



Special Briefing: Wall Street Reform

MISSION: The Coffee Party Movement gives voice to Americans who want to see cooperation in government. We recognize that the federal government is not the enemy of the people, but the expression of our collective will, and that we must participate in the democratic process in order to address the challenges we face as Americans. As voters and grassroots volunteers, we support leaders who work toward positive solutions, and hold accountable those who obstruct them.

Executive Summary

Every American has felt the impact of the recent financial crisis – from growing unemployment to failing mortgages to falling 401Ks. Irresponsibility on Wall Street has wrecked untold havoc on Main Street. The American economy cannot withstand another shock of this magnitude, and there is an urgent need to protect working families and responsible businesses from the abuses of big banks, credit card companies, and Wall Street insiders. The fact that the Senate does not have a financial reform bill passed a year and a half after the collapse of Lehman Brothers speaks to the remarkable lobbying efforts of the financial sector.

What we have currently is a casino economy inventing money out of thin air and making it disappear into the coffers of big banks just as quickly. What we need is a structured system of trade that provides capital, promotes value, and rewards wise investment. The current crisis was created by a lack of financial regulation and the devolution of standards, and it can only be solved through comprehensive financial reform.

Financial reform will protect working families and small businesses by reigning in the greedy, reckless behavior of big banks on Wall Street and cracking down on the abuses committed by credit card companies and the mortgage lending industry. These reforms will hold Wall Street accountable and prevent another financial crisis.

It is incumbent on Congress to provide relief to American families negatively impacted by this crisis, seek punitive measures against those who profited from disaster, and reform financial regulations to prohibit predatory behavior in our financial markets. Doing nothing in response to this crisis is tantamount to inviting the next disaster. In the modern financial system, incentives alone dictate performance, so it the government's responsibility to incentivize healthy behavior and discourage destructive actions.

“Securities activities can be risky, leading to enormous losses. Such losses could threaten the integrity of deposits. In turn, the Government insures deposits and could be required to pay large sums if depository institutions were to collapse as the result of securities losses.”
--Argument for Glass-Steagal Act (Enacted 1933; Repealed 1999)

Most Critically Needed Reforms

- **Develop a 21st Century Glass-Steagal Act** (Effectively repealed 1999 by the Gramm-Leach-Bliley Act) was a depression era reform that formerly separated investment banking and traditional deposit taking commercial banking. Since the 1980s the act has been slowly circumvented due to financial innovation by non-bank financial firms, These firms increasingly engaged in activity that strongly resembled traditional banking, effectively created a *shadow banking system*. However, unlike traditional banks, shadow banks were not constrained by banking regulations, nor were they protected with a formal federal safety net such as FDIC protection. Therefore, unencumbered from these regulatory frameworks, shadow banks could take on outsized risks, take market share from traditional banks, make outsized profits. By 2007-2008, shadow banks such as, Goldman Sachs, Lehman Brothers, Morgan Stanley and Bear Sterns, along with the shadow banking arms of Citigroup and JP Morgan and other traditional banks accounted for approximately half US banking assets. Unfortunately, they were also the most highly leveraged institutions in the financial system and had taken on incredible risks, thus disproportionately contributing to the financial crisis. Bringing the shadow banking system under a formal banking regulatory framework is perhaps the single most important reform that must be implemented.
 - Resolution Authority – Under the current regulatory framework, when a non-bank financial firm (ie. Broker-Dealer, Investment bank) is failing, there is no regulatory mechanism for the bank to fail, leaving the only two bad options; either a bailout or traditional bankruptcy- the latter of which would collapse the global financial system. Part of bringing shadow banks into the traditional banking regulatory framework must involve a way for this institutions to be seized by the regulators when they failing, much in the same way that the FDIC takes traditional banks into “receivership” or “Conservatorship” upon failure - effectively wiping out shareholders and un protected bond holders, selling off the assets, thus “resolving” their failure with minimal collateral damage. Permanently formalize the proposed “Volcker Rule”. Announced in January 2010, the Volcker Rule – named after former Fed Chair Paul Volcker, would bank firms that borrow from the Fed Discount window from using those funds for internal “proprietary trading”, or trading on their own accounts, aka “in house hedge fund”. This reform will end the practice of banks effectively running a government subsidized in-house hedge fund to garner ill-gotten profits through trading instead of through traditional bank lending to the broader economy.
- **Empower the Consumer Financial Protection Agency** with independent adjudication powers, real enforcement capabilities, and a budget matched to their mission. This is essentially a Consumer Product Safety Commission for financial products – we don’t let manufacturers sell toasters that are likely to explode; we need basic rules and protections against exploding loans too. The creation of this agency streamlines the regulatory apparatus, endows regulators with enforcement powers, and simplifies regulatory compliance for small businesses.

- **Regulate the Wild West of Wall St.** especially Over-the-Counter Derivatives (OTC), but also Credit Card Companies, Hedge Funds, Private Equity & Venture Capital Firms so that consumers, investors, and shareholders have a basic guarantee of fairness and protection in the market. Most importantly, it is critical that transparency and honesty is brought to the OTC derivatives market, ending the practice of these derivatives trading in “dark markets”, and bringing them unto traditional exchanges and clearinghouses, thus bringing ‘sunlight’ for shareholders, customers, regulators, bond holders, and the general public, thus allowing fairness and basic protection in the market.
- **Promote Proper Lending Practices** by enforcing existing laws, increasing penalties for financial crimes, and granting oversight agencies the means to accomplish their goals.

Potential Supplemental Reforms

- **Rigorously Enforce Anti-Trust Regulations** on the largest banks- existing anti-trust laws may very well allow, or even demand, that the largest banks be broken up, or discouraged from becoming bigger.
- **Permanently Re-instate the Uptick Rule** where the short sale on a stock cannot be completed on an upward move of the stock. This discourages speculative traders and hedge funds from profiting while creating an artificial “run” on a company’s stock.
- **Ban Naked Short Selling – force short sellers to actually borrow available stock in order to take a short position**
- **Financial Transaction Tax** – A tiny (approx: 0.05%) fee on all financial transactions will discourage volatility-inducing, unproductive, speculative trading and encourage long term investment while raising revenue proceeds that could potentially be used to bring more transparency and accountability to financial markets.

Why Congress Should Act

- **Inaction intentionally invites the next financial crisis.** Right now, the rules are rigged to the benefit of big banks and investment firms, and regulations lack sufficient protections for consumers and shareholders. Preserving this status quo only sets the stage for the next round of financial predators to profit from disaster. Next time, the problem may be banks that are too-big-to-save instead of ones that are too-big-to-fail.
- **70% of voters believe America’s financial system needs reform.**
- **2 out of 3 of voters in hotly contested Congressional districts** support the creation of the Consumer Financial Protection Agency. Passing this into law gives them another positive platform to run on in their election – obstructing it could be electorally dangerous.
- **By a 46-point margin,** voters in swing districts support reigning in unregulated markets for complex financial products like derivatives and bringing “shadow markets” into the light of day.
- **It’s a Win-Win-Win situation for voters, candidates, & America.** Supporting financial reform will protect consumers, shareholders, & small businesses; put a few feathers in the caps of politicians; and ensure stability in America’s economic system for generations to come.

What Congress is Doing

- ❖ **The U.S. House of Representatives passed a bill** (H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009) which creates a Consumer Financial Protection Agency, some breakdown abilities for TBTF institutions, provides for an exchange for derivatives, increases investor protection, holds hedge funds and private equity firms accountable, and provides better oversight & accountability. This bill passed by a vote of 223-202, and the House is now awaiting action on this in the Senate before going further.
- ❖ **The U.S. Senate is currently debating the “Dodd Bill”**, which is the corresponding bill in a watered-down version. In its current form, this bill does not go far enough because it allows failed bank regulators to interfere with consumer protection; it does not regulate all financial companies; it fails to shine a light on the “shadow markets” of derivatives; and it does not put a stop to the rigged casino economy. Retiring Senator Dodd sees this bill as his legacy, but the army of bank lobbyists have descended in full force to weaken and defeat meaningful reform.
- ❖ **Other Legislative Proposals:**
 - Sen. Barbara Boxer (CA) & Sen. Jim Webb (D-VA) are sponsoring a bill that would levy a one-time 50% tax on 2009 bonuses of more than \$400,000 given by any firm that received \$5 Billion+ in federal bailout money.
 - Rep. Marcy Kaptur (OH) has authored the “Financial Crisis of 2008 Criminal Investigation & Prosecution Act of 2009” which would authorize the hiring of up to 1000 additional FBI agents skilled in forensic accounting to uncover the alleged fraud and criminal acts committed by members of the financial services industry that nearly brought down the world economy. This bill is strongly supported by Americans for Financial Reform and has 26 House co-sponsors.

What the Big Banks & their Allies are Doing

- Spending \$1,400,000/day to oppose reform.
- Spending \$1,000,000/member of Congress to oppose reform.
- Placing TV ads that oppose the creation of the Consumer Financial Protection Agency.
- Deceptively advertising that they are working to secure American financial markets while they are opposing the policies that would accomplish that goal.
- Purchasing face-time, influence, & favor with our members of Congress - So far in 2010, Congress has received over \$24 million from Securities and Investment Firms, Commercial Banks, and Miscellaneous Finance companies (compared to less than \$6 million from Oil & Gas). Even banks that were bailed out by the government are still contributing massive amounts to political candidates and campaigns.

What Reform Groups are Doing

- ✓ **Calling members of Congress and your Senators.** Call them, tell them this is an issue you care about, and let them know their actions on financial reform will impact who you vote for in November. Make sure to include your contact info so they can follow up and respond.

Senate switchboard: 202-224-3121. It's okay to leave a message with a staffer during the day or a voicemail if it's midnight. Next go to their website and call their local office.

- ✓ **Show up on Wall Street's front door and make your voice heard.** At 3pm on April 29th 2010 at the "Showdown on Wall Street", small business owners and union members, homeowners and tenants, faith communities, the employed and the unemployed are showing up to proclaim one simple message: "Americans deserve an economy that works for all of us, not just Wall Street!" Join your fellow Americans in sending a message!
- ✓ **Move Your Money** from a big bank to a smaller community-based bank in your neighborhood. The only language Big Banks speak is money, so show your outrage by walking your dollars out their doors and across the street to a respectable local bank.
- ✓ **Get Local & Protest Your Local Big Bank** in coordinated action with many others on May 17th (or show up at K St. in Washington, D.C. to protest their lobbyists). Encourage others in your community to move their money to small banks too!

Financial Reform Links

Americans for Financial Reform: A coalition of 200 organizations calling for financial reform now. Much info here is from: <http://ourfinancialsecurity.org/#>

Showdown on Wall Street: a rally being held on the front steps of Wall Street at 3pm on April 29. More details at <http://showdowninamerica.org/>

Move Your Money: A campaign encouraging people to move their bank deposits out of "too-big-to-fail" banks and into local banks and credit unions. Helpful resource that helps to find a quality community institution near you. Visit them at <http://moveyourmoney.info/>

One of the must-read articles of the year: author explains how the investment banks got away with everything, & how they continue to rob the Treasury and gamble on America's future. http://www.rollingstone.com/politics/story/32255149/wall_streets_bailout_hustle/

Nobel Prize winner Paul Krugman financial reform articles:

"Financial Reform 101" (<http://www.nytimes.com/2010/04/02/opinion/02krugman.html>) &

"Punks & Plutocrats" (<http://www.nytimes.com/2010/03/29/opinion/29krugman.html>)

A blistering critique of the proposed financial reforms along with a list of prominent thinkers and financial opinion-makers calling for breaking up banks that are "too-big-to-fail": <http://www.nakedcapitalism.com/2010/03/quest-post-dodds-financial-reform-bill-is-nothing-but-a-placebo-for-a-very-sick-economy.html>

One of the best reads summarizing how we got here – from former IMF Chief Economist, MIT Business School professor, and now turned iconoclast, Simon Johnson <http://www.theatlantic.com/magazine/archive/2009/05/the-quiet-coup/7364/>

Blogs for Policy Wonks:

<http://baselinescenario.com/>

<http://www.nakedcapitalism.com/>

<http://www.calculatedriskblog.com/>

<http://rortybomb.wordpress.com/>

For "Uber Wonks": http://www.cambridgewinter.org/Cambridge_Winter/Welcome.html