This Week in Wall Street Reform | Jan 7 - 13, 2017

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THE TRUMP TEAM AND WALL STREET

Will Jay Clayton Protect Investors? I NY Times (editorial)
In his career, Mr. Clayton has zealously represented Wall Street clients on mergers, public offerings, settlements and other transactions. He even once argued that laws against bribery should be relaxed so that American companies doing business abroad would be better able to compete — a race to the bottom that could mean profits in the short term, but benefits no one in the long run.

The Senate's duty is to learn whether Mr. Clayton will protect individual investors with the same zeal. He is the fourth person with current or past ties to Goldman Sachs selected by Mr. Trump for an important post. Mr. Trump's campaign statements to the contrary, Wall Street is certainly well represented on his team.

Clayton Will Be the Most Conflicted SEC Chair Ever I Rolling Stone
He represented Goldman Sachs when the firm received a $5 billion capital infusion from Warren Buffet during the September 2008 meltdown. He also represented Barclays during its malodorous acquisition of the assets of Lehman Brothers, an episode one lawyer described to me years ago as "the greatest bank robbery you never heard of..."

What makes this situation somewhat unique is the fact that this incoming SEC chief is also married to a broker at Goldman Sachs – his wife Gretchen is a wealth management advisor. This means that a significant portion of Clayton's family income while in office will presumably be coming from a company he is charged with policing.

Mnuchin to Divest Positions in Citigroup, Goldman I Politico

Mnuchin may have to wait until February for final confirmation I Bloomberg

Democrats Want Foreclosure Victims to Testify I Housing Wire
Last month, Senate Democrats began collecting complaints from consumers about Steve Mnuchin and OneWest Bank in preparation for Mnuchin's confirmation hearing to serve as the next Secretary of the Department of the Treasury.

What wasn't known at the time is what exactly the Democrats planned to do with those complaints. But Friday, the Democrats showed their hand, asking the leadership of the Senate Committee on Finance to allow "victims of Mnuchin foreclosure machine" to testify at Mnuchin's confirmation hearing, scheduled to take place Thursday, Jan. 19.

Wilbur Ross's Complex Business Ties Pose Divestment Challenge I Wall St. Journal
With business ties that span the globe, Mr. Ross's finances are complex even by the standards of the other wealthy individuals nominated to the cabinet of President-elect Donald Trump. His personal finances and reputation as the "King of Bankruptcy" are so intertwined with WL Ross & Co., the firm he founded to bet big on distressed industries, that it is difficult to tell where the firm's financial interests end and his begin.

Mr. Ross's links to firms from steel titan ArcelorMittal SA to the Bank of Cyprus Group will make vetting him for conflicts of interest a challenge, and he will need to pledge to sell many assets to get the Senate's approval to run the Department of Commerce, said lawyers and former government officials. Private-equity investments are by nature illiquid and more difficult to sell than stocks and bonds, raising questions about how quickly Mr. Ross can dissociate himself from past dealings without incurring losses.

AG-designate Session has been tough on financial crime I The Hill (Dennis Kelleher)

Trump's Regulation Advisor says Regulation is "Idiocy" I Vanity Fair

Atkins, Trump's Regulatory Adviser, Likely to Remain at Consulting Firm I Wall St Journal

Republicans act to curb U.S. regulation; Democrats poised for fight I Reuters

What Wall Street Wants I Financial Times
While some bankers are queasy at the prospect of more change after spending six years adapting to the Dodd-Frank Wall Street Reform and Consumer Protection Act, others are salivating. At the top of their wish list for a Trump administration is ending the ban on proprietary trading known as the Volcker rule and taming the Consumer Financial Protection Bureau - two hallmarks of the legislation.

CONSUMER FINANCE & THE CFPB

Trump team signals it will oust CFPB's Cordray I American Banker
The Trump administration gave the first clear sign Thursday that it intends to dismiss Consumer Financial Protection Bureau Director Richard Cordray.

Although Cordray has a term that stretches until July 2018, Trump interviewed former Rep. Randy Neugebauer, R-Texas, for the CFPB spot on Wednesday, senior Trump spokesman

Sean Spicer told reporters on a conference call, according to a report by Huffington Post.

Exactly how President-elect Donald Trump intends to get rid of Cordray is unclear. Under the Dodd-Frank Act, Cordray can only be fired "for cause," and some speculate that the Trump administration is already building a case against the CFPB chief…

"There's no doubt in my mind that Trump is going to fire Cordray because he wants to put in his people, but it's not going to be that simple," said Joann Needleman, an attorney at Clark Hill PLC. "They are going to have a battle on their hands."

Trump Moves Closer to Gutting Elizabeth Warren's Consumer Watchdog I Huffington Post
As the CFPB was originally designed, the president could not fire its director at will before his five-year term expired. But a federal appeals court ruled last year that the agency structure is unconstitutional. Unless that ruling is overturned by the Supreme Court or reconsidered by the lower court that decided it — the CFPB petitioned that court to vacate the earlier ruling — Trump will be able to remove the Obama-appointed Cordray at any time for any reason.

Americans can't afford to lose Cordray or CFPB I The Hill (Michael Calhoun)
For the first time in history, American consumers have a vigilant watchdog, yet the CFPB's opponents—Wall Street banks and financial predators—and their allies in Congress have worked nonstop over the past five years to undercut it. They are hoping that a current case before the D.C. Circuit Court of Appeals, PHH Mortgage Corp vs. CFPB, will be their path to hinder the agency and provide an opportunity to reinstate the bad practices that line their pockets.

Warren Outlines Blueprint to save the CFPB I American Banker
Sen. Elizabeth Warren, D-Mass., rallied progressives on Tuesday night to launch a campaign to defend the Consumer Financial Protection Bureau and the Dodd-Frank Act. "A dedicated grassroots effort can beat Wall Street at their own game," Warren told 3,000 consumer advocates on a conference call Tuesday night. "If the Trump Administration, big bank lobbyists and their Republican friends in Congress want to get rid of Dodd-Frank, they are going to have a big fight on their hands..."

[A]dvocacy groups from Consumers Union to the AFL-CIO, from U.S. PIRG to the National Consumer Law Center, are expected "to raise all kinds of hell" in support of the CFPB, said Jim Lardner, a spokesman for **Americans for Financial Reform.** One strategy is to test if the Trump Administration and Congressional Republicans are prepared to go to battle over the agency…

"This could play out much like the attack on the House ethics office, and turn into a political and public relations disaster," Lardner said.

Elizabeth Warren calls on people to defend the CFPB l Our Future (Dave Johnson)

Consumers Tell the New 115th Congress to #DefendCFPB l Stop The Debt Trap
On the first Monday of the 115th Congress, a congress that threatens to unravel many incredibly important financial reforms that could help prevent another crisis like 2008, a #DefendCFPB twitterstorm trended nationally on twitter for two hours, garnering 2.4 million impressions.

Two GOP senators want Trump to remove Cordray l LA Times
"It's time to fire King Richard," said Sen. Ben Sasse (R-Neb.), a member of the Senate Banking Committee and like many Republicans a harsh critic of the agency created by the 2010 Dodd-Frank financial regulatory overhaul.

Sasse and Sen. Mike Lee (R-Utah) have written to Vice President-elect Mike Pence requesting that Trump take the action "promptly after his inauguration."

Fight Over CFPB Chief Heats Up as Democrats Fire Back l Wall St Journal
Democratic lawmakers on Tuesday pushed back against Republican efforts to remove the head of the Consumer Financial Protection Bureau, a day after two GOP senators called for his ouster.

In a letter to Donald Trump, 21 House Democrats urged the president-elect to avoid a "costly, meritless" fight to remove CFPB Director Richard Cordray, vowing to oppose any efforts to fire him.

The war around CFPB Director Richard Cordray l Rewired.

As Cordray allies rally, #DefendCFPB rises on Twitter charts l Politico (Lorraine Woellert)

Dear Mr. Trump: Please Don't Destroy the CFPB l American Banker (Jeanette Quick)

Protect Consumer Protection Agency Against Assaults l The Intelligencer

Trump Owes Latino Community Details of his Economic Plan l The Hill (Eric Rodriguez)
For example, President-elect Trump and Congress want to reform Dodd-Frank, yet they have not told us what that would look like. We must not forget that millions of Americans lost their savings and their homes to foreclosure when the housing bubble burst. Communities of color lost an entire generation of wealth during the Great Recession — Latinos lost **66 percent** of their net household wealth.

Our nation has benefited in innumerable ways from a post-recession focus on ordinary consumers, from institutions like the Consumer Financial Protection Bureau. In fact, under Director Richard Cordray's leadership, the CFPB has **returned** over $11 billion for 27 million consumers in just five short years of its existence. Any attempt to weaken the CFPB is a completely unacceptable approach for a Congress that claims to care about working-class Americans.

CFPB Survey Finds Over 1 in 4 Consumers Contacted by Debt Collectors Feel Threatened I CFBP

2 of the 3 Largest Credit Reporting Agencies Deceived Consumers I AFR

The Consumer Financial Protection Bureau (CFPB)'s first enforcement action of 2017 will return more than $17 million to consumers who were deceived into purchasing unneeded credit reporting products. On January 3, 2017, the CFPB issued a consent order against TransUnion, LLC (TransUnion) and Equifax Inc. (Equifax) and their respective subsidiaries and affiliates for making false claims about the usefulness and actual cost of the companies' credit score services.

CFPB taps former Pentagon legal official to head Servicemember Affairs I Conn PIRG

Appointment highlights Consumer Financial Protection Bureau's continued focus on military families targeted by financial predators.

Online lenders pitch Trump I Politico

The Marketplace Lending Association has sent letters to the Trump transition team and congressional leadership endorsing the Office of the Comptroller of the Currency's innovation charter proposal and asking for legislation on loan rates made by nonbank lenders.
The group also wants to see tax incentives for employer student loan benefits; changes to who qualifies as an accredited investor; and an easing of securities-disclosure requirements for crowdfunding and marketplace-style loans, in which investors are matched with borrowers to fund.

States to Feds: Back Off on New Fintech Bank Plan I The Wall St Journal

The U.S. Office of the Comptroller of the Currency will soon begin considering applications by financial-technology companies for national banking charters as a way to promote competition while both streamlining and strengthening regulation.

That could bring more fintech firms—which offer online loans, smartphone payments and other services—under the direct supervision of the federal government, giving them the power to make loans or transfer money without state approval. Under federal law, banks with national charters don't have to abide by some state lending rules, a practice known as "pre-emption."

Banking Committee Democrats Question Surge in Wells Fargo's Overdraft Income I U.S. Senate Banking, Housing, & Urban Development Affairs

DERIVATIVES, COMMODITIES & THE CFTC

Outgoing CFTC Chief Warns Against Rollback of Post Crisis Financial Regulations l The Wall St Journal

Timothy Massad, the outgoing chairman of the Commodity Futures Trading Commission, warned the incoming Donald Trump administration against rolling back postcrisis financial regulation.

"My belief is that to repeal or dismantle the reforms we have implemented would be a major mistake," Mr. Massad said Tuesday during a speech at the London School of Economics. "Their repeal would not contribute to improving the economic conditions that might have given rise to populist discontent expressed in recent elections."

ENFORCEMENT

Cuomo Proposed New Wall Street Regulation, but left it out of Speech l Gotham Gazette
As part of his 2017 policy agenda, Governor Andrew Cuomo announced on Sunday a plan to ban bad actors from the financial services industry. Cuomo's proposal would empower a state agency, the Department of Financial Services, with the authority to mete out such punishment to those deemed to have violated the public trust.

Marcus Stanley, policy director for **Americans for Financial Reform**, a nonpartisan coalition that focuses on accountability in the industry, said the governor's proposal was a "standard thing" for a state regulator. "I'm surprised they don't have it already," he said. He noted that despite numerous instances of misconduct over many years, federal regulators have tended not to use their power to ban individuals from the industry. "It's a good thing for states to step into the gap," he said. Although, he added, "It depends on whether they use [that power] and how they use it."

FDIC Sues Bank of America for $542 Million in Deposit Payments l Politico

EXECUTIVE PAY

Trump and the 'Joke' that is CEO Pay l U.S. News (Sarah Anderson)
On the campaign trail, Donald Trump once described our country's stratospheric CEO pay as "a total and complete joke." He was right about that. The idea that the guys in the corner office are worth hundreds of times more than their employees does not pass the laugh test.
He was also right when he pointed his finger at cronies on corporate boards as a big part of the problem. "The CEO puts in all his friends," Trump said. "And they get whatever they want you know because their friends love sitting on the board. That's the system that we have and it's a shame and it's disgraceful."

But where the president-elect is off base is in his suggestion that we can't do anything about this disgrace. In reality, there are many ways policymakers could take responsible action to rein in executive excess. And huge numbers of Trump's own voters want them to do so.

FEDERAL RESERVE

Key Reforms From Dodd-Frank Shouldn't be Rolled Back, Yellen Says I Wall St Journal
Speaking at a Fed town hall discussion with teachers, Ms. Yellen said, "Dodd-Frank was a very important road map for strengthening the financial system and mitigating the chance of another financial crisis."

While Ms. Yellen said there is room for changes to the law that would help reduce the regulatory burden on small banks, she said Dodd-Frank established many key reforms that made the system "substantially safer and sounder," including new liquidity requirements, derivatives reforms, stress tests, resolution plans and the establishment of the Financial Stability Oversight Council.

Fed Chair Yellen cites income gap among long-term risks I AP

INVESTOR PROTECTION AND THE SEC

SEC Fines BNY Mellon $6.6 Million for Improper Handling of CLO's I The Wall St Journal
The Securities and Exchange Commission said Thursday that BNY Mellon has agreed to pay $6.6 million to settle charges that it didn't follow proper disclosure norms in its handling of $14 billion in collateralized loan obligation assets.

According to SEC investigators, BNY Mellon failed to follow regulatory capital rules by excluding the assets from calculations of its risk-based capital ratios and risk-weighted assets without the required permission of the Federal Reserve Board. The move led to inaccurate information in various reports released to investors between 2010 and 2014, the SEC said

SEC Blesses Negotiable Mutual Fund Fees I The Wall St Journal

ITG to pay SEC $24 million in settlement I Politico

Wells Fargo, Black Brokers Settle Discrimination Suit for $3.5 million I ThinkAdvisor
Wells Fargo and a group of African-American advisors have reached a preliminary settlement that awards the advisors a total of $35.5 million. The deal, attorneys say, should be approved later this month and finalized shortly afterwards.

MORTGAGES & HOUSING

OCC Fines HSBC for Violations of Mortgage Order I National Mortgage News
HSBC was fined $32.5 million for failing to comply with a 2011 consent order that directed the bank to revamp its mortgage servicing and foreclosure practices.

The violations had previously led to strict restrictions on the bank's mortgage servicing business in February 2013, and then again in June 2015.

"The OCC found that HSBC failed to correct deficiencies identified in the 2011 consent order in a timely fashion," the agency said in a press release Monday.

Three ways it’s becoming harder for millennials to buy homes I Washington Post

REGULATION IN GENERAL

Putting the REINS on Regulation I American Prospect (Rena Steinzor)
The House hit the ground running last week on regulatory reform, passing two pieces of legislation that would fast-track the demise of Dodd-Frank financial controls, public health safeguards, and worker and consumer safety protections. Engrossed in confirmation hearings, the Senate has yet to turn its attention to regulatory reform. But as you read this, hundreds of lobbyists representing industries of every stripe are swarming both bodies and Majority Leader Mitch McConnell’s determination to trash every vestige of the Obama regulatory regime shows no signs of abating.

The first and most drastic plan to up-end the federal regulatory framework is coyly entitled “Regulations from the Executive in Need of Scrutiny” or the REINS Act, as in pulling a galloping horse to a grinding halt.

U.S. House Approves Bill on Financial Regulation Costs I Reuters
The U.S. House of Representatives on Thursday passed a bill requiring the country's top securities regulator to add up the costs of following new rules before putting them into force, part of a Republican push to reform the federal bureaucracy.
By a vote of 243-183, the chamber passed the bill, largely along party lines, which would also require the U.S. Securities and Exchange Commission to periodically review its existing rules.

Huizenga to Focus on Regulatory Relief for Businesses I Morning Consult
Rep. Bill Huizenga, incoming chairman of the House Financial Services Subcommittee on Capital Markets, Securities and Investment, said his primary focus for 2017 will be easing financial regulations for U.S. business.

The subcommittee work he oversees will dovetail with what is likely to be a higher-profile tax debate. The Michigan Republican said Monday in an interview that regulatory reform fits neatly into the broader growth goals of Republicans.

See AFR letter on HR 5, HR 78, and HR 238, and separate letter on HR 5.

RETIREMENT SAVINGS AND DOL FIDUCIARY RULE

Neal Says Investment Advice Rule Should Go Forward I Morning Consult
Rep. Richard Neal (D-Mass.), an early critic of the Labor Department's retirement advice rule, said Thursday that he doesn't support a Republican-led effort to delay its implementation. Neal eventually supported the final version of the regulation last year.

RIA's could be winners if DOL Fiduciary Rule is repealed or delayed I Investment News
As potential delays and road blocks pile up in front the Department of Labor's fiduciary rule, an irony is emerging in that the strongest supporters of the rule could benefit the most from the rule's demise.

Independent registered investment advisers, which have largely supported from the start the idea of requiring fiduciary responsibility when managing retirement account assets, could be set up for a big win if the rule fades away or falls way behind the April enactment schedule.

STUDENT LOANS & FOR PROFIT EDUCATION

Education Department Approves Thousands More Student-Loan Relief Claims I Wall St.
The U.S. Department of Education said Friday that it has approved claims to erase more than $655 million in debt from people who said they were defrauded or left in the lurch by now-closed Corinthian Colleges and ITT Technical Institutes.

The Education Department has now approved 28,000 claims for $558 million in so-called borrower defense relief from former students of Corinthian Colleges, which liquidated in bankruptcy in 2015. Journal

In Shift, Education Dept. Will Automatically Forgive Student Loans Incurred at Defunct For-Profit I Chronicle of Higher Education

See AFR statement on debt discharge for former students at American Career Institute.

Obama's Final Push to Catch Predatory Colleges is Revealing I NY Times (Kevin Carey)
For the past eight years, the Obama administration has waged a battle against predatory for-profit colleges. On Monday, the Department of Education released a final salvo — a list of hundreds of college programs that load students with more debt than they can afford to repay.

The failing-program list included ITT Tech, which filed for bankruptcy under federal pressure late last year, as well as industry leaders like Kaplan University and the University of Phoenix. And there — among a host of local graphic design, fashion, cosmetology and barber schools — is Harvard University.

GOP Has a Long History of Cracking Down on "Sham Schools" l Century Foundation
Every decade or two since World War II, lawmakers have loosened oversight of federal aid to career colleges run by for-profit companies only to be disappointed time and again by rampant abuses. Prior to the Obama administration, this recognition of the hazards of for-profit colleges was bipartisan. Republicans, including those in the White House, frequently took more aggressive steps than Democrats to protect students and taxpayers. This GOP legacy—the insistence on taking college owners to task for exploiting federal aid—should inform the incoming administration, particularly as Betsy DeVos, a longtime advocate of small government and school vouchers, is poised to become the next secretary of education.

Dozens of For-Profit Colleges Could Soon Close l The Atlantic

Overburdened With Debt l Inside Higher ED

Feds say too many career-training programs, for-profit schools leaving graduates saddled with debt l Washington Post

Hundreds of Colleges Could be Shut Down for Breaking Student Debt Rules l Buzzfeed News

SYSTEMIC RISK

Wall Street hates the Volcker Rule, Will Trump Kill it? l CNN Money
Defenders of financial reform warn against the Volcker Rule disappearing. "Hedge fund-like gambling should not be permitted in the banking space," said Marcus Stanley, policy director at **Americans for Financial Reform**, a nonprofit coalition pushing for Wall Street accountability.

He pointed to the infamous Bear Stearns hedge fund division that imploded in 2007 after making bad bets on real estate. The failure triggered a loss of confidence and heavy losses for Bear Stearns. Less than a year, later Bear was the first Wall Street firm to collapse during the financial crisis. "We are very concerned about the repeal or dialing back of the Volcker Rule," said Stanley.

Wells CEO says bank putting 'significant resources' on fixing living will l Politico

OTHER

EU, U.S. Reach Trans-Atlantic Agreement Over Insurance Rules l Wall St. Journal
The U.S. and European Union have reached a trans-Atlantic agreement to smooth the ability of insurance companies to operate in the two regions, officials said Friday.

The agreement, reached after more than 20 years of discussions and almost a year of formal negotiations, aims to remove regulatory uncertainty for American insurers that do business in

Europe. Meanwhile, EU reinsurers will benefit from changes to collateral requirements that could save them hundreds of millions of dollars.

State officials look to disband Treasury insurance office | Politico
State officials are planning to raise the stakes in the long-running debate over the federal government's role in supervising the insurance industry. With a major overhaul of financial regulations looming in Congress, state regulators represented by the National Association of Insurance Commissioners will push for the abolition of the Treasury Department's Federal Insurance Office.

Congress established the office in the 2010 Dodd-Frank law and gave it limited authority. Yet its portfolio included representing the United States in international negotiations, which became a source of tension with state officials, who have remained the primary regulators of the nation's insurance industry. State officials have also had problems with the office's data-collection practices.

Q&A: Jeb Hensarling, chairman, House Financial Services Committee | Politico