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ON LEGISLATIVE PROPOSALS ON CAPITAL FORMATION & CORPORATE GOVERNANCE
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Chairman Crapo, Ranking Member Brown, and members of the committee, thank you for inviting me to testify. My name is Heather Slavkin Corzo, and I am the Director of Capital Markets Policy for the AFL-CIO and a Senior Fellow at Americans for Financial Reform.

The AFL-CIO and AFR work on behalf of millions of people to promote policies that create a safe, sound and stable economy that helps all Americans achieve economic security.

Today, the Committee will consider dozens of bills. It would be impossible to discuss each one. Instead, I will say that, as a general principal, public policy should promote fair, transparent and stable markets; facilitate regulatory enforcement; and encourage shareholder engagement. One set of bills being considered today moves away from that standard, a few are neutral, and a handful are positive steps.

None of the pieces of legislation under consideration represents the type of material change that is needed to create an economy that works for working people.

This Committee can move policies to end financial activities that undermine the well-being of everyday Americans. Today, I will discuss a handful of opportunities.

1. **Private Equity**

Working people are exposed to private equity as employees, investors and participants in the American economy.

PE-owned companies employ nearly 5 million American workers. When the companies fail, these workers often lose their jobs, benefits and retirement plans. Toys R Us, Tops and Haggen are examples that left tens of thousands of workers unemployed.

US pension funds collectively have more than $800 billion invested in private equity. Unfortunately, the opacity, illiquidity and high fees associated with PE add to the risks of the investment and make it difficult to achieve returns that justify those risks. The minimal reporting and examination requirements instituted by Dodd-Frank revealed an industry where abusive practices towards investors were commonplace.

Finally, in the past five years, the value of outstanding leveraged loans has nearly doubled to $1.15 trillion. Regulators in the US and around the world have begun raising alarms that the market could create systemic risks.

The private equity model exists, and is remarkably profitable, due to a series of loopholes and carveouts in securities, bankruptcy and tax law. There is no public interest reason to provide these. In fact, I would argue, that the public interest demands that policymakers eliminate legal and regulatory privileges that feed abusive LBOs and encourage the Committee to consider this set of issues.

2. Short-termism

Increasing public attention has focused on how financial markets actors pressure businesses to focus on short-term returns and financial engineering instead of long-term competitiveness and contribution to the real economy. Short-termism also disincentivizes attention to long-term but potentially catastrophic implications of their activities such as climate change and economic inequality which are, in fact, key to long-term financial performance.

Stock buybacks are a prime example. The 2017 Tax Cuts and Jobs Act hyper-charged the already worrisome practice of stock buybacks. In 2018, companies spent more than $1 trillion buying back their own stock.

Multiple policy changes have been put forward to limit buybacks and I encourage the Committee to dedicate more attention to this issue.

3. Too-big-to-fail

The largest banks in the US have gotten larger significantly larger since the 2008 financial crisis. Now, these banks have a combined $10.6 trillion in assets.

Aspects of Dodd-Frank were aimed at limiting risks within these institutions and preventing the need for future bailouts. Unfortunately, it remains very difficult to envision how one or more of these institutions could fail without threatening US, and global, economic stability. It does not have to be this way. Congress must pass legislation to reduce the size and complexity of our largest banks so that they could fail without threatening economic stability.

4. Conclusion

In conclusion, I urge this Committee to advance policies that will end financial activities that undermine the well-being of everyday Americans. And, to ensure sound implementation of Congress's mandates, the Committee must fill the empty Commission slots at the SEC and other financial regulatory agencies to bring credibility to the regulatory process. I encourage you all to turn your attention to these priorities.

Thank you and I look forward to your questions.