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Wall Street Reform Bill Addresses Problems Raised By Lehman Failure

Washington, DC – As the following chart demonstrates, H.R. 4173, the Wall Street Reform and Consumer Protection Act, addresses some of the most egregious problems raised by the Lehman Brothers' failure, which precipitated the costly taxpayer bailout put forward by President Bush in 2008. For a more complete analysis of how the Republican substitute makes taxpayer bailouts more likely, click here.

House Wall Street Reform Legislation Addresses Problems Raised by Lehman Failure

Problem	H.R. 4173	Rep
No mechanism to wind down and break up large, interconnected institutions in an orderly fashion	Ends taxpayer bailouts Creates comprehensive orderly dissolution regime for large, interconnected firms; Protects taxpayers by requiring costs to be borne by industry, creditors and shareholders, and management Directs regulators to take steps to control risks and break up firms before they become too large, interconnected, concentrated, or risky	Relie E c d w
Minimal regulation of	Strong, consolidated supervision of	No p

investment bank holding companies	interconnected firms, including investment bank holding companies	
No mechanism to identify and address systemic risks (firm specific or activity specific)	Consolidated supervision of systemically important financial services holding companies; Creates Systemic Risk Council to monitor the financial system for potential risks; Facilitates communication among Council members to enhance overall knowledge of the markets; Requires analysis of <u>both</u> firms and activities for potential risk	A Ma C g C re No p s
Risky, undetected off-balance sheet exposures	Requires the computation of capital requirements for large, interconnected firms to take into account the off-balance sheet activities of the company (Fed authority to exempt a company or certain of its transactions)	No p
Insufficient regulation of OTC Derivatives	Registration of swap dealers and major swap participants; Required clearing and trading of certain swaps; Reporting of all swap transactions; Regulators must set capital and margin; requirements for swap dealers and major swap participants; Regulators may remove end user exemption if systemically risky counterparty exposure is created	No m tr Focu d Does n

Excessive compensation rewarding risky behavior	Gives shareholders a “say on pay” – an annual, non-binding, advisory vote on pay practices including executive compensation and golden parachutes; Enables regulators to ban inappropriate or imprudently risky compensation practices; Requires financial firms with more than $1 billion in assets to disclose any compensation structures that include incentive-based elements.	Agre n b o No p re ri c
Credit Rating Agencies’ methodologies failed to identify key risks	Greater transparency in methodologies and ratings in structured and non-structured products; Enhanced oversight by the SEC; Conflicts of interest and liability provisions	No p c
Gaps in SEC authority	Increase funding to meet need for enhanced SEC regulation and greater enforcement activities	No c
Breakdowns in inter-agency communications	Specific authority to share reports and other information among relevant regulators; Backup authority if primary regulator fails to act; Systemic Risk Council has authority to recommend increased prudential standards and requirements to primary regulators	Requ t M C

Excessive leverage and insufficient capital	Requires the computation of capital requirements for financial holding companies that are subject to stricter standards to take into account all off-balance sheet activities of the company (Fed authority to exempt a company or certain of its transactions); 15 to 1 cap on leverage ratios for these companies	Inclu e r u
Excessive reliance on short-term debt	Fed may limit the short-term debt of financial holding companies that are subject to stricter standards to prevent these entities from exposure to runs on the bank	No p

*** prepared by the Democratic Staff of the House Financial Services Committee*

The above chart only identifies provisions in the Wall Street Reform bill (H.R. 4173) that address problems raised by the Lehman failure. Please note that this is not a comprehensive analysis of either bill. For a full analysis of all provisions in H.R. 4173, click here.