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Financial Reform Newsletter: April 14, 2017
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Wells Fargo Releases 'See No Evil, Hear No Evil' Cover-Up Report

Anyone who thought that Wells Fargo might provide an open and honest account of the bank's years-long swindling of millions of customers by opening bogus accounts was sadly disappointed this week. The report initiated, conducted, and released by the independent directors of the Wells Fargo Board of Directors was a carefully-crafted PR document designed more to conceal than reveal about their illegal and fraudulent conduct.

"The self-investigation and actions reported today by the Board of Directors of Wells Fargo are grossly deficient," as we said in a statement.

The scope and scale of their illegal conduct was staggering: for more than a decade, thousands of Wells Fargo employees in hundreds of branches around the country appear to have engaged in criminal business practices involving identity theft, mail and wire fraud, falsification of the banks' books and records, fabrication of customer account information, and illegal charging of fees and debiting of accounts, all in connection with opening as many as *two million* bank accounts and credit cards customers did not authorize or know about.

The Report blamed virtually all of this on two now-fired executives, former CEO John Stumpf and the former head of Community Banking, Carrier Tolestedt. Yet, the bank's senior management - including importantly its now CEO, former CFO Tim Sloan -- and Board of Directors were all - according to the Report -- unaware of what was going on right under their noses year after year after year. That simply defies belief.

The Wells Fargo Board has had their chances. We previously detailed specific, concrete, meaningful action they could take, but did not. We then waited for the promised Report, which was supposed to detail who knew what when and what they did about it, including importantly the most senior executives and the Board. This Report has excruciating detail about Stumpf and Tolestedt, but, in stark and telling comparison, provides virtually no detail about the other senior managers like the current CEO or the Board...............until of course they want to portray themselves as springing into action, but even that was only starting in May 2015, more than a decade after the widespread illegal activities infected the bank.

Shareholders should vote to replace the entire Board at their Annual Meeting on April 26. The Department of Justice and the SEC also need to accelerate their investigations to protect the bank's customers and the public from the threat of this plainly incompetent and deficient management and supervision of one of the country's largest too-big-to-fail banks.

Better Markets' take on the Report generated a lot of media coverage:
Financial Times: Wells Fargo claws back $75m in bonuses over sham accounts
Washington Post: Wells Fargo orders two executives to pay back an additional $75 million after sales scandal probe
Los Angeles Times: Wells Fargo orders 2 former top executives to pay back $75 million after scathing report on accounts scandal

American Banker: [Six takeaways from Wells Fargo's report on its sales scandal]
Associated Press: [Wells claws back $75 million from top execs in sales scandal]
Charlotte Observer: [Thousands of low-level workers lost jobs in Wells Fargo scandal. What about the execs?]

A Return to Glass-Steagall Can Be Risky, and It Might Help Goldman Sachs More Than Consumers

Be warned, the [news that Trump's National Economic Council Chair Gary Cohn is in favor of restoring Glass-Steagall] in some shape or form may not be all that it seems. While many cheered, such a move could disproportionately and uniquely benefit Godman Sachs, where Cohn served as President before bringing his Wall-Street-first attitude and agenda to the White House. Additionally, bringing back Glass-Steagall could be a risky idea as [Better Markets pointed out] last week. If done wrong, a new Glass-Steagall could send us back to the days before the 2008 financial crisis when we had a two-tiered financial system of highly regulated banks and unregulated shadow banks. The result before and in the future will be unrestrained Wall Street firms pursuing profits and bonuses to the detriment of the real economy, which creates jobs and allows families to save for college, homes, and retirement.

With the White House being referred to as "Goldman Sachs South," people need to be mindful that there are numerous ways that a Glass-Steagall-like change could be done that would increase systemic risk, create unregulated too big to fail firms and put taxpayers on the hook for much bigger bailouts in the future. And Goldman could move back to the investment and trading side of light regulation, boosting its profits, business lines and competitive position. Thus, once again it would be king of the financial world where highly regulated bank holding companies couldn't compete and trading profits push competitors into much higher risk and more dangerous activities to try to keep up.

While we'd like to take "yes" for an answer on restoring a real Glass-Steagall-like law, everyone should carefully scrutinize the details of any actual proposals to ensure that the public is being protected rather than the profits of Wall Street's biggest firms which are overly represented among those who will be drafting and promoting any such change.

Better Markets' views here also generated a great deal of media coverage:
New York Times DealBook: [Trump and Warren Agree? Maybe, on Plan to Shrink Big Banks]
Financial Times: [Donald Trump still open to populist bank break-up proposals]
Washington Post: [Top White House adviser Gary Cohn offers support for move that could break up big banks]

The Continued Delay of the Fiduciary Rule is Costing Retirement Savers $46 Million a Day.

$46 million! A day! That is the minimum of what it is costing Americans saving for a safe and secure retirement every day while the Trump Administration and its Wall Street allies try to kill the Department of Labor's "best interest" fiduciary rule.

That number, or more specifically the unveiling of [a counter tracking how much money retirement savers are losing every day while the fiduciary rule is delayed] was the centerpiece of an event last week on Capitol Hill a few days before the rule was to take effect on April 10. The event featured Senator Elizabeth Warren (D-MA) and AFL-CIO President Richard Trumka as well as Better Markets Legal Director Steve Hall, who made it clear that Better Markets and the Save Our Retirement coalition will not let up in the fight to protect retirement savers, saying, "We are prepared to challenge whatever the new DOL decides to do, whether it guts, repeals or delays its decision. We want the DOL to adhere to the spirit of the law just as vigorously as the industry did when it launched its relentless attacks on the rule."

We must fight to make sure the fiduciary rule continues to get the same rigorous defense from the DOL that it did before the Trump administration took office. We will hold the Administration and incoming Labor Secretary Acosta to the same legal standards governing the rulemaking process that the industry invoked when it launched its relentless attacks on the rule.

Fighting for the SEC to Protect Consumers and Investors Through More Fair and Open Markets

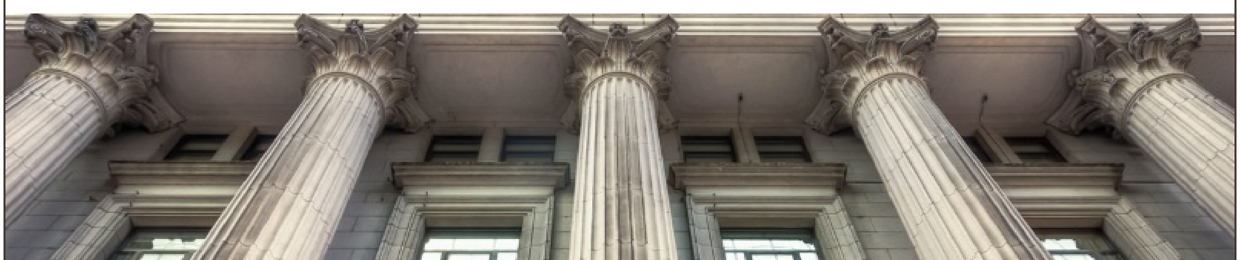
Focusing on protecting investors and recent recommendations on regulatory centralization, Better Markets Senior Securities Policy Advisor, Lev Bagramian, testified last week before the SEC's Equity Market Structure Advisory Committee (EMSAC).

Better Markets offered a broad critique of the state of large exchanges: "Today's large exchanges are conflicted to the core: On the one hand, they have committed to the Commission and the investing public that they will be the front-line regulators overseeing members who abuse the privileges of their membership and manipulate the markets. On the other hand, they sell data, offer preferential access to markets, and existentially depend on some of the most egregious manipulators of the markets."

But there are bigger points to be made about EMSAC and market structure.

It is unmistakable that EMSAC has not lived up to its promise of helping the SEC to fix our broken markets. Investors suffer when preferential data access confers unfair advantages on a select number of market participants at the expense of others. Investors suffer when high frequency trading practices exploit other market participants, creating the illusion of market liquidity, and contributing at times to extreme volatility. Investors suffer when trading venues can offer rebates that distort trading practices. Investors suffer and investor confidence drops when markets crash, in the process reducing companies' access to capital, which stifles economic growth.

Said differently, market structure matters. And what is sure, market structure problems will neither fix themselves, nor will they be fixed by the very entities that profit from these inefficiencies. These are all serious problems that the SEC must address, and do so quickly and comprehensively.



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