BETTER MARKETS

Donate Today

Financial Reform Newsletter: July 21, 2017

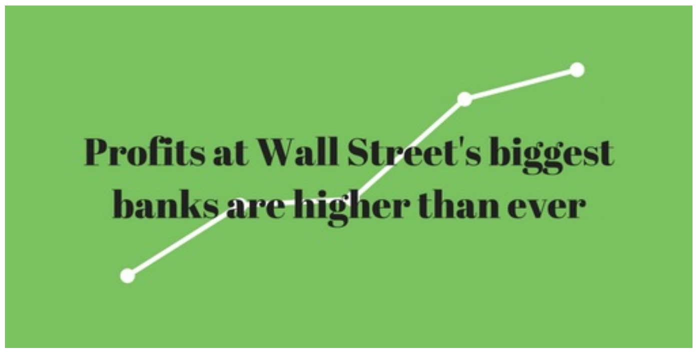
Big Bank Results Prove Dodd-Frank is Working

Dodd-Frank: Seven Years of Economic Growth and Financial Stability

SEC Regulatory Agenda Leaves Too Many Critical Investor Protections Behind

CFPB End Special Protection for Financial Firms and Protects Consumers' Right to Court

Big Bank Results Prove Dodd-Frank is Working
Quarterly results from the biggest Wall Street banks this week have shown more revenue coming from lending than trading, delivering an unmistakable message: the Dodd-Frank financial reform law is working and is having the desired effect on Wall Street's biggest banks of rebalancing their activities with a greater emphasis on lending and less on trading.



This switch in activities is one of the key indicators of whether financial reform is working, and the facts bear this out. Earnings reports from Goldman Sachs, JP Morgan Chase, Morgan Stanley, Citigroup, and Bank of America show that a shift is occurring away from trading (mostly FICC: fixed income, currency, and commodities) and toward traditional lending.

As we saw in the years before the 2008 financial crisis, lending to the real economy took a back seat to more lucrative trading activities by the big banks. Too often, those trading activities were devoid of social value and instead short-term, high-risk gambles meant to deliver a big bonus to a handful of traders and executives. These trades destabilized the banks, the financial system, and the economy.

That's why rebalancing Wall Street's biggest banks to focus on lending to businesses and people and away from big financial bets was a key objective of Dodd-Frank. While preventing financial crashes and bailouts grabs most of the attention of the law, that's only one part. That's why the Volcker Rule, prohibiting prop trading, capital and liquidity requirements, and derivatives reform all remain so important. It was *also* intended to refocus the biggest banks more on lending to support the real economy and creating sustainable economic growth and jobs, which is why the latest earnings report just a few days before the 7th anniversary of Dodd-Frank is so significant. Not only has Dodd-Frank been successful in eliminating or reducing the riskiest and most dangerous activities by Wall Street's biggest banks, it has also succeeded in driving lending to the real economy.

Finally, there are two additional important lessons we can draw. First, this is a big win for the American people. Increased lending to the real economy directly benefits Main Street America, and allows for continued economic growth and more broadly shared prosperity. Second, these results also prove once again that all the complaining that financial reform is hurting banks' ability to lend, generate revenue or make a profit are still baseless and that the deregulatory zeal is meritless.

Dodd-Frank: Seven Years of Economic Growth and Financial Stability
The Dodd-Frank Financial Reform and Consumer Protection Act was signed into law by President Obama seven years ago today. While seventh anniversaries are not often significant events, it is for the Dodd-Frank law, which is under unrelenting assault and a misinformation campaign. With the House passage of the Financial CHOICE Act, the release of the first report from the Treasury Department on financial regulations, and the deregulation agenda of the Trump administration and its

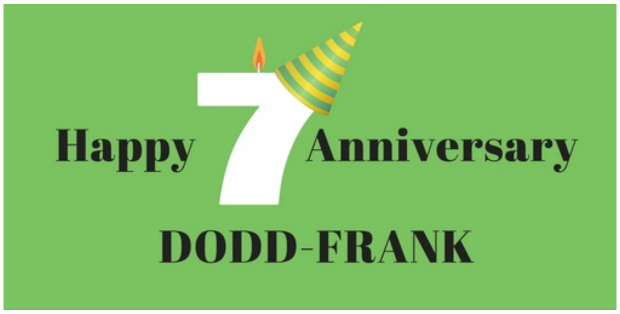
Better Markets in the News:

THE HILL

7 years in, Dodd-Frank still protects Main Street from Wall Street risk
More >>

POLITICOPRO

Tax reform air cover, coming soon
More >>

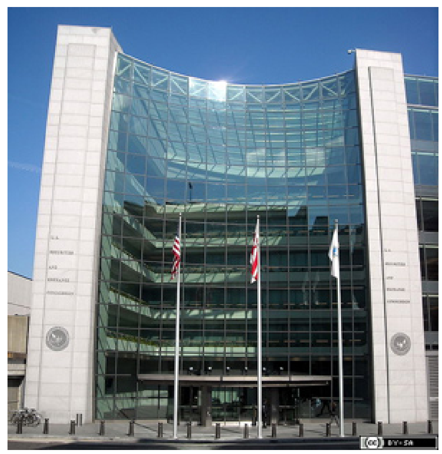


appointees, Dodd-Frank is targeted for significant changes, if not a wholesale gutting.

The puts the country at a crossroads. One road keeps us moving toward a safe, stable and rebalanced financial system that supports the real economy, enables broad-based prosperity, and provides American families with sufficient savings and investments for a home, education and a secure retirement. The other road takes us back to the recklessness, unrestrained risk taking, Wall Street gambling, illegal and even criminal activity that endangers American homes, jobs, and our savings and retirement.

As discussed above and previously, there is little doubt that the Dodd-Frank Act is working. Moreover, the entire premise behind the effort to roll back the law's financial protection rules, that it has hampered bank lending and slowed the economy, is similarly false. This is not to say that the law is perfect - no law is. But it has nonetheless reduced the likelihood of another financial crisis, protected investors and consumers, and rebalanced Wall Street's biggest banks to focus on lending to the real economy rather than bonus-driven gambling. If economic growth and jobs are your objective, strengthening and enforcing the Dodd-Frank law is one of the best ways to accomplish those goals.

SEC Regulatory Agenda Leaves Too Many Critical Investor Protections Behind



In his recent speech to the Economic Club of New York, SEC Chairman Jay Clayton spoke several times about how his actions would be guided by the long-term objectives of "Mr. and Ms. 401(k)," stand-ins for everyday Main Street investors. We agree with Chairman Clayton on his focus, but one has to wonder just how happy Mr. and Ms. 401(k) will be with the new regulatory agenda released yesterday by the SEC. While it includes some important items that may improve our markets and protect investors, it falls far short of achieving the kinds of Main-Street-Investor oriented goals that the SEC exists for.

Upcoming rulemakings on Order Routing Disclosures, Municipal Securities Disclosures and an Anti-Disruptive Trading, among others, are worthy and important goals. But many other rulemakings mandated in the Dodd-Frank Act remain unaddressed, and with them the critical concerns of Main Street investors.

As we mark the seventh anniversary of the Dodd-Frank Act, company directors and officers can still keep their compensation windfalls even if they bankruptcy the company. It is indefensible that there is still no SEC rule requiring the claw-back of such ill-gotten compensation. The SEC was specifically directed to address compensation rules to rein in egregious and excessive risk-taking that hurts consumers and investors, and destabilizes markets. But that rulemaking has also been thrown to the scrapheap. Investors also care about directors protecting themselves from stock losses by hedging their own holdings of company shares, leaving ordinary investors holding the bag. All of these rules are mandated by Congress, meaning the SEC is compelled to act, but the SEC has moved on and left that work unfinished.

We take Chairman Clayton at his work when he says that he is always thinking about Mr. and Ms. 401(k) and urge him to reconsider the regulatory agenda and put investors' interests and investor protection first.

CFPB End Special Protection for Financial Firms and Protects Consumers' Right to Court

Having already returned nearly $12 billion to 29 million Americans ripped off by financial firms, the CFPB took yet another critical step in protecting consumers who have been victimized by financial firms when it issued its final rule banning mandatory forced arbitration clauses. This is a critical investor protection issue as well as one that is essential for investors' confidence and trust in our markets.

When it was announced, the proposed rule was met with near universal scorn by the financial industry. That should come as no surprise. For far too long, industry used pages of tiny fine print in their contracts and agreements to force customers into a biased process that overwhelmingly favors the industry, where proceedings are kept secret and where the dollar value of any recovered award, for those lucky few who manage to prevail, is usually quite small. Arbitration is often little more than a one-sided kangaroo court stacked against the individual without any of the protections of a real court.

In issuing the rule, Richard Cordray, who is considered public enemy number one by Wall Street and too many of its allies in the Congress, stood up to the most powerful and politically connected financial firms in the country and protected American consumers' right to go to courts when they are ripped off just like when they are victimized by anyone else.

The CFPB's final rule will restore fairness, and ensure that consumers at least have the right to join with others who have been hurt by abusive practices in group lawsuits in court.