How Wall St corrupts Congress and the SEC

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One of the reasons our Empire is ending is corruption. Here is an example of corruption around Wall Street from an article in Rolling Stone.

> The great mystery story in American politics these days is why, over the course of two presidential administrations (one from each party), there's been no serious federal criminal investigation of Wall Street during a period of what appears to be epic corruption. People on the outside have speculated and come up with dozens of possible reasons, some plausible, some tending toward the conspiratorial – but there have been very few who've come at the issue from the inside.
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> We get one of those rare inside accounts in *The Payoff: Why Wall Street Always Wins* , a new book by Jeff Connaughton, the former aide to Senators Ted Kaufman and Joe Biden. Jeff is well known to reporters like me; during a period when most government officials double-talked or downplayed the Wall Street corruption problem, Jeff was one of the few voices on the Hill who always talked about the subject with appropriate alarm. He shared this quality with his boss Kaufman, the Delaware Senator who took over Biden's seat and instantly became an irritating (to Wall Street) political force by announcing he wasn't going to run for re-election. "I later learned from reporters that Wall Street was frustrated that they couldn't find a way to harness Ted or pull in his reins," Jeff writes. "There was no obvious way to pressure Ted because he wasn't running for re-election."
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> Kaufman for some time was a go-to guy in the Senate for reform activists and reporters who wanted to find out what was really going on with corruption issues. He was a leader in a number of areas, attempting to push through (often simple) fixes to issues like high-frequency trading (his advocacy here looked prescient after the "flash crash" of 2010), naked short-selling, and, perhaps most importantly, the Too-Big-To-Fail issue. What's fascinating about Connaughton's book is that we now get to hear a behind-the-scenes account of who exactly was knocking down simple reform ideas, how they were knocked down, and in some cases we even find out why good ideas were rejected, although some element of mystery certainly remains here.
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> There are some damning revelations in this book, and overall it's not a flattering portrait of key Obama administration officials like SEC enforcement chief Robert Khuzami, Department of Justice honchos Eric Holder (who once worked at the same law firm, Covington and Burling, as Connaughton) and Lanny Breuer, and Treasury Secretary Tim Geithner.
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> Most damningly, Connaughton writes about something he calls "The Blob," a kind of catchall term describing an oozy pile of Hill insiders who are all incestuously interconnected, sometimes by financial or political ties, sometimes by marriage, sometimes by all three. And what Connaughton and Kaufman found is that taking on Wall Street even with the aim of imposing simple, logical fixes often inspired immediate hostile responses from The Blob; you'd never know where it was coming from.
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> In one amazing example described in the book, Kaufman decided he wanted to try to re-instate the so-called "uptick rule," which had existed for seventy years before being rescinded by the SEC in 2007. The rule prevents investors from shorting a stock until the stock had ticked up in price. "Forcing short sellers to wait for the price to tick up before they sell more shares gives a breather to a stock in decline and helps prevent bear raids," Connaughton writes.
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> The uptick rule is controversial on Wall Street – I've had some people literally scream at me that it doesn't do anything, while others have told me that it does help prevent bear attacks of the sort that appeared to

help finally topple already-mortally-wounded companies like Bear Stearns and Lehman Brothers – but what's inarguable is that Wall Street hates the rule. Hedge fund types or employees of really any company that engages in short-selling will tend to be most venomous in their opinions of the uptick rule.

Anyway, Connaughton and Kaufman were under the impression that new SEC chief Mary Schapiro would re-instate the uptick rule after taking office. When she didn't, Kaufman wrote her a letter, asking her to take action. When that didn't do the trick, he co-sponsored (with Republican Johnny Isakson) a bill that would have required the SEC to take action.

Nothing happened, and months later, Kaufman gave a grumbling interview to *Politico* about the issue. One June 30, the paper's headline read: " Ted Kaufman to SEC; Do Your Job ."

The next day, the Blob bit back. Connaughton was in the basement of the Russell building when a Senate staffer whose wife worked for Shapiro shouted at him. From the book:

> "Hey, Jeff, you're in the doghouse." He meant: with his wife.
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> "Why?" I asked.
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> "That *Politico* piece by your boss."
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> I was taken aback but tried to downplay the matter. "We just want the SEC to get its work done."
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> "Remember," he said. "We all wear blue jerseys and play for the Blue Team. I just don't think that helps."

When Connaughton told Kaufman over the phone what the staffer said, Kaufman exploded. "You call him back right now and tell him I said to go fuck himself in his ear," Kaufman said.

Similarly, when Kaufman tried to advocate for rules that would have prevented naked short-selling, Connaughton was warned by a lobbyist that it would be "bad for my career" if he went after the issue and that "Ted and I looked like deranged conspiracy theorists" for asking if naked short-selling had played a role in the final collapse of Lehman Brothers. Naked short-selling is another controversial practice. Essentially, when you short a stock, you're supposed to locate shares of that stock before you go out and sell it short. But what hedge funds and banks have discovered is that the rules provide "leeway" – you can go out and sell shares in a stock without actually having it, provided you have a "reasonable belief" that you can locate the shares.

This leads to the obvious possibility of companies creating false supply in a stock by selling shares they don't have. Without getting too much into the weeds here, there is an obvious solution to the problem, which essentially would be forcing companies to actually locate shares before selling them. In their attempt to change the system, Kaufman and Connaughton discovered that the Depository Trust Clearing Corporation, the massive quasi-private organization that clears most all stock trades in America, had come up with just such a fix on their own. Kaufman recruited some other senators to endorse the idea, and as late as 2009, Connaughton and Kaufman were convinced they were going to get the form. "I said to Ted, 'We're going to change the way stocks are traded in this country.'"

But before the change could be made, Goldman, Sachs issued "data" showing that there was "no correlation" between naked short selling and price movements. When Connaughton asked an Isakson staffer what the data said, the staffer, intimidated by Goldman, replied, "The data proves we're full of shit." Connaughton looked at the data and realized instantly that it was a bunch of irrelevant gobbledygook, even firing off an angry letter to Goldman telling them the tactic was beneath even them.

But Goldman's tactic worked. A roundtable to discuss the idea was scheduled by the SEC on September 24, 2009. Of the nine invited participants, "all but one" were for the status quo. Connaughton expected the DTCC representatives to unveil their reform idea, but they didn't:

> Afterwards, I went over to [the DTCC representatives] and asked, "What happened?" Sheepishly, and to their credit, they admitted: "We got pulled back." They meant: by their board, by the Wall Street powers-that-be.

Essentially the same thing happened in Kaufman's biggest reform attempt, the amendment to the Dodd-Frank bill he co-sponsored with Ohio's Sherrod Brown, which would have broken up the Too-Big-To-Fail banks. But the Brown-Kaufman amendment, which was really the meatiest thing in the original Dodd-Frank bill, the one reform that *really* would have made a difference if it had passed, just died in the suffocating mass of the Blob. The key Democrats one after another failed to line up behind it, and in the end it was defeated soundly, with Dick Durbin, the number two man in the Democratic leadership, giving it this epitaph: "a bridge too far."

Again, those interested in understanding the mindset of the people who should be leading the anti-corruption charge ought to read this book. It's the weird lack of concern that shines through, like Khuzami's comment that he's "not losing sleep" over judges reprimanding his soft-touch settlements with banks, or then Southern District of New York U.S. Attorney Ray Lohier's comment that the thing that most concerned him – this is the period of 2008-2009, the middle of a historic crimewave on Wall Street – was "cyber crime."

On the outside we can only deduce the mindset from actions and non-actions, but Connaughton's actually seen it, and with the book you get to see it too. It's scary and definitely worth a read.

from http://www.rollingstone.com/politics/blogs/taibblog/a-rare-look-at-why-the-government-wont-fight-wall-street-20120918