Americans for Financial Reform

This Week in Wall Street Reform | June 16 – 22

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Senate Banking tests waters for capital markets bills | PoliticoPro
[T]he committee on Tuesday will hold a hearing on legislative proposals to increase access to capital, followed by a June 28 session on corporate governance legislation. Scheduled witnesses include representatives of the U.S. Chamber of Commerce, the AFL-CIO, local government and academia.

Banking Chairman Mike Crapo is holding the hearings after a landmark bank deregulation bill he drafted was signed into law last month. Crapo's House counterpart, Financial Services Chairman Jeb Hensarling, has been working on a follow-up bill focused on capital markets. But it has yet to attract the same level of support from Senate Democrats that helped make the banking bill a reality.

"They're in a difficult position politically and that's the big challenge to getting another package going," Sen. Pat Toomey (R-Pa.) said earlier this week.

CONSUMER FINANCE AND THE CFPB

Federal judge rules that CFPB's structure is unconstitutional | CNN
U.S. District Judge Loretta Preska in Manhattan objected to the CFPB's setup as an independent agency with a single director who can be fired by the president only for cause, not at will. In January, a federal appeals court in Washington said that structure is legal. Preska said she disagreed.

The immediate effect of the ruling appears to be limited. It means the CFPB can't be party to a lawsuit about a company accused of scamming 9/11 first responders. The New York attorney general, who was also a plaintiff, can move forward with the case.

Federal judge rules that consumer protection bureau is unconstitutional | Washington Post

Mulvaney Likely to Remain Consumer Bureau Head for Some Time | Wall St. Journal
The White House on Monday formally said it would nominate Kathy Kraninger to run the 1,700-person agency created after the financial crisis. Ms. Kraninger quickly ran into opposition from the left and right, with many critics saying she wasn't qualified for the job. She currently works as an associate director at the Office of Management and Budget for Mr. Mulvaney, who also serves as White House budget chief...

Some experts said it appeared the Trump administration was intentionally putting up a nominee who might not be confirmed by the Senate, allowing Mr. Mulvaney to stay at the CFPB for as long as two more years. Ms. Kraninger's nomination allows him to stay until at least the end of 2018 while her confirmation is pending in the Senate, and industry analysts say the law allows him to stay until 2020 if the confirmation runs into trouble and spills over into 2019.

[Trump set to name a replacement for Mick Mulvaney at CFPB](#) **| Consumer Affairs**
Lisa Donner, executive director of **Americans for Financial Reform**, says the agency needs a director who has a strong record of commitment to protecting consumers when they do business with financial services companies. She claims this nomination aims to keep the CFPB "hobbled."

['Barbarous' Confirmation Looms For Trump's Surprise CFPB Pick](#) **| Financial Advisor**
Progressive groups called Kraninger's selection a political stunt and a placeholder to ensure that Mulvaney, whose been temporarily running the CFPB part time since November, stays in the job longer.

"The CFPB needs a director with a strong record of commitment to protecting consumers in the financial services marketplace," said Lisa Donner, executive director, **Americans for Financial Reform**. "This nomination aims to keep the CFPB hobbled."

[Testy hearings seen for nominee to take consumer-unit post](#) **| Arkansas Democrat-Gazette**
"The CFPB needs a director with a strong record of commitment to protecting consumers in the financial services marketplace," said Lisa Donner, executive director of **Americans for Financial Reform**. "This nomination aims to keep the CFPB hobbled."

See AFR statement, ["CFPB Needs a Champion of Consumers, Not an Employee of Mick Mulvaney"](#)

[Trump wins, consumers lose again at the CFPB](#) **| Washington Post (Helaine Olen)**
The financial services sector is heralding President Trump's announcement last week that he would nominate Kathy Kraninger to head up the Consumer Financial Protection Bureau. The Community Financial Services Association of America, the Credit Union National Association, the American Bankers Association, the Mortgage Bankers Association, among others, almost immediately stepped forward to issue support. "A steady hand," proclaimed Richard Hunt, president of the Consumer Bankers Association, the retail banking industry's lobbying shop.

[What Kathy Kraninger's nomination might mean for the CFPB](#) **| CBS News (Irina Ivanova)**
If Kraninger is confirmed, banks and lenders can look forward to several more years in which government gives them a wide berth. If her confirmation stalls, it will allow Mulvaney to prolong his stewardship of the agency -- continuing the deregulatory push for several more years.

[Democrats plan fierce opposition to Trump nominee to lead consumer bureau](#) **| Washington Post**
Democrats fear Kathy Kraninger, 43, is being brought in to oversee a pull back of the CFPB, continuing a path laid out by interim director Mick Mulvaney. As they fight her nomination, they have pounced on her lack of experience in financial regulation.

Her nomination took much of Washington by surprise, as she rarely speaks publicly, and there is no record of her weighing in on questions of financial regulation. Her closest brush with the bureau appears to be her role in crafting [Trump's 2019 budget plan](#), which called for significantly cutting CFPB’s budget and putting restrictions on its enforcement powers. It “definitely reflects her reformist approach” to the CFPB, Walters said.

Trump eyes low-profile White House staffer to head consumer body | Financial Times

Consumer watchdog agency needs to get back to doing its job | The Hill (Anna Laitin)

CFPB nominee likely connected to Trump’s ‘zero-tolerance’ immigration policy | American Banker
Kathy Kraninger, the nominee to head the Consumer Financial Protection Bureau, likely was deeply involved in President Trump's "zero-tolerance" immigration policy, according to former officials with the Office of Management and Budget and the Department of Homeland Security.

Kraninger would have taken part in interagency meetings and discussions about the Trump administration's policy of separating migrant children from their parents at the U.S. border as part of her job at OMB, where she is a program associate director for general government programs, these sources said.

Trump's CFPB nominee is facing questions about about the immigration controversy | Washington Post (Renae Merle)
The White House stunned the banking industry last weekend by announcing that President Trump would nominate Kathy Kraninger, a White House budget official, to be the next director of the Consumer Financial Protection Bureau.

She has now been hit with questions from Senate Democrats and some others about what role she may have played in the growing crisis regarding separating migrant children from their parents at the southern border.

Think Finance Gets Support On Bid To Dismiss CFPB Suit | Law 360
The Native American Financial Services Association and the state of Oklahoma have thrown their support behind Think Finance LLC's bid to shake a Consumer Financial Protection Bureau suit accusing the financial technology company of duping borrowers and using sham tribal payday lenders to collect money it wasn't owed.

Small banks discriminate against people of color. New law makes it worse. | Washington Post (Jacob W. Faber and Terri Friedline)
Ninety-eight percent of Americans who use a bank have a checking account; it is necessary for a wide range of transactions that shape everyday life and enable investment for the future. A checking account is essentially a prerequisite for almost all other types of financial services — from savings accounts to home loans. As a result, banks' racially disparate patterns in costs and fees for these accounts threaten to claw back advances that consumers and communities of color have made toward full participation in the economy.

The mutually reinforcing trends of deregulation bills and rollbacks of consumer protections place communities of color at risk for discriminatory banking practices — even for the most basic of products. Worse, these coordinated trends suppress the economic power of these consumers and communities by detaining a greater share of their earnings in the same financial system that discriminates against them.

It can cost more for a checking account if you're black or Latino, study says | **Washington Post (Tracy Jan)**
It can be more expensive to obtain loans — as demonstrated by recent fines against megabanks Wells Fargo and JPMorgan Chase for discriminating against minorities.

The country's pattern of residential racial segregation may also exacerbate discriminatory banking practices by creating "easily identifiable, geographically organized local markets" and warrants further investigation, the report said.

See New America Foundation report, "The Racialized Costs of Banking"

For a day, I was one of the millions of Americans without a bank account | **Los Angeles Times (James Rufus Koren)**
I was participating in a sort of financial scavenger hunt that aims to replicate how life works for the millions of Americans — about a quarter of all households — who either don't have bank accounts or still rely on storefront check cashers, payday lenders and prepaid debit cards to manage their money.

Other participants and I gathered in a conference room. Each team was assigned a different L.A. neighborhood and asked to complete several transactions, including cashing a few checks, getting a debit card, asking about a loan and buying a small gift. There was an extra catch: It all had to be done in about two hours, a time limit many of us thought was generous given our own experiences with financial products.

Advocates of payday lending bill say proposed changes too industry-friendly | **cleveland.com**
"He is gutting the consumer protections of H.B. 123 - affordable payments, fees capped at half of the loan principal, enough time to repay - and replacing them with the failed policies that payday lenders prefer," said Carl Ruby, a Springfield pastor and a coalition leader.

Advocates Say Senate Changes Would Water Down Payday Lending Bill | **WOSU**
One of Huffman's biggest changes is making the minimum term for a loan 30 days. Huffman says that will make the classic payday loan go away in Ohio.

Nate Coffman, who speaks for the Ohio CDC Association, supports the current House bill and is shocked by Huffman's proposals."They're not consumer protections. They're protections for the payday lending industry," Coffman said. "They completely gut the bill and allow for this exploitation to continue. And it's just incredibly upsetting especially when you look at the fact that this has been a very secretive process."

CFPB Director Mulvaney Fights Payday Regulations that Help Consumers | **BlackPressUSA (Charlene Crowell)**
Weighing in on Mulvaney's contentious actions, Jose Alcoff, Payday Campaign Manager with **Americans for Financial Reform** also noted the standard, yet questionable behavior.

"Mick Mulvaney has been doing the bidding of payday lenders for years; but putting the CFPB's weight behind a joint legal motion with their lobbyists is a new low, even for him," Alcoff said.

Mobile banking startups driving conversation on overdraft fees | **American Banker**
If you're wondering whether startups are starting to shake up the consumer deposit business, look no further than Wells Fargo's Greenhouse and JPMorgan Chase's Finn.

The two banking giants are taking a page from Silicon Valley by offering mobile accounts that do not charge overdraft fees. That marks a significant shift inside an industry that rakes in roughly $15 billion in annual charges from customers who spend funds that they do not have.

Chase and Wells, like the rest of the banking industry, are wrestling with the question of how to appeal to young adults who are establishing lasting financial relationships. But they also have reason to worry that as-yet-unprofitable startups are resetting customer expectations about fees.

DERIVATIVES, COMMODITIES & THE CFTC

JPMorgan Is Fined $65 Million for Trying to Rig Benchmark Rate | Bloomberg
JPMorgan Chase & Co. agreed to pay $65 million to settle a U.S. regulator's allegations that its traders attempted to manipulate a benchmark for interest-rate derivatives, making it the latest bank fined in a years-long investigation.

"This matter is one in a series of CFTC actions that clearly demonstrates the commission's unrelenting commitment to root out manipulation from our markets and to protect those who rely on the integrity of critical financial benchmarks," James McDonald, the CFTC's head of enforcement, said in the statement.

JPMorgan, which didn't admit or deny the regulator's findings that its traders sought to rig ISDAfix from 2007 through 2012, joins Goldman Sachs Group Inc., Citigroup Inc., Barclays Plc and other lenders in paying fines. JPMorgan's penalty is about a quarter of the $250 million that Citigroup agreed to pay in May 2016.

JPMorgan to Pay $65 Million Fine for Dollar Benchmark Manipulation | Wall St. Journal

Square receives New York state cryptocurrency license | The Hill
The digital payment company Square has obtained a license that will allow New York state residents to buy and sell Bitcoin through its mobile payments app, Cash. The DFS said in a statement that it conducted a "comprehensive review" of the Cash app's policies on matters regarding anti-money laundering, anti-fraud, capitalization, consumer protection and cybersecurity policies. The financial watchdog said it will continue to supervise the app's operations.

New York has been one of the most aggressive states in the regulation of cryptocurrencies. The federal government and other states have been making their own moves to regulate digital coins like bitcoin and Ethereum as they grow in prominence.

EXECUTIVE COMPENSATION

A Hard-Won Victory on CEO Pay | Medium.com (Jim Lardner)

INVESTOR PROTECTION, THE SEC, AND RETIREMENT SAVINGS

It's official: DOL fiduciary rule is dead | Investment News
After a long delay, the U.S. Fifth Circuit Court of Appeals confirmed Thursday a March decision to strike down the Labor Department's fiduciary rule.

The court issued a mandate making effective the March 15 split decision that vacated the DOL regulation. The court majority held that the agency exceeded its authority in promulgating the rule, which would have required brokers to act in the best interests of their clients in retirement accounts.

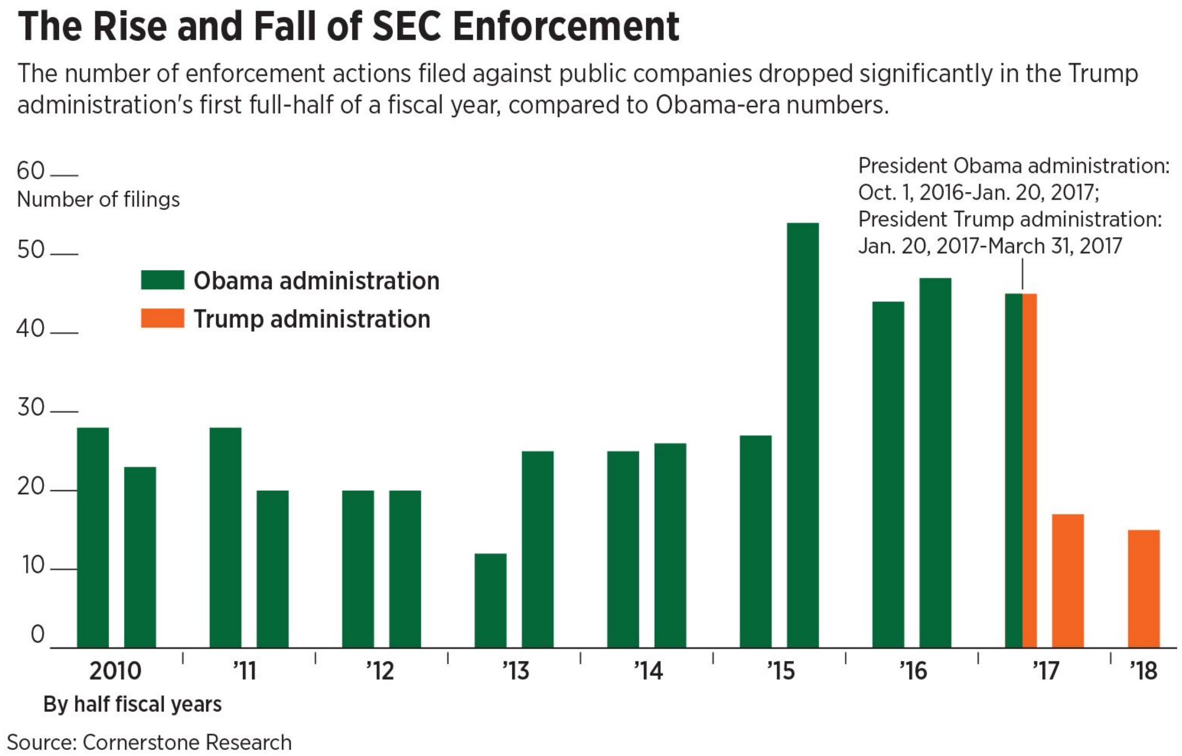
In the mandate, the court also said the Labor Department has to pay the financial industry plaintiffs the costs related to the appeal.

Bank of America to Pay $42 Million to Settle SEC Electronic-Trading Charges | Wall St. Journal
Bank of America Merrill Lynch will pay $42 million for misleading clients by routing orders to high-speed trading firms without telling the customers, the Securities and Exchange Commission said Tuesday.

Merrill Lynch used this process from 2008 through 2013 on more than 15 million portions of larger orders from customers like asset managers, mutual fund investment advisers and public pension funds, the SEC said. Altogether, the orders in question represented more than five billion shares with a notional value of more than $141 billion, according to the SEC.

Let state regulators continue to help protect Main Street investors | The Hill (Joe Borg)
Far from being a burden, state anti-fraud provisions are a powerful complement to the federal regulatory oversight of the Securities and Exchange Commission (SEC). These laws serve as a potent deterrent to improper conduct, and they incentivize market participants to provide investors with complete and accurate information necessary to make informed investment decisions.

Clayton defends SEC advice rule amid congressional grilling | Investment News
Securities and Exchange Commission chairman Jay Clayton defended the agency's investment advice reform proposal Thursday on Capitol Hill, in the face of skeptical questioning from Democrats.



Wall Street Regulator Coddles Big Banks but Clobbers Small Firms | Roll Call (Mike Magner)
JPMorgan Chase, the nation's largest financial services firm, has paid $28 billion to settle cases brought by federal agencies in the past 10 years, most of them related to the 2008 financial crisis. Yet the massive fines extracted from banks like JPMorgan for their role in the Wall Street meltdown have done little to deter other types of misconduct in the decade since, and one reason is lenient treatment from the Securities and Exchange Commission, according to our analysis of SEC enforcement records with a Georgetown University law professor. Moreover, the analysis shows that the SEC has come down much harder on smaller financial institutions for violations that generally pale in comparison to those of the big firms.

SEC Wants More Power to Get Funds Back for Bilked Investors | Wall St. Journal
The high court's decision imposed a five-year statute of limitations on the SEC's ability to get "disgorgement" from individuals and firms that fleece clients. SEC officials said last month that they haven't been able to obtain more than $800 million in disgorgement since the decision was handed down.

Congress should give the SEC the authority to seek restitution for investors' losses in those circumstances, Mr. Clayton said. Restitution goes beyond disgorgement: The idea of disgorgement is to force a bad actor to give back profits they earned, while restitution would require a defendant to compensate victims for the losses they suffered. The SEC has used disgorgement to get funds for wronged investors, but not restitution, which could yield much larger sums than disgorgement.

Supreme Court rejects SEC in-house judges, jeopardizing rulings | Politico
In a ruling that crossed political lines and represented a victory for the Trump administration, the high court said the SEC's so-called administrative law judges are "officers" of the U.S.

subject to the Constitution's Appointments Clause. That means they should be named by the SEC's commissioners. The SEC considers its five judges employees of the agency and they are hired by the staff.

The ruling may have broad implications for in-house judges in dozens of other federal agencies. Critics have blasted the system, saying the judges are making decisions without constitutional authority and give the SEC a home-field advantage in adjudicating cases.

Supreme Court to Hear Case Challenging Government's Ability to Charge Securities Fraud | Wall. St. Journal
The U.S. Supreme Court will hear a former investment banker's appeal arguing that the government overreached in suing and expelling him from the business, in a case that could narrow regulators' ability to charge defendants with securities fraud. The high court agreed Monday to hear Francis Lorenzo's case against the Securities and Exchange Commission, which sued him in 2013. The SEC said Mr. Lorenzo committed fraud by sending misleading emails to stoke interest in a troubled company's bond sale. The emails didn't mention the issuer's deteriorating finances while touting its assets and success in drumming up business… Mr. Lorenzo said the misleading emails were written by the owner of the brokerage firm where he worked—which he described as a boiler room, or company that uses aggressive tactics to sell investments—and that he simply passed along information that he had been given.

SEC May Extend Comment Period on Advice Standards | ThinkAdvisor
Securities and Exchange Commission Chairman Jay Clayton, who was peppered with questions about the agency's proposed Regulation Best Interest for brokers during a House panel oversight hearing Thursday, told lawmakers that a lengthier comment period may be needed for the commission's advice standards proposal.

Clayton's testimony before the House Financial Services Committee came the same day that the U.S. Court of Appeals for the 5th Circuit issued its order vacating the Labor Department's fiduciary rule.

'Mr. and Ms. 401(k)' Take Starring Roles in SEC's Five-Year Plan | Bloomberg
The interests of retail investors, whom SEC Chairman Jay Clayton has dubbed "Mr. and Ms. 401(k)," have been a top-of-mind concern for the Donald Trump appointee since he joined the commission last year. Investors have "high expectations" for the SEC, Clayton said in the document.

More specifically for retail investors, the agency is looking to increase the number of exchange-listed companies, pursue enforcement initiatives targeting misconduct against them, and better understand how they access the nation's capital markets, according to the plan.

MORTGAGES AND HOUSING

Before modernizing CRA, consider its history | American Banker (Gregory Meeks)
Efforts to dissociate CRA from its anti-discrimination and consumer protection contexts are Orwellian in nature. These efforts are largely premised on the idea that CRA is "colorblind," devoid of a racial context and more about consumer access than it is about fairness.

For example, a recent Treasury report argued that “CRA is not a consumer protection law” and laid out narrow circumstances where the two regimes may relate, dependent on the discretion of regulators rather than the intent of Congress.

End of conservatorship? Trump administration proposes privatizing Fannie Mae, Freddie Mac | Housing Wire (Ben Lane)
In a section of the 132-page document entitled “Reform Federal Role in Mortgage Finance,” the Trump administration proposes ending the conservatorship of Fannie and Freddie and privatizing the GSEs.

“Proposed changes, which would require broader policy and legislative reforms beyond restructuring Federal agencies and programs, include ending the conservatorship of Fannie Mae and Freddie Mac, reducing their role in the housing market, and providing an explicit, limited Federal backstop that is on-budget and apart from the Federal support for low- and moderate-income homebuyers,” the proposal continues.

What’s interesting about this proposal, in addition to what it contains obviously, is where it came from. The proposal came straight from the Office of Budget and Management, not the Department of the Treasury.

PRIVATE FUNDS

Major hedge fund tells Kentucky Retirement Systems to take its $68 million and leave | Louisville Courier-Journal
Davidson Kempner Capital Management, based in New York, registered two complaints, KRS executive director David Eager said Wednesday.

One, Davidson Kempner does not want to abide by the investment manager codes of ethics and professional conduct that was mandated by last year's Senate Bill 2, a pension transparency bill, Eager said…mmmkk

Two, he said, Davidson Kempner was unhappy about a lawsuit filed against several other investment companies that sold up to $1.5 billion in hedge funds to KRS. The suit, brought by eight public employees with KRS pensions, alleges that KRS was cheated on those investments. Davidson Kempner was not named in the suit, but it is worried because hedge funds were the target, Eager said.

State pension funds question KKR on role in Toys R Us demises | Bloomberg
The Minnesota State Board of Investment decided last week to temporarily halt future commitments to KKR as it reviews the investment, while the Washington State Investment Board spent more than an hour Thursday discussing the holding and asking the private-equity firm to account for its actions.

“Did anyone at KKR lose their job over the failure of Toys ‘R’ Us? Did anyone have their bonuses cut, did anyone have their compensation cut significantly? Because that’s one of the consequences of free-market capitalism," Washington State Investment Board member

Stephen Miller said, according to a recording of Thursday's meeting heard by Bloomberg News.

STUDENT LOANS AND FOR-PROFIT SCHOOLS

Judge rejects DeVos's interpretation of order to halt partial debt relief plan | Washington Post
To avoid any further confusion, Magistrate Judge Sallie Kim of the U.S. District Court in San Francisco handed down a detailed order Tuesday that applies to Corinthian borrowers who have already received partial forgiveness, those still awaiting a decision on their application and people who have to submit a debt relief claim.

Trump and DeVos Trashing of Obama College Rules Will Hurt Students | Republic Report (David Halperin)
Today Alexis Goldstein of **Americans for Financial Reform** and I met with officials of the White House Office of Management and Budget and the Department of Education as part of the process of developing a Trump administration regulation that would repeal and replace the Obama administration's gainful employment rule, which was aimed at protecting students against predatory for-profit colleges.

Replacing the 2014 rule with a toothless rule will reduce incentives for schools to offer quality programs at affordable prices; in fact, it will give the green light for predatory behavior, and we already are seeing evidence that career schools are resuming bad practices. As a result, many more students will enroll in programs that will ruin their financial futures, our economy will be harmed, and taxpayers will be paying for such destructive activity.

Higher ed law fails its mission to protect deserving military-connected students | The Hill (Tanya Ang, Lauren Augustine & Barett Y. Bogue)
This past week, nearly a dozen national veterans and military service organizations assembled on Capitol Hill in a united front to voice their concerns about the House of Representatives' Higher Education Act reauthorization, known as the PROSPER Act.

The proposed legislation fails to protect military-connected students harmed by predatory and fraudulent practices by bad actors in higher education. The PROSPER Act would enable colleges to use deceptive recruitment practices that emphasize enrollment numbers rather than positive student outcomes.

The PROSPER Act would eliminate the 90/10 rule — a requirement that proprietary schools receive no more than 90 percent of revenue from federal student financial aid. For almost two decades, this rule has curbed abuse by proprietary schools receiving Title IV funds, such as the Pell Grant and federal student loans, ensuring no more than 10 percent of their revenue came from the federal government. The PROSPER Act would eliminate this protection altogether.

Former Rep. Kline Continues Shilling for For-Profit Education | Republic Report (David Halperin)

[Feds must stop collecting debts of students who say they were scammed by schools](#) | **MarketWatch**

Education Department ordered to stop collecting debts from defrauded Corinthian College students | The Hill

Education Department ordered to halt loan collection from defrauded students | UPI

Should VA employees be allowed to work at for-profit schools? | Military Times

SYSTEMIC RISK

Biggest Banks Pass Fed's Stress Tests | NY Times
While the results are likely to cheer bank executives and shareholders, skeptics cautioned against regulators responding to the strong performances by watering down safeguards against future crises.

"This just shows that regulators' models are saying that you have O.K. capital. But guess what, regulators' models said before the financial crisis that you had O.K. capital, too," said Marcus Stanley, policy director at **Americans for Financial Reform**, an advocacy group that pushes for tougher financial regulation. "I don't think that this is telling us that everything is O.K. and we don't need to be vigilant."

Big Banks Again Taking Risks With Complex Financial Trades, Report Says | National Public Radio
Big banks are skirting the rules on the sale of the complex financial instruments that helped bring about the 2008 financial crisis, by exploiting a loophole in federal banking regulations, a new report says.

The loophole could leave Wall Street exposed to big losses, potentially requiring taxpayers to once again bail out the biggest banks, warns the report's author, Michael Greenberger, former director of trading and markets at the Commodity Futures Trading Commission.

The regulations cover credit default swaps, a kind of insurance contract taken out by investors to cover potential losses in assets. Such contracts were enormously popular all over the world during the housing boom and led to big losses when the mortgage market collapsed.

Wells Fargo's Pass Looks a Little Like a Fail | Bloomberg (Stephen Gandel)
It didn't fail. No bank did. For the second consecutive year, all of the banks examined were able to survive the Federal Reserve's hypothetical worst-case economic scenario, according to results of the first round released on Thursday. Next week, the Fed will examine the banks' own capital plans and approve or reject their proposed dividends and buybacks. That portion of the test, given that the economy is not in a recession, has become more significant than the first round.

But on this portion of the test, nearly 10 years after it was introduced, it's not clear "passing" is the right benchmark for success. Nor is it how high a bank scored above the minimum set by the Fed. The best measure is how much effort was required to pass. Wells Fargo had to cram the most — another fallout from all of its problems in the past year.

What to Watch in the Fed's Stress Tests | Wall St. Journal

All US banks clear latest Dodd-Frank stress tests | The Hill
The Federal Reserve said Thursday that close to three dozen of the largest U.S. banks passed annual stress tests designed to test their ability to survive an array of economic crises. All 35 bank-holding companies subject to annual Dodd-Frank Act Stress Tests proved that they held enough capital and developed sufficient plans to weather hypothetical financial shocks and recessions modeled by the Fed, the central bank announced Thursday.

What Stress? It's Good to Be a Bank | NY Times
Banks have more than doubled their capital, their main financial defense against losses. Profits are surging on the back of the stronger economy, and bank stocks have risen more than the broader stock market since the election of Donald J. Trump. Wall Street's chief executives are enjoying hefty paydays. The Trump administration has started to relax post-crisis regulation, and banks are angling for more loosening. Lenders are embracing exciting new technologies that could revolutionize parts of their industry.

Goldman Sachs Shouldn't Be Able to Jawbone the Fed | Bloomberg (Stephen Gandel)
Goldman passed the test along with every other bank that was examined. But on a key metric for the big banks, the supplementary leverage ratio, Goldman passed by the slimmest margin of all the banks, 3.1 percent compared with a minimum requirement of 3.0 percent. Morgan Stanley eked by on the metric as well. The critical issue is that those slim passing grades may limit how much the Fed allows the banks to pay out in dividends or spend on share buybacks when it releases the second stage of the stress test next week. Morgan Stanley indicated that it, too, expected a more positive outcome next week.
See AFR statement on stress tests.

The Volcker Rule | Washington Post
Under orders from President Donald Trump to ease banking regulations that grew out of the 2008 financial crisis, the Fed and four other regulatory agencies proposed major Volcker Rule revisions in May 2018. At 373 pages, it wouldn't simplify the rule so much as clarify where the lines between permitted and banned activities would be drawn. Trading by banks for their own profit — what's known as proprietary or prop trading — would remain prohibited.

But the proposal would make it easier to trade for purposes of market-making — the steady stream of securities that banks buy, sell and hold as middlemen. The amount of trading done to hedge, or to offset risk, could also grow: The new rule would no longer require banks to demonstrate how a trade is reducing a specific risk. Nor would traders have to certify their intent on transactions anymore. And lenders with trading portfolios below $10 billion would receive less scrutiny. All five regulatory agencies must adopt the same proposal for it to become final, which could take until early 2019.

New Bank Regulator Sets 'Open Door' Policy on Rule Changes | Wall St. Journal
The new leader of a key U.S. bank regulator said her agency needs to be more responsive to the industry's concerns and wants to review how regulators enforce "living will" requirements for big banks. Federal Deposit Insurance Corp. Chairman Jelena McWilliams, in her first public remarks since being sworn in less than two weeks ago, avoided staking out specific policy positions but declared that her agency has an "open door policy where we solicit feedback on what's working and what's not" in the U.S. bank rulebook.

TAXATION

Lawmakers, businesses await guidance on tax law | The Hill
Lawmakers, businesses and tax professionals are eagerly awaiting a guidance package from the Treasury Department and IRS on a key deduction in the new tax-cut law that will play a huge role in determining just how much certain business owners can reduce their tax bills.

The guidance is for the 20 percent deduction for income from noncorporate businesses known as "pass-throughs." The deduction could play a critical role as President Trump and Republicans seek to frame the tax law as driving the economy forward.

Lawmakers have been divided on the pass-through deduction, with Republicans praising it as beneficial for small-business owners and some Democrats arguing that it largely benefits the wealthy and is hard for small businesses to use. Lawmakers on both sides of the aisle are looking forward to IRS guidance.

OTHER TOPICS

New York Fed Will Remain Focused on Bankers' Ethics | NY Times
The new president of the Federal Reserve Bank of New York, John C. Williams, on Monday gave his backing to his predecessor's campaign to clean up bank culture. "I do commit to continue the New York Fed's leadership on this in future years," he said at a New York Fed conference on bank governance.

Why banks' biggest risk factor may be employees who don't speak up | American Banker
In response to the financial crisis of 2008 and 2009, policymakers put forward a number of proposals to improve corporate culture in banking — from creating a database of bad actors to requiring financial firms to disclose the pay disparity between the CEO and rank-and-file employees.

Roger Ferguson, the president and chief executive of TIAA, said that one of his direct reports recently scored poorly in a survey of his employees, who reported that they "weren't so sure that they felt safe to speak up" about potential problems. So Ferguson set a goal for his direct report to improve on that score on the annual culture survey.

Dislike! Sustainable Fund Says Dump Facebook | Washington Post (Mark Gilbert)
No responsible investor should own Facebook Inc. shares, according to the head of sustainable investing at the biggest bank in the Nordic region. That's an unjustifiable overreaction.

Sasja Beslik, who runs Nordea Bank AB's sustainable finance unit, made the call to divest this week after Cambridge Analytica used data from as many as 87 million users of the social network without their knowledge or permission. He had already put the shares in "quarantine" in March.

The outrage at Facebook’s cavalier attitude to user data is justified. But it’s the role of government and regulators, not asset managers, to tame the excesses of modern capitalism.

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