DEMOCRATIC POLICY COMMITTEE

Fact Sheet

DPC

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# Senate Democrats Are On Your Side:
## Reforming Wall Street While Protecting Main Street

> *It comes down to whose side you are on. Senate Democrats know that people are hurting because of the gap that exists between Wall Street and Main Street. We are committed to closing that divide and we are hopeful that Republicans work with us to strengthen our economy through these measures.*
>
> – Majority Leader Harry Reid, 3/16/10

Over the last two years millions of Americans have suffered from the effects of the worst financial and economic crises since the Great Depression: 8.4 million Americans have lost their jobs, small businesses have failed, nearly seven million people in the United States have lost their homes to foreclosures, and millions more have seen their savings and retirement accounts lose most of their value – economic pain that tears at the very fiber of the middle class.

All this was caused by greedy and reckless behavior of Wall Street and the Republican economic policies that encouraged excessive risk-taking and a *laissez-faire* approach to financial regulation and oversight. The failures that led to this crisis require bold action to help us recover and ensure that it never happens again.

### *We must restore responsibility and accountability in our financial system.*

**We must create a sound foundation to grow the economy, create jobs, and restore consumer and investor confidence in our markets.** That's why we are committed to:

- Ending "too big to fail" bailouts by limiting large, complex financial companies;
- Establishing a strong consumer financial protection watchdog;
- Creating an early warning system to spot problems and stop them before they threaten the stability of our whole economy;
- Closing the oversight gaps and loopholes that permitted the reckless behavior that precipitated the financial crisis; and
- Strengthening shareholder power over Wall Street CEOs.

**Those standing in the way of real reform want to continue the failed policies that got us here.** Those who oppose these principles are standing with Wall Street lobbyists who are trying to maintain the status quo – at the expense of ordinary Americans – and take us back to the failed Bush economic policies of the last decade. They want more of the same: taxpayer-funded bailouts, CEO bonuses, and policies that take advantage of families and small businesses.

**Real Wall Street reform is about restoring transparency, accountability, and fairness to our economy.** Senate Democrats support reform that will stop abuses by big Wall Street banks that cost taxpayers billions in bailouts; crack down on the deceptive practices of credit card companies and predatory lenders; and help small businesses by creating a more stable and dependable flow of credit for them.

Wall Street reform is about restoring the American Dream for working and middle-class families and small business owners. Real reform will ensure that Americans are rewarded for hard work, not reckless financial gambles that undermine our economic future.

## *The Restoring American Financial Stability Act*

### Ending "too big to fail" bailouts by limiting large, complex financial companies

Government bailouts of large financial companies send the wrong signal to company executives and investors: continue to get bigger and take on more risk and the government will "back stop" your losses out of fear that your failure will threaten the whole financial system.

Senate Democrats are committed to preventing another crisis in which American taxpayers are forced to bail out "too big to fail" financial firms. The bill would:

- Limit large, complex financial firms through new rules that impose significant new requirements on companies that pose risks to the financial system; and

- Create a process for winding down big financial firms that fail without threatening the economy, funded through fees assessed against the largest financial firms (rather than taxpayers' funds):

    - Provide authority to the FDIC (with the agreement of Treasury and the Federal Reserve) to liquidate and unwind failing financial companies that are "systematically significant;"
    - Require non-bank financial companies that pose a risk to the financial stability of the United States to submit to supervision by the Federal Reserve;
    - Require large, complex companies to submit "funeral plans" (periodic plans laying out plans for their rapid and orderly shutdown); and
    - Update the Federal Reserve's "lender of last resort" authority to allow system-wide support for healthy institutions to protect taxpayers from loss during a major destabilizing event, but not to prop up individual institutions.

### Establishing a strong, independent consumer financial protection watchdog

Senate Democrats are committed to protecting American consumers from unfair, deceptive, and abusive financial products and practices. This will ensure that people get the clear information they need about loans and other financial products from credit card companies, mortgage brokers, banks, and pay-day lenders. The bill would establish a new Consumer Financial Protection Bureau with:

- Independent leadership, budget authority, and rule-writing power;

- Strong examination and enforcement authority;

- Strengthened consumer protection responsibilities currently handled by the Office of the Comptroller of the Currency, Office of Thrift Supervisions, Federal Deposit Insurance Corporation, Federal Reserve, National Credit Union Administration, and the Federal Trade Commission; and

- A new Office of Financial Literacy and a national hotline so that consumers can report problems with financial products and services.

**Creating an early warning system to spot problems and stop them before they threaten the stability of our whole economy**

The failures that brought down giant financial institutions last year also devastated the economic security of millions of Americans who did nothing wrong, but found their jobs, homes, and retirement security gone overnight. The Senate proposal would create an early warning system to avoid the next financial crisis by establishing a Financial Stability Oversight Council that would be tasked with identifying and addressing unsafe products or practices of large, complex companies. The Council would have the authority to:

- Propose strict rules to discourage excessive growth and complexity through tough new capital and leverage requirements;

- Require that non-bank financial companies (like AIG) that pose a risk to overall financial stability be regulated by the Federal Reserve; and

- Approve a Federal Reserve decision to break up large, complex companies if they pose a grave threat to the financial stability of the United States.

**Closing the oversight gaps and loopholes that permitted the reckless behavior that precipitated the financial crisis**

The financial crisis was caused in part by the federal government's failure to conduct necessary oversight to prevent and respond to reckless behavior of big Wall Street firms. The Senate proposal would:

- Enhance regulation of big banks by streamlining bank supervision, providing clear lines of responsibility, replacing the current confusing system, and preserve the "dual banking system that supports community banks;

- Strengthen the Federal Reserve by providing enhanced transparency, new oversight authority, an explicit financial stability function, elimination of conflicts of interest in reserve bank governance, and increased accountability at the New York Federal Reserve Bank;

- Improve investor protection and competence at the Securities and Exchange Commission (SEC) by encouraging whistleblowers, reforming management, and creating a new advocate for investors;

- Require accountability for risky and abusive practices and products, including provisions to:

  - Limit irresponsible practices and excessive risk-taking by regulating "over-the-counter derivatives;"
  - Regulate the "shadow" financial system by filling in regulatory gaps, regulating mortgage companies and large non-bank financial reforms, requiring hedge funds of a certain size to register with the SEC, and providing for greater state supervision; and
  - Avoid a repeat of the subprime mortgage crisis by requiring companies that sell mortgage-backed securities to disclose more information and retain a portion of the risk.

- Monitor the insurance industry through a new Treasury Department office and streamline the regulation of surplus lines of insurance and reinsurance through state-based reforms;

- Strengthen the regulation of credit rating agencies by establishing new SEC rules that provide for internal controls, independence, transparency, and penalties for poor performance; and

- Improve oversight of municipal securities by requiring municipal advisors and brokers to register with the SEC and increasing investor and public representation on the Municipal Securities Rulemaking Board.

## **Strengthening shareholder power over Wall Street CEOs**

To rein in excessive executive pay and help shift management's focus from short-term profiteering to long-term growth, the bill would:

- Give shareholders the right to a non-binding vote on executive pay;

- Grant the SEC authority to give shareholders proxy access to nominate directors;

- Ensure the independence of compensation committees; and

- Require that public companies adopt policies to recover executive compensation if it was based on inaccurate financial statements.