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U.S. Regulatory Bill's Support May Weaken as Senate Delays Vote

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July 1 (Bloomberg) -- The U.S. financial-regulatory bill, approved by the House of Representatives yesterday, may still be compromised in the Senate, which postponed its vote until after the week-long July 4 recess.

The delay may give opponents of the legislation time to persuade undecided lawmakers to vote against the measure. Republican Senators Scott Brown of Massachusetts, Chuck Grassley of Iowa, and Olympia Snowe and Susan Collins of Maine voted for a previous version of the bill and are being courted by Democratic leaders to support its final passage.

"While the odds are that a week doesn't change anything, certainly Snowe, Collins and Brown are going to get lots of visits over that week from their local community bankers and anyone else who has an interest in this," said Mark Calabria, a former Senate Banking Committee staffer who is now a director of financial-regulation studies at the Cato Institute.

Legislation the House approved yesterday with a 237-192 vote would create a consumer financial protection bureau at the Federal Reserve, give regulators new powers to liquidate failing financial firms whose collapse would threaten the economy and create a council of financial regulators to monitor systemic risk. It is aimed at curbing risk-taking by Wall Street firms and lessening the impact of any future financial crisis.

"We put our middle class first and enacted the toughest set of Wall Street reforms in generations," House Speaker Nancy Pelosi, a California Democrat, told reporters after the vote. "No longer will recklessness on Wall Street cause joblessness on Main Street."

Memorial Service

The Senate's vote will be delayed until the middle of July because of the death of Senator Robert Byrd, a West Virginia Democrat. Byrd's body will lie in repose in the Senate chamber today, and a memorial service will be held in Charleston, West Virginia, tomorrow.

Senate Majority Leader Harry Reid, a Nevada Democrat, said yesterday that under the chamber's rules there isn't enough time to schedule a vote before lawmakers leave for the recess. "I can't procedurally get to it," he said.

On June 29, House and Senate negotiators reopened consideration of a combined bill, which they had agreed to last week, to approve a change sought by Brown, Collins and Snowe to eliminate $19 billion in fees assessed on large financial firms to cover the legislation's costs.

'Squeeze Too Much'

"Once you move one part that was tentatively agreed to, there are others who want to know why their failed tentative agreements aren't on the table as well," said William Thomas, vice chairman of the Financial Crisis Inquiry Commission and a Republican who represented California in the House until 2007.

"There should be some concern about the conference's ability to solve its vote problem by making only one change in the conference report," he said in a June 29 conference call with reporters.

A vote this week would "squeeze too much" into senators' schedules, Senate Banking Committee Chairman Christopher Dodd told reporters yesterday.

"I am trying to be very patient," said the Connecticut Democrat, who acknowledged his disappointment in the delay. "I am still very optimistic we will have the necessary votes to pass it."

House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat who wrote the House version of the bill, told reporters yesterday that he doesn't expect the delay to erode support. He wants to revisit the fee proposal in a separate bill and plans to take it up in committee, he said.

Collins, Cantwell

Sixty votes are needed in the Senate to move the merged bill toward final passage. Democrats need to retain votes from at least two of the four Republican senators who voted for the bill. Democrats also could secure support from Byrd's replacement and from Senator Maria Cantwell, a Washington Democrat who previously voted against the bill.

Collins said she is "inclined to support" the bill.

"This is not the bill that I would have written had I been able to craft it myself, but it's a balancing test as I decide whether it warrants my support," she told reporters yesterday. "And based on my initial review, I believe that it does."

Cantwell has said her vote would be contingent on changes to the derivatives section of the bill, pushing for lawmakers to tighten regulation of the instruments that have been seen as exacerbating the worst financial crisis since the Great Depression.

Derivatives Rules

The bill would, for the first time, push a large amount of the $615 trillion over-the-counter derivatives market into the purview of federal regulators. Standardized derivatives would need to be moved through a third-party clearing facility and traded on an exchange or swap-execution facility.

Businesses that use derivatives to hedge risk from producing or consuming commodities, deemed “end users,” will be exempt from the clearing requirements if the activities are undertaken as a way to hedge legitimate business risk.

Derivatives are contracts whose value is derived from stocks, bonds, loans, currencies and commodities, or linked to specific events such as changes in interest rates or the weather.

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