Articles with Major Mentions of Michael S. Barr
January 20, 2009 – October 31, 2010

Cheyenne Hopkins, *White House backs Itself into a Corner Letting CFPB Remain Leaderless*, American Banker, August 27, 2010.

WASHINGTON — Although President Obama made the creation of a Consumer Financial Protection Bureau a hallmark of the financial reform law enacted July 21, his delay in nominating the agency's first director could hamper its ability to get off the ground.

With so much riding on the appointment, several observers had expected Obama to make his choice clear within days of the law's enactment. Instead, the absence of a pick has given rise to a grassroots campaign to appoint Elizabeth Warren to the job, which could create a political issue for the administration whether it ultimately chooses her or not.

The Treasury Department, in the meantime, is tasked with getting the agency up and running, and observers said it is critical that a director be nominated and confirmed relatively soon.

"There's a lot of operational work that can be done without a director being done, but some of the most profoundly difficult things comes down to having a leader," said Raj Date, the chairman and executive director of the Cambridge Winter Center for Financial Institutions Policy. "Leadership matters. If you are trying to have an agency that attracts the best and brightest for the sector, then you have to have a leader."

Creating the consumer bureau was the first in a long list of tasks the agency must accomplish in its first year. Among other things, it must merge mortgage disclosure laws and outline a vision of its own authority.

Industry observers said that the Treasury can start much of the work, but that a new director will have to make hard choices.

The idea of letting the Treasury run the bureau has "a short life," said Jerry Buckley, a partner at BuckleySandler LLP. "As time goes by, there will be more and more pressure to appoint a leader who will take responsibility for getting the Bureau launched on the right foot. The president has said the CFPB is essential, he's campaigned for it, and he's rejoiced in its creation. A months-long delay in appointing a leader could start to raise questions about how important a priority this really is for the administration."

Several observers noted that Treasury is scheduled to a host a meeting in September with consumer groups, industry representatives and others about the consumer bureau's agenda. While it would be all but impossible for a new director to be confirmed by that point, many said a nominee could at least attend to help drive the process forward. "I think the director will be pretty important, because they are given a lot of responsibilities. So I would think that would be one of the first steps," said Stephanie Robinson, a lawyer at K&L Gates. "I would assume they have plenty of knowledgeable people to get the process, but if they don't have a director in [by the September meeting], I would think they would need to get one in soon."

Despite the growing unease, the administration does not appear to be in a rush. White House spokesman Robert Gibbs told reporters last week that a nomination was "weeks" away. A spokeswoman for the White House did not comment for this article.

Exactly why Obama is waiting is something of a mystery, and may hurt him politically. The consumer agency was always a top priority for the administration and guaranteed to be part of the final regulatory reform bill. By the time the president signed it, the administration had had months to consider candidates.

A shortlist of possible nominees has been circulating for months. It includes Warren, a Harvard professor who came up with the idea of a consumer financial protection agency, and Michael Barr, a consumer advocate who is currently Treasury assistant secretary for financial institutions.

Some said the delay is not just holding up the future of the consumer bureau. Because Barr is also a candidate for the next comptroller of the currency — a seat that has been vacant since John Dugan finished his five-year term this month — several observers said that decision will come after a CFPB move.

"They are waiting to see who gets this first before the" Office of Comptroller of the Currency, said Paul Miller, managing director of FBR Capital Markets Corp.

Consumer groups like Barr, but they have devoted most of their energy and attention to Warren.

Several top lawmakers, including House Financial Services Committee Chairman Barney Frank, have openly pushed the administration to choose Warren for the job, and her potential nomination has been embraced by the liberal blogosphere.

Although the administration may have hoped the campaign would die down, it has shown no signs of abating. Last week Warren was the subject of a widely distributed video featuring the comedian Ryan Anthony Lumas wearing a cowboy hat and rapping the song "Got a New Sheriff."

Maureen Thompson, a steering committee member for Americans for Financial Reform, said her group's campaign for Warren will only grow.

"The groundswell of support for Elizabeth Warren was big a month ago and it will be even bigger a month from now," Thompson said. "The more time that supporters of Warren get to make their case, the clearer it becomes that there is no other presumptive front-runner emerging. Another effect of more time being allowed for the process is that the weak case made against Warren by some in the bank lobby is seen to be full of more and more holes."

In many ways, the campaign has also put the administration in a box. If it selects Warren it will look like it is yielding to pressure from the left and opening itself up to a confirmation fight in the Senate. If it does not choose her, it will anger the administration's base shortly before the November midterm elections.

Some said the fact that Warren has not yet been nominated is a sign the administration will not pick her.

"It seems to me the longer it sits there, the less likely she is to get it," said Oliver Ireland, a partner at Morrison & Foerster LLP. "If they were going to nominate Elizabeth Warren, they could have done that any time along the way. They could have announced it when they signed the bill. It's not like they didn't know about her."

Some observers said the campaign itself, unprecedented for a banking regulatory position, weakens Warren's chances.

"Pushing her out there in my opinion increases your opposition rather than increases the intensity of her support," said Mark Calabria, a former Republican Senate aide and now director of financial regulations studies at the Cato Institute.

Others argue the opposite, saying the campaign may help Warren gain support and get lawmakers used to the idea.

"The longer it takes, it may be affording an opportunity for those who are hawkish of her to get to know her better," said David Berenbaum, chief program officer for the National Community Reinvestment Coalition.

But time is running out if the administration wants a new director, particularly a controversial choice like Warren, confirmed this year. With midterm elections within two months of the Senate's return next month, the Banking Committee would have to move quickly to hold a confirmation hearing and a vote before turning the issue over to the full chamber.

Some said it was already too late.

"It's nearly impossible to have her confirmed between now and Election Day," said Richard Hunt, president of the Consumer Bankers Association. "I don't care who the nominee is; we are expecting a thorough process. This is akin to a Supreme Court nominee for financial services."

Yet if the administration waits until after the elections, Democrats will likely face a narrower majority in the Senate.

"The bill passed over a month ago you would have thought they would have put someone up by now," said Gregory Lyons, a partner at Debevoise & Plimpton LLP. "If [Obama] does in fact want Warren to be the nominee, he's going to have to do it soon, because if the Republicans take a strong hold over Congress, it will be more difficult."

Even with Democrats holding 59 seats in the Senate, it is unclear whether Warren or another liberal choice is confirmable. Many moderate Democrats are said to have reservations with Warren and may balk if she is the nominee.

"If it was just a Democrat-Republican battle, they would fight that, because even if they lose it would make Republicans look bad. But there are Democrats fighting this, too," Miller said.

Senate Banking Committee Chairman Chris Dodd has warned he does not think Warren is confirmable, but he has also urged the administration to make a choice.

"If the administration goes through an eight-month debate over who is going to run this, you are going to do damage before you start," Dodd said in a recent interview. "You need to have a good-quality individual, and if [Warren] can be confirmed, then step up and do it. I just think it's a problem, but I could be wrong."

Some industry representatives said that as a result, they do not expect a nominee to be named until after the elections. But several observers said such a move would further harm the agency, potentially setting back confirmation of a new director until sometime next year.

"If they wait until after the mid term election and you don't see the selection coming forward, that is a signal to the markets and consumer groups and all the interested groups that's where the administration seems to not know what it wants to do," said Kevin Jacques, Boynton D. Murch Chair in Finance at Baldwin-Wallace College.

Obama has said he plans for Warren to have some kind of role in the agency's formation. Some have speculated she might be chosen for a White House position, one that does not require confirmation, that has some oversight of consumer protection activities. Gibbs acknowledged last week that Warren had visited the White House to talk with senior adviser David Axelrod, but did not give many specifics.

"Obviously she was here," Gibbs said at a briefing. "The consumer office is an aspect of the financial reform, Wall Street reform bill the president signed recently. It in many ways was an idea conceptualized by Elizabeth Warren several years ago. Obviously we have said that she is among those being looked at for a role in that new bureau. … She was here to talk about the office."

While the banking industry continues to oppose the idea of the consumer agency, and a selection of Warren in particular, some observers said banks were hurting their own case.

"I am struck that the industry's lobbyists have been feverish in their enthusiasm to bad-mouth Prof. Warren, but they've been seemingly unable to point to any issue in the last decade when the bank lobby has been right in retrospect, and Prof. Warren has been wrong," Date said. "And they've been weirdly shy about advancing any particular alternative candidates. Taken together, I think this is why the lobbyists' complaints on this subject seem shrill and childish."

###

Glen Hubbard and Hal S. Scott, *Geithner's Hollow 'Speed' Pledge to Business*, The Wall Street Journal, August 5, 2010.

Businesses must know the rules of the game before risking their capital. And so, in his speech at New York University's Stern School of Business on Aug. 2, Treasury Secretary Tim Geithner assured his audience that the massive regulatory reforms of the new Dodd-Frank legislation would be implemented quickly to remove the drag of uncertainty on the economy. "First we have an obligation of speed," he said, and asked to be held accountable if his pledge was not honored.

We might as well hold him accountable now, because his promise is impossible to fulfill. His plea to business—"Don't wait for Washington to draft every rule before you start changing how you do business"—will and should fall on deaf ears. There are four main reasons Mr. Geithner's pledge is hollow.

First, Dodd-Frank failed to consolidate and rationalize the regulatory structure. Indeed, the new law makes matters worse by creating new regulators, an unwieldy Financial Stability Oversight Council (10 members who act on a two-thirds vote), the Consumer Financial Protection Bureau, and the Office of National Insurance. But an increasingly balkanized regulatory structure means separate timetables and priorities and jurisdictional clashes among the separate agencies—more uncertainty.

Second, Mr. Geithner's pledge ignores the basic legal requirement for deliberative and rational regulatory implementation. He argued that the "frustrating, glacial pace" of rule writing must change, all the while promising that the regulatory agencies will consult broadly and draft rules that will be published and available for comment.

The Administrative Procedure Act requires notice and comment on new rules, and, importantly, that these rules have a rational basis. The courts have interpreted this requirement to include a cost-benefit test. For example, in Chamber of Commerce v. SEC, the D.C. Circuit Court of Appeals twice struck down, in 2005 and 2006, an SEC rule requiring mutual funds to have boards comprised of at least 75% independent directors and an independent chairman. The court ruled that the agency failed to adequately analyze its costs and benefits. Dodd-Frank specifically calls for an economic cost determination for any recommendations to regulators made by the Financial Stability Oversight Council. So the reality is formulating new rules will take a long time.

Third, uncertainty springs from the new law itself, through the creation of the Consumer Financial Protection Bureau, an agency with a budget of roughly $500 million per year that has yet to be created. This agency has broad jurisdiction over the entire financial system—it could ban products or cap fees. Michael Barr, the Treasury department's assistant secretary for financial institutions and a leading candidate to head the new agency, has advocated having only "plain vanilla" products without specifying what these might be; further uncertainty.

Mr. Geithner opined that when the new Financial Stability Oversight Council first meets in September (a month from now) it "will establish an integrated road map for the first stages of reform." This road map will not, however, include the plans of the consumer bureau.

Fourth, Mr. Geithner's "obligation of speed" ignores the international process for setting capital requirements for financial institutions. These requirements have a major impact on the activities in which financial institutions engage. They operate like a tax, and if they reduce the profitability of a financial product or service, then institutions will gravitate to other businesses.

Without knowing what such "taxes" will be, businesses are naturally reluctant to invest. But capital requirements are not set by the Treasury; they are instead effectively set by the Basel Committee on Banking Supervision, a group of regulators from 27 countries. While the United States participates in the group, it does not control its actions.

Over the past 22 years, this group has promulgated two generations of capital requirements, Basel I and II, which performed badly during the crisis. Indeed, U.S. banking regulators have yet to implement Basel II, the delay springing from concern about its design and impact. The committee is now at work on Basel III capital requirements, together with new liquidity rules. Formulation of these rules is still in progress and their implementation is years away. Many financial specialists question whether the process will deliver an efficient and effective set of rules and requirements.

Despite the Geithner pledge to "move as quickly as possible to bring clarity to the new rules of finance," the implementation of Dodd-Frank will take considerable time and leave a pall of uncertainty hanging over business decisions. The vagueness of the statute, necessitating gap-filling regulation, is the result of the desire in Congress to enact massive reforms quickly and its need to put together a fragile majority to do so. It would have been easier if the administration had advocated, and the Congress had designed, a more efficient regulatory structure to implement its reforms. Having narrowed the options to the slow lane, Mr. Geithner now urges the fast lane.

Mr. Hubbard, dean and professor of finance and economics at Columbia Business School, was chairman of the Council of Economic Advisers under President George W. Bush. He is co-chair of the Committee on Capital Markets Regulation. Mr. Scott, a professor of international finance at Harvard Law School, is director of the committee.

###

Allison Vekshin, *Bair Said to Rule Out Leading Consumer Agency*, Bloomberg News, August 3, 2010 12:00 AM ET.

Federal Deposit Insurance Corp. Chairman Sheila Bair has taken herself out of the running to lead the new U.S. consumer-protection agency after her name was put forward by Senate Banking Committee Chairman Christopher Dodd, a person with direct knowledge of the matter said.

President Barack Obama probably will choose Harvard law professor Elizabeth Warren or Assistant Treasury Secretary Michael Barr to run the Bureau of Consumer Financial Protection, according to a person familiar with the matter who spoke on condition of anonymity because the talks are private. The decision is unlikely to come before Congress goes on recess next week, according to another person familiar with the matter.

"I'm certainly not surprised Bair was being courted," said John Douglas, a former FDIC general counsel and now a partner at law firm Davis Polk & Wardwell in New York. "She's proven to be a very effective leader in a time of crisis."

Dodd and others, including Senator Susan Collins, a Maine Republican, have urged the nomination of Bair, a Republican, citing her experience running a large regulatory agency and her bipartisan appeal, according to two people close to the discussions. Bair, 56, was among the first regulators to prod the mortgage industry to modify loans at risk of foreclosure to help borrowers keep their homes after the housing bubble burst.

Dodd, the Connecticut Democrat who helped write the legislation that creates the bureau, said last week that while Warren was qualified she might not be able to garner the 60 votes in the Senate needed for confirmation.

Independent Agency

The consumer bureau, which will be an independent agency housed within the Federal Reserve, is designed to police banks for credit-card and mortgage-lending abuses.

White House officials have said their short list for the job includes Warren, Barr and Gene Kimmelman, a former director of Consumers Union who is chief counsel for competition policy at the Justice Department.

Warren, chairman of the congressional panel overseeing the Troubled Asset Relief Program, has received public support for the consumer job from dozens of House Democrats, including Dodd's counterpart, Financial Services Committee Chairman Barney Frank of Massachusetts. She also is supported by the AFL-CIO labor union and consumer groups such as Public Citizen.

Senate Republicans and banking industry representatives have questioned whether Warren has the experience to run a large agency and said her consumer crusading would make it difficult for her to negotiate fairly with financial companies. "I would oppose her on philosophical grounds," Senator Richard Shelby, an Alabama Republican, said last week.

Vocal Advocate

Warren, 61, who is credited with coming up with the idea for the agency, has been a vocal advocate for strengthening consumer protections, which has alienated her from the financial-services industry.

Republicans may block her nomination with a filibuster. Obama may want to wage that fight to show he is tough on Wall Street ahead of the November elections.

If Barr or someone else is chosen instead of Warren, White House officials are discussing whether to still give Warren a role in designing, building and advising the agency, according to a person familiar with the matter. Consumer groups that support Warren might see Barr, 44, as too tied to Treasury and less independent from the administration. He worked closely with Treasury Secretary Timothy Geithner and White House economic adviser Larry Summers on the financial-regulatory bill, playing a lead role in shepherding the legislation through Congress.

Law Professor

A law professor and devotee of behavioral economics, Barr has championed policies disliked by Wall Street, including the consumer bureau and the so-called Volcker rule banning banks from trading for their own accounts. Advocates of tougher financial regulation credit Barr with helping to preserve the consumer agency's independence, which almost became a casualty during congressional negotiations.

Dodd has pressed the White House to appoint the FDIC chairman as an alternative and has urged Bair to consider it, according to two people close to the discussions. Bair has said repeatedly she plans to return to academia or work for a nonprofit organization when her FDIC term expires in June 2011. The person with knowledge of the matter said she reiterated her position after Dodd's approach.

FDIC spokesman Andrew Gray declined to comment.

Whoever gets the job will face a formidable task, analysts said.

"This new agency is just a monumental managerial challenge," said Cornelius Hurley, director of the Morin Center for Banking and Financial Law at Boston University. "You have to make a lot of structural decisions. You have to make a lot of personnel decisions out of the gate."

###

***The Little Picture: If Not Elizabeth Warren…*, Tapped, August 2, 2010 2:41OM ET.**

Then maybe **Michael Barr** as head the new Consumer Financial Protection Bureau. Currently Assistant Secretary at the **Treasury** Department, Barr played an instrumental role in getting FinReg through Congress, has often stumped for increased financial protections for low-income people, and has advocated making it more difficult for companies to squeeze profits out of consumer financial products.

###

***Where Are They Now?*, Registered Representative, August 1, 2010.**

MICHAEL BARR, Department of the Treasury's Assistant Secretary for Financial Institutions

LAST YEAR'S CHALLENGE: Barr was busy last year developing and coordinating financial regulatory reform policies and convincing lawmakers to pass them.

HOW HE'S DOING: Barr played a central role in the administration's push for financial reform. Though brokers are not required to adhere to the fiduciary standard under the new law, it is more pro-fiduciary than many expected.

DAVID ELLISON, President, FBR Advisors

LAST YEAR'S CHALLENGE: The longtime manager of FBR Small Cap Financial Fund dodged trouble in 2008 by shifting most of his assets to cash. Last year he said that the worst was over. Ellison said that financial stocks would rally for the next three to five years.

HOW HE'S DOING: After loading up on bank stocks near the market bottom, Ellison scored big gains. This year through July 8, his fund returned 37.5 percent, outdoing 94 percent of his competitors. Ellison remains bullish on the sector.

JEREMY GRANTHAM, Chairman, Co-Founder, Grantham Mayo Van Otterloo (GMO)

LAST YEAR'S CHALLENGE: Grantham is known for sniffing out bubbles. Last year, he inveighed against the efficient market theory, and estimates that fair value of the S&P 500 is around 800 or 900.

HOW HE'S DOING: Grantham is still bearish and is railing against central bankers for easy money policies that he believes will inflate another bubble.

ROBERT KHUZAMI, Director of Enforcement, SEC

LAST YEAR'S CHALLENGE: After blowing it with the Madoff mess, the SEC had to restore public confidence in its ability to regulate. Khuzami had to show he could catch the next Madoff.

HOW HE'S DOING: Khuzami, a man who used to prosecute terrorists, is now ferociously going after misbehaving firms on Wall Street. But his recent $550 million settlement with Goldman was considered a win for both the SEC - and for Goldman.

ANDY SAPERSTEIN, Managing Director and Head of Wealth Management, Morgan Stanley Smith Barney

LAST YEAR'S CHALLENGE: To preside over the smooth integration of Morgan Stanley and Smith Barney, creating the biggest retail brokerage in the business.

HOW HE'S DOING: Saperstein and his team have unified compensation and the pricing of products and accounts between the two firms. "We did all this without stampeding the herd," says a source, with MSSB able to maintain a stable FA headcount of 18,000 or so. Next is integrating the new FA tech platform.

DAN SONTAG, head of Americas Client Relationship Group, Global Wealth Management, Merrill Lynch

LAST YEAR'S CHALLENGE: Sontag, a lifelong Merrill man and former broker, took the reins of Merrill's thundering herd from Bob McCann when McCann quit in January of 2009. He seemed like the right choice to oversee the integration between BofA and Merrill.

HOW HE'S DOING: Sontag made his exit just as this magazine was landing on your desk last August. He retired, saying his "whole heart" wasn't in the job after he was passed over for the head global wealth and investment management, which went to Sallie Krawcheck.

FRANK SORTINO, Professor of Finance, San Francisco State University; CIO, Sortino Investment Advisors.

LAST YEAR'S CHALLENGE: His firm, Sortino Investment Advisors, has been collaborating with leading researchers and academics trying to develop tools to better manage downside risk.

HOW HE'S DOING: Sortino is now running True Path funds, managed accounts and sub-advising for Fiserv, Morgan Stanley Smith Barney, and other institutions.

ELIZABETH WARREN, Chairwoman of the Congressional TARP Oversight Panel

LAST YEAR'S CHALLENGE: To make sure big banks make good on their TARP loans and see that the creation of a consumer financial protection agency was included in Wall Street reform.

HOW SHE'S DOING: The TARP program has been lauded as largely successful. Warren is the most likely candidate to head the Consumer Financial Protection Bureau, a centerpiece of the financial reform law.

ELLIOT WEISSBLUTH, CEO, HighTower Advisors

LAST YEAR'S CHALLENGE: Persuading top wirehouse FAs to join HighTower, an RIA/broker-dealer backed by significant venture capital.

HOW HE'S DOING: Client assets have risen from $15 billion to more than $16 billion, driven partly by the recruiting of two Morgan Stanley Smith Barney teams. A second round of VC financing contributed $100 million to HighTower's balance sheet in December, on top of $65 million raised in 2008.

MEREDITH WHITNEY, CEO, Meredith Whitney Advisory Group, LLC

LAST YEAR'S CHALLENGE: Proving her landmark 2007 call questioning Citigroup's capital position was more than a one-hit wonder.

HOW SHE'S DOING: Now running her own research firm, Whitney is still in the media spotlight. Remaining bearish on the big banks and the economy, Whitney predicts there will be a double dip in the housing market, but she has yet to make another epic call.

###

Mark DeCambre, *Watchdog Sweeps – Warren, Barr Vie for Consumer Agency Leadership,* The New York Post, July 23, 2010.

If wonky Harvard professor Elizabeth Warren fails to be nominated by President Obama to head the newly created consumer watchdog agency, she can blame Washington and Wall Street forces who fear she might run amok and create a bevy of new regulations that would crush bank profits, sources tell The Post.

Warren, who was the leading candidate to lead the watchdog agency, formerly called the Consumer Financial Protection Bureau, has recently lost some momentum to Assistant Treasury Secretary Michael Barr - who is now seen as the odds-on favorite to get the post.

Sen. Chris Dodd (D-Conn.) and other lawmakers continue to express serious doubts that Warren has the necessary support to win Senate confirmation.

Warren's strong-willed, free-wheeling nature has turned off some DC insiders, and banking insiders have been voicing concerns about naming someone who they view as anti-business.

"It would be a colossal mistake for the administration to pick Elizabeth Warren," said one high-ranking bank official. "They run the risk of sending a message to business groups that you don't care about them."

Barr's pedigree is helping push his name to the top of the list of candidates for consumer czar - that and the fact that he is not Elizabeth Warren.

Supporters say that Barr, a Yale graduate and Rhodes scholar, would be a better selection because he's an insider who understands the political arena and can get things done, one source notes.

However, Barr's detractors say that he would be a crony to his current boss, Treasury Secretary Tim Geithner, and wouldn't push to support consumer issues for risk of ticking off Wall Street.

Barr's boss, Geithner, has quietly shared concerns about a Warren nomination in favor of supporting his staffer.

"It's understandable that people don't like [Warren]," said Aaron Swartz, co-founder of the Progressive Change Campaign Committee. "She's been the only one to put these people's feet to the fire."

Serving as a Washington liberal advocacy group, the PCCC has fetched more than 200,000 signatures in support of a Warren nomination in the past week, Swartz adds. That includes House members Barney Frank (D-Mass.) and Maxine Waters (D-Calif.).

Tale of the tape

NAME: ELIZABETH "THE PROFESSOR" WARREN

AGE: 61

EDUCATION: University of Houston, Rutgers Law

CURRENT JOB: Heads Congressional Oversight Panel, oversees Treasury

CONSUMER CZAR PEDIGREE: She's seen as a brainy champion for average folk, with a no-nonsense attitude to shake up Washington.

BIGGET BOOSTER: Former Treasury Secretary Larry Summers

BIGGET HATER: Geithner

BET ASSET: President Obama's a fan

JOB-WINNING ODDS: About 5-1, will be lucky to win 35 votes

NAME: MICHAEL "THE BELTWAY INSIDER" BARR

AGE: 44

EDUCATION: Yale, Yale Law & Rhodes scholar

CURRENT JOB: Assistant Secretary to Treasury Secretary Tim Geithner

CONSUMER CZAR PEDIGREE: He's a creative thinker who can find his way around Washington and knows how to compromise.

BIGGET BOOSTER: Geithner

BIGGET HATER: Elizabeth Warren

BET ASSET: He isn't Elizabeth Warren

JOB-WINNING ODDS: About 3-1; will likely pull 50-plus votes

###

Renae Merle, *The wonks who made it work; Key lieutenants behind the scenes ensured passage of new financial regulations*, The Washington Post, July 23, 2010.

When Neal Wolin walked into the House speaker's office in December, landmark legislation to reshape the nation's financial regulations had been working its way through the House for more than six months. Top Obama administration officials had been confident the bill would ultimately pass the chamber, but a late challenge had emerged from centrist Democrats concerned about a provision that would give individual states more power to enforce consumer protection laws.

For decades, the question of how much of this authority the federal government should share with states has been a hot-button issue. And now a compromise solution was in trouble. With lawmakers preparing within days to head home for the holidays, House Majority Leader Steny H. Hoyer (D-Md.) and White House Chief of Staff Rahm Emanuel tasked Wolin, the second in command at the Treasury Department, to remove the obstruction to the bill's passage.

"Nerves were frayed, and everyone wanted to get this done," said Kim Wallace, head of legislative affairs at Treasury, who sat in on the last-minute talks.

The key players

This scenario played out repeatedly as the administration pushed for the sweeping new regulations. Behind President Obama's victory, crowned with his signing of the bill Wednesday, were a few key but little-known lieutenants who helped develop the strategy, waged a public relations campaign to fight off critics and negotiated last-minute deals to secure the bill's passage.

Key players include such people as Wolin and a team led by Michael Barr, the assistant Treasury secretary for financial institutions, along with Diana Farrell, the deputy director of the National Economic Council, who often weighed in with the White House perspective.

To resolve the impasse over state enforcement powers, Wolin negotiated with Rep. Melissa Bean (Ill.), the leader of the centrist caucus called the New Democrats, and others. The talks dragged on for hours. Hoyer shuttled between that meeting and an office nearby where House Speaker Nancy Pelosi (D-Calif.) and Rep. Barney Frank (D-Mass.), chairman of the Financial Services Committee, were waiting for a solution. But after several hours of bargaining, no deal had been struck.

Hoyer then asked that Wolin and Bean be left alone.

About an hour later, the pair had found a middle ground, limiting the new enforcement authority states would get. The bill was able to pass the House soon after.

Wolin "does understand Washington better than anybody," said Treasury Secretary Timothy F. Geithner. "He understands how to make things work where the rubber hits the road."

Geithner and Lawrence H. Summers, Obama's top economic counselor, brought Wolin, Barr and Farrell together. They are an Ivy League trio known for their wonky discussions of the details of complicated legislation. Wolin and Barr both worked at the Treasury Department during the Clinton administration, while Farrell had been head of the McKinsey Global Institute, the economics research department of the consulting firm McKinsey & Co.

"They share information. There is no insecurity or competition between them. They respect each other," a senior administration official said.

The three spent hundreds of hours working with senior staff for Frank and Sen. Christopher J. Dodd (D-Conn.), chairman of the Senate banking committee, who were responsible for shepherding the bill in their respective chambers. But the trio sometimes were reluctant to make necessary compromises and had to be prodded by legislative allies to do so, congressional aides and industry lobbyists said. "You had to dial back policy to get the politics right. That is part of the normal process," said one congressional staffer.

The staffer and administration officials spoke on the condition of anonymity because they were not authorized to publicly discuss the deliberations.

Early steps

Their work began after Obama's inauguration, as the country was mired in an economic downturn, with daily meetings at the Eisenhower Executive Office Building next door to the White House. Wolin, 48, and Farrell, 45, worked with teams of dozens of other administration officials studying the causes of the financial crisis and potential solutions. Geithner and Summers had asked Barr, 44, to initially focus on how to structure a new, independent agency to protect consumers from lending abuses.

That assignment tapped into Barr's experience studying behavioral economics and other consumer issues while a professor at the University of Michigan Law School. Even before rejoining the government, Barr had helped the Obama administration develop a response to the housing crisis: a sweeping foreclosure prevention program that he would eventually lead as an assistant Treasury secretary.

Over time, Barr got more involved with other parts of the financial regulation bill, often working until midnight with a staff of more than a dozen lawyers hammering out the details.

Much of the action took place at standing-room-only sessions in Wolin's office, convened two or three times a day for nearly a year, in which the team traded information on how the bill was being received by various interest groups and developed strategy for responding to emerging attacks.

In March, with the legislation now awaiting action in the Senate, the team began to worry that television ads run by the U.S. Chamber of Commerce lambasting the bill were gaining traction with the public.

Wolin had been scheduled to speak at the Chamber's annual meeting in Washington and during his address vented the administration's frustration over the ads. Standing before banking executives and lobbyists, Wolin said: "That campaign is not designed to improve the House and Senate bills. It is designed to defeat them. It is designed to delay reform until the memory of the crisis fades and the political will for change dies out."

The speech received muted applause from a surprised audience, but administration officials believe it helped change the tone of the debate. It also helped cement Wolin's image as one of the administration's chief enforcers.

The odds change

That same week, the bill appeared headed for one of its toughest tests, with the Senate banking committee due to take up the measure. Republicans had submitted nearly 400 amendments, and if many were taken up they could have dragged out progress on the bill for weeks. And the price Democrats might have paid for committee approval could have been painful concessions on key provisions.

Farrell and Wolin spent the weekend before the committee hearing crafting the arguments that Democrats would muster to counter possible amendments. "We spent all weekend furiously trying to analyze each one, understand them," Farrell said. Barr weighed in from Ann Arbor, Mich; he took a flight home every weekend to spend time with his family.

But by early the next week, word had begun to spread that Republicans on the committee might not offer any amendments after all but simply register blanket opposition by voting against the measure. Just in case of trouble, Farrell, Wolin and Barr went back to Capitol Hill ahead of the hearing to confer with their Democratic allies.

Barr stayed as the hearing began, sitting behind the Democratic committee staff, prepared to offer arguments against potentially damaging amendments. Farrell and Wolin returned to their offices to watch the proceedings on C-SPAN.

In less than 30 minutes, the proceedings were finished with no Republicans amendments offered.

"I thought, 'Did I just miss something?' " Farrell said. "And immediately we're all on the phone: 'Did you just see what I saw?' "

Democrats -- and even some Republicans -- later said the GOP had missed perhaps its best chance to thwart some of the administration's ambitions and shape the legislation, which would pass the full Senate weeks later.

Farrell ran into the office of her boss, Summers, to share the news. "We just thought, now this has really, really changed the odds," she said.

###

Mark DeCambre, *Barr Wins Support as Consumer Watchdog*, The New York Post, July 22, 2010.

Assistant Treasury Secretary Michael Barr appears to have the inside track as the candidate to lead the new consumer-oriented watchdog - a key post established as part of new regulatory measures to clean up Wall Street.

As the financial regulation was signed into law by President Obama, many Washington and Wall Street sources voiced their support for a Barr nomination.

One Washington insider said Obama is expected to select a nominee for the consumer post within the next two weeks - one of his first moves after signing off on the historic law.

A Yale law school graduate and Rhodes Scholar, Barr knows his way around Washington. He worked as special assistant to former Treasury Secretary Robert Rubin and served as an adviser to President Clinton.

Barr's name is emerging as a candidate amid growing opposition to brainy Harvard law professor Elizabeth Warren - a front-runner in the early going to run the Consumer Financial Protection Bureau.

Praised by fans as a sharp-tongued advocate for average people, critics believe Warren could create divisiveness in Washington due to her tendency to pursue philosophical objectives like a personal crusade, according to one source.

"We need someone who is going to be a traffic cop for consumers, not someone who is going to try and become an urban planner," said Rep. Mike McMahon (D-SI), who attended the president's signing.

Meanwhile, McMahon lauded Barr for his ability to compromise after being a huge supporter of some of the harder-hitting derivatives provisions of Sen. Blanche Lincoln's (D-Ark.), which caused some legislators to threaten to withhold their support.

"He favored Lincoln's more draconian language on derivatives but was willing to accept the fact that it wasn't going to pass that way," McMahon added.

###

Damian Paletta, *Fight Over Consumer Agency Looms as Overhaul is Signed,* The Wall Street Journal, July 22, 2010.

WASHINGTON—President Barack Obama on Wednesday signed into law the most sweeping financial overhaul since the Depression, putting the country on a course toward a more muscular regulatory framework.

The law gives the government authority to take over and liquidate failing financial firms, injects transparency into transactions involving financial instruments called derivatives and will restrict banks from making risky bets with their own capital. It directs agencies to write hundreds of new rules.

But one provision that barely survived will have the most direct bearing on millions of ordinary people's lives: a new agency meant to protect consumers from abusive financial products, called the Bureau of Consumer Financial Protection.

The proposal was the source of some of the most intense debates in the long struggle over the financial-regulatory overhaul, and the battles are far from over.

The biggest looming one is over who will head the agency, and that heated up this week as liberal groups insisted the White House give the job to Elizabeth Warren of Harvard Law School—whose idea the agency was. Banking groups were urging key senators to oppose Ms.

Warren, calling her an activist who would impose policies they argue would hurt the availability of credit, especially for those with low incomes.

With Democratic leaders in Congress joining liberal consumer groups and unions in pushing for Ms. Warren—and with many Republicans opposed—the contest is shaping up to have the intensity and drama of a Supreme Court nomination. Senate confirmation is needed.

Mr. Obama's choice, expected soon, will be a momentous one because the first director will have great influence over agency's direction, wielding a roughly $500 million annual budget that doesn't require approval from Congress.

The new consumer regulator will be funded by the Federal Reserve and have independent powers to write and enforce rules governing how loans and other financial products are offered, bearing on everything from the type of mortgages people can get to the fees on their credit cards.

The agency will be able to enforce its rules against any bank with more than $10 billion of assets, as well as all large mortgage lenders, student-loan companies and payday-loan firms. It will have an army of examiners to probe these companies' practices. Small banks will have to follow the new rules written by the agency but they will be examined by other federal regulators.

The bureau's policies and rules could be overturned by other regulators only if they "would put the safety and soundness of the U.S. banking system or the stability of the financial system of the U.S. at risk."

As a new agency born out of a deep economic downturn, the agency is a modern analog of the bureaucracies spawned by the Depression, like the Securities and Exchange Commission and Federal Deposit Insurance Corp.

Signing the financial-overhaul bill on Wednesday, Mr. Obama said, "Our financial system only works—our market is only free—when there are clear rules and basic safeguards that prevent abuse, that check excess, that ensure that it is more profitable to play by the rules than to game the system. And that's what these reforms are designed to achieve."

Ms. Warren had a front-row place at the ceremony, and afterward lunched with White House senior adviser Valerie Jarrett. On Thursday, about a dozen Democratic legislators are holding a news conference to call for Ms. Warren to be nominated to head the agency. But Sen. Christopher Dodd, the Connecticut Democrat who heads the Senate Banking Committee, said Monday Ms. Warren might not be "confirmable."

Another candidate to head the consumer agency is Michael Barr, an assistant Treasury secretary and former University of Michigan law professor. During debate over how to construct the new financial regulations, Mr. Barr negotiated for months with bankers, and many prefer him to Ms. Warren. Mr. Barr also is very close to Treasury Secretary Timothy Geithner, which could help his candidacy.

Also a possibility is Gene Kimmelman, the Justice Department's chief counsel for competition policy and intergovernmental relations. He, like Mr. Barr and Ms. Warren, has a record of advocating measures that could crimp banks.

From the day the proposal for a financial consumer-protection agency was introduced by Mr. Obama in June 2009, it repeatedly faded and was resurrected. The debate pitted the White House, congressional Democrats and labor unions against thousands of U.S. business people, from bankers and auto dealers to dentists and lobstermen.

Supporters said the government needed new powers to protect Americans from abusive financial practices such as hidden fees in the fine print, which they argue helped cause the financial crisis. Opponents said the agency was a sign of "nanny state" that treats regulators as better equipped than citizens to make decisions.

The bureau survived when a handful of activists, politicians and administration officials were able to splinter the opposition with a mixture of canny politics and luck.

Massachusetts Democratic Rep. Barney Frank, supporting a new agency, drove it through a balky House of Representatives. In the end, its structure—and the compromise that smoothed its passage—sprang from an off-the-cuff suggestion from one of its critics, Republican Sen. Bob Corker of Tennessee.

Early last year aides to Mr. Obama, searching for ideas, dusted off a 2007 paper by Ms. Warren envisioning the new bureaucracy. A Harvard law professor born poor in Oklahoma 61 years ago, Ms. Warren was the granddaughter of a couple who lost their savings in the Depression after a bank failure. In the 1990s, after serving as an adviser to a bankruptcy review commission set up by President Bill Clinton, she waged a long battle against efforts to make personal bankruptcy laws more business-friendly.

The idea of a consumer financial agency wasn't universally popular in the Obama camp. Some aides warned Mr. Obama it would spark a big fight and might not pass.

In April 2009, White House chief economic adviser Lawrence Summers and Ms. Warren, longtime acquaintances from Harvard, met for three hours at an Indian restaurant in Washington, hashing out ideas about the possible design of such an agency. Playing a devil's-advocate role he often employs in policy debates, Mr. Summers questioned how such a bureau could be insulated from political influence. Ms. Warren left with a sense she had Mr. Summers's support of the agency.

Two months later, Mr. Obama appeared in the East Room of the White House before lobbyists, consumer activists and lawmakers and outlined his vision for the new consumer agency. Many were taken by surprise.

Consolidating powers of multiple regulators, it would write and enforce rules affecting a range of companies, from Wall Street banks to payday-loan stores. Almost any company that offered a financial product to consumers would have to answer to it. Administration officials thought the concept would resonate so strongly with the public that it would smooth the passage for the entire financial overhaul. But bankers and Republicans went on the attack, saying it would create an ungovernable bureaucracy and restrict credit.

Twenty-three business groups representing a wide range of industries sent a letter to all House members a month later urging them to delay any vote on the new agency. The letter so roiled Capitol Hill that Mr. Frank had to scuttle a planned vote in his Financial Services Committee on the issue because it was unclear Democrats could hold together.

Two days later, Treasury deputy secretary Neal Wolin met 250 bankers in a ballroom at the Capital Hilton. "We cannot go back to business as usual," he said, asking for their support for an agency.

Barrie Christman, chairman of Principal Bank in Iowa, stood up after the speech. "As the doctors would say it: 'First, do no harm,'" she said. "We do believe there are solutions out there—we just have significant concerns about many of the approaches that are in the current proposal." She received thunderous applause.

The U.S. Chamber of Commerce launched an ad campaign featuring a butcher complaining a new agency would drive up his costs. The ad attracted so much attention that in October it drew a rebuke from Mr. Obama, who called it "completely false."

Mr. Frank of Massachusetts strongly backed the agency, believing that some lenders, left to their own devices, will take advantage of consumers. But he can be a pragmatist, and when he saw that votes for the proposal were slipping, he reshaped it. He scrapped a White House plan to require companies to offer no-frills versions of their financial products, and he offered exemptions to community banks, aiming to disarm an influential source of opposition.

Despite the changes, when the broad financial-overhaul bill neared a final House vote on Dec. 10, the agency's survival was in doubt. Rep. Walt Minnick, a conservative Democrat from Idaho, rallied support for replacing the agency with a council of regulators with skimpy powers. Mr. Frank, the White House and unions mobilized against the Minnick alternative, and it narrowly lost.

In the Senate, the agency proposal had a vocal critic in the ranking Republican on the Banking Committee, Richard Shelby of Alabama, who called it a "nanny state" idea. Mr. Dodd, under pressure from the White House and liberal groups, broke off talks he'd been having with Mr. Shelby. Mr. Dodd instead started negotiating with Sen. Corker, although the Tennessean also was opposed to a stand-alone consumer regulator.

On Feb. 24 the two met with Mr. Geithner. The Treasury secretary asked them to preserve the Fed's power to regulate banks. Seeing an opening, Mr. Corker interjected: "If you want the Fed to have that supervisory power, can we just let the consumer regulator be housed there also?" Messrs. Dodd and Geithner were noncommittal.

The following Saturday, Mr. Corker sat in his kitchen in Chattanooga, Tenn., scrolling through his BlackBerry as he and his aides put together a final proposal for Mr. Dodd on a consumer division within the Fed. When they finished, an aide printed out the proposal and walked it to Mr. Dodd's office. They didn't email a copy to anyone else for fear it might leak.

On March 2, The Wall Street Journal reported that Messrs. Dodd and Corker were near a deal. Activists on the left and right were shocked.

Mr. Frank dismissed it as a "joke." Ms. Warren told the Huffington Post that if Congress couldn't create a "strong" consumer agency, her preference would be "no agency at all and plenty of blood and teeth left on the floor."

Said Mr. Corker a few days later: "What happened was, you were on the five-yard line and the lights went out."

White House officials told Mr. Dodd he should proceed without the support of Mr. Corker, because the concessions were too costly. But Mr. Dodd kept the core of Mr. Corker's offer, to win Republican support. He would house the agency within the Fed—a seemingly technical change that nonetheless gave some in the GOP comfort the agency would be tamer.

To win broader political support, Mr. Dodd agreed to limit its scrutiny over auto dealers and also put many small businesses beyond its reach.

Even as that appeared to win the day, liberal groups were wary. Travis Plunkett, legislative director at the Consumer Federation of America, stayed in the Dirksen Senate office building until 4 a.m. on June 25 as Democrats negotiated the final bill. He stood for hours with a colleague in the hallway, at one point losing $5 in a vending machine as he tried to find caffeine to stay awake. He was there to protect against "negative developments," he said.

Now that a consumer financial-protection bureau within the Fed has been approved—and is expected to be fully operational within a year—it remains to be seen what effect it will have on credit. Some consumer advocates acknowledge that certain borrowers, particularly low-income people, will be affected, as products such as payday lenders are more tightly regulated. They say tighter controls will prevent borrowers from being hit with abusive loans.

At the signing ceremony, attended by nearly 400 people, Ms. Warren of Harvard Law moved through the room like a celebrity, as a number of lawmakers asked to have their pictures taken with her and she obliged. "What a day," she said afterward. "Who would have thought?"

###

Ezra Kelin, *The case against Elizabeth Warren*, The Washington Post, July 20, 2010.

My colleague Neil Irwin has a post this morning throwing some cold water on the heated advocacy for Elizabeth Warren to lead the Consumer Financial Protection Bureau. I'd group the objections into two buckets -- innovation and administration -- and both are fair.

My colleague Neil Irwin has a post this morning throwing some cold water on the heated advocacy for Elizabeth Warren to lead the Consumer Financial Protection Bureau. I'd group the objections into two buckets -- innovation and administration -- and both are fair.

Irwin's first concern is that an overzealous consumer regulator could, in his or her enthusiasm for ridding the market of trickery, also rid it of products that make credit available to the working class. Does keeping a small number of people from getting into serious debt justify keeping a large number of people from accessing credit instruments they could use effectively?

It's a legitimate concern, and only Warren can answer it. Of course, it's possible she's already explained the test she would apply to decide whether consumer financial instruments were legitimate, and I just haven't seen the speech.

Irwin's second concern actually worries me less. It's hard to predict who will and won't be good at building an agency. It's a task that's not quite like any other, and fairly few people have much of a track record at it. It's also not a task that's solely dependent on the director. Deputy directors and other high-level managers have a lot of influence over hiring and administering and creating a workplace culture. But only the person at the top can set the agency's vision and sensibility and appeal.

The question, to me, is whether Warren is the only person who can do that. I've made the argument that she will have a unique appeal to the sort of talented young lawyers and consumer advocates that we want working in the agency. She's also brilliant at working the media and acting as a public advocate, and she's clearly got an ambitious and restless vision for what this institution can become. But the other finalists aren't slouches.

Michael Barr is a Treasury official who deserves as much credit -- or, depending on your perspective -- bears as much blame -- as anyone in the country for shepherding the financial regulation bill to passage. He's good at working with legislators and the media, has excellent internal relationships that will be important for guaranteeing the agency's autonomy, and has the intellectual heft that his previous life as a law professor at Michigan and a Brookings scholar would suggest.

The third candidate, Gene Kimmelman, is the Justice Department's chief counsel for competition policy and intergovernmental relations, and was formerly a vice president at the Consumer's Union. The National Journal called him "one of the best known consumer advocates in Washington." He knows the field well, and probably already knows everyone he'd like to see working at the agency.

Moreover, the Consumer Financial Protection Bureau is a much-hyped agency being built amidst a grim job market. It won't have trouble recruiting, even without Warren's star power at the top.

So in the end analysis, the question is whether you think Warren's unique prominence and pedigree as the person who created the idea for this agency and put the issues beneath it on the map is worth more than the managerial experience and administrative relationships Barr and Kimmelman have. I come down on Warren's side, but her nomination has achieved a level of symbolism on the left that's out of proportion to the merits of the different candidates.

###

Damian Paletta, *Three Candidates Emerge to Run Consumer Regulator*, The Wall Street Journal, July 17, 2010.

White House officials are eyeing three candidates to lead the new Bureau of Consumer Financial Protection, a person close to the administration said Friday, all of whom have a history of criticizing banks for their lending practices.

Harvard Law School Professor Elizabeth Warren, Treasury Department Assistant Secretary Michael Barr, and Justice Department chief counsel for competition policy and intergovernmental relations Gene Kimmelman are all under serious consideration, the person said.

The financial-overhaul bill President Barack Obama plans to sign into law on Wednesday creates the new consumer regulator.

One of the White House's critical first tasks will be to pick the agency's director, who will have broad discretion to set the agency's agenda and focus. The person will be charged with writing rules governing everything from mortgages to credit cards to payday loans.

The appointment requires Senate confirmation.

All three of the candidates either declined to comment or didn't respond to requests for comment. The appointment could prove to be one of the most contentious nominations outside the Supreme Court to move through the Senate in years. Liberal groups will likely push for a regulator who will take on banks and push for strict curbs.

"This agency has extraordinary potential, but within the first couple years it could prove to either be an effective watchdog for consumers or a big disappointment," said Travis Plunkett, legislative director for the Consumer Federation of America.

Banks and other financial companies are pushing for someone who won't layer on rules that they believe will constrain access to credit. "Who we're looking for is somebody who is going to balance the interest of consumer protection with the ability to actually extend credit," said Bill Himpler, executive vice president at the American Financial Services Association trade group.

The fight is likely to play out during a Senate confirmation process. Democrats need support from at least one Republican. The White House could opt to appoint someone during a congressional recess, but that could prove even more controversial.

Ms. Warren has clashed with banks for years and might struggle to win Senate approval. The Harvard Law School professor heads the Congressional Oversight Panel charged with monitoring the $700 billion Troubled Asset Relief Program and has said banks abuse consumers with high-cost credit cards and mortgages. Many attribute the idea of an independent consumer-financial-protection regulator to an article she wrote in 2007.

Mr. Barr was one of the architects of the administration's financial-overhaul bill and fought to keep many of the consumer agency's powers despite efforts from Republicans and some Democrats to weaken its scope.

Mr. Kimmelman joined the antitrust section of the Justice Department last year after serving as vice president for federal and international affairs at Consumers Union. Heand has served in a number of senior roles at consumer-interest organizations in Washington, including the Consumer Federation of America.

###

Julianna Goldman and Alison Vekshin, *New Finance Rules Become Real as Emmanuel Says "Just Do It"*, Bloomberg News, July 16, 2010 6:32 PM ET.

Three days after U.S. lawmakers completed negotiations on the financial-overhaul bill last month, Rahm Emanuel called an emergency meeting of top administration officials in the White House's Roosevelt Room.

The deal was unraveling as three Senate Republicans whose votes were needed for passage were balking at a $19 billion bank fee. Emanuel, President Barack Obama's chief of staff, needed a new way to help pay for the legislation. Among the options offered by Treasury Secretary Timothy Geithner: wind down the bank-bailout fund Congress set up in 2008, to save billions of dollars and end a program unpopular with voters.

"I don't want to hear anything else," Emanuel said, according to people in the room. "That's it. Just do it."

The finance bill, which Obama is scheduled to sign July 21, benefited from key elements lacking in the yearlong health-care debate. Among them: A more active White House role, and two Democratic lawmakers with a combined 65 years in Congress who steered the bill through with little Republican backing.

The effort was also boosted by public anger, stoked at a crucial moment by a government lawsuit against Goldman Sachs Group Inc., that overcame an industry lobbying blitz.

“Public opinion kicked big money’s ass,” said House Financial Services Committee Chairman Barney Frank, one of the two main legislative architects of the bill, along with Senate Banking Committee Chairman Christopher Dodd.

Toughest Rules

As a result, the toughest set of market rules in seven decades will soon become law, with Senate passage yesterday of the legislation. The package is in response to an economic crisis that pushed the banking industry to the brink of collapse, froze credit markets, and led to $700 billion in taxpayer bailouts to firms such as Citigroup Inc., Bank of America Corp. and American International Group Inc.

Goldman Sachs yesterday agreed to pay $550 million and change its business practices to settle U.S. regulatory claims that it misled investors in collateralized debt obligations linked to subprime mortgages.

The legislation mirrors a plan Obama proposed in June 2009, based on a 90-page white paper drawn up by White House and Treasury officials. It creates a consumer financial protection bureau with independent authority to write and enforce rules for banks, sets up a council of regulators to police companies, and establishes a mechanism to wind down failing firms whose collapse would roil markets.

White House Setbacks

In addition to finding an alternative to the bank fee, the administration helped salvage a proposal to strengthen oversight of derivatives, incorporate a plan to limit proprietary trading at banks, and defend the Federal Reserve against efforts to reduce its power, according to lawmakers, congressional aides and government officials.

The White House suffered setbacks, such as when auto dealers were exempted from consumer agency supervision.

“Nobody here is happy about that,” said Diana Farrell, deputy director of the White House National Economic Council.

Bankers and banking analysts also say the legislation won’t fundamentally reshape Wall Street’s biggest firms. Obama’s white paper grew to a 2,300-page bill packed with heavily lobbied provisions that industry leaders say might dilute the impact on their practices.

The overhaul won’t shrink banks deemed too big to fail, and it leaves largely intact a financial industry dominated by six banks with more than $9 trillion of combined assets.

Public Not Impressed

It does little to solve the danger posed by debt-financed lending and trading firms that rely on markets for funding, which can evaporate in a panic like the one that spread in late 2008. And rather than prohibit federally insured banks from trading derivatives or investing in hedge funds and private equity funds, the law just imposes limits on such activity.

Lenders including JPMorgan Chase & Co. and Citigroup will be required to move less than 10 percent of the derivatives in their deposit-taking banks to a broker-dealer division during the next two years.

The bill strengthens oversight on financial advisers to state and local governments in the municipal bond market. Still, it postpones any immediate challenge to a 1975 law that prevents the Securities and Exchange Commission from imposing corporate- disclosure rules on local government borrowers.

A Bloomberg National Poll shows most Americans harbor doubts that the new regulations will prevent a future crisis.

Expecting More

"Given the severity of the economic crisis caused by past regulatory failures, the public had the right to expect much more extensive reform," Dean Baker, co-director of the Center for Economic and Policy Research in Washington, said yesterday in a statement.

The overhaul gives Obama an opportunity to make the case as November's congressional elections approach that he took on an industry that brought the economy to the verge of collapse, aides said.

"Congress has now passed a Wall Street reform bill that will bring greater economic security to families and businesses across the country," Obama said yesterday at the White House. He called it "reform that would never again put taxpayers on the hook for Wall Street's mistakes."

Other key players shaped the bill. Dodd, a Connecticut Democrat, singled out Federal Deposit Insurance Corp. Chairman Sheila Bair. Bair, who has clashed with the administration, pressed for new FDIC authority to liquidate "systemically important" financial firms and collaborated with Republican Senator Susan Collins of Maine on an amendment to require big banks to meet stricter capital standards.

Watching Basketball

"Sheila Bair has been very good all the way through," Dodd said in a telephone interview.

At the staff level, Farrell and Deputy Treasury Secretary Neal Wolin were among the administration's top negotiators, according to lawmakers.

Throughout the process, White House officials took a hands- on approach with lawmakers. As House and Senate negotiators went into conference last month, Emanuel, Dodd and aides met in Frank's Capitol Hill office to set priorities for the talks, with game seven of the National Basketball Association finals airing on a flat screen TV in the background.

With the game still going on and the meeting over, Emanuel and Dodd headed to Tunnicliff's Tavern nearby, where they watched the Los Angeles Lakers rally to defeat the Boston Celtics and win the title.

Central Role

It was Obama whose role was often central. On March 24, the day after he signed the core of the health-care overhaul, the president met at the White House with Dodd, Frank and other officials to determine how strongly Republicans would oppose the finance bill.

The legislation, which the House approved in December, had just emerged from the Senate Banking Committee without Republican support, and the policymakers were concerned they would have to make "all kinds of compromises," Frank, a Massachusetts Democrat, said in a July 12 interview.

Obama, relaying a recent conversation with a Senate Republican leader, allayed those concerns, according to a person familiar with the discussion. While the Republican leader would oppose the Democrats' efforts, he wouldn't fight as hard as with health care to try to block it, Obama said, according to the person.

'Bataan Death March'

Dodd reflected that newfound confidence after the meeting: "The outcome there, I think, has strengthened our hand in reaching out to people who would like to be part of the solution," he told reporters.

In some ways, the hard-fought victory on health care made this debate less daunting, said White House senior adviser David Axelrod.

"Once you've gone through the Bataan Death March of health reform, every other fight seems a little less tumultuous," said Axelrod.

The health-care campaign also made White House officials appreciate the need to forcefully respond to critics.

In April, Republicans attacked a Dodd proposal to create a $50 billion industry-supported fund the government would use to cover the cost of liquidating a failing financial firm whose collapse would threaten the economy. They said the fund would institutionalize bailouts by taxpayers -- echoing a central theme of a memo written by Republican pollster Frank Luntz earlier in the year to party members.

No Death Panels

Obama's aides grew concerned the criticism would take hold. They recalled the previous summer, when some Republicans almost derailed the health-care legislation by accusing Democrats of wanting to set up "death panels" to ration care.

"If this false perception had caught on, it would have been damaging for the bill," said Austan Goolsbee, a White House economic adviser. "We were not going to get death-paneled on this thing."

To push back, Axelrod, White House Communications Director Dan Pfeiffer and Press Secretary Robert Gibbs started a media campaign, using Obama's April 17 weekly radio address to focus on regulations and sending advisers, including National Economic Council Director Lawrence Summers, to the airwaves.

The timing coincided with the SEC's April 16 announcement of the lawsuit accusing Goldman Sachs of fraud tied to CDOs. When news of the suit broke that day, Axelrod ran out of his West Wing office and down the hall to Pfeiffer's desk to ask if anyone in the press operation was aware of the action. Nobody was, he said.

'Shocking Development'

"It was really a shocking development for us," Axelrod said.

Goldman Sachs's settlement announced yesterday is the largest ever levied by the SEC against a Wall Street firm, the agency said in a statement. Under the deal, the firm acknowledged it made a "mistake" and that marketing materials for the debt instruments had "incomplete information," the SEC said.

Democrats tried to capitalize on the momentum when the suit was announced. Obama gave a speech in New York on financial regulations. With Goldman Sachs Chief Executive Officer Lloyd Blankfein in the audience, the president called on the industry to back his efforts.

"The president was instrumental in painting this as, 'if you vote against the bill, you're voting to coddle Wall Street,'" said Mark Calabria, a former Republican Senate Banking Committee aide who directs financial-regulation studies at the Cato Institute, a Washington-based libertarian research group.

Wearing on Republicans

The pressure began to wear on Republicans, who had been holding off Democrats' attempts to begin considering the bill on the Senate floor. In late April, Collins told her colleagues in a meeting that she couldn't keep voting against efforts to start debate, according to a Senate Republican aide.

That cleared the way for Dodd and banking panel counterpart Richard Shelby, an Alabama Republican, to reach a deal on May 5 to remove the fund from the bill, which allowed lawmakers to begin amending the legislation.

Legislators later agreed to add to the bill a variation of the resolution fund -- the $19 billion bank fee. Yet the fee also sparked objections from Republicans who had voted for an earlier Senate version of the bill: Senators Scott Brown of Massachusetts, Collins and Olympia Snowe, also of Maine. Their opposition forced Emanuel to call the June 28 meeting.

In a rare move, House-Senate negotiators, led by Frank and Dodd, met to reopen the talks on June 29 to remove the levy and add language ending the bank-bailout fund -- the Troubled Asset Relief Program -- an option that Treasury counselor Gene Sperling had joined Geithner in laying out for Emanuel the day before. The plan would also include raising the fee banks pay to support the deposit-insurance fund.

Consumer Protection

The administration played a hand in designing another element of the bill: the consumer protection bureau. The idea was the centerpiece of Obama's overhaul and had drawn fire from Republicans and the banking industry.

While the House had approved a stand-alone agency in its bill, Dodd succumbed to Republican pressure and placed it within the Fed. In a victory for Obama, Dodd preserved the agency's power to write its own rules.

Derivatives, contracts whose value is derived from stocks, bonds, loans, currencies and commodities, also assumed a central role in the debate after losing bets on swaps tied to mortgage- backed securities forced AIG close to bankruptcy.

As the Obama administration pushed for stronger rules on derivatives, a Democratic lawmaker sought even tougher ones, creating one of the biggest problems surrounding the bill.

Derivatives Language

Senator Blanche Lincoln, the Arkansas Democrat who heads the Agriculture Committee, sent an outline of proposed bipartisan derivatives language to the Treasury on April 8, an administration official said. Four days later, Assistant Treasury Secretary Michael Barr communicated to Lincoln's staff that the bipartisan deal wasn't satisfactory and asked for stronger language. Lincoln responded by releasing a proposal so strong that it threatened to hurt the bottom line of banks like JPMorgan by requiring that federally insured banks place their swaps-trading operations in subsidiaries.

Obama's aides hadn't been informed of the plan.

Lincoln's staff and the White House were stalemated, as Fed Chairman Ben S. Bernanke and Bair argued for the plan's removal. Gary Gensler, chairman of the Commodity Futures Trading Commission, who advocated for market deregulation in the 1990s and once worked at Goldman Sachs, sided with Lincoln.

In the end, the White House pressed Lincoln to meet with House Democrats, who were threatening to vote against the bill if the provision was kept. Minnesota Democrat Collin Peterson, head of the House Agriculture Committee, then announced a Treasury-crafted compromise. Lincoln reluctantly signed off.

Volcker Rule

One of the final issues hammered out last month was a measure that even administration officials initially said had little chance of surviving: the so-called Volcker rule in Dodd's bill, which banned proprietary trading at banks and restricted their investments in private-equity and hedge funds.

As the rule, named after former Federal Reserve Chairman Paul Volcker, was debated in the House-Senate conference, Dodd and Frank presented various options to the 82-year-old economist. While disappointed, Volcker ultimately endorsed the changes, which allow banks to invest up to 3 percent of their capital in private equity and hedge funds.

"Nobody ever thought we were going to get it," Emanuel said of the rule. "When we first introduced it, everybody said this would just be a symbolic gesture."

On June 25, the day Dodd and Frank completed an all-night session to finish merging the bill's two versions, Volcker sent them a letter saying the Dodd-Frank legislation was the modern- day Glass-Steagall Act, which separated commercial and investment banking before its repeal a decade ago.

###

Cheyenne Hopkins, *Speculation Grows Over Who Will Head the CFPB*, American Banker, July 2, 2010.

WASHINGTON — While it is unclear how fast President Obama will move to appoint a director of the Consumer Financial Protection Bureau if the regulatory reform bill is passed by the Senate and signed into law, observers have already floated a raft of possible candidates for the job.

Potential directors include Elizabeth Warren, the Harvard professor who was an early proponent of a consumer protection agency; Michael Barr, Treasury assistant secretary for financial institutions; Eric Stein, Treasury deputy assistant secretary for consumer protection; Allen Fishbein, assistant director for policy analysis and consumer education at the Federal Reserve Board; and Ellen Seidman, a former director of the Office of Thrift Supervision and now ShoreBank Corp.'s executive vice president of mission and strategy.

"The most critical issue is the selection of the first director, who will set the tone of the agency for years to come," said Jaret Seiberg, an analyst with Washington Research Group, a division of Concept Capital. "If you are putting an aggressive director at the get-go, you are establishing a precedent for aggressive enforcement that will be hard to undue in future years."

The most controversial choice remains Warren, but it is unclear if the Obama administration would support her. As the chairman of the Congressional Oversight Panel's Troubled Asset Relief Program, she has often been at odds with the Treasury Department. Still, she continues to have the backing of key players on Capitol Hill, including House Financial Services Committee Chairman Barney Frank.

"I would think Elizabeth would be ideal," Frank said earlier this week. "I've been impressed with how politically smart she is, as well as passionate — those don't often go together when people are passionate. I think she would be the best for the consumer bureau."

While many observers doubt she could win confirmation in the Senate, Frank disagreed. "I would think senators would be reluctant to want to stand in the way," he said. "I think she would get a lot of popular support."

Barr may be a less contentious choice, though he, like Warren, would be opposed by the banking industry. Barr has been the Treasury's point man on reform, and a longtime consumer advocate. He was a professor at the University of Michigan Law School, and has also been rumored as a candidate for comptroller of the currency.

Other possibilities are Stein, a former senior vice president at the Center for Responsible Lending. and Fishbein, the former director for housing and credit policy at the Consumer Federation of America.

Seidman, too, could return to Washington. As the director of OTS, she was consumer-oriented, and worked closely with the other banking agencies. She recently was appointed to help repair troubled ShoreBank. "She would be excellent," said Judy Kennedy, president and chief executive of the National Association of Affordable Housing Lenders.

###

Damian Paletta, *The Financial Bill's $19 Billion Fee*, The Wall Street Journal's Washington Wire blog, June 26, 2010 11:12 AM ET.

In the early hours of Friday morning, with aides and lawmakers visibly exhausted, tempers flared as Democrats tried to put the finishing touches on their sweeping financial overhaul bill.

Republican aides to Sen. Richard Shelby (R., Ala.) were loudly during the "conference" committee meeting to a last-second "fee" or "assessment" Democrats planned to place in the bill to help offset potential costs incurred by the new financial rules.

Democrats had to come up with some way to cover potential costs of the bill — not actual costs, because it remained unclear what the new regulatory architecture would cost. For example, the bill could lead to more short-term costs if a financial company failed and had to be put through liquidation. If no company failed, the cost would be much less.

Still, the Congressional Budget Office showed that after adding the revenue generating provisions in the bill and offsetting those with potential costs, Democrats were $19 billion in the hole.

To cover this, Democrats wanted to empower the Federal Deposit Insurance Corp. to assess fees against banks with more than $50 billion in assets and hedge funds with more than $10 billion in assets. Having the FDIC collect the money instead of the Treasury or Internal Revenue Service means it's a fee and not a tax. Adding a tax to the bill could create a political mess. Democrats had proposed having the costs sprad out over five years, so it would be roughly $4 billion total each year. Democrats said — repeatedly — that this is much less than these companies routinely pay out in bonuses.

But Republicans felt that by parking the money in the FDIC, lawmakers would be essentially giving the agency a pot of money that could be used to bail out firms. Democrats loudly objected that the money would never be used for this, but Republicans thought it smelled awfully a lot like a bail out fund.

After more than an hour of negotiations in the hallway and in the back of a crowded hearing room (at one point, Treasury Department Assistant Secretary Michael Barr had to walk over chairs because the room was so stuffed), they reached a compromise.

Here's the deal:

A council of regulators determines which firms must pay into the fund. Then the FDIC goes and collects those funds from the firms, likely spread over several years. Then the money is parked inside the Treasury Department for 25 years, where it can't be touched. After that, the money is used to pay down the deficit.

Just because a compromise was reached, that doesn't mean Republicans are thrilled about it. Many have complained that it essentially sucks capital out of the banking system at a time when more loans need to be made and the economy is still fragile. Notably, Sen. Scott Brown (R., Mass.), who the Democrats are counting on to support the bill, has said the fund is a troubling component. Unclear if the fund is enough to switch his vote from a "yes" to a "no."

###

Jon Hilsenrath, *Important Steps, No Cure-All; Even Backers See Gaps, Such as Failure to Address Fannie and Freddie's Problems*, The Wall Street Journal, June 26, 2010.

The once-in-a-generation rewrite of the rules of finance Congress is on the verge of passing is designed to cut the odds of repeating the recent financial crisis and the devastating recession and taxpayer bailouts that followed.

The early verdict from bankers, lawyers, economists, and government officials: The bill takes important steps toward meeting that goal by widening the regulatory net, installing better shock absorbers in the financial system and setting out a road map to close big firms that fail. But it's no cure-all.

"They're focusing more on the right things than on the wrong things," says Alan Schwartz, former chief executive of Bear Stearns, the first big firm to collapse in the crisis.

Even backers see gaps and trade-offs. The bill restrains financial behemoths but doesn't dismantle them. It doesn't end their dependence on short-term borrowing, which dried up suddenly in March 2008 and caused disruptive runs. The mechanism to put the failing out of business doesn't ensure the failures won't be disruptive.

Republicans complain the bill leaves for another day the messy problems posed by Fannie Mae and Freddie Mac, the giant mortgage buyers that were nationalized to keep the home-finance market going. And it counts on international talks to meld various national responses to the crisis into a global whole; if the U.S. pushes harder than others, it could undermine its place as a financial center.

"There will be great claims of victory with whatever passes," cautions Gary Stern, former president of the Federal Reserve Bank of Minneapolis, who identified before most people the dangers posed by banks deemed too big to fail. "It is a glass-half-full situation at best."

The Obama administration says no law can end bubbles, but this one reduces the risk that another bubble fueled by reckless lending will bring the world economy to the brink. Complex financial instruments, big hedge funds, mammoth banks and clever traders will still be around, but they'll be watched more systematically.

"The basic plumbing of the financial system is going to be more resilient. It's copper piping instead of PVC," says Michael Barr, the assistant Treasury secretary who was the Treasury Department's point person on the bill.

Early reaction on Wall Street was muted. Bank stocks rallied as investors gained clarity about the new environment.

"The premise from which this bill starts is that the contemporary economy, not just in the United States but around the world, has shown itself to have some propensity to destabilizing behavior on both the upside and downside," says Lawrence Summers, President Barack Obama's top economic adviser. "Financial institutions need to be regulated in a more systemic and comprehensive way." The next generation will look back on gaps in the financial regulations of early 2000s the same way Americans today look back at cars without seat belts, he predicts.

The legislation was greeted with displeasure by the Business Roundtable, a group representing large U.S. companies. "Far from effective reform, this legislation includes provisions totally unrelated to the financial crisis which may disrupt America's fragile economic recovery, and increase instability and risk," said John Castellani, president of the group. One complaint was that new rules on derivatives would raise costs for companies that use them to hedge risk.

Just as in the 1930s crisis legislation, this bill addresses what its authors see as several of the troubles' primary causes:

—Lenders, investment bankers, credit-rating firms, mortgage brokers and others had ample incentive to take risks, often with other people's money. That led to a bubble in credit: too much borrowing.

The bill attempts to change the incentives. It requires those who package individual loans into securities to hold onto a small piece themselves. It exposes ratings firms to private lawsuits for negligence. It tries to make it more possible to let a big financial firm that is stumbling to fail, by creating a mechanism for the government to take it over and unwind it. Shareholders get more say in the compensation of executives.

—The explosion of trading in the shadowy worlds of derivatives and hedge funds hid risks, and perhaps even created new ones, without the transparency essential to well-functioning markets.

The bill forces many derivatives into the open by demanding they be traded on exchanges and their trades run through clearinghouses, where the costs of one party going under are widely shared. Hedge funds must register with regulators and the biggest could get extra scrutiny from the Fed.

—Big financial firms lacked sufficient capital cushions to withstand a shock, and assets they could sell quickly to raise needed cash.

The bill empowers the Fed to force any such firm, not just one registered as a bank, to bolster its capital and liquid assets. It leaves to technocrats in the U.S. and abroad the tough chore of setting new minimum standards for capital and liquidity.

Mr. Summers says a better-regulated financial system should give lenders and investors more confidence and make credit and capital easier to access. By contrast, Mark Zandi of Moody's Economy.com predicts the bill will reduce credit to business and households by $80 billion a year, in part because it will make banks less profitable. He estimates it will shave $65 billion off economic output over a decade, or about 0.3%, not counting the impact of new capital rules still being worked out by global regulators.

From the start, one of the thorniest problems was handling institutions "too big to fail."

The government had no good choices when Bear Stearns, Lehman and American International Group hit the wall in 2008. It improvised different resolutions for each—a buyer for Bear, a bankruptcy for Lehman, a government takeover for AIG. Rescues were seen as a message to those who funded the big firms that the government had their back in a pinch, and thus as encouraging recklessness.

Since then, the biggest banks have gotten even bigger. Before the crisis, the 25 largest had 56% of bank assets; today, it's 59%.

The administration and its congressional allies offer two solutions: better oversight of the firms when they're alive and a better way to bury them when they are about to die.

A new "systemic risk council" will demand that big financial firms get added supervision by the Fed—not just banks but also hedge funds, insurers or any other firm regulators deem "systemically important."

Amid loud calls by critics that the bill didn't go far enough to rein in big firms, Congress added two checks. The "Volcker rule" will push banks to spin off trading desks that put bank capital at risk; they'll be able to invest a maximum of 3% of their capital in hedge funds and private-equity funds.

A provision authored by Sen. Blanche Lincoln (D., Ark.) will force them to wall off some of their derivatives operations in separately capitalized divisions.

The industry fiercely opposed that measure and won changes late Thursday that will allow them to keep big parts of their derivatives operations, such as interest-rate-swap trading, in house.

Among the risks in the legislation: The heavy focus on the largest firms could lead regulators to miss the next crisis; or new restrictions on big banks could push activity to unregulated corners of finance or offshore.

"If we really look very hard at the biggest 50 institutions, stuff could migrate to numbers 51 through 100," says Jeremy Stein, a Harvard professor and briefly an administration adviser last year. Small thrifts, not big banks, were at the root of the savings and loan crisis.

For the inevitable day when another big financial firm gets into trouble, the bill attempts to impose order and punishment—but gives authorities the power to use taxpayer money if they deem it necessary. "Should the day come when a government needs to use the new resolution authority, they will say, 'This is terrible, but it is vastly less terrible than the mess they had to deal with in 2008,'" Mr. Summers said in an interview.

Financial firms will be expected to prepare "living wills," guides to dismantling them if they go under. The Federal Deposit Insurance Corp. would have the authority, with the consent of other regulators, to take over big firms, place their viable businesses and assets into a bridge bank that it would sell over time, wipe out the firm's shareholders, fire its bosses and impose losses on some creditors. It could tap the Treasury to keep the firms going long enough to close them, but the survivors in the industry would be assessed to recoup the costs.

"Any entity that gets in trouble fails. It dies," said Rep. Barney Frank, the Massachusetts Democrat who chairs the House Financial Services Committee, in debate this week. "Shareholders and investors, they're gone. They are going to be wiped out."

Dealing with lenders to these firms is a challenge. If the government is too easy on them, it encourages excessive risk taking, but if it's too hard on them, lenders will run for the exits as soon as a firm looks wobbly.

In the 1930s, the government created deposit insurance to discourage bank customers from pulling their money out. But as much as deposits, financial firms today rely on an immense market in "repos," or "repurchase agreements," in which they pledge their securities as collateral for loans of a few days or weeks. Bear Stearns, and Lehman too, began quickly running out of cash as their repo funding dried up.

The House had voted to impose potential losses on repo lenders so they lend more carefully. Darrell Duffie, a Stanford University professor, says that would have too easily induced panic in the repo market. The idea was dropped.

The Senate voted to impose a three-day stay in which lenders to failing firms would have had their short-term loans tied up and potentially reduced in value. That idea was changed to say such stays would be from zero to three days. An administration official said the plan could be softened when the final rules are written to avoid provoking runs in that market.

Congress is leaving it to the Fed to resolve problems in the repo market on its own.

###

Damian Paletta, *The Breakfast Club,* The Wall Street Journal's Washington Wire blog, June 25, 2010 9:30 AM ET.

It took more than 20 hours, stacks of pizzas, and gallons of coffee, but a surprising number of lawmakers, aides, and government officials stayed until the bitter end of the financial bill conference when Rep. Barney Frank (D,. Mass.) brought down the final gavel at 5:40 this morning. (Click here to read the WSJ story.)

Here's a list of lawmakers and government officials who didn't leave until sunlight was peeking through the curtains:

Government officials:

Commodity Futures Trading Commission Chairman Gary Gensler
Treasury Department Assistant Secretary Michael Barr
Federal Reserve General Counsel Scott Alvarez

Lawmakers:

Democrats:

Rep. Barney Frank of Massachusetts
Rep. Paul Kanjorski of Pennsylvania
Rep. Maxine Waters of California
Rep. Carolyn Maloney of New York
Rep. Mel Watt of North Carolina
Rep. Gregory Meeks of New York
Rep. Dennis Moore of Kansas
Rep. Gregory Peters of Michigan
Rep. Elijah Cummings of Maryland
Sen. Christopher Dodd of Connecticut
Sen. Tim Johnson of South Dakota
Sen. Jack Reed of Rhode Island
Sen. Blanche Lincoln of Arkansas

Republicans:

Rep. Spencer Bachus of Alabama
Rep. Ed Royce of California
Rep. Judy Biggert of Illinois
Rep. Shelley Moore Capito of West Virginia
Rep. Jeb Hensarling of Texas
Rep. Scott Garrett of New Jersey
Sen. Richard Shelby of Alabama
Sen. Mike Crapo of Idaho
Sen. Bob Corker of Tennessee
Sen. Judd Gregg of New Hampshire
Sen. Saxby Chambliss of Georgia

###

Damian Paletta, *It's Midnight, and the Conference Rolls On,* The Wall Street Journal's Washington Wire blog, June 25, 2010 12:30 AM ET.

House Agriculture Committee Chairman Collin Peterson (D., Minn.), at the stroke of midnight, offered a compromise on derivatives regulations that is supposed to be the product of tense talks between Sen. Blanche Lincoln (D., Ark.) and House Democrats.

Welcome to the financial overhaul "conference" as it crawls into Friday.

It's unclear if Mr. Peterson's deal will be accepted, but as lawmakers and aides scurry around, here's a snapshot of room 106 in the Dirksen Senate Office Building.

The room is packed with people. Probably close to 200. Half of them are probably standing up. Lobbyists are rushing in and out of the room, but they are easily outnumbered by equally frantic congressional aides. If their bosses want to have any say in the future of financial regulation, they might only have a few more hours to weigh speak up.

Rep. Joe Crowley (D., N.Y.), in khakis and a blue blazer, just walked out of the room. He's been huddled with other New York Democrats all night pushing for changes to the derivatives rules.

Treasury Department Deputy Secretary Neal Wolin and Treasury Assistant Secretary Michael Barr were huddled with Ms. Lincoln's aides in the middle of the room a few minutes ago, but they all just disappeared.

Officials from the Federal Reserve, Federal Deposit Insurance Corp. talk with aides and type on their BlackBerries.

Commodity Futures Trading Commission Chairman Gary Gensler stands back in a corner of the room, jacketless, tie loosened, with his arms crossed against his chest. He's been here all day, night, and now morning.

Rep. Mike McMahon (D., N.Y.) approaches the press table to ask if they have an extra copy of the new bank trading proposal. There is so much paper strewn on the table, it's unclear what is new and what is old.

Six House Republicans sit around the rectangular-shaped table arrangement, some with jackets on, some with jackets off, listening to the derivatives debate. Rep. Ed Royce (R., Calif.) is diligently taking notes.

Eleven of the 12 senate lawmakers on the conference committee are still in the room, with Sen. Tom Harkin (D., Iowa) standing and talking to an aide. (Sen. Pat Leahy (D., Vt.) hasn't made an appearance for a few hours).

CSPAN cameraman pans the camera from lawmaker to lawmaker, as they slowly churn through the debate. Rep. Gregory Meeks (D., N.Y.) walks back into the room. He looks exhausted and joins the talks with Mr. Harkin.

Rep. Mary Jo Kilroy (D., Ohio) appears to have fallen asleep at the table, as does Sen. Judd Gregg (R., N.H.). In all fairness, they're still literally sitting at the table.

"It's midnight, and I've been here long enough," Mr. Peterson said. "I don't know about you. We need to get this done."

###

Allison Vekshin and Phil Mattingly, *Lawmakers Reach Compromise on Financial Regulation*, Bloomberg News, June 25, 2010 12:01 AM ET.

The U.S. Congress is on pace to deliver a sweeping re-write of Wall Street's rules to President Barack Obama by July 4, meeting the deadline lawmakers set for themselves.

House and Senate negotiators, after a marathon 20-hour session, early yesterday approved a bill aimed at increasing oversight and regulation of the U.S. financial system. They brokered last-minute deals on a ban on proprietary trading by banks and oversight of the derivatives market.

The House and Senate are scheduled to vote on the measure, which congressional leaders have said will not be further revised or amended, by the end of next week.

What follows are the scope, impacts and impetus for some of the major provisions, based on the language lawmakers agreed to early this morning in Washington:

'Volcker Rule'

The Obama administration's proposal to ban banks from proprietary trading, nicknamed the Volcker rule after former Federal Reserve Chairman Paul Volcker, was softened by Senate negotiators.

Banks will be allowed to invest in private-equity and hedge funds, though they will be limited to providing no more than 3 percent of the fund's capital. Banks also can't invest more than 3 percent of their Tier 1 capital.

The change alters language in a bill the Senate approved in May, which would have barred banks from sponsoring or investing in private-equity and hedge funds. Lawmakers offered the modification to appease Senator Scott Brown, a Massachusetts Republican who was concerned the ban would harm Boston-based State Street Corp. He was one of four Republicans to break party ranks and vote for the Senate bill.

The legislation defines proprietary trading as engaging as a principal for a trading account of a bank or non-bank financial company supervised by the Fed "in any transaction to purchase or sell, or otherwise acquire or dispose of, any security, any derivative, any contract of sale of a commodity for future delivery, any option on any such security, derivative or contract, or any other security or financial instrument" that regulators designate through rule-writing.

Negotiators also agreed to give regulators less say than previously proposed to define a ban on proprietary trading. Senate Banking Committee Chairman Christopher Dodd, a Connecticut Democrat, backed a change offered by Democratic Senators Jeff Merkley of Oregon and Carl Levin of Michigan that "more clearly defines the limits on proprietary trading" by writing the ban into the legislation. The earlier Senate bill would have let regulators write it.

The ban on propriety trading, in which a company bets its own money, may reduce profits. Goldman Sachs Group Inc., the most profitable firm in Wall Street history, has said proprietary trading generates about 10 percent of its annual revenue. The firm made $1.17 billion in 2009 from "principal investments," which include stakes in companies and real estate, according to a company filing.

Dodd backed a Merkley-Levin plan to prevent firms that underwrite an asset-backed security from transactions that would result in a conflict of interest.

The conflict-of-interest provision seeks to address fraudulent conduct alleged in a Securities and Exchange Commission lawsuit against Goldman Sachs. The SEC claims the bank created and sold collateralized debt obligations linked to subprime mortgages without disclosing that hedge fund Paulson & Co. helped pick the underlying securities and bet against the vehicles. Goldman Sachs has denied wrongdoing.

Derivatives

After spending months crafting legislation, lawmakers pushed through a last-minute deal on what they termed the most challenging part of their task -- establishing for the first time a regulatory structure for the $615 trillion over-the- counter derivatives market.

The most contentious part of the derivatives rules is a provision that will force banks to push some of their swaps- trading into subsidiaries, on the theory it would reduce taxpayers' risk if the trades are walled off from depositary institutions that enjoy federal benefits such as access to the Federal Reserve's discount lending window.

The original proposal by Senator Blanche Lincoln, an Arkansas Democrat who is chairman of the Senate Agriculture Committee, would have banned all swaps-trading by commercial banks. It touched off intense lobbying from opponents including the banking industry, banking regulators, the Obama administration and lawmakers of both parties who said the proposal could drive up costs for businesses and send business to foreign lenders.

In the final hours of negotiations, President Barack Obama's financial overhaul specialists -- Deputy Treasury Secretary Neal Wolin; Michael Barr, Treasury's assistant secretary for financial institutions; and Diana Farrell, the deputy director of the White House's National Economic Council - - gathered at the Dirksen Senate Office Building while House and Senate members of the conference committee waited downstairs for a deal.

In the end all parties agreed that banks will be able to maintain their trading operations so long as they are used to hedge risk or trade interest rate or foreign exchange swaps, a victory for banks that were on the verge of losing the desks entirely. The proposal will force a fundamental shift in the industry, giving federally insured banks up to two years to send instruments such as un-cleared credit default swaps off to a separately capitalized subsidiary.

"We target the riskiest players and ask more of them, as we should," Lincoln said today.

Derivatives took a central role in the debate over Wall Street regulation after losing bets on swaps tied to mortgage- backed securities pushed New York-based insurer American International Group Inc. to the brink of bankruptcy in 2008. Derivatives are contracts whose value is derived from stocks, bonds, loans, currencies and commodities, or linked to specific events such as changes in interest rates or the weather.

Beyond the swaps-desk provision, the Senate legislation will push most over-the-counter derivatives through third-party clearinghouses and onto regulated exchanges or similar electronic systems, a measure that will make it easier for the market and regulators to track the trades. It will mean higher margin costs on some transactions.

Regulators also will be required to impose heightened capital requirements on companies with large swaps positions, and would be given the authority to limit the number of contracts a single trader can hold.

Businesses that use derivatives to hedge risk from producing or consuming commodities, deemed "end users," will be exempt from the clearing requirements if the activities were being undertaken as a way to hedge legitimate business risk.

“There are some that want more restrictive language than I do and there are those who want to open up the barn door,” Lincoln said. “I think we have reached a good compromise here.”

Selling over-the-counter derivatives is among the most lucrative businesses for the largest financial companies. U.S. commercial banks held derivatives with a notional value of $212.8 trillion in the fourth quarter, according to the Office of the Comptroller of the Currency. JPMorgan Chase & Co., Citigroup Inc., Bank of America Corp., Goldman Sachs Group Inc. and Morgan Stanley hold 97 percent of that total.

While JPMorgan and Citigroup might have to spend billions to re-capitalize their trading desks, the three others might have much smaller costs. Morgan Stanley and Goldman Sachs, which each entered the commercial banking business in 2008 in the midst of the financial crisis, will be less affected. Morgan Stanley kept just over 1 percent of its $86 billion in derivatives holdings in its bank in the first quarter, and Goldman Sachs held 32 percent of its $104 billion. Bank of America, which absorbed broker-dealer Merrill Lynch in 2009, had 33 percent of its $115 billion in its bank.

Consumer Bureau

A consumer financial-protection bureau will be created at the Federal Reserve to police banks and financial-services businesses for credit-card and mortgage-lending abuses. The plan was approved over the objections of Republicans and the financial industry.

Obama originally proposed a stand-alone consumer agency, saying it would play a central role in reorganizing regulation to prevent future financial crises.

“It’s an agency with considerable authority to protect consumers from abusive financial practices, which is a landmark achievement,” Travis Plunkett, legislative director at the Consumer Federation of America, said in an interview.

While the bureau will be housed at the Fed, it will have independent authority. Led by a director appointed by the president and confirmed by the Senate, the bureau will write consumer-protection rules for banks and other firms that offer financial services or products. It will enforce those rules for banks and credit unions with more than $10 billion in assets. Bank regulators will continue examining consumer practices at smaller financial institutions.

The bureau could require credit-card lenders, including JPMorgan Chase & Co. and Citigroup Inc., to reduce interest rates and fees. Mortgage lenders, including Bank of America Corp., may be subject to tougher rules including more upfront disclosures to borrowers about loan terms.

Automobile dealers won an exemption from oversight by the bureau after lobbying from the industry. Dealers said the rules would place unnecessary restrictions on their financing business. The Obama administration had opposed the exemption.

The idea for a new agency grew out of criticism from lawmakers and consumer groups that bank regulators, including the Fed, failed to properly exercise their consumer-protection authority during the housing boom. The consumer bureau will assume much of that oversight. The bureau’s rules could be overridden by the new Financial Stability Oversight Council if the panel decided that they threatened the safety, soundness or stability of the U.S. financial system.

The financial-services industry lobbied against the new bureau, saying it would raise costs, limit choice, and improperly separate oversight of consumer issues and safety and soundness.

Credit, Debit Cards

The Federal Reserve will get authority to limit interchange, or "swipe" fees, that merchants pay for each debit-card transaction. The measure, pushed by Senator Richard Durbin, lets retailers refuse credit cards for purchases under $10 and offer discounts based on the form of payment.

The measure also directs the Fed to issue rules that let merchants route debit-card transactions on more than one network. That "provides additional competition to a previously non-competitive part of the market," Durbin, an Illinois Democrat, said in a statement June 21.

Visa Inc. and MasterCard Inc., the world's biggest payments networks, set interchange rates and pass that money to card- issuers including Bank of America and JPMorgan. Interchange is the largest component of the fees U.S. merchants pay to accept Visa and MasterCard debit cards. The fees totaled $19.7 billion and averaged 1.63 percent of each sale last year, according to the Nilson Report, an industry newsletter.

The industry fought off earlier efforts to regulate interchange fees, including a Durbin-sponsored bill that remains in committee, by saying the income is needed to offset the risk of lending money. That argument doesn't apply to interchange on debit cards, which tap funds in consumer checking accounts. Shifting the focus to debit cards may have helped win support from some Republicans, with Senator Susan Collins of Maine calling the scaled-down version a "reasonable approach."

The amendment directs the Fed to ensure that debit-swipe fees are "reasonable and proportional" to the cost of processing transactions. The provision will take effect a year after enactment.

Durbin altered his proposal to exempt lenders with assets of less than $10 billion, or 99 percent of U.S. banks. That failed to win the support of trade groups representing community banks and credit unions, who said the measure will make their cards more expensive than those issued by bigger lenders. -- Peter Eichenbaum

Oversight Council

The bill will establish the Financial Stability Oversight Council, a super-regulator that will monitor Wall Street's largest firms and other market participants to spot and respond to emerging systemic risks. The Treasury Department will lead the panel, which includes regulators from other agencies.

"The idea of the council is to look at the interconnection of highly leveraged financial firms," said Jim Hamilton, a senior law analyst at Riverwoods, Illinois-based CCH Inc., which provides information to businesses about regulatory changes. "No one was able to do that before the financial crisis."

With a two-thirds vote, the council can impose higher capital requirements on lenders or place broker-dealers and hedge funds under the authority of the Fed. The council also will have authority to force companies to divest holdings if their structure poses a "grave threat" to U.S. financial stability.

The nine-member council will include regulators from the Fed, Securities and Exchange Commission, Federal Housing Finance Agency, Commodity Futures Trading Commission and other agencies. State securities, insurance and banking regulators and credit unions lobbied for and won non-voting seats.

The Federal Home Loan Banks system, a financing co- operative for mortgage lenders, also won an exemption from council oversight after saying limits on credit concentration could cut its lending capacity in half.

Trade groups including the American Bankers Association supported the measure. Consumer groups including the Center for Responsible Lending objected to the council's power to overrule the consumer financial-protection bureau at the Fed. --Lorraine Woellert

Bank Capital Rules

The bill may force some banks to shore up capital. An amendment introduced by Senator Susan Collins, the Maine Republican who joined Democrats in voting for the broader bill, will bar bank holding companies from keeping less capital than their bank subsidiaries. That will have an impact on the use of trust preferred securities, known as TruPS. Lawmakers bowed to pressure from banks, agreeing to a transition period for large firms and grandfathering of the securities for smaller lenders.

Banks with assets of at least $15 billion will get five years to replace TruPS with common stock or other securities that count as capital. Community banks that have raised cash through TruPS since 2000 will, in effect, get 20 years to make the switch because most of the securities have 30-year maturities. Smaller lenders sold roughly $45 billion of the $150 billion in TruPS issued by U.S. banks, which packaged them into collateralized debt obligations.

TruPS now count toward equity when calculating capital ratios -- a bank's cushion against losses -- while being treated like bonds for tax purposes.

Regional banks such as McLean, Virginia-based Capital One Financial Corp. and Buffalo, New York-based M&T Bank Corp., which rely heavily on TruPS, will be hurt most, according to Richard Bove, an analyst for Rochdale Securities. Banks unable to replace the TruPS will have to shrink their balance sheets to stay within the minimum capital rules dictated by regulators.

"It will disadvantage not just U.S. banks, but U.S. businesses and consumers as well," Barclays Plc President Robert Diamond said in Washington before the rule was completed. Removing the TruPS held as capital could restrict lending by as much as $1.5 trillion, Diamond said, echoing a point made by bank lobbying groups.

The Collins language also will require the U.S. holding companies of overseas banks, such as Barclays, to comply with the same capital rules as domestic lenders. For now, they're exempt as long as their foreign parents are regulated by an entity recognized by the U.S.

The FDIC backed the Collins amendment, saying TruPS don't provide the cushion they were meant to. Banks couldn't use them as capital during the crisis because deferring dividends would have been seen as a sign of weakness, the FDIC has said. The regulator challenged Diamond's analysis as being too simplistic. It assumes banks lend $10 to consumers and companies for every dollar of capital they get, ignoring the complicated instruments such as collateralized debt obligations that they invested in during the boom years, FDIC Chairman Sheila C. Bair said.

"This analysis ignores the ample transition period given the industry to replace TruPS with true equity capital," Bair said in an e-mail today. "Because of the demands of the market, most bank holding companies have already built capital cushions well above regulatory minimums even without TruPS. The Collins amendment will strengthen, not weaken, the capacity of the banking system to lend."

Moody's Investors Service said in a report this week that the rule will have "minimal, if any" impact on banks' ratings because TruPS are already being disqualified as capital by analysts. --Yalman Onaran

Federal Reserve

The Federal Reserve will have a broadened supervisory scope and be subject to the most transparency in its 96-year history after negotiators rejected threats to its political autonomy and bank-oversight powers.

Chairman Ben S. Bernanke will have a seat on a newly created Financial Stability Oversight Council. That board will deputize the Fed to set tougher standards for disclosure, capital and liquidity. The rules will apply to banks as well as non-bank financial companies, such as insurers, that pose risks to the financial system.

Earlier drafts of Senate legislation would have curtailed the Fed's bank supervision. Lawmakers approved an amendment by senators Kay Bailey Hutchison, a Texas Republican, and Amy Klobuchar, a Minnesota Democrat, maintaining the powers. That avoided a clash with House members over the issue. Under the bill, the Fed will keep supervising larger banks including Bank of America and Goldman Sachs and smaller firms such as Central Virginia Bankshares Inc., with assets of $471 million.

U.S. central bankers face a one-time audit of emergency loans and other actions taken to combat the financial crisis since 2007. Under another change, the central bank, after a two- year delay, will have to identify firms that borrow through its discount window and participate in the Fed's purchases or sales of assets, such as mortgage-backed securities.

Senators and House members voted down a tougher audit measure, which would have removed the Fed's 1978 shield from examinations of interest-rate decisions. That plan, previously approved by the House, was opposed by Bernanke and other Fed officials, who said it risked politicizing monetary policy.

Fed governance will also change. Commercial banks will be ineligible to participate in selecting all 12 regional Fed chiefs, leaving the task to non-bankers chosen by lenders and the Fed's Board of Governors. One of the seven Fed governors will be a second vice chairman in charge of supervision. Conferees rejected a Senate plan to make the New York Fed president a political appointee. --Scott Lanman

Credit Raters

Ratings companies, including Moody's Corp. and McGraw-Hill Cos.' Standard & Poor's unit, may avoid a plan to have regulators help pick which firms grade asset-backed securities. Congress also softened a proposed liability provision, making it harder for investors to sue credit raters than under language approved by the House in December.

The overhaul legislation requires the SEC to conduct a two- year study on whether to create a board to decide who rates asset-backed securities. That curbed a Senate proposal to establish the board with SEC oversight. After the study, the board would be established only if regulators can't come up with a better alternative.

Profits grew at Moody's and S&P, both based in New York, during the U.S. housing boom because Wall Street paid them to assess the creditworthiness of mortgages packaged into bonds.

After the housing market collapsed in 2007, pension funds and banks that lost money on the securities blamed credit-rating companies for assigning the assets their highest AAA rankings.

Lawmakers also adopted language that redefines what investors must show to prevent a judge from dismissing a lawsuit against a credit rater. Litigation may proceed if investors demonstrate a company "knowingly or recklessly" failed to conduct a "reasonable" investigation before issuing a rating. The ratings firm could also avoid being sued by hiring an independent company to do the investigation.

Legislation approved by the House in December would have required investors meet a lower threshold of evidence, showing that a rating company was "grossly negligent" in issuing a grade. Current law requires investors to demonstrate they were intentionally misled.

The purpose of the Senate bill was to give credit-rating companies an incentive to conduct "adequate due diligence," without subjecting them to lawsuits that could "easily bankrupt" them, John Coffee, a securities law professor at Columbia University in New York, wrote in a June 16 paper.

Credit-rating companies will respond to the Senate language by adjusting their business practices, Peter Appert, an analyst with Piper Jaffray & Co., wrote in a June 21 note to clients.

The resolution of regulatory uncertainty that has driven down Moody's and McGraw Hill shares presents an "appealing" buying opportunity, he wrote. Moody's has plunged about 68 percent over the past three years in New York Stock Exchange trading. McGraw-Hill has fallen 56 percent in three years. -- Jesse Westbrook

Private Equity

Large hedge and private equity funds will be forced to register with the SEC, subjecting them to mandatory federal oversight for the first time. Venture capital funds were exempted from the registration rule.

Hedge funds, in particular, pushed for the registration requirement, which is less burdensome than the regulations being imposed on banks. In lobbying Congress, representatives of the private pools of capital argued that they shouldn't be heavily regulated because they didn't cause the financial crisis. Nor were they bailed out by taxpayers.

Registration subjects funds to periodic inspections by SEC examiners. Any firm with $150 million or more in assets, such as ESL Investments Inc. and Soros Fund Management, will be covered by the law. Funds also must hire a chief compliance officer and set up policies to avoid conflicts of interest.

Hedge and private-equity funds will be required to report information to the SEC about their trades and portfolios that is "necessary for the purpose of assessing systemic risk posed by a private fund." The data, kept confidential, could be shared with the Financial Stability Oversight Council that the legislation sets up to monitor potential shocks to the economic system.

Complying with registration rules may cost hedge funds as much as $500 million in the first year, said Judith Gross, founder of JG Advisory Services LLC, a New York-based consulting firm to the hedge-fund industry. The estimate is based on 2,000 new registrants and reflects the cost of implementing necessary compliance procedures.

Should the government determine a fund has grown too large or is too risky, it would be placed under Fed supervision.

Restrictions on banks' ability to own hedge and private- equity funds and trade for their own accounts may benefit the funds that are subject to less regulation. The bill could push new investment and trading talent toward the industry. Limits on leverage and stiffer capital requirements for banks may also give hedge and private-equity funds an edge landing investors chasing bigger returns. --Robert Schmidt

Unwinding Failed Firms

The bill gives the FDIC, which already has authority to liquidate failed commercial banks, power to unwind large failing financial firms whose collapse would roil the economy.

Regulators will have clout they lacked during the financial crisis when, instead of seizing flailing companies such as American International Group Inc., the government kept them afloat with a $700 billion taxpayer-funded bailout. Had such authority existed in September 2008, it might have been applied to Lehman Brothers Holdings Inc., whose bankruptcy that month froze credit markets and helped spur Congress to approve the Troubled Asset Relief Program.

The House approved a version of the bill in December that proposed a $150 billion fund, to be paid for by the financial industry, to cover the government's cost of unwinding failing firms. Dodd proposed a similar fund of $50 billion in a Senate version of the bill, which was assailed by Republicans as a perpetual bailout of Wall Street firms. The protests stalled consideration of the legislation on the Senate floor.

Dodd agreed to drop the fund to allow debate on the bill to begin. Under the revised measure, the costs of unwinding failing firms will be borne by the financial industry through fees imposed after a firm collapses. The bill explicitly bars the use of taxpayer funds to rescue failing financial companies.

Risk Retention

The legislation will force lenders, with the exception of some mortgage providers, to hold at least a 5 percent stake in debt they package or sell. The provision is designed to rein in the trade of easy credit blamed for fueling the financial crisis.

The rule will affect credit-card debt, auto loans, mortgages and other securitized debt. Issuers of asset-backed debt and the originators who supply them with pools of loans, including credit-card companies such as Riverwoods, Illinois- based Discover Financial Services, will be forced to retain some of the credit risk. The goal is to align the issuers' interests with those of the investors who buy their financial products.

The provision will curtail lending and raise consumer costs, said Tom Deutsch, executive director of the American Securitization Forum, a New York trade group that represents issuers, investors and other participants in the market.

"These risk-retention provisions will curtail overall lending to an extent across all types of credit products," Deutsch said in an interview. "The result may improve some lending standards, but it will also have the consequence of reducing the overall availability of credit."

Lawmakers exempted many mortgage lenders from the rules after lobbying by brokers and community banks, who said forcing lenders such as Bank of America to keep loans on the books would tie up capital and lead to higher interest rates. The exemption wouldn't apply to mortgages with features that increase risk, such as negative amortization, interest-only payments and balloon payments.

The exception is "tremendously important," said Glen Corso, managing director of the Community Mortgage Banking Project, a coalition of lenders. "The exemption will ensure the continued availability of stable, affordable, low-risk mortgages."

Loans guaranteed by the Federal Housing Administration, U.S. Department of Agriculture, and U.S. Department of Veterans Affairs also will be exempt from retaining risk. The three agencies last year guaranteed more than 30 percent of new mortgages as private capital fled the market after the collapse of the housing bubble.

Sellers of commercial mortgage-backed securities won language giving regulators flexibility to tailor risk-retention rules to specific products. For example, regulators could set underwriting standards as a form of risk retention. --Lorraine Woellert

Fiduciary Duty

Lawmakers scrapped a proposal that would have made securities firms more accountable to individual investors. Instead, the SEC is required to study whether changes are necessary.

The debate focused on whether stock brokers who offer clients investment advice should have a fiduciary duty that requires disclosure of all conflicts and restricts marketing to products that are in customers' best interests. Currently, brokers must only ensure that a stock or bond is suitable before selling it to a client.

Consumer advocates have said the fiduciary obligation is needed because investors are sold products they don't understand or can be confused by titles used by financial advisers. Banks and insurance companies lobbied against the change, saying people selling securities shouldn't be regulated the same way as professionals who invest money for clients.

The House-Senate panel agreed to let the SEC impose a fiduciary duty on brokers once the regulator completes a six- month study. House lawmakers had earlier proposed implementing stiffer rules without an SEC review, prompting opposition led by Senator Tim Johnson, a South Dakota Democrat. --Jesse Westbrook

Insurance Industry

The bill creates a new Federal Insurance Office within the Treasury to monitor insurers, and requires a study that will recommend ways to further overhaul regulation of the industry. Industry groups say a new layer of oversight may complicate compliance and increase costs.

The measures were prompted by the near-collapse of New York-based AIG in 2008. The insurer, then the world's largest, got a $182.3 billion taxpayer bailout after failing to set aside enough money to cover obligations on credit-default swaps linked to subprime mortgages.

Insurers, which are mainly regulated by states, will now have to deal with a national watchdog. State insurance commissioners are concerned federal oversight will interfere with rules already in place. Insurers are concerned that they will have to devote more resources to answer to multiple officials.

"Half of our companies are farm- and county-mutual companies," said Dylan Jones, federal affairs director of the National Association of Mutual Insurance Companies, which represents policyholder-owned carriers. “They certainly don’t have the resources to respond to federal regulatory calls.”

A national regulator may coordinate agreements with counterparts in other countries. “It will create a single voice in the U.S. for insurance issues,” Lloyd’s of London Chief Executive Officer Richard Ward said in a June 22 interview. -- Sarah Frier

###

Andy Leonatti and Bill Swindell, *Conferees Reach Deal On Reg Reform Bill,* National Journal's CongressDaily, June 25, 2010.

Negotiators finalized a conference report at 5:30 a.m. this morning over a revamp of the nation's financial regulatory system by giving a little breathing room to big banks over new rules restricting their derivatives business and investment in hedge funds and private equity groups. But it still imposes harsh rules against the industry blamed for its central role for the banking crisis.

The completion of the conference report gives House and Senate Democrats one week to approve it before the Independence Day recess. Passage would hand the Obama administration a major policy victory in its goal to rein in Wall Street and give consumers additional rights following the banking and housing meltdown.

"The bill that has emerged from conference is strong. It represents the most sweeping set of financial reforms since those that followed the Great Depression," said Treasury Secretary Geithner. "It establishes the greatest consumer financial protections in American history. It prevents financial firms from taking risks that will threaten the economy. And it provides the government with significant new tools to better protect taxpayers from the damage of future financial crises."

Looking for more? Check out our issue page detailing the debate on overhauling the nation's financial regulatory structure. For the latest stories, related documents and other coverage click here.

The final step was completion of an amendment making the conference report budget neutral. House Financial Services ChairmanBarney Franksaid the conference report needed to cover $19 billion. Conferees voted for a fee on banks and hedge funds so the bill could comply with pay-as-you-go budget rules.

The revenue raiser would be done through an FDIC assessment on the largest banks and hedge funds according to a risk formula. The assessment was originally supposed to be used for a $150 billion fund to wind down failing institutions.

"It was the collective errors of many in the financial industry that led to this set of problems," Frank said, noting that the bill would be fully paid off within five years. Dodd signed on to the proposal, noting the total needed would be less than the bonus pool by the largest financial firms.

Around midnight, Senate Agriculture ChairwomanBlanche Lincolnemerged from hours of closed-door negotiations to strike a deal with House negotiators on her title cracking down on the multi-trillion dollar derivatives market, forcing banks to spin off their profitable swaps desks. Lincoln had been huddling Thursday with administration officials to strike a deal.

"My focus has been on ensuring that banks should be banks," Lincoln said.

Lincoln agreed to a compromise offered by House Agriculture ChairmanCollin Petersonthat would allow banks to keep their swap desks for foreign exchange and interest rate swaps -- trades in which the bank is hedging for its own risk -- and gold and silver futures.

Trades involving agriculture, energy and metal commodities - as well as credit default swaps that have not been cleared by an open exchange where capital and margin requirements are set -- would have to be spun off to a capitalized affiliate.

Lincoln faced pressure from centrist House Democrats, especially those from New York, who were pushing to exclude most swaps from the requirement. Some suggested only spinning off the desks that sell the risky credit default swaps. Rep.Melissa Bean, D-Ill., entered the conference room Thursday night to make sure Lincoln received a proposal from her New Democrat Coalition.

Assistant Treasury Secretary for Financial Institutions Michael Barr was constantly conferring with both Frank and Dodd.

Lincoln, who is facing a tough reelection fight against Rep.John Boozman, R-Ark., had refused to budge on her language. It was viewed as more stringent than the original House and Senate draft, and she used it as a central theme in her populist anti-Wall Street campaign.

House conferees defeated an attempt by Republicans to reinsert the original House derivatives title, which House Agriculture ranking memberFrank Lucassaid more fairly addressed the concerns of commercial end users.

"The language ensures end users will not be regulated as though they are a large bank operating on Wall Street," Lucas said.

Conferees accepted an amendment from Rep.Gary Peters, D-Mich., that would provide an exemption for captive-finance arms of manufacturing companies that use derivatives hedging for business interests. The amendment would benefit the financing arms of automobile manufacturers in Peters' state.

Senate Banking ChairmanChristopher Doddrejected the Peters amendment, noting there was already captive finance language in the bill, but Sen.Bob Corker, R-Tenn., succeeded in retaining the amendment by an 8-4 vote.

On one of the other remaining issues, Dodd proposed a compromise on "Volcker Rule" language that would prohibit banks from proprietary trading for their benefit and force them out of the hedge fund and private equity business.

Dodd revised the language, named for its architect, former Federal Reserve Chairman Paul Volcker, to allow banks to invest into hedge funds and private equity. But they would have to adhere to a "de minimus" level not to exceed 3 percent of their Tier 1 capital level. The original offer used common equity.

Large banks had sought a Tier 1 capital level, with the common equity level reducing their ability to invest in both funds by almost 50 percent, according to one estimate.

Sen.Jack Reed, D-R.I., stressed the language would mean that any losses by a hedge fund would be borne solely by investors, not the bank that has invested.

Dodd said that he gave such allowances after placing additional requirements in the provision that were contained in separate legislation by Democratic Sens.Jeff Merkleyof Oregon andCarl Levinof Michigan, such as prohibiting conflicts of interest by underwriters with the securities that they sell.

Dodd said the "overall effect is to strengthen the limitations of proprietary trading." The limits would apply to bank-holding companies and firms that own insured depositories.

Republicans have argued that adoption of the Volcker Rule would put the United States at a competitive disadvantage to other G-20 nations that are also working on financial regulation but may not adopt the same standards.

With concerns of New Democrats and the New York delegation assured, chances are good for House passage of the report. The chamber approved the original House version, 223-202, in December.

.In the Senate, three Republican votes are needed because two Democrats, Sens.Maria Cantwellof Washington andRuss Feingoldof Wisconsin, voted against the Senate version last month and are likely to oppose the conference report.

Dodd worked to lock down the votes of GOP Sens.Scott Brownof Massachusetts andSusan CollinsandOlympia Snoweof Maine. All voted for the original Senate version, which passed 59-39.

Dodd held firm on several offers, including insisting that language by Snowe giving small businesses more input in rulemaking of a new Consumer Financial Protection Bureau be retained.

The final conference report also retains Collins language that requires bank-holding companies to hold better quality of capital, but it exempts those with less than $15 billion in assets.

Brown wanted to make sure that asset-management firms such as Fidelity Investments would not come under harsh restrictions under the Volcker rule, insisting on the new "de minimus" language.

But Republican conferees were uniformly against the final bill, arguing that it represented an unprecedented intrusion into the financial markets and failed to tackle the major problem of the conservatorship of Fannie Mae and Freddie Mac.

"On top of our country's mounting debt and deficits and the Administration's tax increases, this proposal is another step backward in our efforts to create jobs and revive the economy," said Sen.Judd Gregg, R-N.H.

Conferees also wrapped the title of the bill creating a new Bureau of Consumer Financial Protection, which drew major opposition from the American Bankers Association and the U.S. Chamber of Commerce but was a priority for the White House and Frank and Dodd. The agency will write rules for home mortgages, credit cards and other credit products, and it will have enforcement authority over much of the financial sector.

The last hiccup was over a bid by Energy and Commerce ChairmanHenry Waxmanto give the Federal Trade Commission the kind of expedited rule-making authority that the consumer bureau will have. But Dodd had pushed back, noting that Senate Commerce, Science and Transportation Committee members had raised jurisdictional concerns.

The package included language, opposed by the White House, that would exempt auto dealers from the bureau's jurisdiction. Under the agreement, the FTC would get expedited rulemaking authority to issue rules on dealers regarding unfair and deceptive practices.

The Senate had wanted to allow the bureau to write rules under the Truth In Lending Act that would cover car dealers but allow the Federal Reserve to rescind them if it found fault. However, Frank said there was little appetite in the House for placing new burdens on auto dealers, who mounted a massive lobbying effort for a carve-out. The powerful National Automobile Dealers Association lobbied hard for the exemption and opposed giving the FTC expedited rulemaking authority, even though the House offer gives the bureau no jurisdiction.

"While dealers still have concerns with the new powers granted to the Federal Trade Commission under the House language, progress has been made to protect consumers and to allow car buyers to access the credit required to meet their transportation needs," said Bailey Wood, NADA's legislative director.

Earlier Thursday, consumer advocates won a victory when conferees agreed not to delay SEC rulemaking on holding stockbrokers and dealers to the same fiduciary standard that investment advisors are held.

Under the agreement, an SEC study on the effects of separate standards for brokers and advisors would be required. The compromise would also allow the SEC to undertake rulemaking on the subject while the study is going on, but it would have to consider the results of the study. The SEC would not be required to regulate on the issue.

Sen.Tim Johnson, D-S.D., who is slated to replace Dodd next year at the Banking helm if Democrats retain their Senate majority, had secured language in the Senate version calling for a study and delayed rulemaking for two years, which Frank vigorously opposed and successfully fought against.

The House also relented on a Senate proposal to allow the Fed to set and enforce risk management standards for clearinghouses. The House had a proposal to leave enforcement with the CFTC and SEC.

On another major issue, conferees agreed to provide a major boost in funding to the beleaguered SEC, which has been blamed for failing to notice the accounting scams of Bernard Madoff and others. The language would still give appropriators a say in funding the agency.

The provision would allow the SEC to recoup appropriations through transaction fees, which gives it a degree of self-funding. An amendment by Senate Banking ranking memberRichard Shelbywould also allow the commission to sidestep the White House and submit its own budget request and withdraw up to $100 million a year from a reserve fund. The amendment authorizes funding up to $8.8 billion for FY11 to FY15, with $1.3 billion for FY11.

Shelby, who is also an appropriator, said it was important for Congress to retain oversight of the agency, noting that its performance in the run-up to the financial crisis makes "a compelling case that the SEC ought not to go unmonitored." The SEC would also have to report to Congress how it spends funds from the reserve fund.

Conferees also ultimately agreed on the issue of proxy access for shareholders to get greater rights to nominate directors. Under the final agreement worked out by Sen.Charles Schumer, D-N.Y., SEC rulemaking would require a shareholder to hold 3 percent of outstanding shares for three years in order to nominate and vote for a proxy. Dodd's original proposal required 5 percent ownership and a two-year hold.

Schumer said his proposal reflected "not a complete consensus, but a rather broad consensus" from investors.

The House countered with a proposal that would require shareholders to hold stock for two years before nominating a proxy, but it would leave the SEC to determine the amount of stock held. Frank said the SEC would be instructed to come up with a percentage that takes into account shareholders that hold "a long-term interest" in the company.

Proxy access is an important issue for public employee pension funds that invest in the market. Such funds would be able to team up for an aggregate percentage to nominate a proxy.

Rep.Maxine Waters, D-Calif., said the threshold would likely be too high a bar to reach, noting that if the major public employee pension funds in California were to team up, they would not meet the 3 percent threshold.

The final package also would require the Fed to establish reasonable debit card fees, curbing a $20 billion business that had been the target of a lobbying campaign by retail merchants. In addition, it would impose new reporting requirements for hedge funds and private-equity groups and establish a new Federal Insurance Office within Treasury to assist in providing policymakers information, especially on international trade agreements. It also imposes new liability standards on credit-ratings agencies.

###

Silla Brush, *Congress moves to deal on Volcker rule*, The Hill, June 25, 2010.

Congress on Thursday moved a step closer to striking a deal on a controversial part of Wall Street overhaul legislation aimed at restricting trading at big banks. The proposal on the "Volcker rule," named after Paul Volcker, the Obama administration adviser, seeks to limit proprietary trading at big banks as well as their ability to sponsor hedge funds and private equity funds. Senate Banking Committee Chairman Chris Dodd (D-Conn.) unveiled the new language, which was still under debate Thursday night among lawmakers on a conference committee finalizing the bill. The "Volcker rule" provision and another measure backed by Sen. Blanche Lincoln (D-Ark.), which restricts banks' derivatives trading, have been the two most controversial parts of final talks on the bill. Lawmakers were still negotiating on the Lincoln provision, which has faced strong opposition from centrist Democrats, particularly from New Democrats and New York House members. Senior White House and Treasury officials were meeting on Capitol Hill with Lincoln and centrist House members. Reps. Scott Murphy (D-N.Y.), Melissa Bean (D-Ill.), Greogry Meeks (D-N.Y.) and Mike McMahon (D-N.Y), who have all raised concerns about Lincoln's provision, were in a series of meetings in Dirksen. Treasury Deputy Secretary Neal Wolin and Assistant Secretary Michael Barr were also seen in the building in a late session of talks. House Majority Leader Steny Hoyer (D-Md.) earlier on Thursday was also working on the issue. The Dodd proposal seeks to more clearly define limits on proprietary trading, differentiate risk-mitigating hedging from other activity involving derivatives and provide more explicit conditions to allow insurers -- which are often organized as bank holding companies -- to continue to do trading essential to their normal business. The proposal would also allow banks to invest a small amount of money in hedge funds and private equity funds. Sen. Scott Brown (R-

Mass.), whose vote Dodd likely will need to win in order to move the conference report through the Senate, and other lawmakers had raised concerns about a blanket ban on sponsorship. Brown has been pushing for changes to the Volcker provision to benefit Massachusetts-based financial interests. Dodd's proposal would allow investment in hedge funds and private equity funds to be limited to no more than 3 percent of fund capital. Total investment in hedge funds and private equity fund could not exceed 3 percent of the firm's tangible common equity. The language on the Volcker rule has been among the most contentious debates of the Wall Street reform conference. Democratic Sens. Carl Levin (Mich.) and Jeff Merkley (Ore.) have pushed hard for stronger limits than what was included in the original Senate legislation. At press time, lawmakers were vowing to complete the conference on the legislation late Thursday, setting up a final vote on the bill before the July 4 recess. A deal on the Volcker measure could help ease final passage of the 2,000-page Wall Street overhaul bill, and would put President Barack Obama on the cusp of a second major domestic policy victory before the midterm elections.

###

Brady Dennis, *House-Senate panel works to get financial regulation bill to Obama*, Washington Post, June 25, 2010.

Lawmakers pressed deep into the night Thursday, trying to solidify a series of political deals in an effort to get a bill that would overhaul the nation's financial regulation to President Obama by July 4.

Despite vows of an open process, Democrats and administration officials spent much of the day negotiating behind closed doors over a pair of contentious issues -- bank trading and derivatives -- in a bid to secure crucial votes for the final legislation in both houses of Congress.

Moments before midnight, lawmakers resolved one of those outstanding issues, reaching a compromise on the "Volcker rule," named after former Federal Reserve chairman Paul Volcker. The measure would bar banks from trading with their own money, a practice known as proprietary trading.

But the most divisive topic remained a proposal by Sen. Blanche Lincoln (D-Ark.) that would force big banks to spin off their derivatives-dealing businesses. Her measure has been a thorny issue for Democrats for months.

Lincoln has stayed firm, saying that her provision is essential for protecting the financial system and preventing taxpayers from having to bail out banks again. Many liberals support the amendment, but it is opposed by the Obama administration and some regulators, as well as by an influential bloc of moderate Democrats and House Democrats from New York, where much of the derivatives industry is concentrated.

Administration officials and Democratic leaders fervently tried to bridge that divide throughout Thursday. Top Treasury officials, including Deputy Secretary Neal Wolin and Michael Barr, an assistant secretary, roamed the Dirksen office building, alongside White House economic adviser Diana Farrell, conferring with aides and key lawmakers. Gary Gensler, chairman of the Commodity Futures Trading Commission, worked the committee room for much of the day.

Lincoln came and went from the hearing room, meeting at times with members of the centrist New Democrat Coalition to try to find a final compromise on her provision. Inside the conference room, she huddled with Senate banking Chairman Christopher J. Dodd (D-Conn.), House financial services Chairman Barney Frank (D-Mass.) and other key lawmakers.

As the session continued into the early hours of Friday, over 15 hours after it began, no definitive compromise had emerged.

In reaching a deal on the Volcker rule, negotiators adopted a provision that mirrors language previously offered by Sens. Carl M. Levin (D-Mich.) and Jeff Merkley (D-Ore.), which would ban certain forms of proprietary trading and forbid firms from betting against securities they sell to clients. The Merkley-Levin measure never got a vote on the Senate floor.

"One goal of these limits is to reduce participation in high-risk activity that can cause significant losses at institutions which are central to the financial system," Dodd said. "A second goal is to end the use of low-cost funds, to which insured depositories have access, from subsidizing high-risk activity."

According to the proposal, firms would have up to two years to scale back their proprietary trading and investments in hedge funds and private equity funds.

Even as they worked to toughen the Volcker language, lawmakers agreed to an exemption at the behest of Sen. Scott Brown (R-Mass), one of only four Republicans to vote for the financial regulation bill when the Senate approved it last month. Brown, whose state is a hub of the asset-management industry, wanted the bill to allow banks to invest at least a small amount of capital in hedge funds and private equity investments. The measure would cap a bank's investment in private equity or hedge funds at 3 percent of the firm's tangible common equity.

Republicans criticized Democrats for their rush to finish a bill, saying the haste would leave scores of unintended consequences. Sen. Bob Corker (R-Tenn.) also complained that the effort to garner key votes had allowed a handful of senators to "hijack" the process over a few parochial issues.

As the night wore on, lawmakers began to yawn. Trash cans overflowed with coffee cups and sandwich wrappers. Aides who had worn down their BlackBerry batteries recharged them in the hall.

Lawmakers also deferred final resolution of other issues late into the evening. But they moved toward exempting the nation's 18,000 auto dealers from oversight by a new consumer financial protection watchdog, a striking legislative victory for one of the nation's most influential lobbying groups and blow to consumer advocates and Democratic leaders who had long opposed such a loophole.

"It is time for people like myself to concede that the votes are not there to give the consumer regulator any role in this," Frank said.

They also inched toward resolving remaining differences on other issues, such as giving shareholders more of a say on corporate governance, placing new restrictions on mortgage lending and approving an assessment on large firms to help pay for the bill, which the Congressional Budget Office had estimated would cost nearly $20 billion over the next decade.

###

Damian Paletta, *As Clock Ticks, White House Brass Files In*, The Wall Street Journal's Washington Wire blog, June 24, 2010 6:52 PM ET.

As Democrats pressed to get a final deal amongst their different factions on financial rules, the White House sent heavy artillery up to Capitol Hill Thursday night.

Around 6 p.m., Treasury Department Deputy Secretary Neal Wolin, Treasury assistant secretary Michael Barr, and deputy director of the White House National Economic Council Diana Farrell arrived for closed-door meetings in the Dirksen Senate Office Building.

The meetings come as the "conference" panel of lawmakers trying to finalize financial overhaul rules grinds into the evening.

Almost simultaneously, several House Democrats including Reps. Melissa Bean (D., Ill.), Gregory Meeks (D., N.Y.), Michael McMahon (D., N.Y.), and Scott Murphy (D., N.Y.). arrived and joined the White House officials in a meeting with Sen. Blanche Lincoln (D., Ark.) about derivatives rules. These House Democrats are sharply critical of a provision in the overhaul bill Ms. Lincoln wrote governing derivatives. The administration officials are likely in the room to make sure whatever deal they might cook up is something they can live with.

Are they going to get a deal? Not clear, but from the body language it appears they are closer than they were a few hours ago.

"We're trying to get it done," Mr. Meeks said. "We're getting close."

Of course, they don't exactly bring the star power or name recognition of another person who was temporarily standing in the hallway outside the conference: actress Jennifer Garner. No, she wasn't lobbying for new Wall Street rules. She was on Capitol Hill for something else.

###

Damian Paletta and David Wessel, *Business Rallies to Shape Finance Endgame*, The Wall Street Journal, June 21, 2010.

Caterpillar Inc., Cargill Inc. and the municipal utility of Sacramento, Calif., were largely bystanders in the financial crisis.

Yet as Congress moves this week toward a sweeping rewrite of the rules of finance, they are major players: One of the most contentious issues is whether organizations like these should be subject to a net being readied by the Obama administration.

They are users of the financial contracts known as derivatives, which they employ to hedge their bets on anything from the price of fuel to the possibility that a customer will default. The administration and its congressional allies are determined to rein in the largely unregulated derivatives market to make the financial system safer.

For a year, users have been fighting furiously to fend off changes in how the securities are bought and sold, and have had considerable success in the House. Then, this spring the tide turned against them in the Senate. Now, with a bloc of business-friendly Democrats pressing hard, the issue has exploded into one of the biggest battles as a House-Senate conference crafts the final version of a financial-regulation overhaul.

The outcome—which may come as early as this week—will influence the profits of the nation's largest banks, the nature and cost of hedging by businesses, and the extent to which the financial overhaul meets its goal of reducing the odds of a future meltdown. Billions ride on the legislation's precise wording on seemingly obscure points, such as who is a "major participant" in the market? And what is a "substantial position"?

A derivative is a security whose value depends on something else: interest rates, mortgages, oil or the ability of a company or homeowner to pay debts. They range from the simple, like the futures farmers use to lock in a price on corn they will grow, to custom derivatives in which a financier can place a bet on the shifting relationship between two countries' interest rates. Trading in derivatives is a big business, accounting for roughly $23 billion in annual revenues for the five banks that dominate it, according to Comptroller of the Currency data.

In some accounts of the financial crisis, derivatives were at its core, particularly the credit-default swaps that allow investors to bet on the likelihood a borrower will repay, which felled insurer American International Group Inc. In competing narratives of the crisis, derivatives played only a bit part.

The Obama administration leans to the first view, saying the crisis showed the vulnerability of the financial system to activities beyond the scope of regulation. Part of its remedy is to standardize most derivatives, instead of relying on the arrangements many companies favor, which users negotiate privately with banks. The administration would force trading of those standardized derivatives more into the open, in some cases onto exchanges, with settlement handled by clearinghouses.

The administration isn't alone. The Group of 20 major economies last year supported trading standardized derivatives on exchanges by the end of 2012.

At first, about the only people paying attention to the details of proposed U.S. derivatives legislation were banks and the businesses affected. This spring, something changed.

The White House, no longer preoccupied by health care, turned to financial-regulatory legislation. Critics of big banks were emboldened in April when the Securities and Exchange Commission accused Goldman Sachs Group Inc. of fraud in a derivatives deal. Then the derivatives issue moved to the Senate floor, becoming a litmus test of standing up to Wall Street.

"One unfortunate part of the Washington debate is the perception that's been created that all derivatives products somehow are evil," says Clay Thompson, director of government affairs for Caterpillar, which uses the swaps to protect itself from fluctuations in interest rates, currencies and raw materials.

The Obama plan to standardize derivatives and force them into clearinghouses would affect nearly everyone who uses them to hedge business risks, known as the "end users." Today, most derivatives are over-the-counter deals between two parties; if one goes under, the other gets stuck. Multiply that enough times, and the result is a financial crisis.

In a clearinghouse, akin to a cooperative, all parties to derivatives deals chip in to cover losses if any one goes under. To make that work, companies that use derivatives, either to hedge or speculate, post collateral, in case the bets go against them.

End users hate this idea. It "will have a significant drain on working capital at a time when capital is highly constrained and credit is in short supply," David Dines, head of risk management at commodities giant Cargill, told a Senate committee in 2009.

Business lobbies, pressing their case to conferees in a letter Thursday, said 100,000 to 120,000 jobs at big companies could be lost if they are forced to post collateral. The administration scoffs at such claims.

End users say that because they aren't speculating but just trying to control risk, they should have an exemption from new derivatives rules. That principle that has gained wide support, though there is little agreement on how the exemption should be written.

While the Treasury and Federal Reserve have had a number of priorities in the financial-regulation bill, Gary Gensler, chairman of the Commodity Futures Trading Commission, had only this one. He became the Energizer Bunny of the issue.

"Over-the-counter derivatives are meant to lower risk on our economy, and to some extent they do," Mr. Gensler says. "But they have concentrated risk in a few big banks...through their interconnectedness." He says forcing them onto clearinghouses would shift the risk from any single institution to the clearinghouse. It can more easily offset, for instance, bets that interest rates will rise with bets that they will fall. That would make it possible to allow a big financial firm that is floundering to fail, restoring market discipline.

Banks that deal in derivatives saw their profits threatened by the push to change the system of private, two-party deals into one that is more open—and thus more competitive. Aware of their own unpopularity, banks nudged business customers to weigh in.

Morgan Stanley executives convened a conference call for business clients last July. The talking points, according to a copy provided by a participant: "Could impair the ability to accurately hedge risks... Could put additional liquidity pressures on balance sheets."

The U.S. Chamber of Commerce, one of several business organizations that joined forces on the issue, brought 15 or so corporate treasurers to Washington to do a tutorial for about 50 congressional staffers. One treasurer was Tom Deas of FMC Corp., a Philadelphia chemicals company. "We're not speculating" with derivatives, he says. "We're swept up in the regulatory reaction to AIG."

Even the Sacramento Municipal Utility District has lobbied in Washington, seeking an exemption from new derivatives rules. The district uses derivatives to hedge against volatile energy prices. "We're not here on behalf of the banks," says Elisabeth Brinton, the district's chief business and public-affairs officer. "We are concerned it will impact the cost of us doing business."

The House moved first on financial regulation. Mr. Gensler warned in testimony against allowing any exemptions that "provide a giant-sized loophole for financial institutions to avoid standardization and maintain their profit margins...at great potential risk to the overall economy."

Though the House's Financial Services Committee is dominated by old-time liberals from Democratic strongholds, many of its 42 Democrats represent districts that aren't reliably Democratic or particularly liberal. These "new Dems," as they're known, became major players in the derivatives battle.

Two of them, Michael McMahon (from Republican-leaning Staten Island in New York) and Scott Murphy (upstate New York) offered end users that don't pose a "systemic risk" to the financial system an exemption from the clearinghouse rule.

"We must work to protect the end users, good American businesses that are just trying to manage their cash flows and hedge against uncertain risks," Mr. McMahon said on the floor.

Committee Chairman Barney Frank (D., Mass.) responded, "[W]hen an end user is employing that exemption in a way that puts counter-parties at risk, I don't want to have to wait until a cataclysm."

But the Murphy-McMahon amendment passed, 304-124. It exempted end users unless they had "a substantial net position in outstanding swaps" held for purposes other than "hedging, reducing or mitigating commercial risk."

Other users would be pushed toward standardized contracts settled on clearinghouses. But the House resisted Treasury efforts to require dealers to hold bigger capital cushions for customized derivatives, which would have made them more expensive.

Business lobbyists figured the bill could only get better for them in the Senate, where Republicans and farm-state and manufacturing-state Democrats have substantial sway.

The Senate was indeed poised to move in the direction of businesses and bankers. Blanche Lincoln, the Arkansas Democrat who heads the Senate Agriculture Committee, and its senior Republican, Saxby Chambliss of Georgia, came close to a business-friendly deal.

But the Senate was riven by tension among Democrats; between Democrats and Republicans; and between its banking and agriculture committees. When administration officials got a copy of the Lincoln-Chambliss bill, they moved aggressively to block it.

The plan fell far short of the president's objectives, Mr. Gensler and Michael Barr of the Treasury told Sen. Lincoln. She, as it happened, was facing a tough primary challenge from the left and was looking to defend herself against the idea she was too pro-business. Messrs. Gensler and Barr told several other Democrats on her committee the business-friendly bill would be harshly criticized by the White House.

That killed it. Sen. Lincoln, in fact, turned into a fierce derivatives skeptic. She even added a provision that would force banks to spin off their derivatives-trading businesses, which went beyond anything the Treasury wanted. Ms. Lincoln has said her proposal wasn't offered for political reasons and reflects what she believes is the best policy.

Then, on April 16, came the SEC's accusation that Goldman had deceptively marketed a debt derivative. Goldman denied it, but the charge hardened antibank, anti-Wall Street, antiderivative sentiment in Congress.

Corporate treasurers marshaled by the U.S. Chamber made a last-ditch effort to sway Deputy Treasury Secretary Neal Wolin, the Treasury's rhetorical pit bull on financial regulation, at a meeting in his office on April 20. Among the petitioners: the treasurer of BP PLC, who would soon have other problems. That was the day a BP well in the Gulf of Mexico blew out.

Mr. Wolin told the companies the new rules were in their interest because in a more transparent market, banks wouldn't charge them as much.

Derivatives by now had erupted as a political issue, becoming a test of whether Congress would stand up to Wall Street. "This week we brought sunlight to a $600 trillion derivative markets where Wall Street speculators can no longer gamble with the trust and good faith of Main Street and taxpayers in Arkansas," Ms. Lincoln said in an April 23 debate for her ultimately successful primary election.

The Lincoln bill cleared the committee 13-8—even winning the vote of a Republican, Charles Grassley of Iowa—and passed the full Senate 59-39.

The end-user lobby was left reeling. The Senate bill narrowed exemptions, meaning far more firms might be forced to use standardized derivatives, with all the clearing and collateral rules these entail.

Whereas the House bill said the new rules covered only end users with "a substantial net position" in derivatives used for other than hedging, the Senate bill left out the word "net." The House had largely exempted the finance arms of manufacturers; the Senate didn't. And the Senate bill gave more latitude to Mr. Gensler's CFTC.

In another contrast, the Senate bill required regulators to set a "substantially higher" capital requirement for banks offering derivatives that don't go through clearinghouses.

As the conference of nearly 40 lawmakers wades through the 1,974-page Senate bill, members repeatedly cite the treatment of end users to highlight how much is at stake.

The "new Dems" continue to press for clear protections for end users who pose little risk to the financial system, contending the Senate version fails that test.

The administration and its congressional allies are pushing back just as hard.

On Wednesday, at a fund-raiser at the Source restaurant near the Capitol, officials from Ford Motor Co. and MillerCoors LLC asked Sen. Charles Schumer, one of the conferees, about the end-user exemptions.

The New York Democrat, in keeping with the subject, hedged. Derivatives play an important, constructive role in the economy, he said. But, he added, there has to be more transparency, which he said pushing them onto clearinghouses and exchanges would provide.

###

Victoria McGrane and Damian Paletta, *White House, Top Lawmakers Hold Late-Night Meeting*, The Wall Street Journal, June 17, 2010.

WASHINGTON—Top Obama administration officials held a closed-door strategy meeting Thursday night with key Democrats to plot the final stages of the year-long effort to rework financial rules.

White House Chief of Staff Rahm Emanuel, Treasury Secretary Timothy Geithner, and several others met for more than an hour in a second-floor hearing room with House Financial Services Committee Chairman Barney Frank (D., Mass.) and Senate Banking Committee Chairman Christopher Dodd (D., Conn.). They plotted strategy and the political and policy decisions looming in the next week.

"There was no back-room deal cut here, " Mr. Frank said in a hallway interview after the meeting. "This was a meeting to strategize about common goals."

Joining Mr. Geithner were Treasury Deputy Secretary Neal Wolin and Treasury Assistant Secretary Michael Barr. The mood appeared amicable. Game seven of the NBA finals was on a television in the background, and several times laughter spilled into the hallway, apparently once in response to a joke from Mr. Frank.

It was "kind of a general conversation, no issues were resolved," Mr. Dodd said in an interview. They discussed things stand and what lawmakers and their staffs have to do over the weekend, he said.

Messrs. Frank and Dodd, as well as their House and Senate colleagues, have spent the past three days trying to reconcile competing versions of financial overhaul bills that separately passed the House and Senate. They reached agreement on some key issues, such as deposit insurance, but they remain at loggerheads on others, including capital requirements for banks and how to regulate the payment systems money flows through.

Messrs. Frank and Dodd have tried to steer clear of political landmines during the negotiations, but the left and centrist wings of their party are beginning to pull the financial bill in different directions. They can't afford to lose many votes, and political calculations are being made about what changes they can afford and what changes they can't.

Many expected a controversial amendment by Sen. Susan Collins (R., Maine) dictating bank capital rules to be stripped out of the final compromise. But in recent days the provision picked up a surprising support. It's unclear whether top Democrats and the administration will try to remove it or narrow its focus. Ms. Collins's vote is crucial, as she is one of just four Republicans in the Senate who agreed to vote for the bill. Losing her backing could jeopardize the entire bill.

House and Senate aides and administration officials are expected to confer throughout the weekend to try and resolve some of the issues including how to treat Ms. Collins's amendment. They are also still debating how to construct large-bank supervisory rules and what sorts of voting rights to give shareholders of public companies.

Next week some of the more controversial issues will also be tackled, including derivatives regulation and consumer protection rules. Lawmakers and administration officials hope to have the bill signed into law by July 4.

Mr. Geithner and his Treasury colleagues have made occasional visits to the Hill and have an open dialogue with Messrs. Frank and Dodd. Mr. Emanuel's presence at the meeting reflects the significance the White House has placed on new financial rules, as it could be the last major piece of legislation to move through Congress this year.

When asked if the administration officials raised any concerns during the meeting, Mr. Frank interjected: "Everybody's got concerns, but we're all working for the same thing."

Despite the long nights this week, the lawmakers appeared to still have their sense of humor, and Mr. Frank appeared in no rush to go home.

"You can tell your editorial board I'm not yet through saving the world," he said.

###

Ben White, *Banks queasy as reform deal nears,* Politico.com, June 8, 2010 4:47 AM ET.

For months, Wall Street banks have been biding their time, serenely confident that Democrats would eventually drop their get-tough stance on derivatives and quietly excise a tough new proposal from the financial reform bill.

Talk about a bad bet: Now there's a chance Wall Street will have to live with the restrictions after all - to the tune of billions in lost revenue from trading in the exotic investments.

As the battle over the biggest rewrite of industry rules since the Great Depression heads into its final days, Wall Street banks are no longer confident they can tailor financial reform to their liking - despite a parade of U.S. officials who share their distaste for the proposal, which would force banks to spin off their derivatives trading desks.

Their strategy went like this: Both Federal Deposit Insurance Corp. Chairman Sheila Bair and Federal Reserve Chairman Ben Bernanke are no fans of the derivatives proposal. Bair and Bernanke could in turn provide cover for House Financial Services Chairman Barney Frank (D-Mass.), who is running a House-Senate conference committee on the bill that begins Thursday.

That would allow Frank to jettison the derivatives proposal in favor of softer derivatives reform passed by the House, which would require more disclosure but no forced spinoffs of derivatives desks.

Lobbyists and financial executives now say they are much less confident this will happen. Frank is sending less clear signals these days - after initially saying he believed the Senate version of derivatives reform "goes too far."

And they believe the political climate may not allow for final approval of any measure not seen as tough on Wall Street.

Electoral politics will enter the complex equation Tuesday as well, as Sen. Blanche Lincoln (D-Ark.) faces a primary runoff. Lincoln sponsored the derivatives language. If Lincoln loses the too-close-to-call race to Arkansas Lt. Gov. Bill Halter, some on Wall Street think it will be easier to get the language stripped out if a defeated Lincoln loses interest.

But the price to be paid if Lincoln's language does come out - widely expected to be a tougher version of the "Volcker rule" banning trading by banks using their own money - could make it a hollow victory, said financial executives and lobbyists.

"It now looks like we are going to get a tougher Volcker [rule] as the price we pay for getting rid of Lincoln," one industry official said. "That's something that has changed in the last few days."

This industry official said supporters of a more stringent version of the Volcker rule, including Sen. Carl Levin (D-Mich.) and Jeff Merkley (D-Ore.), have convinced conference committee leaders that the version passed in the Senate, - which would leave implementation up to future regulators after a period of study - was too soft.

Wall Street executives have been counting on the administration, which is playing a central role in final negotiations, to help them kill Lincoln's derivatives language. But they do not expect much support from the White House on battling back a strong Volcker rule, which President Barack Obama has supported.

A White House official said the administration continues to see broad overlap between the House and Senate versions and that "small differences" will be worked out in committee.

Senate Banking Committee Chairman Chris Dodd (D-Conn.), the main author of the Senate bill, and Frank have refused to comment on specific positions they will take in conference. Senate Democratic conferees are meeting Wednesday to strategize ahead of Thursday's opening meeting.

"People lobbying the Democratic conferees have apparently been successful in arguing that you can't trust regulators who dropped the ball so much during the financial crisis," the industry official said.

Key negotiators for the White House during the financial reform conference, which officially begins with a public meeting Thursday, include Diana Farrell, deputy director of the National Economic Council, along with Deputy Treasury Secretary Neal Wolin and Michael Barr, assistant treasury secretary for financial institutions. Treasury Secretary Timothy Geithner will also play a major behind-the-scenes role.

The administration wants a bill by June 24 when Obama is to leave for a G-20 meeting in Toronto. Frank has said he wants a bill finished by the July Fourth holiday.

One problem confronting lobbyists and industry executives is how constrained they feel from making such policy arguments publicly, given voter hostility toward Wall Street. That hostility means members do not want to be seen supporting a position backed by Wall Street.

"Everything has to be done very quietly and directly [to members]," said one lobbyist for a large bank. This person said some sit-down meetings were still occurring but that key conferees such as Frank now prefer to have industry representatives submit their arguments in writing to staff members for analysis.

Another big fight that will play out starting this week will be over the provision from Sen. Dick Durbin (D-Ill.) that would allow government to oversee the fees card issuers and networks can charge retailers when consumers use debit cards. The surprise measure sailed through the Senate 64-33, stunning opponents of the measure.

Banks and card networks have recovered from the initial surprise and are now lobbying hard against the proposal with increasing hopes that it could be removed or watered down.

Opponents of this provision also feel much more comfortable making their arguments in public. Among those arguments are that the measure would force banks to raise other fees on consumers, would force consumers to spend more at the cash register if retailers are allowed to establish minimum debit charges and could discourage the use of debit cards by government agencies in the provision of public assistance benefits.

"There was no hearing in the Senate, and there was really no discussion as to what the impact of [the Durbin amendment] would be," said Shawn Miles, head of global public policy at MasterCard. "I think many members did not understand that this did not protect credit unions and community banks and had no idea what the harm would be to the consumer."

Both the tough derivatives language and the debit card amendment exist only in the Senate version of reform, which conference committee members, led by Frank, are using as the base text for the final bill.

While the tide may be turning against financial institutions in the reform process, some executives hope highly turbulent market conditions could work to their benefit.

"We have a U.S. economy and a global economy that is teetering on the brink of a double-dip recession, and we have a financial system that is not out of the woods yet," one executive said. "And now you have U.S. firms being threatened in terms of their profitability as well as their ability to compete with foreign institutions."

Staff writer Carrie Budoff Brown contributed to this report.

###

Ian Katz, *Geithner's Europe Trip Highlights Focus on World Economy*, Bloomberg News, May 25, 2010 10:45 PM ET.

Treasury Secretary Timothy F. Geithner's trip to Europe today shows how his focus is shifting to global economic threats as Congress puts the finishing touches on its overhaul of financial regulations and the U.S. winds down bailout programs.

Geithner has two days of meetings in London, Berlin and Frankfurt with leaders including European Central Bank President Jean-Claude Trichet to discuss the nearly $1 trillion rescue package aimed at stopping the Greek debt crisis from spreading. The trips were tacked on to Geithner's visit to China, which ended yesterday, as the euro fell to the lowest in almost nine years against the yen.

"To the extent that the near-term fires in the U.S. have been put under control and progress has been made on reg reform, he can now spend the time, as he should, engaging globally with other global leaders to make sure we're acting in a coordinated manner," Neel Kashkari, who headed the $700 billion Troubled Asset Relief Program under Geithner's predecessor, Henry Paulson, said in an interview. Kashkari now heads new investment initiatives at Pacific Investment Management Co., which runs the world's biggest bond fund.

Geithner's trip comes amid warnings that fallout from the European debt crisis threatens the global economic recovery. Corporate and sovereign credit-risk indicators reached or approached their highest levels in 10 months yesterday.

Geithner is stepping into the crisis just as he tries to resolve another. Along with Treasury Deputy Secretary Neal Wolin and Assistant Secretary Michael Barr, he will work with U.S. lawmakers to close the differences between the Senate bill on financial regulations approved this month and the House version passed in December.

London, Berlin Meetings

The Treasury secretary will meet today in London with U.K. Chancellor of the Exchequer George Osborne and Bank of England Governor Mervyn King, before traveling to Frankfurt for a working dinner with Trichet. Tomorrow, he will see German Finance Minister Wolfgang Schaeuble in Berlin.

European leaders face "the difficult challenge of trying to restore sustainability to an unsustainable system," Geithner said yesterday in Beijing, where he took part in the two-day U.S.-China Strategic and Economic Dialogue.

Other officials have gone further. Federal Reserve Governor Daniel Tarullo said May 20 that Europe's crisis may pose a threat to the U.S. and world economies as trade shrinks and banks incur losses on European investments. Former Fed Chairman Paul Volcker, an adviser to President Barack Obama, spoke May 13 of the euro's "potential disintegration."

Euro's Slide

The euro today fell to $1.2282 at 10:59 a.m. in Tokyo from $1.2345 in New York yesterday, when it touched $1.2178, the lowest since May 19. Europe's common currency dropped to 110.69 yen from 111.39. It fell to 108.84 yen yesterday, the least since November 2001.

The London interbank offered rate, or Libor, for three month loans in dollars advanced yesterday to 0.536 percent, the highest level since July 7, according to data from the British Bankers' Association.

Geithner, 48, is returning to a familiar arena. Before serving as president of the Federal Reserve Bank of New York from 2003 to 2009, he was the International Monetary Fund's director of policy development and review. He was undersecretary of international affairs from 1998 to 2001 under Treasury Secretaries Robert Rubin and Lawrence Summers.

Geithner, whose father worked abroad for the Ford Foundation, attended high school in Thailand, has studied Japanese and Chinese, and also lived in China, Japan, India and East Africa.

Resolving Differences

"It's always helpful to understand where people are coming from," Geithner said in a Bloomberg Television interview yesterday. "It's easier to resolve differences and challenges when you come to that appreciation."

Unlike Rubin, who dealt with emergencies in Latin America, Russia and Asia, Geithner is stepping into a developed-world crisis.

"There's always been an understanding that Third World sovereign debt is very risky, but the assumption has been that the developed countries are pretty riskless," said Wayne Abernathy, an executive vice president at the American Bankers Association and a former Treasury assistant secretary. "Now we're discovering that might not be correct."

The U.S., with a budget deficit forecast at $1.6 trillion for the fiscal year that began Oct. 1, may also be at risk, according to Pimco.

The U.S. is among nations whose debt puts them in a "ring of fire" along with Japan, U.K., Spain, Italy, Ireland, France and Portugal, John Wilson, the head of Newport Beach, California-based Pimco's Australia unit, said in a May 24 statement.

Winding Down TARP

As companies including Citigroup Inc. and Bank of America Corp. have paid back taxpayer bailouts, Geithner has been able to wind down rescue efforts and focus more on international issues. The projected cost of the TARP, which was authorized by Congress in October 2008, has fallen to $105.4 billion from an estimated $341 billion as recently as last August, the Treasury said last week.

Geithner's foreign travels will require him to be diplomatic at home, where lawmakers are wary of any U.S. role in bailouts for foreign nations. House Republicans last week introduced a resolution disapproving of U.S. participation in IMF rescues of European Union countries that don't comply with the bloc's debt and deficit limits.

Given the role of U.S. banks in the global economic crisis that started with the collapse of Lehman Brothers Holdings Inc. in September 2008, Geithner will also need to be diplomatic in his talks with European leaders.

"I don't think he's going to go over there and start saying, 'Here are the answers, you must do this,'" said Kashkari, 36. "I think he'll be much more subtle than that."

###

Phill Mattingly and Robert Schmidt, *How Senate's "Stupid" Derivatives Rule Emerged, Survives*, Bloomberg News, May 6, 2010 10:13 PM ET.

Of all the new rules for Wall Street being considered by Congress, few have the potential impact of a derivatives plan that emerged from nowhere and, to the surprise of its authors, has so far survived the debate.

The provision in the U.S. Senate's regulatory overhaul bill would require Goldman Sachs Group Inc., JPMorgan Chase & Co. and about a dozen other lenders that dominate the $605 trillion over-the-counter derivatives market to wall off swaps trading from their commercial banking operations.

The firms argue that the rule would disrupt the economy and make it difficult for them to continue in the business. Others expressing opposition include Federal Reserve Chairman Ben S. Bernanke, Treasury Secretary Timothy Geithner, and senators from both parties including Banking Committee Chairman Christopher Dodd, author of the overall bill. Still, in a sign of the toxic political climate facing banks, Democrats and administration officials have been reluctant to cut it from the legislation.

Regulators "have come out in a really unusual way and said, and I'm paraphrasing here, that this is a really, really stupid idea," Senator Judd Gregg, a New Hampshire Republican, said in a recent floor speech. "Where this idea came from is hard to fathom because on the face it makes absolutely no sense. Yet for some reason it has found its way into this bill."

'Section 106'

The provision, crafted by Senator Blanche Lincoln and known around Capitol Hill by the legislative shorthand "Section 106," tells one story of Washington lawmaking in a time of crisis and public outrage. The idea arose from a mix of policy debate, campaign politics and personal relationships -- and little consideration of the business or economic implications, according to interviews with Senate aides, administration officials and industry lobbyists.

The stakes are high for U.S. commercial banks. The five biggest dealers in the largely unregulated market -- JPMorgan, Citigroup Inc., Bank of America Corp., Morgan Stanley and Goldman Sachs -- earned $28 billion from their trading operations last year, according to reports collected by the Federal Reserve and people familiar with the matter.

In a memo circulated on Capitol Hill, the banks' largest trade group predicted the provision would reduce lending by eliminating as much as $250 billion in capital from the banking system, as well as push derivative markets overseas.

Politically Dangerous

Now that Section 106 is in the bill, "It's politically dangerous for members to get out in front of this issue and take it on," said Brian Gardner, an analyst at Keefe, Bruyette and Woods in Arlington, Virginia. "To try, in a very public way, to take it out of the bill, there's no political benefit and there's lots of political risk."

Lincoln, an Arkansas Democrat who leads the Senate Agriculture Committee, has said her language will prevent bailouts by barring companies that deal in swaps, a form of derivative, from bank privileges such as access to the Federal Reserve's discount lending window and emergency liquidity functions as well as the Federal Deposit Insurance Corp.'s deposit guarantee.

"In my view, banks were never intended to perform these activities, which have been the single largest factor to these institutions growing so large that taxpayers had no choice but to bail them out in order to prevent total economic ruin," she said on the Senate floor May 5.

In the three weeks since she added Section 106 to her larger plan for regulating derivatives, Lincoln has gained supporters including the Senate's second-ranking Democrat, Richard Durbin of Illinois, the Independent Community Bankers of America and Nobel Prize-winning economist Joseph Stiglitz, who consulted with her staff on the language.

Late Entry

Lincoln, 49, was a late entry among the key players in the financial regulation debate, joining in September 2009 when she moved to head the committee in a leadership shuffle after the death of Senator Edward M. Kennedy, a Massachusetts Democrat.

The agriculture panel, rarely at the center of major Senate debates, became a focal point because of the role derivatives play in commodity markets. Over more than six months, Lincoln and five committee staff members met with more than 1,500 lobbyists, academics and lawmakers to write new rules, according to two Senate Democratic aides. Like others interviewed for this story, they spoke on condition of anonymity because they are not authorized to comment publicly about private meetings.

Daily Meetings

With the Obama administration's push to overhaul the country's financial regulatory system, committee staff members met almost daily with representatives from the Commodity Futures Trading Commission, the agency that oversees commodities markets in the U.S. -- often including the commission's chairman, Gary Gensler. By April, the agriculture staff was in touch daily with Treasury Department officials as well, aides said.

Lincoln made clear early in the process that she expected to reach a bipartisan deal with Senator Saxby Chambliss of Georgia, the ranking Republican on her panel. By early April, the deal was either done, according to Chambliss, or nearly so, according to Lincoln. Then two things derailed the bipartisan talks, according to Senate aides, administration officials and industry lobbyists.

Back home in Arkansas, Lincoln was facing a primary challenge from the left in the form of Bill Halter, the state's lieutenant governor. The liberal activist group MoveOn.org sent its members an e-mail saying Wall Street could rest easy with Lincoln because she would "riddle reform with so many loopholes that it's toothless." Halter was gaining in the polls and winning union support.

Administration's List

At the same time, the Obama administration decided to focus on financial regulation on the heels of the health-care debate. Topping the administration's list was derivatives.

Lincoln sent an outline of her proposed bipartisan bill to the Treasury on April 8, an administration official said. Four days later, Michael Barr, the assistant Treasury secretary who serves as the administration's point man on regulatory reform, communicated to Lincoln's staff that any deal with Republicans would be weak and unsatisfactory, according to a person briefed on the conversation.

"When the Obama administration realized the committee on agriculture was on the verge of producing a derivatives regulation package that could appeal to both Republicans and Democrats, they scrambled to kill the deal," Chambliss said after negotiations broke down.

Off Guard

What happened next caught nearly everyone off guard. Rather than stick with the basic principles advocated by the CFTC and the Treasury, Lincoln and her staff decided to produce the strongest measure they could muster. To do so, they turned to an idea that had been sitting on their back burner for months.

Lincoln's staff began discussing the swaps-desk provision in January, according to two Democratic aides, to address complaints she'd heard from community banks about the sharp rise in their deposit insurance assessment rates as the economic crisis wore on. It was championed by a staff member who had been mulling the idea before he ever got to the committee, the aides said.

Neither Lincoln nor her staff mentioned the idea to the Republicans until the beginning of April. It wasn't discussed with the administration or the financial industry either, the aides said.

Lincoln decided to revive the idea behind Section 106 as a way to throw down the strongest possible marker, the aides said. She made the language public on the afternoon of April 16. It was a week before her first primary debate.

The banking industry was taken by surprise, according to Timothy Ryan, president of the Securities Industry and Financial Markets Association. "We were not aware of it as an issue, nor do we believe it had been the subject of any hearings or other public- or private-sector discussion," Ryan wrote in an April 28 letter to Gensler.

Gillibrand

Several Democrats also raised concerns. Senator Kirsten Gillibrand of New York wrote, but didn't offer, an amendment to strip the language from Lincoln's bill during committee consideration. Gillibrand told analysts from Barclays Plc that the Obama administration was opposed to the provision and it would likely be stripped before it reached the Senate floor, the analysts, Roger Freeman and Eric Bertrand, wrote in a note to clients.

When the committee voted on Lincoln's measure April 21, one Republican, Charles Grassley of Iowa, joined the Democrats in support. That gave Lincoln some political capital -- her plan became the only regulatory-reform measure in the Senate that could claim bipartisan support.

Baseball Teammate

Lincoln's sinking reputation among liberals began to bounce back. At a news conference a few days after the committee vote, she received a standing ovation from a roomful of consumer advocates including Travis Plunkett of the Consumer Federation of America and Heather Booth of Americans for Financial Reform, a Washington-based consumer coalition that has called for tougher restrictions on Wall Street.

Nevertheless, Section 106 still faced strong opposition from Democrats. At the caucus's policy meeting on April 22, Lincoln was grilled about the measure, according to three Senate aides briefed on the meeting.

Senators questioned the intent of the rule and whether the Agriculture Committee had jurisdiction over the issue, the aides said. Prospects for the provision looked dim until Senator Maria Cantwell, a Washington Democrat, took the floor.

Cantwell and Lincoln have been close friends since both were first-termers in the U.S. House of Representatives and the first two women to play in the annual congressional baseball game. Cantwell had organized the news conference with consumer groups. At the caucus meeting, Cantwell scolded fellow Senate Democrats for undermining Lincoln's efforts, suggesting they were attacking because she was a woman, according to the aides.

'Stare-Down'

In an interview, Cantwell said she had been focused on derivatives since arriving in the Senate, because of her concerns about how swaps were used by Enron Corp. to manipulate energy markets. The Lincoln proposal represents a "stare-down of Wall Street interests," she said.

Since the Senate Banking Committee shares jurisdiction over derivatives, Democrats had to reconcile Lincoln's plan with the language in the overall financial-reform bill. The two staffs, along with representatives from Treasury, met during the weekend of April 24-25. Even Lincoln's staff doubted Section 106 would make it, given concerns expressed by Dodd and Geithner, aides said.

Leverage

By midday Sunday, it was the Agriculture Committee's language that prevailed. Grassley's vote in committee, and a well-timed letter of support for the overall Lincoln bill signed by another Republican, Senator Olympia Snowe of Maine, gave Lincoln's staff the leverage to push their case, according to two Democratic aides involved with the negotiations. The Dodd- Lincoln financial-overhaul bill was released to the public on Monday, April 26.

As the derivatives language moves closer to debate on the floor, the opposition has intensified, particularly from administration and regulatory officials.

The Federal Reserve staff produced an analysis, circulated on Capitol Hill, saying the provision would be "highly disruptive and costly" to financial institutions and their customers. Bernanke all but endorsed that view at a May 4 gathering of moderate Senate Democrats, according to a person briefed on the meeting.

Also buoying opponents was an April 30 letter from FDIC Chairman Sheila Bair, saying the Lincoln language would move derivative trading "to nonbank financial firms such as hedge funds and futures commission merchants, or to foreign banking organizations beyond the reach of federal regulation."

Shocked

When Lincoln's staff saw a draft of Bair's letter, they were shocked, two people close to her office said. The FDIC chairman had met with Lincoln the day before and didn't criticize the provision, according to the people. The FDIC sent technical amendments, none of which would have changed the intent of the provision, these people said.

A spokesman for Bair, Andrew Gray, said: "We never comment on private discussions, but nothing in the letter was a surprise."

Senators, their aides and administration officials have said privately and publicly that Section 106 will be modified or eliminated before an overhaul bill is passed. While it remained unclear if Democrats will move against the measure, Republicans Gregg, Chambliss and Bob Corker of Tennessee yesterday filed an amendment to strike the language.

Regardless of the outcome, Lincoln has reaped political gain. In a fundraising letter sent April 16, she said she was "proposing sweeping legislation that would drastically change the way Wall Street does business."

On May 4, her campaign began airing a radio advertisement featuring President Barack Obama. "Blanche is leading the fight to hold Wall Street accountable and make sure that Arkansas taxpayers are never again asked to bail out Wall Street bankers," Obama said.

###

Sewell Chan, *Trench Warfare: Send in the Deputies*, The New York Times, April 18, 2010.

WASHINGTON

ON a recent afternoon, Neal S. Wolin entered the ornate limestone headquarters of the United States Chamber of Commerce, across Lafayette Park from his office at the Treasury Department here, and stood before scores of corporate chieftains, financiers and lobbyists.

And then he blasted away.

"The Chamber of Commerce -- funded, no doubt, with a good deal of your money -- has launched a lavish, aggressive and misleading campaign to defeat the proposed independent agency," said Mr. Wolin, who, as deputy Treasury secretary, is helping to shape the Obama administration's proposal for a new federal entity charged with monitoring financial products sold to consumers.

As Mr. Wolin spoke, some of the executives shifted uncomfortably in their seats. When he was done, there was scant applause. Then Thomas J. Donohue, president of the chamber, one of the most potent lobbies in the capital, spoke up.

"I think the Constitution is very clear on our right to raise our issues," he responded. "And you have every right to raise the government's issues."

As Congress and Wall Street wrestle over the contours of what may be the most far-reaching and pivotal overhaul of financial regulations in nearly 80 years, the White House is intensifying its effort to cajole or browbeat Republicans into supporting changes that so far have been almost entirely the handiwork of Democrats.

Behind the scenes, for more than a year, the White House has relied on Mr. Wolin and two other officials -- Diana Farrell, deputy director of the National Economic Council, and Michael S. Barr, assistant Treasury secretary for financial institutions -- to handle the day-in, day-out bargaining, battling and drudgery that such efforts entail.

In countless meetings with lobbyists and legislators, they have pressed the case for enhanced oversight. They know the minutiae of the legislation better than their bosses do (and their bosses include President Obama and Treasury Secretary Timothy F. Geithner). As the regulatory battle heats up, they are absorbing much of the collateral damage while enjoying little of the glory.

"They're the front-line generals, and this is trench warfare," said Scott E. Talbott, a lobbyist for the Financial Services Roundtable, an industry association that represents banking interests.

Mr. Barr, who works until midnight and sees his family in Ann Arbor, Mich., only on weekends, concedes that the process has been grueling. "It's a hard slog," he says. "We're up against a financial industry that's willing to spend enormous sums to get what they want out of the bill. That makes it tough."

He adds: "The intensity, ferocity and the ugliness of the lobbying in the financial sector -- it's gotten worse. It's more intense."

Ms. Farrell, one of two deputies to Lawrence H. Summers, Mr. Obama's top economic counselor, said she has had "darker days" but expressed hope that the legislation would pass.

When Mr. Obama took office 15 months ago, his financial team -- and Mr. Geithner in particular -- were criticized as being slow off the mark and too friendly to Wall Street. Since then, political setbacks and calls for more vigorous action have catalyzed the White House. Mr. Wolin, Ms. Farrell and Mr. Barr have emerged as the on-the-ground leaders of the effort.

Mr. Geithner, for one, is appreciative. "They're very secure," he says of the three. "They have no ego. They're not worried about how things appear, or who gets the credit."

MR. WOLIN and Mr. Barr worked at Treasury during the Clinton administration. After George W. Bush was elected, Mr. Wolin went to the Hartford Financial Services Group, and Mr. Barr to teach at the University of Michigan. Ms. Farrell had been in San Francisco directing the McKinsey Global Institute, the consulting firm's research arm.

Mr. Summers and Mr. Geithner, along with Rahm Emanuel, Mr. Obama's chief of staff, brought the trio together. Mr. Wolin was sent to Treasury from the White House counsel's office, and Mr. Barr from the National Economic Council, where Ms. Farrell works. The three have formed a strong alliance, especially by Washington standards.

"They've created a very congenial team that has not been off-message once," says Stuart E. Eizenstat, a veteran of the Johnson, Carter and Clinton administrations who was deputy Treasury secretary under Mr. Summers. "The conjunction of politics and substance -- and the interest groups -- are as ferocious as you can imagine. But these guys have hung together."

Mr. Barr, 44, has been the architect of much of the policy-making, particularly the proposal for an independent consumer financial protection agency. He tends to wear his passion on his sleeve; some critics find him grating.

In a debate at a forum last September, Mr. Barr butted heads with Peter J. Wallison, a senior fellow at the American Enterprise Institute, a conservative research organization, and a critic of the regulatory overhaul.

"He's very smart and he's a good advocate for his position, but he's not someone who is willing to listen," says Mr. Wallison, who was the Treasury's top lawyer and White House counsel in the Reagan administration. "That's just not in his nature. He has an inflexibility about him that I think is somewhat off-putting."

Mr. Barr brushes off the criticism. "I enjoy the rough-and-tumble of it," he says. "It would be a disadvantage if I were stiff-necked and not willing to learn from other people. I certainly have seen that trait in some people, and I don't admire it."

Raised in the Maryland suburbs of Washington, the son of a union lawyer and a high school teacher, Mr. Barr was a Rhodes scholar and a law clerk for Supreme Court Justice David H. Souter before joining the policy planning staff at the State Department.

Mr. Barr quickly moved to the Treasury, as an assistant to the secretary, Robert E. Rubin, in 1995. He worked on community development financial institutions, which offer credit in low-income neighborhoods. After the administration released an 89-page financial reform blueprint last June, Mr. Barr helped transform it into concrete language.

Although Mr. Rubin has been widely criticized for the deregulatory policies he oversaw at Treasury, and for problems that emerged at Citigroup during his subsequent tenure there, Mr. Barr says he "learned a tremendous amount" from Mr. Rubin, adding, "I have no regrets."

Some critics who are sympathetic to the administration say its regulatory effort hasn't gone far enough. "There is only one plausible way to ensure banks that are currently 'too big to fail' can actually fail, and this is to make them substantially smaller," says Simon Johnson, an M.I.T. economist and a critic from the left.

Others have slammed the Obama administration as backing the Bush-era bailouts while being slow to aid homeowners facing foreclosure -- another part of Mr. Barr's portfolio. Mr. Barr points to the homebuyer tax credit, help for mortgage refinancings and the rescue of Fannie Mae and Freddie Mac, but adds that "I certainly agree that not all of our programs have been perfect."

And Mr. Barr has had to endure losses so far in putting together the proposed regulatory overhaul. For example, an effort to force issuers to offer simplified, "plain vanilla" financial products met fierce resistance from banks, which would have seen some of their most profitable lines of business wither. It was dropped after intense industry lobbying, but Mr. Barr says he still believes the provision would have been reasonable.

After the legislation went to Congress, Mr. Barr continued to hone and refine it, working with aides to Representative Barney Frank, Democrat of Massachusetts, and Senator Christopher J. Dodd, Democrat of Connecticut, its chief sponsors.

"The job of walking them through, section by section, subsection by subsection, page by page, line by line, semicolon by semicolon, fell to Michael and to his team," notes Mr. Wolin.

Mr. Barr accepts that he may have to settle for whatever emerges from the horse-trading in Congress. "It's not 100 percent what we would want, but Washington is not that kind of town," he says of the legislation.

In January, two days after a Republican upstart, Scott Brown, won the Massachusetts Senate seat of the late Edward M. Kennedy, in an election widely viewed as a negative referendum on the Obama administration, the White House veered left on financial reform.

The president endorsed a proposal by the former Federal Reserve chairman Paul A. Volcker to limit the free-wheeling trading and heady expansion banks had enjoyed ever since financial deregulation accelerated in the 1990s. The Volcker Rule, as it came to be known, was seen as an overtly political and populist maneuver, one made with only grudging support from Mr. Geithner and Mr. Summers, who were on the opposite side from Mr. Volcker in the White House's own financial reform debate.

Two weeks later, Mr. Volcker and Mr. Wolin appeared before the Senate Banking Committee to explain the proposal. Mr. Volcker said the timing of the announcement was "sheer coincidence," but senators from both parties seemed unpersuaded.

But it was Mr. Wolin -- not the 82-year-old Mr. Volcker, a revered inflation fighter -- who took the heat.

Mr. Dodd said the announcement "seemed to many to be transparently political and not substantive, and it's adding to the problem of trying to get a bill done."

In the end, the Volcker Rule stayed in the bill, although much of the fine-tuning would be left to regulators. One of Mr. Wolin's overseers, Mr. Summers, acknowledges that Mr. Wolin has sat on the firing line but isn't the only member of Team Obama to have done so.

"Everybody has been part of the to-and-fro, the cut-and-thrust, of this thing," says Mr. Summers.

Mr. Wolin is, in some ways, an accidental deputy. He wasn't the administration's first choice for the No. 2 job at Treasury. But the slot opened when two previous candidates, H. Rodgin Cohen, a mergers-and-acquisitions lawyer, and Annette Nazareth, a former member of the Securities and Exchange Commission, withdrew.

It helped that as a young lawyer in the 1990s, he worked for William H. Webster and Robert M. Gates (now the defense secretary), two directors of the Central Intelligence Agency appointed by Republicans. He had been through the confirmation process before, serving as the Treasury's general counsel at the end of the Clinton administration. He sailed through again this time.

At 48, Mr. Wolin is three months younger than Mr. Geithner. Their offices are adjacent, and they have an easy rapport. "He's the best combination of policy smarts, legal judgment and political strategy," Mr. Geithner says.

While Mr. Geithner is routinely intense, Mr. Wolin is relentlessly cheerful. He laughs at his penchant for legalese.

At a recent press briefing, he said the White House would resist efforts to weaken consumer finance protections. "A carve-out for auto dealers would be sort of a paradigmatic example of such a weakening move," he said.

"It would be a what example?" one reporter asked.

"A good example," he replied.

AT a briefing last fall with members of the House Financial Services Committee, lawmakers kept trying to find divisions within the Obama administration.

"They were fishing and fishing," Ms. Farrell recalls. "At which Michael turned very serious and said, 'I'm sure I'm not supposed to tell you, but the deepest and most profound conflict is when we have our lunch meetings: Diana insists on having salad and I insist on having grilled cheese."

For her part, Ms. Farrell, 45, is the suave, poised member of the trio, a former consultant who makes sure deadlines are met. At McKinsey, she oversaw research on productivity, information technology and financial systems.

"She's not a Ph.D. in economics, but she's more on top of the issues than many Ph.D.'s you'll meet," says Martin N. Baily, a fellow at the Brookings Institution and a former colleague of Ms. Farrell at McKinsey. Her training and her natural inclination, he said, "are to avoid theoretical debates and focus on what are the facts and what do they tell us."

Ms. Farrell's diplomacy softens the rougher edges of her boss, Mr. Summers. The daughter of a Colombian mother and an American father, she attended boarding school and college in Connecticut. She was an analyst at Goldman Sachs before attending Harvard Business School.

"Without her efficiency, it would have been a slower-moving process," says Mr. Summers. "Without her idealism, it would have been a process with less vision."

Ms. Farrell is comfortable explaining such concepts as securitization in Spanish (as she did in a recent Univision interview) but acknowledges that the transition from McKinsey to government wasn't always smooth.

"I would get frustrated every time the process slowed down," she recalls. "But colleagues who've spent time in government would say, 'You have no appreciation for how fast this is going.' "

For three people with five Ivy League degrees among them, Mr. Wolin, Ms. Farrell and Mr. Barr are hardly ordinary consumers. But asked about the bill's provisions that most affect taxpayers' pocketbooks, they offered examples from their own lives. Mr. Wolin, who recently bought a house, said that closing that purchase was an eye-opener.

"The documents are literally impenetrable," he notes. "Here I was -- former general counsel of the Treasury, former general counsel of a Fortune 100 financial services company -- asking my lawyer to help me through 100 pages of incomprehensible, turgid gobbledygook."

All three say finance has a crucial role in allocating savings and investment, but should not be the sole driver of economic growth."We created a false sense of wealth creation in a sector of the economy that was not necessarily creating sustainable wealth," says Ms. Farrell.

And Mr. Wolin, who helped work on Gramm-Leach-Bliley, the signature deregulatory measure of the Clinton era, says officials were "intoxicated by the success of the markets" and went too far. He thinks current reform proposals could address that problem, but acknowledges not knowing how the story will end.

"Only in Washington," Mr. Wolin said in his speech to the Chamber of Commerce last month, "would anyone think of saying that we are 'rushing' to enact financial reform."

###

Bill McConnell, Sense of the markets: A CFPA at what cost?, The Deal, February 24, 2010.

With Senate Banking Committee Chairman Christopher Dodd expected to unveil new financial reform legislation in the next few days, the Obama Administration is pressing as hard as ever for one of the most controversial reform proposals - creation of a new Consumer Financial Protection Agency. On Tuesday Assistant Treasury Secretary Michael Barr was again preaching the CFPA gospel before a largely friendly audience of credit union executives.

Whether to create the CFPA has been the chief sticking point as Dodd tries to draft a reform bill with bipartisan support. Yet the bill must also address more fundamental issues, with critical provisions establishing how the federal government can seize and wind down failed financial conglomerates and better gauge risks brewing in the financial system. The worry is that the Administration is so wedded to the idea of a CFPA that it's willing to risk the wider goals of financial reform.

On that score, Barr's words before the Credit Union National Association won't ease anyone's mind. He insisted that consumers deserve protections that are consistent across banks and non-banks and noted that most of the subprime and predatory lending practices that inflated the housing bubble were the work of mortgage brokers and other non-bank institutions not regulated by the federal banking agencies. He also argued that, contrary to what some critics say, a CFPA would improve prudential regulation, because the consumer agency would share supervisory information with the prudential regulator.

Perhaps the White House is bluffing in hopes of getting Wall Street and Republicans to accept stricter consumer regulation overseen by current banking supervisors. But bluff or not, it's a risky stance, since it puts the entire reform project at risk.

It isn't that some of Barr's points aren't valid. There is also plenty of self interest in Wall Street's opposition to a stand-alone CFPA. But a lot of improvement would come from simply boosting existing regulators' consumer responsibilities. The added protections the CFPA would provide are at the margin - and not on a par with the urgent task of equipping regulators to expose risks in the system and avoid ad hoc bailouts.

###

Damian Paletta, *Dodd Upbeat on Financial Overhaul Bill But "No Deal Tonight"*, The Wall Street Journal's Real Time Economics blog, February 24, 2010 7:52 PM ET.

Senate Banking Committee Chairman Christopher Dodd (D., Conn.) and Sen. Bob Corker (R., Tenn.) met for roughly an hour Wednesday evening with Treasury Secretary Timothy Geithner to discuss the financial regulatory overhaul in Mr. Dodd's Capitol Hill office. Talks are intensifying as Messrs. Dodd and Corker try to craft a bipartisan deal, and a bill could be introduced soon.

Messrs. Geithner and Corker had little to say after the meeting (Geithner simply muttered "OK" to the Secret Service detail waiting for him outside and then turned quickly down the hall flanked by senior Treasury officials Kim Wallace and Michael Barr), but Mr. Dodd stopped for a moment to chat.

"We had a good meeting, continue working. No deadlines, no time. Obviously a lot of conversation…we're just talking through various issues and we respect Tim's knowledge amd ability so we're anxious to hear points of view. There's no deal tonight. We're working on the bill."

###

Jonathan Weisman, *Policy Pivot on Banks Followed Months of Wrangling*, The Wall Street Journal, January 22, 2010.

For nearly a year, President Barack Obama's economic team resisted measures to restrict the size and activities of the biggest U.S. banks. Two days after Democrats suffered a devastating election loss in Massachusetts, the White House rolled out a proposal to do just that.

The policy's evolution took months, according to congressional and administration officials. Prompted by the cajoling of former Federal Reserve Chairman Paul Volcker and other respected voices, dissenters in the administration—notably Treasury Secretary Timothy Geithner and White House economics chief Lawrence Summers—gradually dropped their opposition.

On Jan. 13, Messrs. Geithner and Summers locked down the final regulatory proposals into a memo to the president that they said was unanimous.

But the timing of the rollout appears to have been finalized very quickly. Last week, Mr. Volcker met with Senate Banking Committee Chairman Christopher Dodd (D., Conn.) to present his ideas. Mr. Dodd came away unsure that the president had embraced them, lawmakers and aides on Capitol Hill said.

During the weekend, as Democrats had begun to conclude the Massachusetts battle was lost, the White House decided to go ahead, even though one aide acknowledged it would look too political. White House officials said Thursday that the plan would have gone forward, regardless of Massachusetts.

The White House's relationship with Wall Street is close to its breaking point. Democratic lawmakers and the administration have made banking policy a central part of their 2010 campaign playbook. Now, America's big banks are facing a double threat: an increasingly tough policy response to the financial crisis that is getting a goose from the White House's increasingly heated political rhetoric.

According to Senate officials, the president had an ally beyond Mr. Volcker. One of Mr. Obama's top political advisers, David Axelrod, was also pressing to get tougher on the big banks. In addition, Vice President Joe Biden emerged as a key Volcker ally.

"Biden and Volcker are old friends," said Austan Goolsbee, a member of the White House's Council of Economic Advisers. The vice president "became a leading advocate."

On Thursday, Mr. Obama proposed a plan that would prevent banks that receive a federal backstop from investing their own money in financial markets—what is known as proprietary trading. He also pushed for new limits on the size and concentration of financial institutions. Both moves echo the Glass-Steagall Act, the Depression-era banking curbs that was repealed in 1999.

The proposal marked the return of Mr. Volcker to center stage in the Obama White House. The 82-year-old chairman of the president's Economic Recovery Advisory Board consulted closely with Democrats in the House and Senate as they drafted their proposals to address "too big to fail" entities, referring to financial behemoths whose collapse might bring down the economy. Mr. Volcker spoke frequently with Mr. Obama as well.

But he faced a philosophical divide with others on the economic team. Last March, at a casual dinner of the House Financial Services capital-markets subcommittee, that panel's chairman, Rep. Paul Kanjorski, recalled a discussion over drinks with Mr. Volcker about his ideas to separate commercial banks from their trading arms.

"Don't put a lot of stock in my thoughts because I'm out of vogue," the Pennsylvania Democrat said Mr. Volcker told him.

Mr. Volcker couldn't be reached for comment.

Administration officials say the White House pivot came in October.

Mr. Kanjorski was pushing an amendment to the House's financial-regulation bill that would clamp down on big banks. With the amendment gaining momentum, Mr. Geithner dispatched Michael Barr, an assistant secretary at the Treasury and confidant of Mr. Kanjorski, to help shape it. That month, Mr. Geithner testified before the Financial Services Committee that he backed the amendment's scope.

Treasury officials feared headlines would blare that Mr. Geithner had backed breaking up the banks. But the president continued to endure criticism, in particular from his left, that he was coddling Wall Street. In talks with his financial team, Mr. Obama started letting his frustration show, asking why he was on the wrong side of the "too big to fail" debate.

White House officials said the president called a meeting of his entire economic team to press for additional proposals. But its members were at odds: Messrs. Geithner and Summers argued that proprietary trading was a problem but not a central cause of the financial crisis, according to an official familiar with the talks. Mr. Volcker saw proprietary trading as a fundamental risk.

In December, Mr. Obama decided he wanted to be on what he saw as "the right side" of the debate, according to an administration official. He asked his team to bring him specific proposals to limit the size of financial institutions and halt proprietary trading. Spurring their thinking: Goldman Sachs had sought the protection of the Federal Reserve during the financial crisis, and was now making big profits from its own trading, in part because it benefited from the explicit backing of the U.S.

It was a big step for the administration. White House economists argued that transparency and disclosure alone could shape Wall Street behavior.

But Mr. Obama was now on Mr. Volcker's side. His rhetoric began shifting against Wall Street in December, when he blasted "fat cat" bankers during a television interview. Last month, the president accompanied a proposed fee on big banks to recoup Wall Street bailout funds with a fresh rhetorical blast.

A senior official said the president asked Mr. Geithner in mid-December to take another look at the former Fed chairman's ideas. On Christmas Eve, Messrs. Geithner and Volcker had an extended lunch, which persuaded the Treasury secretary to get behind Mr. Volcker.

Then came Massachusetts, where Republican Scott Brown was on his way to taking the late Sen. Ted Kennedy's Senate seat—and with it, the president's lock on a Senate super-majority.

As the Senate campaign raged last weekend, the economic and political team at the White House held a conference call to go over the new banking proposal and the plan to roll it out. One aide questioned whether the timing was right. Win or lose in Massachusetts, unveiling tough new bank regulations would look political.

Other aides brushed by that concern. In fact, they argued, whatever Mr. Obama does after Massachusetts would be seen as political. And on the "too big to fail" front, they said, the administration needs to own the issue.

—David Wessel, Kate Kelly and Deborah Solomon contributed to this article.

###

***Editorial: Limits of shame*, The Akron Beacon Journal, December 3, 2009.**

Dec. 3--As home foreclosures rose during the past three years, analysts laid much of the blame on incredibly reckless lending in the subprime mortgage market. The wave triggered by the subprime debacle has waned. Not so the pace of foreclosures. In September, Michael Barr, a Treasury Department official, cited projections that 6 million families could face foreclosure in the next three years.

The new wave of foreclosures, involving more conventional prime mortgage loans, is driven by a hobbled economy in which job losses, credit problems and declining property values are making it difficult for borrowers to keep up with loan payments.

A foreclosure crisis that shows little sign of waning threatens President Obama's efforts to stabilize the housing market. It is not surprising, then, that the White House is launching a "name and shame" offensive to shore up its underachieving Home Affordable Modification Program.

The program was launched in March to encourage mortgage service companies to negotiate lower monthly payments with homeowners at risk of foreclosure, thus enabling them to keep their homes. With more than 3 million homes expected to go into foreclosure by year's end, the results of the $75 billion voluntary program have been disappointing. As of September, a mere 1,711 of 375,000 homeowners whose loan modifications could be completed this year had actually won permanent adjustments.

The Treasury Department intends to publish next week a list of mortgage companies that are not moving quickly enough to modify loans to save the homes of struggling borrowers. Teams of "accounts liaisons" also will monitor the performance of the eight largest companies, which must submit a schedule of their plans to increase modifications.

The Center for Responsible Lending, a policy research group, projected in May that foreclosures will account for a decline of $502 billion in property values this year. With what is at stake, the administration must do more than hope that loan servicers are not beyond shame.

###

Daniel Massey and Aaron Elstein, *Who's Who in DC: If you want to get something done in Washington, your first call should be to one of these power players*, Crain's New York Business, November 23, 2009.

MICHAEL BARR

Assistant treasurer for financial institutions, U.S. Treasury

HE IS THE OBAMA ADMINISTRATION'S key player in arguably its most ambitious financial reform, the creation of the Consumer Financial Protection Agency. He has strongly argued against Congress' efforts to weaken the agency by exempting small banks from much of its purview. He's also been deeply involved in the administration's attempts to devise ways to seize control of troubled financial institutions without triggering failures at other banks. Mr. Barr got his start in the Clinton administration as special adviser to former Treasury Secretary Robert Rubin. In January 2008, three months before Bear Stearns collapsed, he became an early advocate of government intervention in the mortgage markets to stem a huge wave of foreclosures that he warned was imminent.

HEATHER BOOTH

Executive director, Americans for Financial Reform

MS. BOOTH HAS BEEN AN ACTIVIST ever since she traveled to Mississippi to register voters in the "freedom summer" of 1964. She later played a role in developing Acorn and in 2000 served as director of the NAACP's National Voter Fund, which helped register 2 million voters. She has now adopted a new cause--protecting consumers from financial giants. Since her latest group was launched in the spring, it has raised $5 million and signed on more than 200 institutional members, including consumer rights organizations, labor unions and civil rights groups. Her group has been critical of President Obama's banking reform proposals, saying they are too tame. "It's a David-and-Goliath fight between the average American and the bankers," she says.

CHARLES BRAIN

President, Capitol Hill Strategies

MR. BRAIN HAS WORKED FOR A NUMBER of heavyweights, including two powerful Democratic chairmen of the House Ways and Means Committee: Reps. Dan Rostenkowski and Charles Rangel. He also served as director of legislative affairs for President Clinton. Mr. Brain founded Capitol Hill Strategies in 2003 and has represented dozens of clients--sometimes to the chagrin of former colleagues who oppose his efforts. His firm has been hired by numerous Wall Street and business outfits, including the Business Roundtable, Delta Air Lines, Merck, Wachovia and Citigroup. He's been at the center of both the health and financial reform lobbying efforts, representing pharma-ceutical and medical device trade associations and the National Venture Capital Association, among others.

MICHAEL CASSERLY

Executive director, Council of the Great City Schools

SCHOOLS CHANCELLOR JOEL KLEIN HAS A DIRECT LINE to Arne Duncan, but urban education advocates who can't get to the education secretary on their own might want to consider reaching out to Mr. Casserly. His legislative work is the subject of a college textbook on how Capitol Hill works and he is considered one of Washington's best education advocates and lobbyists. Mr. Casserly is currently spearheading efforts to boost academic performance in the nation's big-city schools and improve the image of urban education, among other initiatives.

WILLIAM DALY

Director, New York City Office of Federal Affairs

MAYOR MICHAEL BLOOMBERG'S MAN in Washington is charged with ensuring New Yorkers get their fair share of federal dollars and that policies made on Capitol Hill and in the White House address the needs of the nation's largest city. Mr. Daly has served every mayor since Ed Koch but has perhaps never been as critical a player as he is under the current mayor. He took the lead after Sept. 11, bringing congressional staffers up to New York City and convincing them that homeland security funds should be allocated based on degree of threat.

SHAUN DONOVAN

Secretary, Department of Housing and Urban Development

AS A MEMBER OF PRESIDENT OBAMA'S CABINET, Mr. Donovan does not exactly fly under the radar. In the secretary, New York has a champion in Washington who intimately understands the affordable-housing challenges of a city where rents and costs dwarf those in most other urban areas. The widely respected secretary is looking to build on his successful run as commissioner of the city's Department of Housing Preservation and Development and has worked to stabilize the housing market and provide relief to homeowners and neighborhoods suffering from the effects of the foreclosure crisis. A looming multifamily-housing crisis brought on by boom-time speculation could hit New York especially hard and will require his attention.

CAMDEN FINE

Chief executive, Independent Community Bankers Association

HE HEADS A TRADE GROUP THAT REPRESENTS about 5,000 small banks, and he's had a big job making sure his members aren't overly affected by all the changes Congress wants to force on the bigger banks. Mr. Fine has had some notable successes--the bill that would create the Consumer Financial Protection Agency exempts credit unions and banks with less than $10 billion in assets from examinations by the agency.

KEVIN FOGARTY

Chief of staff for Rep. Peter King, R-Long Island

WITH THE RANKS OF NEW YORK REPUBLICANS in Congress dwindling to two, from 12 in 1998, dealing with Mr. Fogarty has become crucial for anyone pushing measures that need bipartisan support. Mr. Fogarty wins praise for lending a Republican voice to the campaign for homeland security funding for New York--one of his boss's biggest issues.

PATRICK GASPARD

Director, White House Office of Political Affairs

SOME BELIEVE MR. GASPARD'S INFLUENCE in Albany was so strong that the Senate coup never would have happened if he were still around. Yet President Obama's Karl Rove hasn't completely left his political home behind. The understated former 1199 SEIU political director--considered the state's most powerful Democratic operative before he left for D.C.--still looms large over New York politics. He worked behind the scenes to persuade Hiram Monserrate to cross back over to the Democrats after the short-lived coup, led the Obama administration's effort to persuade Gov. David Paterson to abandon his 2010 re-election bid and pushed for

Republican Dede Scozzafava to endorse Democrat Bill Owens in a key upstate congressional race. Whether he likes it or not, Mr. Gaspard will see his national profile grow as the midterm elections get closer.

DAVID METZNER

Managing partner, American Continental Group

MR. METZNER'S INFLUENCE MAY BE IN WASHINGTON, but the Albany native keeps an apartment in New York City and retains an affinity for his home state. That carries over to the firm's clients, which have included local bigwigs like the Partnership for New York City, Time Warner, Sotheby's and Ernst & Young. These days, Mr. Metzner is focused on a three-year-old analytics business that advises some of the nation's biggest alternative money managers--including Harbinger Capital Partners--on how anticipated federal government actions will effect their portfolios. He's at the forefront of efforts to ensure that policy coming out of Washington helps New York retain its competitiveness as a world financial center.

LISETTE MORTON

Legislative director for Rep. Jerrold Nadler, D-Manhattan

MS. MORTON IS THE POINT WOMAN ON TRANSPORTATION ISSUES for Mr. Nadler, an influential Democrat on the House Transportation and Infrastructure Committee. The Minnesota native got her start on Capitol Hill in 1999 as a staffer for a hometown congressman. She joined Mr. Nadler's staff in 2000 and quickly took the lead in fighting for workers who were involved in the rescue and salvage efforts at the World Trade Center site. More recently, Ms. Morton has worked to direct federal dollars to New York for high-speed rail service and other transportation projects. She has also pushed legislation that will green the city's taxi fleet and has fought for tighter federal regulations for airplanes and helicopters flying over the Hudson River.

CECILIA MUÑOZ

White House director of intergovernmental affairs

THE FORMER SENIOR VICE PRESIDENT OF RESEARCH, advocacy and legislation at the National Council of La Raza is the Obama administration's liaison to local, state and tribal governments, reporting to the president's senior adviser, Valerie Jarrett. A child of Bolivian immigrants, Ms. Muñoz grew up in suburban Detroit and went on to a 20-year career as an advocate for immigrants' rights, winning a MacArthur "genius" grant in 2000. Atlantic magazine calls her "a powerhouse who knows everyone in Washington" and predicts that her office could become the most important in the Obama White House. The president simply calls her "one of my favorite people." Though her office focuses on working with mayors and governors, Ms. Muñoz could play an important behind-the-scenes role once the health care reform battle gives way to immigration reform.

ROBERT NABORS

Deputy director, Office of Management and Budget

THE SON OF AN ARMY MAJOR GENERAL, Mr. Nabors lived in nine places before heading off to college at Notre Dame. He first arrived in Washington in 1996 after finishing a graduate degree in political science at the University of North Carolina, and applied for a job at every government agency in town, Politico reports. The White House Office of Management and

Budget was the only one that bit. He landed a job there working on the U.S. census, and quickly rose to become a top adviser to the agency's director. When George Bush was elected, he moved over to the House Appropriations Committee. Now back where he started his Washington career--this time as second in command to Peter Orszag--Mr. Nabors has been charged with keeping track of the $787 billion American Recovery and Reinvestment Act.

KENNETH RASKE

President and chief executive, Greater New York Hospital Association

WHEN THE ASSOCIATION HELD A PARTY IN JUNE TO CELEBRATE Mr. Raske's 25 years of service, White House Political Director Patrick Gaspard, Rep. Charles Rangel and Sen. Charles Schumer all hailed the role he has played in the health reform effort. Since then, Mr. Raske's involvement has only deepened. He raised more money for Senate Democrats this fall than any other lobbyist, and his organization's federal lobbying tab has climbed north of $1 million this year alone. He's been working to make sure geographic variations in Medicare spending don't hurt New York, to protect teaching hospitals from cuts in funding, and to limit reductions in payments to hospitals for caring for the uninsured.

JEANNE ROSLANOWICK

Staff director and chief counsel, House Financial Services Committee

SHE'S A TOP AIDE TO REP. BARNEY FRANK. She was a key player in drafting the bill creating the $700 billion bank bailout program and has a major role in writing the bills that would create the biggest regulatory overhaul for banks since the New Deal. Her boss's powerful committee seeks to reform everything from how bankers are paid to how derivatives are traded. She worked for former New York congressman John LaFalce for 20 years before joining Mr. Frank's group to become the financial services committee's first female staff director.

TIMOTHY RYAN

Chief executive, Securities Industry and Financial Markets Association

THE FORMER J.P. MORGAN EXECUTIVE heads Wall Street's chief trade group. He has to marshal the interests of hundreds of member firms while at the same time trying to fend off Congress' angriest impulses to crack down on banks. He calls himself a "financial firefighter," and as the son of a New York firefighter, he's always trying to douse crises. He's got lots of experience: Under George H. W. Bush, he headed the Office of Thrift Supervision, where he shut down hundreds of failed savings and loans.

JONATHAN SHEINER

Assistant to House Ways and Means Chairman Charles Rangel, D-Manhattan

THIS FORMER HIGH-RANKING DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT STAFFER is known simply as "the Ways and Means guy"--the go-to staffer for anyone who needs to get anything done in one of Congress' most important committees. Mr. Sheiner got his start in politics in 1969 as an intern to then Rep. Ed Koch. Adeptly wielding both policy-making and political skills, the Brooklyn native has developed a reputation for always keeping his eyes and ears open for the city. Of late, he's done some work on housing and financial services issues, but he has spent most of his time on the House's health care reform bill.

ANDY STERN

President, Service Employees International Union

SEIU ENDORSED PRESIDENT OBAMA at a critical moment in the Democratic primary and spent more than $60 million to get him elected. So despite some ugly internal battles, labor finally has a seat at the table in the White House. Anti-labor Republicans recently mocked the fact that Mr. Stern was the most frequent visitor to 1600 Pennsylvania Ave. between inauguration day and July 31, popping in 22 times: "Mr. President, Mr. Stern is here to see you ... again," a press release proclaimed. But his influence is serious. He helped engineer the ouster of Ken Lewis as Bank of America's chairman and lobbied for union-friendly appointees to government agencies. Dennis Rivera, his point man on health care, has brought together groups including insurers, drugmakers and doctors, laying a foundation that has sustained the overhaul through some of its dicier moments. SEIU's other priority campaign--a legislative push to make organizing workers easier--has lagged, but it could be revived in some form once health care reform is finished.

MEGHAN TAIRA

Legislative assistant in charge of health care for Sen. Charles Schumer, D-New York

SHE'S THE WOMAN SEEN ON C-SPAN REPEATEDLY WHISPERING into Mr. Schumer's ear during the Senate Finance Committee hearings on the health care overhaul. While Mr. Schumer has been the public face of the fight for a public option, Ms. Taira has been its behind-the-scenes champion. She helped come up with the "level playing field" approach that helped revive a public option debate that had been nearly killed by Republicans. Mixing policy expertise with pragmatic political know-how, the 32-year-old has also worked to maximize reform's benefits to New York. The Hawaii native has health care in her blood: She was born when her mother was in public health school and went to classes with her as an infant.

DANIEL TARULLO

Federal Reserve Board governor

HE JOINED THE FED IN JANUARY AND HAS MADE A NAME FOR HIMSELF by animating the central bank's dormant regulatory authority. As one of five governors of banking's most important regulator, he's pushing his teams of supervisors to take a tougher look at everything from how bankers pay themselves to how they value their commercial real estate holdings. He's also overseeing an internal review of the Federal Reserve Bank of New York, whose power has grown enormously in the past couple of years as it took control of billions worth of dud securities from Bear Stearns and AIG. He's already forced about 100 banks to change their lending practices.

ELIZABETH WARREN

Chairman, Congressional Oversight Panel

THE HARVARD LAW PROFESSOR, PERHAPS BET-KNOWN for her work on bankruptcy law, has become a pivotal player in the financial landscape in the past year. She runs the group in charge of critiquing the $700 billion bank bailout program, and her support for the creation of a Consumer Financial Protection Agency is viewed as critical to ensuring that Congress gets behind it, too.

Additional reporting by Erik Engquist and Nicholas Rummell

###

Victoria McGrane, *Dodd, Shelby lead on finance reform*, Politico, October 19, 2010 4:53 AM ET.

After the Treasury Department released its legislative draft for financial regulation reform in July, administration officials contacted Senate Banking Committee Chairman Chris Dodd to set up a briefing.

But the Connecticut Democrat caught them short by insisting it be a bipartisan affair, with Sen. Richard Shelby (R-Ala.) and his staff included.

And so it went all summer, with Treasury officials going through the draft proposals line by line, through all 13 titles. The sessions sparked lively debate, with both Dodd's and Shelby's staff pushing administration officials to defend the choices they'd made, administration sources recalled.

Although a Senate reform bill has yet to emerge, extensive interviews by POLITICO found that the marquee players who will emerge in both the Senate and the House during this fall's debate on regulatory reform have been negotiating and hashing out ideas for months.

It's a process that is notably different from the partisan path of health care reform. It's also distinct in that the White House has led, rather than lagged behind, the legislative writing process. Rep. Barney Frank, Dodd and Treasury Secretary Timothy Geithner, for instance, put their heads together from time to time, as they did Sept. 22 in Dodd's Senate hideaway office.

The behind-the-scenes coordination could significantly improve the chance of reform's passing by year's end and delivering to President Barack Obama the first real bipartisan victory of his term.

Many sessions have dragged into the wee hours of the morning, hours-long conference calls are a norm and Pizza Pino has become a favorite Treasury haunt, since it's the only restaurant open late within a four-block radius of the building.

Dodd and Shelby talk about regulatory reform on a nearly constant basis, both men say, and their staffs are deep in discussions. Dodd hasn't gotten down to hashing out legislative details with newly appointed Senate Agriculture Committee Chairman Blanche Lincoln (D-Ark.), but her committee staff, which shares jurisdiction over some portions of the reform bill, did attend all the briefings.

Both Dodd and Shelby also meet regularly with their respective members on the committee, and Dodd said he meets with Republicans as well as his team of Democrats.

Talks with his Democratic members allow him to keep them up to date, "so I'm not going off on my own," coming back and "surprising them with anything," Dodd said.

Dodd also asked many of his Democrats to assume responsibility for certain subject areas. Sen. Jack Reed (D-R.I.) was tasked with delving into rating agencies and derivatives, Sen. Chuck Schumer (D-N.Y.) has taken on corporate governance, and Sen. Mark Warner (D-Va.) is working on the asset management side of the debate.

And many of Dodd's Democrats are already working on the issues with their Republican banking colleagues. "It's good politics for people to be invested in a major part of the legislation but also in terms of people feeling a sense of ownership in what you're producing, rather than being told, 'This is what the chairman's mark is. Take it or leave it,'" Dodd said.

On the House side, Republicans have not been a presence at Frank's negotiating table - not only because Democrats don't need Republican votes to get things done in the House but also because, Frank's staff says, Republicans on Frank's committee haven t shown signs of wanting to compromise.

"They are absolutely, 100 percent ideologically opposed to what we are doing," said Frank spokesman Steve Adamske.

So the House effort has been dominated by negotiations between the two ends of Pennsylvania Avenue. When Frank released his initial draft of legislation creating a new watchdog for consumer financial products - a cornerstone of the administration's proposed reform - the consumer protection team and general counsel at Treasury pored over the document until 3:30 the next morning.

In advance of last week's markup of the consumer watchdog, Assistant Treasury Secretary Michael Barr and his team held four-hour conference calls on both Saturday and Sunday of the Columbus Day weekend and worked on the Monday federal holiday as well.

Frank has made significantly more headway with his Agriculture Committee chairman, Rep. Collin Peterson (D-Minn.), than Dodd has.

Frank and the folksy former accountant and farm state champion have been working out details since at least early June, when the pair told Geithner over dinner that he needed to back off a proposal to merge the Securities and Exchange Commission with the Commodity Futures Trading Commission.

Peterson's panel oversees the CFTC and the futures contracts it regulates. The administration plan would have stripped the Agriculture Committee of its influence over the global economy - and its members' ability to collect campaign contributions from the financial industry.

Peterson made clear first to Frank, then to Treasury, that the plan would spark a massive turf battle that would bog down the overall bill.

Since then, Peterson and Frank have been in close contact on the derivatives portion, trying to make their bills as similar as possible. Both committees will pass their own versions, and the chairmen will hammer out the differences before a single derivatives bill moves to the House floor next month.

Frank and Dodd are also hoping to pass legislation that closely tracks each chamber, which could speed the work of a final conference committee charged with hammering out one final bill for passage.

"We're trying to get as close as we can," said Dodd. "We have on so many bills already. So I'm not worried about that aspect of it."

###

***An eye out for ordinary people*, The Deal, October 16, 2009.**

Michael Barr has a rare opportunity for a scholar. He's been hired by the federal government to put some of his ivory tower ideas into practice.

Barr, confirmed in May to be the Treasury Department's assistant secretary for financial institutions, has spent most of his academic career examining how the financial services industry can better reach the poor and other underserved segments of society. His scholarly work is especially relevant in the wake of last year's financial panic, which was sparked by a wave of reckless and predatory subprime lending to lower-income Americans.

Barr, 43, who a year ago was a law professor at the University of Michigan and a fellow at the Center for American Progress in Washington, tapped a deep well of his own research in the first weeks of the crisis to argue for government intervention to keep troubled borrowers in their homes and rein in abusive-lending practices.

"He's an expert on people who have been left out of our financial system," says Brookings Institution senior fellow Robert Litan, who collaborated with Barr on a 2007 Brookings publication, "Building Inclusive Financial Systems." "Lending to underserved populations has been a big interest of his."

###

Bill Swindell and Jerry Hagstrom, *Dems Coalesce Around Tougher Derivatives Provisions*, National Journal's CongressDaily, October 15, 2009.

The House Financial Services Committee is slated to approve legislation today that would place greater regulations on the over-the-counter derivatives market in a vote that showcases Democrats coalescing around an effort to place tough requirements on the financial industry despite aggressive lobbying by big banks.

Looking for more? Check out our issue page detailing the forthcoming debate on overhauling the nation's financial regulatory structure. For the latest stories, related documents and other coverage click here.

The panel is expected to approve Financial Services ChairmanBarney Frank's bill to force more trades on the multitrillion-dollar OTC market -- where customized trades take place between two parties with less regulation -- onto exchanges and require greater capital standards to prevent a collapse such as the one at American International Group.

Frank revised his bill after it came under criticism, particularly from Commodity Futures Trading Commission Chairman Gary Gensler, that it contained too many loopholes. "I think Gensler is mostly satisfied," Frank said after his panel finished debating amendments to the measure. Frank noted that he called AFL-CIO Chairman Richard Trumka to reassure him that he was taking a tough stance on the issue after a labor-backed group strongly criticized his earlier version.

For example, Frank offered an amendment Wednesday that would mandate that trades between major financial players -- such as banks and hedge funds -- must be placed on exchanges. But trades by end-users such as airlines, manufacturers and farmers, which use them to hedge against business risk, would be exempt.

Frank did not include such a mandate for cleared swaps in his first draft, while an Obama administration proposal and a competing draft from House Agriculture ChairmanCollin Petersondid. Gensler had argued that placing those trades on the exchanges would provide better transparency and pricing, though cut into the profit margins of the five big banks that dominate the OTC market.

"We do not believe mandating exchange trading is necessary. There is no reason for the government to mandate one particular transaction mode over another," said Cory Strupp of the Securities Industry and Financial Markets Association.

Despite the difference in the language, Assistant Treasury Secretary Michael Barr said Frank's exemptions for end-users were reasonable and would continue to work on the language before it comes to the floor, most likely as part of an overall revamp of the nation's financial regulatory system.

On another issue, Frank said he is moving closer to the Obama administration over a definition of a "major swap participant" that would come under greater scrutiny from the bill's regulation. Gensler had criticized an earlier Frank draft that allowed exemptions for "risk management purposes."

Frank offered an amendment Wednesday that would designate firms as a major swap participant if they would expose their counterparties to significant losses. Frank would additionally give the SEC and CFTC more authority to exempt firms from falling under the definition.

It was approved on a voice vote.

"The administration urges a definition that would exclude few end-users. ... They would have a narrower exclusion," said Frank, who added that he understood Peterson was moving closer to the administration's language for a major swap participant. "I don't think there are going to be huge differences."

The Agriculture Committee will mark up its bill Wednesday. Peterson said he expects a bipartisan vote in favor of the measure, in which banks and dealers face a greater obstacle in getting their language attached given that Peterson has held a skeptical view of Wall Street traders.

Agriculture ranking memberFrank Lucas, who sits on Financial Services, said in an e-mail Wednesday, "It is fortunate that Agriculture Committee members will have a few days to evaluate the outcome of this markup before taking up the issue next week. There are still concerns from the end-user community and others with both the Frank and Peterson bills."

Peterson, who met with Gensler Wednesday, said he was pleased with the changes that Frank made because "he keeps picking up our provisions and putting them in his bill." He noted a provision in Frank's proposal to allow end users of derivatives such as airlines, manufacturers and farmers to continue using the non-cash collateral for margin requirements. "The end users were not causing any problems," Peterson said.

Peterson said his bill would include language to curb speculation in the energy and agricultural markets that were contained in an earlier bill that his committee passed. Peterson said he expects that he would add a provision to give the CFTC authority to establish position limits for such markets.

Airlines, public utilities and farm groups have complained that commodities speculation by investors last year caused futures prices to skyrocket. They contend such speculation makes the futures markets unworkable for long-term market participants that depend on them for risk management and price discovery.

Barr said the administration financial services regulation proposal was silent on the speculation issue, but said administration officials are working with Peterson.

The two bills also differ over who would have the authority to mandate if swaps should go through a clearinghouse, which guarantees a trade and establishes capital requirements.

Under Frank's bill, clearinghouses would be able to submit swaps to either the SEC or CFTC for approval and the regulators would then determine whether the swap should be cleared. Peterson's draft would allow the clearinghouse to make the call regarding whether a trade should be considered standard and could be cleared.

###

Silla Brush, *White House pushes for new financial regulations,* The Hill, October 7, 2009.

The Obama administration is mounting a full-court press on Capitol Hill this week to rally support behind new financial regulations. Democratic leaders on Tuesday said they are finishing up the legislation and expect to vote on it in November. Treasury Secretary Timothy Geithner and two of his top lieutenants have more than 10 meetings between Tuesday and Thursday.

Geithner is slated to talk on Tuesday with House Majority Leader Steny Hoyer (D-Md.) and Rep. Paul Kanjorski (D-Pa.), the No. 2 Democrat on the House Financial Services Committee. Treasury Deputy Secretary Neal Wolin will speak at the Senate Democratic Policy Committee lunch on Thursday, and he and Assistant Secretary Michael Barr have a series of one-on-one meetings throughout the week.

The Obama administration has ratcheted up its campaign for new regulations in the last month as concerns mounted that the overhaul effort was flagging under the weight of financial-industry lobbying and Republican opposition. The Treasury Department reached out to centrist New Democrats last Thursday to gather support behind the reform proposals, and Wolin has traveled to a handful of congressional districts to meet with Democrats and consumer financial advocates.

The effort comes a week before House Financial Services Committee Chairman Barney Frank (D-Mass.) begins to mark up key elements of the financial overhaul. Frank is slated to hold a three-day markup next week on legislation that would create a new Consumer Financial Protection Agency (CFPA) and on a bill that would add new regulations to the multitrillion-dollar market for financial derivatives.

Frank is planning a markup the following week on legislation that would create a new federal office to monitor insurance and set up a new fiduciary duty for broker-dealers and investment advisers. The legislation would also set up new registration requirements for hedge funds and private equity firms.

Steve Adamske, Frank's spokesman, said the committee will also hold a markup in October on legislation that would regulate "systemic risk" across the financial sector and establish new powers for the government to wind down failing bank and non-bank financial firms. "Systemic risk" and "resolution authority," as the latter is known officially, are two of the most contentious pieces of the overhaul and have led to months of wrangling not only with financial lobbyists but also among the current regulators, who are wary of losing responsibilities.

Hoyer said on Tuesday morning that he is planning votes on the House floor in November, adding that other committees may need time to consider the legislation. The House Agriculture Committee has been working closely on regulations in the derivatives market.

"We're marking up these pieces individually," Adamske said. "The leadership may want to fold them all together. That's certainly our recommendation." While the House has planned a heavy slate of markups this month, the Senate is continuing to work mostly behind the scenes.

Senate Banking Committee Chairman Chris Dodd (D-Conn.) and Sen. Richard Shelby (R-Ala.), the committee's ranking member, have been working to reach a compromise bill. Dodd has also come out in favor of a series of policies that look significantly different from the proposals put forward by both Frank and the Obama administration. Dodd said last week that he was planning for a series of votes in his committee as early as November. Dodd cautioned that final votes on the Senate floor could happen early next year.

Jared Allen contributed to this article.

###

Victoria McGrane, *Treasury blitzes Hill for regulatory reform*, Politico, October 6, 2009 2:29 PM ET.

Treasury Secretary Timothy Geithner and top deputies are blitzing Capitol Hill this week with a heavy lobbying effort on regulatory reform, hoping to mold the biggest overhaul for the financial industry since the Great Depression.

Geithner has two separate meetings tomorrow, including one with House Majority Leader Steny Hoyer (D-Md.). Geithner will also meet with Rep. Paul E. Kanjorski, a senior member of the House Financial Services Committee.

Also this week, Deputy Treasury Secretary Neal Wolin will brief the Senate Democratic Policy Committee lunch meeting Thursday.

Wolin and Assistant Treasury Secretary Michael Barr have a total of 10 different meetings between them scheduled this week with lawmakers, said Treasury spokesman Andrew Williams. Geithner also has additional meetings, but Williams would not comment.

Treasury's push comes as financial reform legislation starts to enter a critical phase, particularly in the House. House Financial Services Chairman Barney Frank (D-Mass.) is set to mark up two major pieces of the legislation in his committee next week: a bill to regulate derivatives and another measure to create a new, independent consumer financial protection agency. The House language on financial reform is actually fairly close to what Treasury wants, but there has been significant Republican resistance to creating a new agency.

Treasury asked for the meetings to answer lawmakers' questions, explain the Treasury's rationale for particular positions, interact with members and let them understand "why it is urgent," said Williams.

"This is going to get done before the end of the year," Williams said.

###

Mary Dunn, *CARD Act, Proposed CFPA Remain Major Concerns*, Credit Union Magazine, October 2009.

WHETHER financial reform can proceed in Congress is unclear. But one component of the Obama administration's reform package that could advance is the proposal for the new Consumer Financial Protection Agency (CFPA).

While the prospects for Senate action on the proposed agency are less certain, House Financial Services Committee Chairman Barney Frank, D-Mass., plans to have his committee review his CFPA legislation (H.R. 3126) in October.

It's appropriate for credit unions to be wary and seek key changes in the legislative provisions that would frame the new agency. Working with our Governmental Affairs Committee, the Credit Union National Association (CUNA) developed fundamental principles that must be addressed if CUNA ultimately can support the new agency. Among the provisions we're pushing:

* A call for a single set of consumer protection rules under which states could not add burdensome requirements;

* Continuing to allow the federal and state safety and soundness regulators to examine and enforce consumer rules;

* Including credit union representatives on the new agency's board; and

* Protecting credit unions from costly assessments to help pay for the agency.

For the administration, the pivotal player is Treasury Assistant Secretary for Financial Institutions Michael Barr. CUNA representatives have met with him several times and continued discussions are in the works.

Meanwhile, based on a recommendation from former National Credit Union Administration (NCUA) Chairman Michael Fryzel, NCUA is considering creating a new office within the agency to focus attention on the range of consumer rules that apply to credit unions, such as Truth in Lending.

Credit unions have many questions about this proposed new office, including its mission, how it would be funded, and whether it's necessary- particularly if the new federal agency is created. Working with our Examination and Supervision Subcommittee, CUNA will continue to press NCUA for more information about its plans.

CARD Act

One issue (also in the realm of consumer laws) that CUNA and NCUA are working on is relief for credit unions struggling to comply with the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act. Since the act's enactment in May, CUNA aggressively has pursued limiting the 2 1 -day rule to credit cards. (The act requires creditors to adopt reasonable procedures to ensure they provide periodic statements for open-end consumer accounts at least 2

1 days before the payment is due. Otherwise, they lose the ability to treat payments late for any purpose, including reporting a late payment to a credit bureau.)

While the Federal Reserve Board didn't limit the scope of the 21 -day rule to credit cards, it did allow credit unions "for a short period of time" to use an alternative approach of providing a disclosure on or with the periodic statement to inform borrowers they have 21 days to make their payments. Nonetheless, credit unions still have substantial compliance issues with the 21 -day rule as it applies to open -end plans other than credit cards.

Soon after returning to the NCUA Board, Chairman Deborah Matz recognized those difficulties in public statements and in a key meeting with credit unions, CUNA, and others in late August. She made it clear to credit unions and to the agency's examination force that examiners will work with credit unions and avoid writing them up or imposing sanctions as credit unions continue to reach compliance under the CARD Act.

Meanwhile, CUNA and NCUA continue to pursue a legislative remedy for the 21 -day rule. And, in discussions with senior Fed staff, and in one of several letters we filed with the Fed on the CARD Act, CUNA has urged that the minimum payment disclosure requirements (periodic statement disclosures on how long it will take to pay off the balance if only the minimum payment is made), effective Feb. 22, 2010, be limited to open-end plans.

CUNA anticipates the proposed rule for provisions that take effect in February will be issued in the next few weeks, and the final rule for the provisions effective in both February and August will be approved in late November or December.

###

Damian Paletta, *Obama Stamp is on Finance Rules*, The Wall Street Journal, June 17, 2009.

WASHINGTON -- In drafting its proposed revamp of financial-sector regulation, the Obama administration sought to leave few of the initial details to Congress, a risky strategy that could pin much of the plan's success or failure on the president himself.

The exhaustive series of meetings and nitty-gritty debates that forged the comprehensive plan -- to be presented to Congress Wednesday -- contrasts with the way the administration has approached other priorities, such as health care and energy policy. In those cases, the White House has left the fine print to be filled in by Congress.

The different approaches reflect how some of the administration's most senior officials are personally invested in the finance overhaul, worried that political tinkering by lawmakers could undermine their goals. Others say the package only works if all the pieces are designed to fit together.

"We identified lots of options and we approached some of them with presumptive answers, but in a way nothing was nailed down until it was all nailed down because so much of this is interconnected and interrelated," said Treasury Department Deputy Secretary Neal Wolin.

Roughly once a week, sometimes more, the team met with Treasury Secretary Timothy Geithner or National Economic Council Director Lawrence Summers to run through ideas. Mr. Summers became known for his ability to shred and discredit any idea presented, forcing aides to scramble to defend their proposals.

"The challenge for many people...is that he can argue both sides of an argument better than anyone," said Diana Farrell, deputy director of the NEC.

Officials now feel that this exercise with Mr. Summers, which left some red-faced at the time, will make it much easier to defend their ideas on Capitol Hill.

The plan would bring sweeping changes to the way financial markets are overseen, empowering federal regulators and limiting the amount of risk financial companies can extend. It also would allow the government to take over and break up large firms, boost consumer protections and push for changes in the way loans are securitized.

The core work was handled by a group of aides, led by Mr. Wolin and Ms. Farrell, that met most weekdays at 1 p.m. Because there were so many topics, officials broke discussions into groups. Sometimes meetings began with 15 priorities and officials only worked their way through four.

"It was a lot like doing dishes," said Ms. Farrell. "Just when you think you are done, and just as you are putting the last plate away, a whole new set of plates comes forward."

The team was built to have contrasting views so officials could debate a wide range of alternatives. Key players included Treasury Assistant Secretary Michael Barr, an expert on financial institutions and consumer protection; Cass Sunstein, a constitutional-law expert who joined the White House from Harvard Law School; and Patrick Parkinson, a markets expert who took a leave from the Federal Reserve to join the Treasury Department.

One debate that consumed the team was whether to oversee systemic risks through the Fed or give more power to a council of regulators. At a recent meeting, one aide said it was better to go to war against a committee than with one, an observation that led to a focus on giving the Fed more power.

The group also debated what to do with firms that pose a systemic risk to the economy. It was ultimately decided that the most efficient way to oversee such companies was to push them to register as "financial holding companies," which would bring them directly under Fed supervision.

People involved in the process described it as unique because, at least so far, insiders have driven the agenda without substantial pressure from outsiders.

"By no means were they saying 'Give us your ideas and we'll do what you want,'" said John Taylor, chief executive of the National Community Reinvestment Coalition, who met with the group several times. "We have no illusions."

###

Stacy Kaper, *Senate Committee Approves Nominees; Market Monitor*, American Banker, May 22, 2009.

The Senate Banking Committee approved the nomination of four Obamaadministration appointments Thursday including one for the Treasury Department and another for the Department of Housing and Urban Development.

The nominations still must be approved by the full Senate.

Among those approved by the committee was Michael Barr for Treasury assistant secretary for financial institutions. Barr was a Treasuryofficial in the Clinton administration and has held several government and academic posts. He was an early advocate for the George W. Bush administration to improve its foreclosure mitigation efforts and adopt streamlined loan modifications.

The committee also approved the nomination of Sandra Henriquez forassistant secretary for public and Indian housing at HUD.

###

Cheyemme Hopkins, *Two Nominations for Treasury*, American Banker, March 31, 2009.

The Obama administration said Monday that it has nominated Michael Barr to be the Treasury Department's assistant secretary for financial institutions.

The job is one of the most senior Treasury financial services positions to generate a nomination. The administration has yet to announce its choice for undersecretary of domestic finance.

Barr was a special assistant and deputy assistant for community development policy under then-Treasury Secretary Robert Rubin and was a special adviser to then-President Clinton. Barr teaches finance and law at the University of Michigan.

The administration also nominated George Madison to be the Treasury's general counsel. Madison is the former executive vice president and general counsel of TIAA-CREF.

Barr's predecessor, David Nason, is joining Promontory Financial Group as a managing director. During his time at the Treasury, Nason was a key writer of the Bush administration's regulatory restructuring blueprint.

###

Peter Schroeder, *Treasury: Garrett Tapped as Asst. Tax Policy Secretary*, The Bond Buyer, March 31, 2009.

Helen Elizabeth Garrett, vice president for academic planning and budget at the University of Southern California, has been nominated by President Obama to become the Treasury Department's assistant secretary for tax policy.

Obama also nominated Michael S. Barr, a professor of finance at the University of Michigan Law School, for the post of assistant secretary for financial institutions, and George W. Madison, a former executive of TIAA-CREF, to become general counsel.

If confirmed by the Senate, Garrett would replace Eric Solomon, who left the department in January.

Garrett does not appear to have any specific experience with municipal bonds, but has been involved in hospital projects financed with tax-exempt bonds, according to sources. In 2005, she served on President George W. Bush's nine-member bipartisan Advisory Panel on Federal Tax Reform, which made recommendations to Congress on simplifying the tax code while still promoting long-term economic growth, including the repeal of the alternative minimum tax. Congress ultimately failed to act on the group's recommendations.

She also was co-principal investigator on three research projects involving state and local governments, two of which focused on infrastructure financing.

"I think it is a wonderful pick, I'm looking forward to working with her, and she is a person of enormous intelligence and good judgment with an extraordinary energy level," said Edward Kleinbard, chief of staff for the congressional Joint Committee on Taxation. "She will be a tremendous success."

Garrett is also a Sydney M. Irmas professor of public interest law, legal ethics, political science, and policy, planning, and development at USC, co-director of the USC-Caltech Center for the Study of Law, and the chair of the finance committee of Common Cause, a nonpartisan, nonprofit citizen advocacy organization.

It appears that Garrett and President Obama were colleagues for some time at the University of Chicago Law School. Prior to joining USC in 2003, Garrett served as deputy dean of academic affairs there, while Obama was a constitutional law professor from 1992 to 2004.

She graduated from the University of Oklahoma in 1985 and University of Virginia Law School in 1988, after which she clerked for Justice Thurgood Marshallon the Supreme Court and Judge Stephen F. Williams on the Court of Appeals for the D.C. Circuit. She also served as legal counsel and legislative assistant for tax, budget and welfare reform for former Sen. David Boren, D-Okla., from 1991 through 1993.

Barr previously worked at the Treasury Department from 1995 to 2001 under former Secretary Robert Rubin, as both his special assistant and deputy assistant secretary for community development policy at the Treasury.

"Michael Barr is a terrific choice for assistant secretary for financial institutions. His background in financial institutions is both broad and deep," said Victoria "Penny" Rostow, the governmental affairs director for the National Association of Bond Lawyers, who worked with Barr at Treasury. "While he may not have specific expertise in municipal finance, he is keenly interested in state and local finance issues and in creative financing programs, and I think he will have a great deal to contribute to policy-making with regard to municipal finance."

Barr could play a relevant role in municipal finance at the Treasury, as the federal government takes a look at broad regulatory reform, possibly including the muni market.

Barr is also a senior fellow at the Center for American Progress and at the Brookings Institution. He received his bachelor's degree from Yale University in 1987 and his law degree from Yale Law School in 1992, and is also a Rhodes Scholar.

In addition, he clerked for Supreme Court Justice David Souter in 1993 and 1994, and for Judge Pierre N. Leval, with the U.S. District Court for the Southern District of New York, from 1992 to 1993.

###

Chris Killian, *U-M professor picked for Treasury post*, Michigan Messenger, March 30, 2009 2:40 PM ET.

The Obama administration has tapped University of Michigan law professor Michael S. Barr to fill one of three senior positions currently vacant in the Treasury Department, Bloomberg News reported Monday.

If confirmed by the Senate, Barrs new role will be the departments assistant treasury secretary for financial institutions.

Barr, 43, served as assistant director of financial institutions to former Clinton administration Treasury Secretary Robert Rubin and is a senior fellow at the Center for American Progress and the Brookings Institution.

###