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Financial Reform Newsletter: June 29, 2017

Don't Worry. Be Happy. Fill Up the Punch Bowl and Party Like it's...........2005 and Hope 2008 Never Happens Again;
The Triple-Threat-of-Truth the Industry and Their Republican Allies Don't Want You to Hear About How You're Being Ripped Off;
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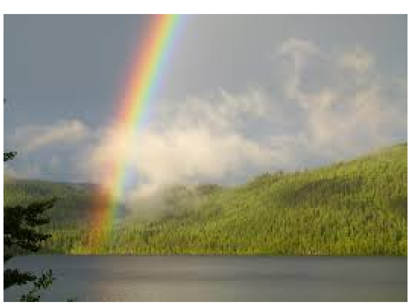
Don't Worry. Be Happy. Fill Up the Punch Bowl and Party Like it's...........2005 and Hope 2008 Never Happens Again.

All 34 banks passed the Fed's latest stress tests and will now start ejecting $100 billion or so in capital to their shareholders, thereby reducing their equity cushion, which is all that stands between a bank and taxpayer funded bailouts when there's trouble. Sure, there is no financial crisis today, but this is exactly what happened in 1995-2005: almost everyone thought things were great back then so they massively deregulated the banks, installed industry-friendly regulators at all the financial protection agencies, and stopped enforcing the law. The bankers pocketed gigantic bonuses, went on a hiring spree of politicians and regulators to ensure ongoing industry-friendly policy and regulation, and spent a fortune on PR to convince everyone the good times were going to last forever.

That, of course, didn't happen, contrary to everything all the big bank CEOs and their lobbyists, lawyers, political allies, regulatory buddies, purchased academics, PR flacks, and so many others said repeatedly over those years.

That deregulation led to the crash of 2008, which was the worst financial crash since the Great Crash of 1929 and caused the worst economy since the Great Depression of the 1930s, destroying the jobs, savings, wages, and standard of living of tens of millions of Americans. Given that, one would think that there would be more people more cautious about the effectiveness of the regulations that have been put in place and much more humble about their ability to predict the future with precision. Remarkably, many talk as if the 2008 crash never happened, ignore the pre-crisis deregulation zeitgeist and mindlessly blame the 2010 financial protections as slowing economic growth when the facts prove those self-serving claims baseless and wrong. This is an astonishing dereliction of duty and history is going to judge today's elected officials, policy makers, regulators and other so-called leaders very harshly as they lay the foundation for the next devastating financial crash.



A financial "deregulation-is-best" mindset clearly prevails among people President Trump has appointed to the most important financial protection agencies in the country, the industry's many other Washington DC allies, and others who should know better.

While she correctly noted that banks are "very much stronger" today, that "the system is much safer and much sounder," and that regulators are looking around "corners" to detect risks, Fed Chair Yellen also said yesterday that another financial crash like 2008 is not likely "in our lifetime." This is only going to provide fuel for the deregulatory frenzy.

Remember that this is the very same federal agency under the leadership of Chair Greenspan and Bernanke in the years before the financial crash that was totally convinced that there was no chance of a major financial crash. In fact, they thought they were all so smart that they had virtually repealed the business cycle and the anyone daring to think otherwise was attacked and belittled, as infamously happened at the Fed's 2005 Jackson Hole gathering. They and all the other august mandarins never saw that catastrophic crash coming. They were clueless, as were the other federal financial regulatory

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agencies responsible for protecting the American financial system and economy, literally up until the day Lehman Brothers imploded. America's Main Street families paid a horrific price for their failure, for which it is notable that there has been no accountability.

Yet, here we are just nine years after the worst financial crash in almost 100 years and the very same agencies are confident that another crash like the last one they never saw coming won't happen again, at least not in "our lifetimes." America's families should be worried, very worried, as the mindless de-regulation bandwagon picks up steam. This is not likely to end well.

The Triple-Threat-of-Truth the Industry and Their Republican Allies Don't Want You to Hear About How You're Being Ripped Off.

It's become something of a cliché: a Congressional committee holds a hearing and the witness panel is dominated by representatives of industry. While there is a witness or two who speak to the broader public interest, those voices are often drowned out by the others. But, typically, at least they are heard, and not covered up.

Remarkably, that just happened at a House Financial Services Subcommittee hearing on market structure, where Joe Saluzzi of Themis Trading, Matt Lyons of The Capital Group, and Brad Katsuyama of IEX - the Triple-Threat-of-Truth -- squared off against industry insiders. The summary of the hearing that the Republicans sent around excluded all of them, as Themis Trading detailed in their blog, which you can read here.

If all you knew is what the Republicans wanted you to know, you'd **not** know how difficult it is for asset managers like The Capital Group, working on behalf of millions of Main Street investors and retirees, to get the best price in a timely manner. You would **not** have heard how difficult it is in today's markets for conflict-free institutional brokers like Themis Trading to navigate the many conflicts of interest that have rigged the markets to enrich a few at the expense of the many. You would **not** have heard how IEX's market solution to market breakdowns are serving investors' best interests and the market and regulatory barriers to their ability to compete fairly against unfair practices. This Triple-Threat-of-Truth -- Saluzzi, Lyons and Katsuyama -- all pointed out how order routing, information leakage, payments for order flow, direct data feeds, maker-taker rebates and so much more needlessly and unfairly interfere with our markets serving their public purposes.

It is a public service to testify before Congress and, more importantly, to speak truth to power, especially against an entrenched, powerful and politically connected industry whose allies literally try to erase any contrary view from the public record. However, Better Markets won't let anyone forget the Triple-Threat-of-Truth from Saluzzi, Lyons and Katsuyama. Read their written testimony here, here and here and, if you have time, watch the hearing here.

Shredding the Myth...Again...of the False Choice Between Financial Protection Rules and Economic Growth.

Opponents of essential financial protection rules continue to repeat the baseless claim that those rules have slowed economic growth and bank lending. This is nothing but a pretext to justify their deregulation agenda. The problem is that facts keeping coming out that prove their claims to be false, which also proves the basis for their agenda to be without merit.

The latest installment of facts comes from FDIC Chair Martin Gruenberg, who appeared before the Senate Banking Committee last week. His testimony offers another powerful rebuttal to this often-repeated, yet phony claim.

On bank income:

> "...annual increases in industry net income have averaged 7.8 percent per year since 2011. FDIC-insured institutions reported a record $171.3 billion in net income for 2016, marking a net increase of 44 percent over the past five years. Only 4.2 percent of all banks failed to post a profit during the year, the lowest share in any year since 1995."

On bank loan activity:

> "As this long economic recovery has progressed, industry loan growth has strengthened in a gradual but sustained manner. Total loans held by FDIC-insured institutions grew by more than 5 percent in 2014, 2015, and 2016, exceeding the rate of growth in nominal GDP in all three years. Year-over-year industry loan growth stood at 4 percent as of the end of the first quarter of 2017, a rate nearly equal to growth in nominal GDP."

On community banks:

> "Community banks have outpaced noncommunity banks by a number of measures. Their merger-adjusted loan growth has exceeded that of noncommunity banks in each of the past five years; they have increased lending by more than 8 percent in each of the past three years."

The next time Wall Street and its allies roll out their talking points to mislead the public into thinking their regulatory rollback is necessary, remember the facts. Remember also that the reason banks are doing so well is because of the post-crisis safeguards that were put in place to enhance the stability of the financial system. Put differently, effective rules that refocus the financial sector away from high risk, reckless practices and toward activities that support the real economy directly lead to economic growth.

Prosecuting Actual Bankers! Yes, Too Little, Too Late, and Overseas, But Still Important

Don't miss Jonathan Ford's column in the Financial Times, Pursue the bankers not the bank over Barclays." While focusing on a UK bank, he makes a number of key points that resonate here in the U.S.:

"Since the financial crisis, bank shareholders have borne pretty much the whole cost of cleaning up the reputational and legal damage done to the sector.... [Shareholders] have certainly been held to account a great deal more firmly than the bank executives who created the whole mess in the beginning." "The whole exercise has become a kind of shakedown, in which bank bosses spray around shareholders' cash to buy their way out of awkward legal problems." (Have to love the Brits and the use of the word "awkward" here!)

"[F]or the average 'master of the universe,' there has been little in the way of legal or regulatory retribution - let alone financial sanction. Almost no top bank executives were struck off or forced to disgorge pre-crisis bonuses - let alone suffering imprisonment. Which his why ... the prosecution of Barclays and four of its former executives, including the CEO, is the focus on so much attention.... It is more the fact that senior bankers are finally being held to account at all."

While prosecuting and punishing banks themselves and their shareholders can be and often is important, Ford advocates for not prosecuting Barclays itself in the circumstances here and we agree for the reasons he outlines, including, most importantly, "the case must be focused on the individuals simply to restore a sense of personal responsibility to finance."

As we have been saying for years, punishing banks and their shareholders alone rather than individual bankers will simply never stop misconduct, recklessness or illegal behavior in finance. Only prosecuting and meaningfully punishing individuals will do that.