mike
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Mike Bloomberg's Financial Reform Policy

Finance should serve the American people, facilitating the kind of growth that improves everyone's living standards. All too often, though, it fails to achieve that goal. The 2008 financial crisis destroyed millions of jobs and cost the average American an estimated $70,000 each.[1] Unscrupulous brokers and lenders trap people in financial products that leave them worse off. Credit-reporting companies complicate the lives of consumers who never chose to do business with them. Ultra-fast trading costs investors worldwide an estimated $5 billion a year[2] while exposing them to the threat of "flash crashes."

Given how profoundly the 2008 crisis undermined faith in the establishment -- and given how close it brought the world to economic collapse -- authorities everywhere should be doing all in their power to fix the flaws it revealed. Yet the Trump administration is rolling back what safeguards were put in place, and none of the candidates for president is offering a viable alternative.

Mike Bloomberg considers this state of affairs unacceptable -- and as the founder of a successful global financial technology company, he understands the system well and is uniquely qualified to make it work better for all Americans. As president, he will:

- Build a financial system strong enough to weather crises without harming the broader economy or requiring taxpayer bailouts.
- Ensure fairness and defend consumers' interests in financial markets.
- Harness finance for the public good, and encourage the kind of innovation that helps people achieve their goals, such as owning a home or starting a business.

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1. **Fix what Trump has broken and strengthen the financial system.**

   The Trump administration has been eroding safeguards designed to make the financial system a source of strength, rather than an agent of contagion.[3] It has allowed the largest U.S. banks to operate with less equity, the loss-absorbing capital that helps them keep lending in hard times. It has weakened mechanisms -- such as stress tests[4] and living wills[5] -- designed to ensure that large financial institutions can weather a crisis or fail safely. It has undermined the Volcker Rule, designed to deny taxpayer subsidy to speculative trading. It has abandoned efforts to address risks arising outside the traditional banking system, at institutions such as insurance companies and non-bank mortgage lenders. Mike will work with regulatory agencies to ensure a more resilient financial system. His goals:

   - **Reverse the Trump-era decline in equity levels at the largest U.S. financial institutions**, and set capital requirements[6] as needed to withstand crises without government bailouts.[7]

1 Federal Reserve Bank of San Francisco
2 Wall Street Journal
3 Bloomberg Opinion
4 Bloomberg Opinion
5 The Wall Street Journal
6 Admati et al
7 Federal Reserve Bank of Minneapolis

- **Toughen stress tests** of the country's largest financial institutions, including by reviving the Fed's power to judge participants on "qualitative" grounds and making the tests better reflect real crisis conditions.
- **Reinstate annual living wills**, in which large financial institutions must explain how they could go bankrupt without harming the broader economy -- and make the documents public.
- **Restore the Volcker Rule** and make enforcement more effective, by focusing on the outcome of speculative trading -- big gains and losses -- rather than trying to discern traders' intent.[8]
- **Reinvigorate efforts to monitor and address risks arising outside the banking system,** including by subjecting systemically important non-bank institutions -- such as insurers -- to added scrutiny and requirements.

For the financial system to be resilient, authorities need to know what's going on. Unfortunately, they don't. The Trump administration has undermined the Financial Stability Oversight Council[9] and the Office of Financial Research[10] -- which the 2010 Dodd-Frank Act created to monitor and address systemic risks. Some of the nation's largest banks can't report in an adequate and timely manner on their enterprise-wide risk exposures.[11] There's no reliable record of transactions in financial markets to help regulators understand, for example, why troubling events such as "flash crashes" happen.[12] Mike will work with Congress and regulators to ensure that authorities have the information they need and the power to act on it. His goals:

- **Strengthen the Financial Stability Oversight Council,** providing for staff, funding and better tools to promote financial stability and ensure that other agencies address systemic risks -- including in areas such as cybersecurity and climate change. [13] Also, add financial stability to the mandates of all relevant regulatory agencies, and properly fund the Office of Financial Research.
- **Compel large financial institutions to keep better track of what they're doing**, by meeting international standards for collecting and reporting timely and reliable information on their risk exposures,
- **Accelerate the creation of a Consolidated Audit Trail** to record all transactions in financial markets and make them available for immediate analysis.

Almost a decade after Congress passed the Dodd-Frank financial reform legislation, some important elements have yet to be acted upon. For example, regulators have yet to adequately address credit-rating firms,[14] which played a central role in the 2008 crisis by inflating the ratings of mortgage-backed investments.[15] To remedy this, Mike will:

- **Support the adoption of a rule to make credit-rating firms more accountable** for the quality of their ratings.[16]

The U.S. regulatory system is far too fragmented.[17] At the federal level, ten different entities are

8 Bloomberg Opinion
9 Bloomberg Opinion
10 Center for American Progress
11 Bank for International Settlements
12 Wall Street Journal
13 Donald Kohn, Brookings
14 Coffee
15 Brookings
16 Americans for Financial Reform
17 Treasury Department

involved in overseeing financial markets and institutions -- with ample conflicts, overlaps and blind spots.[18] For example, four agencies regulate depository institutions, while none oversees insurers. To address this, Mike will:

- Create a bipartisan commission to recommend ways to **make the U.S. financial regulatory system more efficient and effective.**[19] Among the reform's goals: prevent "venue-shopping" by companies seeking lighter regulation, and reduce overlapping and confusing rules and jurisdictions.

Fannie Mae and Freddie Mac, the mortgage guarantors that make the traditional 30-year home loan possible, have been under state control since the government bailed them out in 2008. The Trump administration wants to return them to approximately the same form that set them up for failure: a quasi-governmental hybrid in which private shareholders benefit in good times, and taxpayers stand by to cover losses when crises arise.[20] Mike will work with Congress and the relevant regulators to:

- **Gradually merge Fannie and Freddie into a single, fully government-owned mortgage guarantor**, to ensure that taxpayers are fully compensated for the risks they are assuming -- and that lower- income households are well served.[21]
- Have the guarantor **transfer downside risk to private investors** via specialized securities,[22] retaining just the catastrophic risk that only the government can bear.[23]

Certain regulations have proven unduly burdensome for community banks, typically defined as institutions with less than $10 billion in assets. For example, mortgage rules -- which narrowly stipulate how lenders must verify a borrower's ability to pay -- complicate the kind of know-your-customer lending at which community banks excel. Mike will:

- **Support allowing community banks to make mortgage loans to whomever they deem creditworthy** – as long as they keep the loans on their books, and have a simple equity-to-assets ratio of at least 10%, high supervisory ratings and no significant trading or derivative operations.

2. **Ensure fairness and defend the interests of consumers in financial markets.**

Under the Obama administration, the Consumer Financial Protection Bureau did important work.[24] It designed new, simpler mortgage documents, collected and published consumer complaints, recovered tens of millions of dollars for wronged consumers[25] and prosecuted cases such as the fake accounts scandal at Wells Fargo. Yet the Trump administration has undermined the CFPB, reversing some important rules and seeking to cut funding.[26] And it lacks clear authority in problematic areas such as auto lending and credit reporting.

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18 Congressional Research Service
19 Volcker Alliance
20 Bloomberg Opinion
21 Parrott, Ranieri et al
22 FHFA
23 Federal Reserve Bank of New York
24 Bloomberg Opinion
25 CFPB
26 New York Times

As mayor of New York City, Mike fought for fair treatment of consumers. For example, he launched PACE, a $1.35 million program providing resources to minority, elderly, and immigrant homeowners and others vulnerable to predatory lenders. As president, Mike will work with Congress and the relevant authorities to improve consumer protection. His goals:

- **Reinvigorate the Consumer Financial Protection Bureau** by ensuring continued funding and appointing a director who will put consumers' interests first.
- **Restore the CFPB's payday-lending rule**, which struck a reasonable balance by allowing people to pay down loans gradually and encouraging traditional banks to enter the market.[27]
- **Restore the CFPB's mandatory arbitration rule,** which defends consumers' ability to take financial companies to court.[28]
- Grant the CFPB clear jurisdiction over **auto lending and credit reporting.**

Investment professionals who work on commissions -- such as brokers and insurance agents -- often steer less sophisticated customers into expensive financial products and away from better, cheaper alternatives. The extra fees[29] add up to billions[30] of dollars a year, money that would otherwise go toward ensuring retirees' financial security. The Labor Department issued a rule requiring such investment advisers to disclose conflicts and put clients' interests first. The Trump administration has reversed the rule. Mike's administration will work to:

- **Restore the Labor Department's fiduciary duty rule,** requiring brokers and insurance agents to put their clients' interests first.

The big credit-reporting companies are supposed to make finance work more smoothly. But they lack an adequate incentive to take care of regular consumers, because their primary customers are the banks and other institutions that use the data. As a result, they create innumerable problems for the people whose personal information they are supposed to manage. They have lost millions of Americans' data to hackers, exploited people's fears of identity theft and failed to take proper responsibility for correcting myriad life-complicating errors.[31] Mike will work with Congress to:

- **Require credit-reporting companies to obtain consumers' express consent** before disseminating their personal information.
- **Place the burden of proof on credit-reporting companies** in disputes with consumers, requiring them to remove data that they cannot demonstrate to be correct.
- **Establish and enforce more ambitious standards** for data privacy, security and accuracy.
- **Empower consumers to sue credit-reporting companies** -- and the companies that provide them with data -- for injunctive relief, allowing courts to compel companies to fix harmful practices, rather than merely paying damages.

All too often, debt collectors act abusively and irresponsibly, harassing consumers, needlessly harming

27 Bloomberg Opinion

28 Bloomberg Opinion

29 Chalmers and Reuter

30 Council of Economic Advisers

31 Bloomberg Opinion

credit scores and even suing people for debts they don't owe.[32] Mike will support regulations to:

- **Limit debt collection calls** to three attempts per week per consumer, and conversations to one per week.
- **Require debt collectors to communicate with the consumer** before furnishing information to a credit reporting agency.
- **Require collection attorneys to verify the amount owed**, the identity of the debtor and the client's right to sue before filing any debt collection lawsuit.
- **Require proof of original debt upon consumer request**, and cessation of all collection efforts until such proof is provided.

Bank overdrafts have become an unreasonable penalty on being poor. People with a median balance of just $276 account[33] for almost two thirds of all overdraft fees. Mike will support regulations to:

- **Require that overdraft fees be reasonable and proportional** to banks' costs, and limit them to one per overdraft episode.
- **Prohibit banks from reordering transactions** to increase fees.
- **Treat frequent overdrafts as a form of credit**, with all the attendant consumer protections.

Americans owe about $1.5 trillion in student debt.[34] The worst of the burden has fallen on people of color, who are often targeted by for-profit colleges offering expensive, low-quality programs -- and who, as a result, experience the greatest difficulty paying back their debts.[35] Mike will work to:

- **Automatically enroll new undergraduate borrowers in income-based repayment plans**, cap student debt payments at 5% of disposable income, and ease enrollment for current borrowers in income-based repayment plans.
- **Cancel unpaid balances on government loans** to borrowers who attended failed for-profit colleges, relieve low and middle-income borrowers of collection fees, and ban wage and Social Security garnishment and confiscation of tax refunds for defaulted borrowers.
- **Make it easier to discharge student debt in bankruptcy.**[36]

People need credit scores to qualify for credit cards, mortgage loans and much more. But through its mortgage-guarantee programs, the federal government effectively requires lenders to use credit-scoring models that disproportionately exclude many Americans.[37] As a result, millions of householders are "credit invisible." Mike will work with the relevant authorities to:

- **Update credit-scoring requirements at** federally controlled and mandated mortgage guarantors.
- **Insist that scoring models be tested for racial and gender bias.**

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32 Center for Responsible Lending
33 CFPB
34 Federal Reserve Bank of New York
35 Center for Responsible Lending
36 Bloomberg Opinion
37 CFPB

- **Encourage the use of alternative models** that employ information such as bank account history, rental payments or mobile-phone payments to assess creditworthiness.[38]

Too many Americans lack access to basic financial services. As of 2017, some 17% of Black Americans and 14% of Hispanic Americans had neither a checking nor a savings account.[39] In too many neighborhoods, payday lenders and pawn shops are the only face of finance. Mike will work to get more people banked by:

- **Offering a curated selection of financial services through the U.S. Postal Service,** which has a physical presence and a good reputation in communities where such services are most needed.[40]
- **Piloting a program to offer affordable -- or free -- quality-certified bank accounts** (with direct deposit) to people when they sign up for public benefits, such as the Earned Income Tax Credit.[41]

More than 50 years after the adoption of fair lending laws, lenders still discriminate against people of color,[42] who experience higher denial and interest rates (all else equal). Yet Congress and the Trump administration have been moving to weaken enforcement, including by curtailing the data collection needed to monitor mortgage lending and failing to implement a Dodd-Frank requirement to collect data on business lending.[43] Mike will:

- **Enforce fair lending laws.**
- **Support strengthening the Community Reinvestment Act** to cover all lenders, better define assessment areas and improve incentives and enforcement to ensure lenders are serving all relevant communities.[44]
- **Collect the data needed to monitor racial and gender bias** in consumer and business lending.
- **Increase federal investment in Community Development Financial Institutions**, which focus on lending in underserved communities.[45]
- **Expand the Small Business Administration's Community Advantage and microloan programs**, which are better targeted at new businesses created by entrepreneurs from underrepresented groups.[46]
- **Support Black-owned banks** by increasing federal deposits, and by providing a streamlined process to qualify as CDFIs -- allowing them to issue government- guaranteed bonds whose proceeds can be used for community investments.

38 CFPB
39 FDIC
40 Bloomberg Opinion
41 Cities for Financial Empowerment Fund
42 Associated Press
43 Bloomberg Opinion
44 Bloomberg Opinion
45 CDFI Fund evaluation
46 SBA

Getting equity financing -- money from investors willing to share risks -- is often the primary obstacle to starting a business.[47] This lack of access to outside equity capital is particularly acute for minority-owned businesses.[48] Black-owned businesses, for example, account for only 2% of financings under the SBA's Small Business Investment Company program. [49] Mike will work with Congress and the SBA to:

- **Increase funding for the SBA's Small Business Investment Company program**, which licenses private providers of equity capital -- such as private-equity and venture-capital firms -- and offers subsidized financing.[50]
- **Through the SBIC, provide incentives for private investors to focus on underrepresented groups and underserved communities.** For example, partner with university incubator programs, offering added SBIC support for startups in nearby distressed neighborhoods.

Corporate disclosures have failed to keep up with the times. Increasingly, investors are interested in how companies assess risks such as climate change, or deal with issues such as gender and race disparities in hiring, pay and procurement. Yet the Securities and Exchange Commission has been slow to require public companies to divulge such information in their regular financial reports. Mike will:

- **Promote better corporate reporting on human capital**, by supporting an SEC rule requiring companies to publish information on the racial and gender composition of their boards, senior executives, hiring, pay and procurement – and public pension funds to report on the composition of the asset managers they employ.
- **Support an SEC rule requiring companies to report on climate risks**, and clarifying that considering such risks is consistent with asset managers' fiduciary duty.

The U.S. prosecutes corporate crime very differently than other forms of crime. Historical comparisons suggest[51] that law enforcement officials increasingly ignore or choose not to prosecute white-collar violations.[52] When they do act, the cases typically lead to settlements in which prosecutors extract fines (at shareholders' expense), require limited or no admissions of guilt and decline to pursue individuals.[53] The high rate of corporate recidivism suggests that this approach has an inadequate deterrent effect on white-collar crime.[54] Mike will work with Congress and the Justice Department to:

- **Create a dedicated corporate crime group** at the Justice Department.
- **Discourage the use of so-called non-prosecution agreements**, in which prosecutors extract fines without filing charges.
- **Strengthen protections for whistleblowers**, so violations will be more likely to come to light.[55]
- **Give judges greater power to review settlements**, to ensure that they serve the public interest.

3. **Harness finance for the public good, and encourage the kind of financial innovation that benefits people.**

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47 Kauffman Foundation
48 SBA
49 Congressional Research Service
50 SBA
51 Bloomberg Opinion
52 Garrett
53 Eisinger
54 Washington Post
55 National Law Review

Some of the world's leading financial centers, such as the United Kingdom and Hong Kong, have found that taxing financial transactions can raise significant revenue, both to defray the costs of overseeing markets and to address other social needs. Such taxes can also help address inequality: [56] By one estimate, if the U.S. imposed a financial transaction tax of 0.10%, about two thirds of the burden would fall on the top 10% by income.[57] Mike will work with Congress to:

- **Introduce a tax of 0.1% on all financial transactions,** including stocks, bonds and payments on derivative contracts. The tax would be phased in gradually, starting at 0.02%, to monitor and minimize any unintended consequences. [58]

The increasing speed of trading in markets isn't always socially beneficial. Traders often engage in questionable activities[59] to get a jump on the competition -- such as paying for a first look at trade orders, or to place computer servers directly at exchanges. According to U.K. regulators, ultra-fast trading costs[60] retail and other stock investors globally an estimated $5 billion a year.[61] It can also increase the risk of hard-to-explain "flash crashes."[62] Research suggests there is a threshold beyond which speed doesn't improve and may even harm market quality.[63] Mike will:

- **Support measures to curb harmful types of trading** -- such as setting a speed limit for trading[64] and banning payments for priority access to customer orders.

Financial technology startups have a hard time competing with established institutions, in part because they must immediately bear the full weight of regulatory compliance and must get licensed to operate in each state separately. Mike will:

- **Support the creation of a "regulatory sandbox"** for financial startups, allowing them to test concepts before being subjected to the full weight of regulation.[65]

U.S. efforts to combat money laundering and terrorist financing are both inadequate and unduly burdensome -- particularly for startups and community banks.[66] An update is long overdue: The size threshold for reporting currency transactions, for example, hasn't changed since 1970. Communication is lacking: Banks often can't share their concerns about certain customers with other banks or with their own affiliates. The U.S. lags behind the developed world in transparency of corporate ownership.[67] Mike will work with Congress and regulators to:

56 Batchelder and Kamin
57 Tax Policy Center
58 Weiss and Kawano
59 Bloomberg
60 Wall Street Journal
61 UK Financial Conduct Authority
62 Congressional Research Service
63 Fricke and Gerig
64 Buchanan
65 Brookings
66 ICBA
67 Transparency International

- **Create a government registry of all legal entities' beneficial owners**, to avoid duplication of effort and centralize information needed to combat money laundering. [68]
- **Increase thresholds for reporting transactions** and index them to inflation, to reduce unnecessary paperwork and focus on genuinely suspicious transactions.
- **Promoting communication among enforcement officials and banks**, to improve and make better use of the information collected.

Cryptocurrencies have become an asset class worth hundreds of billions of dollars, yet regulatory oversight remains fragmented and undeveloped. For all the promise of the blockchain, Bitcoin and initial coin offerings, there's also plenty of hype, fraud and criminal activity. Mike will work with regulators to provide clearer rules of the game by:

- **Clarifying responsibility** for overseeing cryptocurrencies.
- **Providing a framework for initial coin offerings**, by defining when tokens are and are not securities.
- **Protecting consumers** from cryptocurrency-related fraud.
- **Clarifying how investments in cryptocurrencies will be taxed**.
- **Defining capital and other requirements** for financial institutions holding cryptocurrencies.[69]70

68 Congressional Research Service
69 Bank for International Settlements