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Financial Reform Newsletter: May 10, 2017

Better Markets' Legal Fight Against MetLife AND FSOC Shows Our Unique Role as a Wall Street AND Government Watchdog;
AIG Court Agrees with Better Markets and Delivers a Big Win for US Taxpayers;
Because Facts Should Matter, Here's a Very Important Fact Sheet on the Glass-Steagall Act

Better Markets' Legal Fight Against MetLife AND FSOC Shows Our Unique Role as a Wall Street AND Government Watchdog

Most people think of Better Markets solely as a Wall Street watchdog, but it is **also** a government watchdog and the current fight to protect against nonbank systemic threats illustrates that. For example, just like when Better Markets took on both the Securities and Exchange Commission (SEC) and Citigroup in court in 2012 when they sought court approval of a sweetheart settlement that sold out the public interest, we are now fighting **both** the Financial Stability Oversight Council (FSOC) and MetLife because they appear to be working together to kill the only agency with the authority to protect against more surprise meltdowns and bailouts like AIG.

As we have detailed here, MetLife is seeking an eleventh-hour stay - for at least six months -- of its lawsuit against FSOC currently on appeal before the DC Circuit. MetLife is claiming that a legally unrelated executive order issued by President Trump to the Treasury Secretary to review FSOC's designation procedures requires such a stay. Astonishingly, rather than opposing this request, more than six months after oral argument, DOJ, FSOC's legal counsel, asked for a 60 day stay to review MetLife's request and then to only file a status report with the court. FSOC does not appear to have received independent, unconflicted advice from DOJ, which appears influenced by its simultaneous representation of the President and the Treasury Department, who appear to be seeking to undermine FSOC.

Making matters worse, both parties failed to clearly inform the court of material facts related to FSOC and the President's legally unrelated report request, which - not coincidentally -- was a cut-and-paste of brief MetLife filed in the appeal court.

As Better Markets pointed out in court filings (you can read the Motion here, and the proposed Amicus Brief here), this remarkable MetLife-custom tailored Presidential report request is nothing more than a political ploy designed to stop the appellate court from ruling against MetLife. It is the creation of a political process involving nonparties to shut down a legal proceeding. This is worse than forum shopping; it is forum-creating where the outcome is predetermined.

To prevent that, Better Markets has gone to court to oppose both MetLife and FSOC, arguing that there should be no stay, and that the court should issue its decision promptly. Moreover, Better Markets has suggested that the court may wish to consider disqualifying DOJ from representing FSOC in light of these facts.

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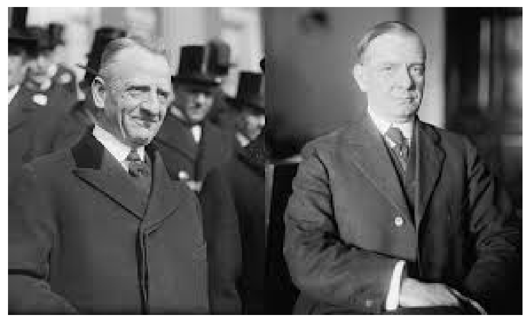
Ex-AIG CEO

AIG Court Agrees with Better Markets and Delivers a Big Win for US Taxpayers

The Court of Appeals for the Federal Circuit agreed with Better Markets that AIG's former executives and shareholders don't deserve another nickel from taxpayers in their lawsuit against the Federal Reserve. AIG would not exist today but for a $182 billion government bailout and U.S. taxpayers assuming the unlimited risk of AIG's massive derivatives book, which was a key catalyst for the 2008 financial crash. AIG's shares would have been worth zero without that taxpayer bailout.

Nevertheless, AIG's former CEO sued for tens of billions of dollars more, shamelessly complaining that the government should have given AIG an even bigger bailout. While the United States Court of Appeals for the Federal Circuit ruling was on procedural standing grounds and not the merits, it nonetheless prevents taxpayers from being victimized yet again by AIG. Unfortunately, the government can't seek damages from AIG's former CEO for brazen ingratitude. If so, the Court would have ordered him to pay the government the entire value of his AIG's stockholdings because that is the windfall he has received as a direct result of the government bailout.

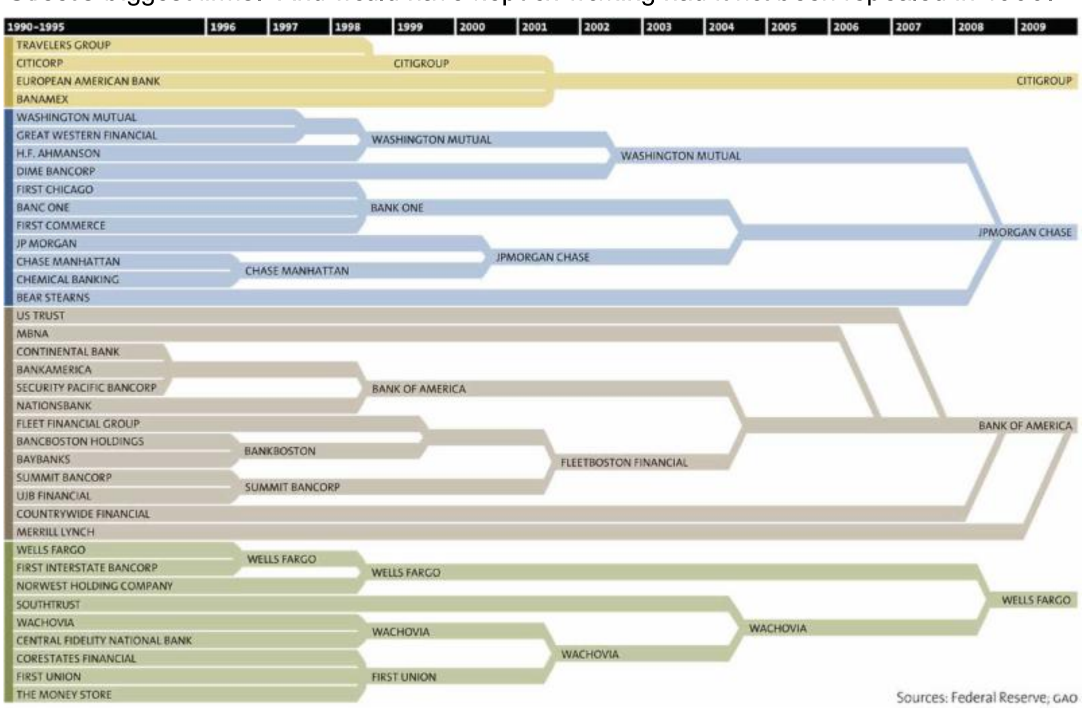
Because Facts Should Matter, Here's a Very Important Fact Sheet on the Glass-Steagall Act



As the debate over Glass Steagall heats up, with both President Trump and his Chairman of the National Economic Council Gary Cohn discussing it lately, Better Markets released a Fact Sheet on the Glass-Steagall Act providing critical background on the original law and perspectives on the issues now being debated. The Fact Sheet addresses the following key questions:

What is Glass-Steagall?
What happened to the Glass-Steagall law?
What happened when Glass-Stegall was repealed?
What did all this have to do with the financial crash in 2008?
Who is against the reinstatement of Glass-Steagall-like protections?
What are the arguments against doing that?

For over 60 years, following its passage in the wake of the Great Crash of 1929 and the Great Depression of the 1930s, Glass-Steagall stood as the key structural legal protection created to shield hardworking American families on Main Street from the highest risk, dangerous financial activities by Wall Street's biggest firms. And would have kept on working had it not been repealed in 1999.



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As a key chart in the Fact Sheet shows so well, the repeal set off an acquisition spree where 40 financial institutions in 1998 became just four gigantic, sprawling, interconnected, complex and highly leveraged too-big-to-fail banks. And these behemoths posed a major threat to taxpayers and risked massive bailouts if they ever failed. If the uninsured investment banking and trading activities of a megabank got into trouble and threatened to take down the FDIC-insured part of the bank, then the government would inevitably have to save both parts to save the insured part. That's exactly what happened in the 2008 crash.

Restoring the separation between commercial and investment banking is one of the most sensible layers of protection because it takes away the taxpayer subsidy of insured deposits while at the same time forcing the biggest banks to absorb their own costs and, therefore, become less dangerous to taxpayers and the economy. Reinstating Glass-Steagall is not the only solution and it won't solve too-big-to-fail by itself. It can, however, be an important part of an overall plan to reduce the risk on Wall Street while increasing the protections for Main Street, as long as it is combined with other key protections like capital, liquidity, counterparty exposure, resolution plans and the Volcker Rule, among others.