Financial Protection Bureau logged tens of thousands of complaints claiming just this—that the debt in question is simply not theirs."

Important New Book Proves Federal Arbitration Act Badly Distorted by Supreme Court

Paul Bland, Public Justice, 3/31/14

"If one goes back more than 15 years, only a tiny number of U.S. consumers were subject to forced arbitration clauses. As late as 1998, a handful of early corporate pioneers were experimenting with opting out of our legal system -- a few pest control companies, two credit card issuers, some car dealers in Alabama – but that was about it. Today, more than 90 percent of cell phone users, the holders of 96 percent of credit card debt, nearly all cars, nearly anyone who goes to a nursing home, nearly anyone buys something over the internet (note: for purposes of brevity, I'll just skip over dozens of additional easy examples), has to sign or click away their constitutional rights to get products or services.

"How did this change come about in employment and consumer law in the 1990s and since? Congress didn't do anything. The public didn't notice it. What happened was the offspring of a barely noticed love affair between corporate lawyers who want and wanted their clients not to be hassled by things like consumer protection, antitrust and civil rights laws, and leading conservative justices on the Supreme Court."

Why We Need Serious Payday Loan Reform

Jim Lardner, US News, 4/3/14

"The latest [CFPB] data should bolster the bureau's resolve to act. But, as the evidence makes increasingly clear, the bureau will have to resist the temptation to focus exclusively on the traditional two-to-four week loan with a lump-sum repayment. To keep pace with a fast-moving market, rulemaking must also address the payday-like problems of an array of longer-term loan products developed by an industry that is playing all the angles to get around the rules – the anticipated as well as existing ones."

[Credit Cards: The CFPB's Agenda for 2014]
Janna Herron, Fox Business, 4/2/14
“The Consumer Financial Protection Bureau, or CFPB, the federal consumer watchdog, has demonstrated that its bite is as big as its bark when it comes to credit cards. In its almost three-year life, the CFPB has fined issuers $75.7 million, ordered them to pay back $827.6 million in refunds to almost 9.2 million consumers, and aired their shortcomings through an online complaint database.

“So what's next? More of the same should follow this year with the agency looking to expand its regulatory arms to embrace products and services not included in the Credit Card Accountability, Responsibility and Disclosure Act of 2009, or CARD Act, experts say.”

[Consumer Complaints Rose 80% in 2013: CFPB]
Donna Borak, American Banker, 3/31/14
“The number of financial complaints filed by consumers increased nearly 80% last year, to 160,000, according to a report released Monday by the Consumer Financial Protection Bureau.”

[U.S. Consumer Bureau Failed on Supervision Timeframes, IG Says]
Carter Dougherty, Bloomberg, 4/1/14
“The U.S. Consumer Financial Protection Bureau needs to improve the efficiency of its program for direct supervision of banks and non-banks, a federal watchdog said today.

“The inspector general at the Federal Reserve, which audits CFPB activities, said the agency, created by the 2010 Dodd-Frank law, has failed to meet its own timeline for completing examination reports. The documents, which give companies feedback about their compliance with federal consumer protection laws, have generally been delayed at every step of the process, the inspector general said.”

[How the CFPB Seeks to Shape the Message]
Rachel Witkowski, American Banker, 4/1/14
“When it comes to shaping the message surrounding itself, the CFPB is becoming known for acting differently than other banking regulators. The agency routinely embargoes press releases until late at night, limiting the ability of outsiders to comment during in the first wave of press coverage; that's a practice other banking regulators do not employ, although other federal agencies have done so.

“To be sure, some of the CFPB's moves likely come in response to the hostile environment in which it operates. Even before the agency opened its doors, it had many powerful enemies, including Republicans who oppose its existence on ideological grounds and bank lobbyists who disagree with much of its agenda. Every action it takes is heavily scrutinized, and there are many in financial services and elsewhere quick to seize on any misstep, real or imagined.”

[Lawmakers Spar Over Planned Hearing On CFPB Discrimination]
Peter Schroeder, The Hill, 3/31/14
“House Democrats are pushing to scrap a hearing digging into controversy at the Consumer Financial Protection Bureau (CFPB), arguing it has become a political ploy.”

“The lawmakers argued that while they were originally told the hearing would explore reported discriminatory claims at the agency and other personnel matters, it now appears the hearing will be devoted solely to the grievances of a single CFPB employee.”

Lawmakers Sparring Over CFPB Hearing
Alan Zibel, Wall Street Journal, 3/31/14

Consumer Agency Probe Finds ‘Toxic’ Environment
MJ Lee and Katie Davidson, Politico, 3/31/14
“An internal investigation at the Consumer Financial Protection Bureau last year concluded that an agency supervisor allowed an employee to be harassed by colleagues, a symbol of what the probe said was a ‘toxic workplace’ in one part of the agency.

“The probe, denounced by the agency itself as biased and based on anonymous sources, is likely to fuel Republican efforts to restructure the consumer agency, created by the 2010 Dodd-Frank law enacted after the 2008 financial crisis.”

CFPB Employee Blasts Management For Hostile Environment
Peter Schroeder, The Hill, 4/2/14

Employee Alleges Workplace Discrimination, Retaliation At CFPB
MJ Lee, Politico, 4/2/14

DERIVATIVES, COMMODITIES, AND THE CFTC

Derivative-Risk Measurement Rules Overhauled by Basel Group
Jim Brunsden, Bloomberg, 3/31/14
“The Basel Committee on Banking Supervision said the updated approach would do a better job of measuring the protection banks get from collateral, and would reduce the potential for lenders and national regulators to deviate from the global standards. The measures would apply to banks that don’t use internal models to measure capital requirements.

“The updated rules replace Basel standards that had ‘known deficiencies,’ the group said in a statement on its website. The revised measures, which go into force in 2017, take into account lessons from the financial crisis, and seek to give banks an incentive to trade via clearinghouses, it said.

“Regulators are adopting tougher rules for the $693 trillion market for over-the-counter derivatives in response to weaknesses revealed by the 2008 financial crisis. The standards are part of a broader push by the Basel committee to complete work this year on key planks of an overhaul of its rulebook.“

CFTC Turns to Treasury for Aid on Swaps Data
Andrew Ackerman, Wall Street Journal, 3/31/14
"U.S. commodities regulators are partnering with the Treasury Department to overcome data problems that have plagued efforts to shed more light on the multitrillion-dollar swaps market.

"The Commodity Futures Trading Commission signed a formal agreement Monday to work jointly with Treasury's Office of Financial Research to increase 'the quality, types and formats of data' at so-called swaps data repositories, which collect and supply regulators with transaction data on swaps.

"The CFTC is charged under the 2010 Dodd-Frank financial law with provide more information on the market for swaps, a type of derivative product that allows financial firms and their clients to hedge against risks or wager on an asset's value. Inaccurate reporting of swaps transactions have already caused the agency to misreport the overall size of the market by undercounting its size."

CFTC Enlists Treasury Support for Review of Swap-Data Oversight
Silla Brush, Bloomberg, 3/31/14

CFTC, Treasury Set Plan to Boost Quality of Swap Repository Data
Gregory Mott, Bloomberg, 3/31/14

Senate Panel to Meet on CFTC Nominees as Early as Next Week
Andrew Ackerman, Wall Street Journal, 4/1/14
"The panel is expected to meet as soon as Tuesday to sign off on the nomination of Timothy Massad, a senior Treasury Department official tapped to head the agency. It also would vote on the nominations of Sharon Bowen, a partner at law firm Latham & Watkins LLP, and brokerage executive J. Christopher Giancarlo. Mr. Massad was tapped in November to succeed Gary Gensler, who left the agency in early January. The exact timing of the meeting was still being worked out, one aide said.

"Ms. Bowen was nominated in December to succeed Democrat Bart Chilton, who stepped down in March, while Mr. Giancarlo would fill an open Republican seat at the commission. He was nominated last summer."

CFTC Close to New Rules for European Swaps Trading
Katy Burne and Andrew Ackerman, Wall Street Journal, 3/31/14
"The Commodity Futures Trading Commission is preparing to impose additional conditions on European swaps trading platforms while granting them relief from certain U.S. rules, according to people familiar with the matter.

"The CFTC plans to require the European venues to implement a series of new compliance measures to bring their standards more in line with U.S. platforms, in exchange for exempting them from having to register with the commission, the people said."

Commodity Chief Blythe Masters to Leave JPMorgan Chase
Jessica Silver-Greenberg, New York Times, 4/2/14

ENFORCEMENT

U.S. Judge Rules Banks Must Face Lawsuit Over Alleged Rate Rigging
Dena Aubin, Reuters, 3/28/14
"A federal judge in Manhattan has ruled that a group of international banks must face complaints that they violated the U.S. Commodity Exchange Act by manipulating yen-denominated interest rate benchmarks between 2006 and 2010. In a ruling on Friday, U.S. District Judge George Daniels also granted the banks' motion to dismiss related claims against them for antitrust violations and unjust enrichment.

"The banks, which included Mizuho Bank Ltd, JP Morgan Chase & Co, Barclays Bank AG, UBS AG and Citigroup Inc, were sued in 2012 for allegedly manipulating rates that reflect interest on short-term loans denominated in Japanese yen."

Court Allows Class Action to Proceed Against JPMorgan Over London Whale Losses
Jonathan Stempel, Reuters, 3/31/14
"JPMorgan Chase & Co must face a lawsuit from shareholders accusing it of securities fraud by misleading them about its ability to manage risk, which surfaced when it lost $6.2 billion in the 'London Whale' scandal.

"U.S. District Judge George Daniels in Manhattan said shareholders could pursue claims that JPMorgan, Chief Executive Jamie Dimon and former Chief Financial Officer Douglas Braunstein knowingly hid the increased risks that the bank's Chief Investment Office had been taking in early 2012."

Crime Inquiry Said to Open on Citigroup
Ben Protess and Michael Corkery, New York Times, 4/2/14
"Federal authorities have opened a criminal investigation into a recent $400 million fraud involving Citigroup's Mexican unit, according to people briefed on the matter, one of a handful of government inquiries looming over the giant bank.

How the Case Against Bank of America CEO Fizzled
Jesse Eisinger, Propublica, 4/1/14
"The regulatory cloud has lifted for Kenneth D. Lewis. Last week, the former head of Bank of America received a modest penalty, paid for by his former employer, and a temporary ban from an industry he is no longer a part of.

"In this seminal financial crisis investigation, regulators put on a master class in how to take a strong case and render it weak."

Traders Used High-Speed Tactics to Trick Investors, SEC Says
Greg Farrell, Bloomberg, 4/4/14
"The U.S. Securities and Exchange Commission accused five New Jersey-based traders and two brokerages of bilking investors with illegal high-speed trading tactics known as 'layering' or 'spoofing.' Joseph Dondero, a co-owner of Visionary Trading LLC, tricked investors into buying and selling specific stocks at prices he manipulated by peppering those shares with orders he immediately canceled, the SEC said in an administrative

order today. Dondero, Visionary Trading, Lightspeed Trading LLC and four other individuals will pay about $3 million to settle the matter.

“The settlement comes as regulators try to show they have a grasp on whether high-frequency and computer-driven trading is harming investors after a book on the practices was published this week, fanning a debate that has been part of regulatory discussions for years.”

Whistleblowers Cash in on Financial Firms' Misdeeds
Ciaran McEvoy, Investor’s Business Daily, 3/31/14
“Aggrieved employees wreaking vengeance on their bosses is one common workplace fantasy, but the federal government is making it increasingly possible — notably in financial services — to cash in for ratting out their employers.

“Earlier this month, Keith Edwards — a former JPMorgan Chase employee — was awarded $63.8 million for helping the feds in their quest to force the nation's largest bank into a $614 million settlement for its mortgage lending practices that allegedly violated the False Claims Act, a Civil War-era law banning businesses from making false claims for payment from the government.

“Last October, a jury found Bank of America liable for fraudulent loans that its Countrywide unit sold Fannie Mae and Freddie Mac in 2007 and 2008 — a case based in part on a former insider at Countrywide. Other whistleblowers have reaped millions of dollars after going public with allegations that banks' ‘robo-signed’ foreclosure notices, scammed veterans and other such skullduggery.”

SEC Charges N.J. Brokerage Firm Owner with Manipulative Trading
Erin McCarthy, Wall Street Journal, 4/4/14

Transamerica Settles SEC Charges of Improper Fees
Anna Prior, Wall Street Journal, 4/3/14

SEC Charges Two With Insider Trading on Information From Wives
John Kell, Wall Street Journal, 3/31/14

INVESTOR PROTECTION AND THE SEC

Mary Jo White Plays the Middle at the SEC
Massimo Calabresi, Time, 4/3/14
“In search of a compromise, White has made clear to members of the commission she may vote with its two Republicans on some crowdfunding and swaps rules, sources familiar with the discussions tell TIME. It would be the first time White had crossed the aisle to deliver a 3-2 vote on regulation for the Republican side.
“The move is a continuation of White’s savvy political play at the commission. ‘Her purposeful nonpartisanship has kept Washington’s political players guessing,’ says former SEC commissioner Annette Nazareth. The result is increased clout for White, observers say.“

Amid Privacy Concerns, SEC Extends Comment Period on ABS Rules
Joe Mont, Compliance Week, 3/28/14
"Bowing to marketplace concerns, the Securities and Exchange Commission has once again extended the comment period for proposed rules affecting asset-backed securities. The comment period initially scheduled to end on March 28, will be extended until April 28."

MORTGAGES, FORECLOSURES & HOUSING

CFPB Awash in Mortgage Complaints
Trey Garrison, Housing Wire, 3/31/14
"The Consumer Financial Protection Bureau is in the complaint business, and business is good. The CFPB received 163,700 consumer complaints in 2013, nearly double the total 90,000 they received in 2012.

"The CFPB's Consumer Response Annual Report shows that the bulk of the complaints – a plurality of 37% – were related to mortgages. Some 37% of overall complaints – about 59,900 – were most concerned with loan modifications, collections, or foreclosures."

Foreclosure Crisis: Whose Side Are Federal Officials On?
Kevin Whelan, Home Defenders League, 4/1/14
"On April 1st, Mayors, homeowners and advocates called on federal officials to stand with local communities, including Irvington and Richmond, over Wall Street lobbyists that have threatened illegal retaliation against their cities because of an anti-foreclosure program known as Local Principal Reduction.

"In a telephone press conference, Mayor Gayle McLaughlin of Richmond, CA, and Mayor Wayne Smith of Irvington, NJ, released two letters signed by more than two dozen local officials from across the country -- one to Mel Watt, the Director of FHFA, and one to Attorney General Eric Holder -- along with 11,000 signatures from around the country asking that the Department of Justice investigate fair housing violations by SIFMA, the leading lobby organization for Wall Street mortgage securities traders."

See joint letters to FHFA Director Mel Watt and Attorney General Eric Holder.

Rise of Mortgage 'Mini-Correspondents' Raises Concerns
Brad Finkelstein, American Banker, 4/2/14
"The minimal staffing and low net worth of so-called mini-correspondents — which critics say are really mortgage brokers in all but name — could be a precursor to an uptick in bad loans."

How Waters' Bill Could Shift GSE Debate
Victoria Finkle, American Banker, 4/1/14
"Rep. Maxine Waters' plan to overhaul the mortgage finance market may be dead-on-arrival in the House, but it is still likely to help determine the fate of a separate Senate bill seen as the leading congressional attempt to enact reform."

Four Reasons Johnson-Crapo is Dead Until Post-Election
Trey Garrison, HousingWire, 4/1/14
"Johnson-Crapo is one of three GSE reform measures on the Hill. The other two primary contenders are the House' PATH Act and the Senate's Corker-Warner. HousingWire has this side-by-side breakdown of the three measures.

"On March 27, U.S. Rep. Maxine Waters, D-Calif., unveiled her own GSE reform plan that offers co-operatives as an alternative and an elimination of much of the free market system, but it has less chance than any of the other three. Few in the industry or in Washington expect any real movement on GSE reform before the 2014 mid-term elections in November. This is despite the fact that the GSEs currently back 90% of mortgages, and the current structure is keeping private label capital out of the market."

STUDENT LOANS AND FOR-PROFIT COLLEGES

The Perfect Lobby: How One Industry Captured Washington, DC
David Halperin, The Nation, 4/3/14
"Today, 13 percent of all college students attend for-profit colleges, on campuses and online—but these institutions account for 47 percent of student loan defaults. For-profit schools are driving a national student debt crisis that has reached $1.2 trillion in borrowing. They absorb a quarter of all federal student aid—more than $30 billion annually—diverting sums from better, more affordable programs at nonprofit and public colleges. Many for-profit college companies, including most of the biggest ones, get almost 90 percent of their revenue from taxpayers.

"So why does Washington keep the money flowing?"

Members of Congress Seek Pay for Workers at Closed Trade School
Carla Rivera, Los Angeles Times, 3/28/14
"The for-profit Career Colleges of America closed suddenly in January after its accreditation and eligibility to provide federal financial aid was withdrawn amid ongoing financial problems.

"The school provided medical training to about 800 students at three campuses. Nearly 400 employees who were working at the time the school closed have not been paid since November of last year, according to the letter written by U.S. Reps. Janice Hahn (D-Los Angeles) and Karen Bass (D-Los Angeles)."

Forget Gainful Employment. For-Profits Should Restructure Instead
Eric Best and Joel Best, Chronicle of Higher Education, 3/31/14
"We propose that for-profit universities change their corporate charters to reincorporate as B-Corps, and specifically state student success as a legal priority. While this idea may seem preposterous to some of those in the industry, educators who are unwilling to legally balance student outcomes with profitability would send a strong signal to both regulators and the public that their students do not come first. The current structure of most for-profit universities creates a direct conflict of interest between student success and investor success."

Senator Warns af a Student Loan Bubble
Interview with Sen. Tom Harkin, National Public Radio, 3/17/14

SYSTEMIC RISK

NY Fed Confirms Big-Bank Funding Advantage – and Link to Risky Behavior
Marcus Stanley, AFR, 4/1/14
"New research from the Federal Reserve Bank of New York finds that the largest global banks – those perceived as being 'too big to fail' – enjoy a funding advantage that allows them to get loans more cheaply than their smaller competitors. Even more disturbing, this advantage seems to lead them to engage in more risky behavior, as measured by impaired and charged off loans.

"In Evidence From The Bond Markets On Banks Too Big to Fail Subsidy, economist Joao Santos confirms that at least through 2009, the largest banks were able to borrow in the bond market at rates up to 80 basis points (eight-tenths of a percentage point) lower than smaller competitors. As analysts at Bloomberg View pointed out, this could translate to over $80 billion a year in lowered costs for the biggest banks."

Problem of Banks Seen as 'Too Big To Fail' Still Unsolved, IMF Warns
Robin Harding and Ralph Atkins, Financial Times, 3/31/14
"The world's largest banks still receive implicit public subsidies worth as much as $590bn because of their status as 'too big to fail' and the assumption of a government bailout if they get into trouble, the International Monetary Fund warned on Monday.

"The warning, to be included in the fund's twice-yearly Global Financial Stability Report, highlights the failure of post-financial crisis reforms to solve the problem of too-big-to-fail despite a vigorous lobbying campaign by the largest banks claiming it is no longer an issue.

"The IMF report showed that in the event of another financial crisis and in the absence of new reforms, taxpayers could still be liable for hundreds of billions of dollars of support for banks."

IMF Says European Banks Had Up to $300 Billion Subsidy
Sandrine Rastello, Bloomberg, 3/31/14
"Large banks in the euro area benefited from as much as $300 billion in implicit public subsidies four years after the global financial crisis because of investors' expectations that governments would not let them fail, according to the International Monetary Fund.

"The subsidies were reflected in lower funding costs in 2012 for banks including BNP Paribas SA and UniCredit SpA (UCG), according to an IMF report published today. In the U.S., the advantage for lenders such as JPMorgan Chase & Co. and Citigroup Inc. (C) was as much as $70 billion, the Washington-based IMF estimated.

"'Government protection for too-important-to-fail banks creates a variety of problems: an uneven playing field, excessive risk-taking, and large costs for the public sector,' the IMF said in its Global Financial Stability Report. 'The expected probability that systemically important banks will be bailed out remains high in all regions'."

[Size Does Matter When It Comes to Being a Bank, IMF Says](#)
Stephanie Armour, Wall Street Journal, 3/31/14

A New Look at Big-Bank Subsidies
Simon Johnson, New York Times, 4/3/14
"The question now under investigation by the Government Accountability Office and others is the extent to which companies, most notably the largest global banks, are still likely to receive special protection the next time investor sentiment turns sharply negative.

"Such implicit (and free) downside insurance would amount to a particularly pernicious form of subsidy from the government and is likely to encourage excessive risk-taking and danger to the entire financial system. If the G.A.O. finds there are still big subsidies for too-big-to-fail banks, this will attract attention from both Republicans and Democrats — and will greatly strengthen the case for higher capital requirements (as laid out by Anat Admati and Martin Hellwig) and other policy changes.

Well-financed friends of large banks, such as the Clearing House Association in the United States, are fighting tooth and nail against the notion that there is a subsidy of any kind. A new report this week from the International Monetary Fund hammered their position. The chance that policy will soon move in the right direction greatly increased."

Time to Reduce Repo Run Risk
Jennifer Taub, NY Times, 4/4/14
"At a recent conference in Boston, Thomas Hoenig, the vice chairman of the Federal Deposit Insurance Corporation, and Sheila Bair, the former chairwoman of the agency, cautioned about the systemic risk stemming from the way banks lever up through the short-term wholesale funding markets.

"They are right to warn us. The banks remain dangerously interconnected and vulnerable to sudden runs because of their dependence on short-term, often overnight borrowing through the multitrillion-dollar repurchase agreement, or repo, market."

Western Banking Regulations Could be 'Mutually Destructive' – IMF Report
Phillip Inman, The Guardian, 3/31/14
"Western governments have put in place banking regulations that could be 'mutually destructive' and undermine efforts to prevent bust banks from costing taxpayers billions of pounds, according to a report by the International Monetary Fund.

"Policymakers representing the world's biggest financial centres have failed to make the banking sector stand on its own feet by ending implicit subsidies and co-ordinating rescue plans when multinational banks go bust, the Washington-based lender of last resort said."

U.S. Overseers Said to Plan Easier Count of Bank Assets
Jesse Hamilton, Bloomberg, 4/1/14
"The decision on how to count bank assets used in an institution's so-called leverage ratio will be in line with an international standard, the people said. That would be welcomed by the eight largest U.S. banks since they could more easily meet new capital rules than they could under an earlier plan…

“What has been less clear is how to count certain complex transactions as assets in calculating that ratio. U.S. regulators have now agreed to take the approach adopted in January by the Basel Committee on Banking Supervision, according to the people briefed, who spoke on condition of anonymity because the talks aren’t public.

“In dialing back parts of an earlier plan, the 27-nation group in effect reduced a bank’s required capital cushion by allowing some financial obligations to cancel each other out and disregarding certain credit commitments.”

Banks Turn to Compression to Meet New Basel Rules
Philip Stafford, Financial Times, 3/31/14

Why America's Fear Of 'Too Big To Fail' Is Irrational
Sanjay Sanghoee, Fortune, 3/31/14

U.S. Fed to Consider Final Bank Leverage Rules on April 8
Emily Stephenson, Reuters, 4/1/14
“The Fed's board of governors will meet on April 8 to finalize the so-called leverage requirements, seen as much tougher than the rules crafted by international regulators when U.S. officials first proposed them in July 2013.

“The rules are part of an global agreement to fortify banks known as Basel III. Unlike risk-based capital requirements, leverage limits are calculated as a percentage of a company's total assets, and are considered harder to game.”

Fed Set to Vote on Final Leverage Ratio for Biggest Banks
Donna Borak, American Banker, 4/1/14

Dodd and Frank: No Government Bailouts Allowed
Ryan Tracy, Wall Street Journal, 3/31/14
“The two authors of the 2010 Dodd-Frank financial overhaul law have a message for Wall Street: Forget about another bailout. Former Sen. Christopher Dodd and former Rep. Barney Frank, the two Democrats who shepherded the post-crisis bill through Congress in 2010, gave a robust defense of their efforts on Monday amid an ongoing debate about whether large financial firms remain ‘too big to fail’.

“’We did, I believe, the maximum that you could do legally to make clear that if a large financial institution incurs debts it cannot pay, it is out of business and no taxpayer money can be used,’ Mr. Frank said at a conference here hosted by the U.S. Office of the Comptroller of the Currency and Boston University.”

Analyze Always, Regulate Never
Amit Narang and Bartlett Naylor, CitizenVox, 3/31/14
“After two years of studying the proposed Volcker Rule, with 20,000 comments from bankers and the public, hundreds of meetings with Wall Street lobbyists, and 18 months past the rule’s congressionally mandated deadline for enactment, we’re now being told by the American Action Forum (AAF) — a self-described ‘center right policy institute’ — that this was a rush job…

"What's more, AAF neglects to note that the OCC report explored the economic benefits of the Volcker rule, such as the reduction of systemic risk. The bank-caused crash of 2008 [cost at least $12 trillion in economic damage] according to government reports, so it's no wonder AAF doesn't want to come anywhere near a balanced discussion that takes into account the crucial role the Volcker rule will play in making sure Wall Street doesn't destroy our economy and come begging for another bailout."

[Euro-Area Banks Face Tougher Risk-Model Scrutiny, Barnier Says]
Jim Brunsden and Jeff Black, Bloomberg, 4/1/14

[Bank Regulator Warns Over 'Too Big' Investment Funds]
Ben Chu, London Evening Standard, 4/4/14
"Large investment funds could be "too big" and pose a systemic risk to the global financial system, one of the Bank of England's most senior financial regulators has warned. In a speech that is likely to electrify the fund-management industry, Andrew Haldane, the Bank's executive director for financial stability, said regulating funds was 'the next frontier for macro-prudential policy'.

"Speaking at the London Business School's Asset Management Conference, he pointed out that assets under management were projected to rise from $87 trillion (£52 trillion) currently to $400 trillion by the middle of the century. 'These trends potentially have implications for financial markets dynamics and systemic risk – for example greater illiquidity risk, correlated price movements and susceptibility to runs,' he said. 'Their size means that distress at an asset manager could aggravate frictions in financial markets, for example through forced asset fire-sales.'"

OTHER TOPICS

[Corporate Lobbyists Assail Tax Overhaul They Once Cheered]
Eric Lipton and Jonathan Weisman, New York Times, 4/1/14
"Congress considers major changes to the tax code, lobbyists buy insurance on both sides of the fight.

"It also reflects a pivot by lobbyists who had spent months cheering Mr. Camp's three-year effort to draft this giant package, given that its stated purpose was to lower corporate tax rates and simplify the tax code, and who are now working to make sure that [the package] never becomes law…

"His plan, for example, would impose a tax costing $86 billion over 10 years on nine large lending institutions — JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs, Morgan Stanley, GE Capital, the American International Group and Prudential."

[Goldman Explores Sale of Market-Making Unit]
Rachel Abrams, New York Times, 4/1/14
"Goldman Sachs, a fixture on Wall Street for more than 100 years, has decided to part with a business at the symbolic heart of the industry: the New York Stock Exchange.

*"*The investment bank is exploring a sale of its designated market-maker unit, which it bought in 2000 as part of its acquisition of the trading firm Spear, Leeds & Kellogg, according to a person briefed on the matter.

"At the time, Goldman paid $6.5 billion for the firm, which operated three core businesses: securities clearing and execution, floor-based market making and off-floor market making."

Ryan Budget Sets Sights On Dodd-Frank
Peter Schroeder, The Hill, 4/1/14
"The proposal from the House Budget Committee chairman would repeal a top provision of the law. Proponents say the tool, which gives the Federal Deposit Insurance Corporation the power to step in and wind down a failing financial firm, bars future bailouts. But Ryan and Dodd-Frank skeptics say it does just the opposite, saying the law 'only sustains them.'

"Ryan's plan also would bring the budget of the Consumer Financial Protection Bureau (CFPB), a longtime GOP target, under the control of congressional appropriators."

Paul Ryan's Plan for the SEC: Slash & Burn
The Corporate Council, 4/2/14

Ryan: Let Big Banks Fail
James Freeman, Wall Street Journal, 4/2/14
"The Ryan budget takes aim at current law, under which the Financial Stability Oversight Council chaired by the Treasury secretary can save a stumbling giant from bankruptcy by placing it under the care of the FDIC's so-called "orderly liquidation authority." In this scenario the FDIC maintains discretion to give bank creditors a better deal than they would get from a bankruptcy court."

GOP Lawmaker: Obama Might Agree to Changing Dodd-Frank
Molly K. Hooper, The Hill, 4/1/14
"Rep. Scott Garrett (R-N.J.), chairman of the Financial Services subcommittee on Capital Markets and Government Sponsored Enterprises, told The Hill that unlike ObamaCare, the president doesn't have the 'affinity' toward Dodd-Frank and is more willing to work on reforming aspects of it."

The Big Deal if the Senate Turns Right
Albert R. Hunt, Bloomberg View, 3/30/14
"In any case, President Obama will have the veto pen for the last two years of his term. That glosses over the profound policy implications of a change that would affect many areas…

"*Regulation:* A Republican Congress would hold the upper hand. Regulatory agencies the party doesn't like — a long list that includes the Consumer Financial Protection Bureau, the Internal Revenue Service, the Securities and Exchange Commission, the Food and Drug Administration and the Environmental Protection Agency — could turn into toothless watchdogs with slashed budgets. There would be a big push for the Regulations From the Executive in Need of Scrutiny Act, which requires congressional approval for all major regulations."

Time to Close Private Equity's 'Carried Interest' Loophole

Eileen Appelbaum and Rosemary Batt, Center for Economic and Policy Research, 4/2/14

"When Obama first proposed doing away with private equity's tax preference, Blackstone's Stephen Schwarzman compared this to Hitler's 1939 invasion of Poland. The response this time has been more circumspect. No wonder. Ending the PE tax break will make it possible to increase the EITC for childless workers to $1,000 for those with annual incomes under $18,000. It is hard to argue that this is somehow unfair. Private equity's attempt to stifle discussion by prematurely declaring the proposal dead-on-arrival is out of touch with popular concerns over inequality. The gross disparities in income between those who benefit from the tax break and those who would benefit from closing this loophole make clear what is at stake."