The New York Times

May 23, 2013

Banks' Lobbyists Help in Drafting Financial Bills

By ERIC LIPTON and BEN PROTESS

Christopher Gregory/The New York Times
Kenneth E. Bentsen Jr., left, a Wall Street lobbyist, at a House financial services panel meeting.

WASHINGTON — Bank lobbyists are not leaving it to lawmakers to draft legislation that softens financial regulations. Instead, the lobbyists are helping to write it themselves.

One bill that sailed through the House Financial Services Committee this month — over the objections of the Treasury Department — was essentially Citigroup's, according to e-mails reviewed by The New York Times. The bill would exempt broad swathes of trades from new regulation.

In a sign of Wall Street's resurgent influence in Washington, Citigroup's recommendations were reflected in more than 70 lines of the House committee's 85-line bill. Two crucial paragraphs, prepared by Citigroup in conjunction with other Wall Street banks, were copied nearly word for word. (Lawmakers changed two words to make them plural.)

The lobbying campaign shows how, three years after Congress passed the most comprehensive overhaul of regulation since the Depression, Wall Street is finding Washington a friendlier place.

The cordial relations now include a growing number of Democrats in both the House and the Senate, whose support the banks need if they want to roll back parts of the 2010 financial overhaul, known as Dodd-Frank.

This legislative push is a second front, with Wall Street's other battle being waged against regulators who are drafting detailed rules allowing them to enforce the law.

And as its lobbying campaign steps up, the financial industry has doubled its already considerable giving to political causes. The lawmakers who this month supported the bills championed by Wall Street received twice as much in contributions from financial institutions compared with those who opposed them, according to an analysis of campaign finance records performed by MapLight, a nonprofit group.

In recent weeks, Wall Street groups also held fund-raisers for lawmakers who co-sponsored the bills. At one dinner Wednesday night, corporate executives and lobbyists paid up to $2,500 to dine in a private room of a Greek restaurant just blocks from the Capitol with Representative Sean Patrick Maloney, Democrat of New York, a co-sponsor of the bill championed by Citigroup.

Industry officials acknowledged that they played a role in drafting the legislation, but argued that the practice was common in Washington. Some of the changes, they say, have gained wide support, including from Ben S. Bernanke, the Federal Reserve chairman. The changes, they added, were in an effort to reach a compromise over the bills, not to undermine Dodd-Frank.

"We will provide input if we see a bill and it is something we have interest in," said Kenneth E. Bentsen Jr., a former lawmaker turned Wall Street lobbyist, who now serves as president of the Securities Industry and Financial Markets Association, or Sifma.

The close ties hardly surprise Wall Street critics, who have long warned that the banks — whose small armies of lobbyists include dozens of former Capitol Hill aides — possess outsize influence in Washington.

"The huge machinery of Wall Street information and analysis skews the thinking of Congress," said Jeff Connaughton, who has been both a lobbyist and Congressional staff member.

Lawmakers who supported the industry-backed bills said they did so because the effort was in the public interest. Yet some agreed that the relationship with corporate groups was at times uncomfortable.

"I won't dispute for one second the problems of a system that demands immense amount of fund-raisers by its legislators," said Representative Jim Himes, a third-term Democrat of Connecticut, who supported the recent industry-backed bills and leads the party's fund-raising effort in the House. A member of the Financial Services Committee and a former banker at Goldman Sachs, he is one of the top recipients of Wall Street donations. "It's appalling, it's disgusting, it's wasteful and it opens the possibility of conflicts of interest and corruption. It's unfortunately the world we live in."

The passage of the Dodd-Frank Act, which took aim at culprits of the financial crisis like lax mortgage lending and the $700 trillion derivatives market, ushered in a new phase of Wall Street lobbying. Over the last three years, bank lobbyists have blitzed the regulatory agencies writing rules under Dodd-Frank, chipping away at some regulations.

But the industry lobbyists also realized that Congress can play a critical role in the campaign to mute Dodd-Frank.

The House Financial Services Committee has been a natural target. Not only is it controlled by Republicans, who had opposed Dodd-Frank, but freshmen lawmakers are often appointed to the unusually large committee because it is seen as a helpful base from which they can raise campaign funds.

For Wall Street, the committee is a place to push back against Dodd-Frank. When banks and other corporations, for example, feared that regulators would demand new scrutiny of derivatives trades, they appealed to the committee. At the time, regulators were completing Dodd-Frank's overhaul of derivatives, contracts that allow companies to either speculate in the markets or protect against risk. Derivatives had pushed the insurance giant American International Group to the brink of collapse in 2008. The question was whether regulators would exempt certain in-house derivatives trades between affiliates of big banks.

As the House committee was drafting a bill that would force regulators to exempt many such trades, corporate lawyers like Michael Bopp weighed in with their suggested changes, according to e-mails reviewed by The Times. At one point, when a House aide sent a potential compromise to Mr. Bopp, he replied with additional tweaks.

In an interview, Mr. Bopp explained that he drafted the proposal at the request of Congressional aides, who expressed broad support for the change. The proposal, he explained, was a "compromise" that was actually designed to "limit the scope" of the exemption.

"Everyone on the Hill wanted this bill, but they wanted to make sure it wasn't subject to abuse," said Mr. Bopp, a partner at the law firm Gibson, Dunn who was representing a coalition of nonfinancial corporations that use derivatives to hedge their risk.

Ultimately, the committee inserted every word of Mr. Bopp's suggestion into a 2012 version of the bill that passed the House, save for a slight change in phrasing. A later iteration of the bill, passed by the House committee earlier this month, also included some of the same wording.

And when federal regulators in April released a rule governing such trades, it was significantly less demanding than the industry had feared, a decision that the industry partly attributed to pressure stemming from Capitol Hill.

Citigroup and other major banks used a similar approach on another derivatives bill. Under Dodd-Frank, banks must push some derivatives trading into separate units that are not backed by the government's insurance fund. The goal was to isolate this risky trading.

The provision exempted many derivatives from the requirement, but some Republicans proposed striking the so-called push out provision altogether. After objections were raised about the Republican plan, Citigroup lobbyists sent around the bank's own compromise proposal that simply exempted a wider array of derivatives. That recommendation, put forth in late 2011, was largely part of the bill approved by the House committee on May 7 and is now pending before both the Senate and the House.

Citigroup executives said the change they advocated was good for the financial system, not just the bank.

"This view is shared not just by the industry but from leaders such as Federal Reserve Chairman Ben Bernanke," said Molly Millerwise Meiners, a Citigroup spokeswoman.

Industry executives said that the changes — which were drafted in consultation with other major industry banks — will make the financial system more secure, as the derivatives trading that takes place inside the bank is subject to much greater scrutiny.

Representative Maxine Waters, the ranking Democrat on the Financial Services Committee, was among the few Democrats opposing the change, echoing the concerns of consumer groups.

"The bill restores the public subsidy to exotic Wall Street activities," said Marcus Stanley, the policy director of Americans for Financial Reform, a nonprofit group.

But most of the Democrats on the committee, along with 31 Republicans, came to the industry's defense, including the seven freshmen Democrats — most of whom have started to receive donations this year from political action committees of Goldman Sachs, Wells Fargo and other financial institutions, records show.

Six days after the vote, several freshmen Democrats were in New York to meet with bank executives, a tour organized by Representative Joe Crowley, who helps lead the House Democrats' fund-raising committee. The trip was planned before the votes, and was not a fund-raiser, but it gave the lawmakers a chance to meet with Wall Street's elite.

In addition to a tour of Goldman's Lower Manhattan headquarters, and a meeting with Lloyd C. Blankfein, the bank's chief executive, the lawmakers went to JPMorgan's Park Avenue office. There, they chatted with Jamie Dimon, the bank's chief, about Dodd-Frank and immigration reform.

The bank chief also delivered something of a pep talk.

"America has the widest, deepest and most transparent capital markets in the world," he said. "Washington has been dealt a good hand."

Eric Lipton reported from Washington, and Ben Protess from New York.