House OKs financial reform bill in 223-220 vote, passing the hot potato to the Senate

By Jon H. Harsch

Washington, Dec. 11 – After a contentious three-day debate, the House passed its comprehensive financial regulatory reform package Friday in a party-line 223-202 vote which seemed to come down to a single issue:

- Democrats arguing strongly in favor of reinvigorating federal regulatory controls which were out of favor during the Bush administration's eight years,
- versus Republicans objecting to granting more powers to the same federal regulatory agencies which failed to either foresee or prevent the recent global financial collapse.

Republicans opposition was solid, with none voting for the bill while 27 Democrats broke with their party to join Republicans in voting no.

House passage of the "Wall Street Reform and Consumer Protection Act of 2009," HR 4173 which has been a top White House priority, brought immediate praise from President Obama. He commented that "This legislation brings us another important step closer to necessary, comprehensive financial reform that will create clear rules of the road, consistent and systematic enforcement of those rules, and a stronger, more stable financial system with better protections for consumers and investors." He noted that "The crisis from which we are still recovering was born not only of failure on Wall Street, but also in Washington. We have a responsibility to learn from it, and to put in place reforms that will promote sound investment, encourage real competition and innovation, and prevent such a crisis from ever happening again."

President Obama added that "The Senate is working on similar legislation, and I urge both houses of Congress to pass this necessary reform as quickly as possible on behalf of the American people." But the Senate is virtually certain to postpone any action on its own version of the reform measures until next year. The expectation is that there will be major differences in the final Senate bill, leaving many issues to be settled in an eventual House-Senate conference.

Among the key changes, the House-passed bill would:

- Increase Consumer Protections: Creates the Consumer Financial Protection Agency (CFPA), a new, independent federal agency solely devoted to protecting Americans from unfair and abusive financial products and services.

- Create a Financial Stability Council: Creates a council of regulators that will identify financial firms that are so large, interconnected, or risky that their collapse would put the entire financial system at risk. These systemically risky firms will be subject to increased oversight, standards, and regulation.

- End Taxpayer Bailouts and "Too Big to Fail": Establishes an orderly process for shutting down large, failing financial institutions like AIG or Lehman Brothers in a way that ends bailouts, protects taxpayers, and prevents contagion to the rest of the financial system.

- Regulate Derivatives: Regulates, for the first time ever, the opaque $600 billion over-the-counter (OTC) derivatives marketplace. Under the bill, all standardized swap transactions between dealers and "major swap participants" would have to be cleared and traded on an exchange or electronic platform. The bill defines a major swap participant as anyone that maintains a substantial net position in swaps, exclusive of hedging for commercial risk, or whose positions create such significant exposure to others that it requires monitoring.

- Rein in Executive Compensation: Gives shareholders a "say on pay" – an advisory vote on pay practices including executive compensation and golden parachutes. It also enables regulators to ban inappropriate or imprudently risky compensation practices, and it requires financial firms to disclose incentive-based compensation structures.

- Safeguard Investors: Strengthens the SEC's powers so that it can better protect investors and regulate the nation's securities markets. It responds to the failures to detect the Madoff and Stanford Financial frauds by ordering a study of the entire securities industry that will identify needed reforms and force the SEC and other entities to further improve investor protection.

- Outlaw Predatory Mortgage Lending Practices: Would incorporate the tough mortgage reform and anti-predatory lending bill the House passed earlier this year. The legislation outlaws many of the egregious industry practices that marked the subprime lending boom, and it would ensure that mortgage lenders make loans that benefit the consumer. It would establish a simple standard for all home loans: institutions must ensure that borrowers can repay the loans they are sold.

- Require the Registration of Hedge Funds: Closes a regulatory hole that allows hedge funds and their advisors to escape any and all regulation. This bill requires almost all advisers to private pools of capital to register with the SEC, and they will be subject to systemic risk regulation by the Financial Stability regulator.

For complete information and the text of the financial reform legislation, go to:
http://financialservices.house.gov/Key_Issues/Financial_Regulatory_Reform/Financial_Regulatory_Reform.html

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