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Reform on Wall Street

GW Professor Scheherazade Rehman answers questions about financial reform bill.

July 16, 2010

On Thursday, the U.S. Senate passed landmark legislation, which will create the biggest restructuring of financial regulations since the Great Depression.

The Senate voted 60 to 39 to pass the Wall Street reform bill, which President Barack Obama is expected to sign next week. Congress has spent almost two years trying to pass legislation in response to the 2008 financial crisis.

Scheherazade Rehman, a professor of international business and finance and international affairs, sat down with GW Today to answer some questions surrounding the financial reform bill.

Q: What are the major components of the Wall Street reform bill just passed by the Senate?
A: The bill is huge. It establishes an independent consumer bureau within the Federal Reserve Bank to protect borrowers against abuses in mortgage, credit card and various other types of lending. It gives the government new power to seize and shut down large, troubled financial companies. It sets up a council of federal regulators to watch for threats to the financial system and create new rules for oversight over complex financial instruments. For example, derivatives will be subject to government oversight. It allows shareholders more say on how corporate executives are paid.

Q: What is the time line for these new reforms?
A: The legislation will roll out various measures over time. A new federal insurance office will be set up immediately, and the government will have the power to seize big, failing companies. In three months, the new financial services oversight council, which will include a variety of regulators and will be chaired by the U.S. Treasury secretary, will being holding meetings. In six months, the new rules providing shareholders with more of a say on executive pay will take effect.

In one year, the consumer protection bureau has to be set up, and the Office of Thrift Supervision -- one of the big bank regulators that messed up and failed to see the crisis and act on it -- will be abolished. In 18 months new rules will be put in place that will restrict proprietary trading, which is a type of trading that financial companies do within their own accounts. In two years, regulators must propose simpler mortgage disclosure forms.

Q: What kind of impact will the bill have on financial institutions?
A: Because the bill sets up a council of federal regulators to watch for threats to the financial system and new rules for oversight over complex financial instruments it will make it more complex and more costly for banks to engage in certain activities that are considered risky.

Q: Will the bill impact the likelihood of more bank bailouts?
A: Yes, but the bill fails to prevent future bailouts of financial companies using taxpayers' money.

Q: How will the bill impact consumers?
A: It establishes an independent consumer bureau within the Federal Reserve Bank to protect borrowers against abuses in mortgage, credit card and various other types of lending.

Q: How will this legislation try to ensure that the U.S. doesn't have another major financial meltdown like it did in the fall of 2008?
A: No bill can ensure that we won't have another financial crisis, but this bill makes it less likely that we will have a similar type of crisis. However, it cannot ensure against a different type of crisis. It is also very hard to predict the nature of the next type of financial crisis.

This bill was mainly about trying to rebuild public trust and confidence, but many say that that the bill didn't go far enough. For example, it did not alter the basic structure or mentality of doing business as usual on Wall Street, and it left the critical decisions to the same federal regulators (the Federal Reserve, the U.S. Treasury and the three credit reporting agencies).

September 8, 2010

**Scheherazade Rehman**, professor of international finance and business and director of the European Union Research Center, was the focus of an article in the *GW Hatchet*. The Sept. 7 article highlighted her recent appearance as an expert on "The Colbert Report" and her strong belief in the responsibility to give back, which she teaches her students.

By GWSB | Filed under: Getting Ink.

Rehman, Scheherazade S. and Askari, Hossein (2010) "An Economic IslamicityIndex (EI)," *Global Economy Journal*: Vol. 10 : Iss. 3, Article 1.

October 11, 2010

**Scheherazade S. Rehman**, professor of international business and international affairs, was interviewed by *CNBC*. In the Oct. 8 story, "IMF Needs a Shake Up," she said there needs to be a change in power at the IMF.

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