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Fraud charges spark push for bank reform

G20 ministers set to meet this weekend

Paul Vieira, Financial Post



Mark Wilson, Getty Images

OTTAWA - Fraud charges against Goldman Sachs Group Inc. have lit a fire under policymakers pushing for sweeping financial reforms, with analysts predicting it could dominate this weekend's meeting of Group of 20 finance ministers in Washington and embolden those pushing for a global bank tax.

At the very least, the allegations against the Wall Street icon could add some urgency to global talks on financial reform, which senior bank executives in Canada have argued are moving at too slow a pace and throwing a wrench into business plans.

It has certainly had that impact in Washington, where the key author of proposed banking legislation pushed back aggressively yesterday against opponents by arguing new laws are needed to put an end to the "shenanigans" on Wall Street.

"By not enacting our legislation ... we leave the American public vulnerable once again to the kind of shenanigans that have occurred in our large financial institutions across this country," Christopher Dodd, the Democratic Senator from Connecticut, told reporters in Washington.

Meanwhile, White House officials said President Barack Obama plans to press the administration's case for a financial overhaul when he delivers a speech on Thursday in New York City, the nerve centre of U.S. finance.

Mr. Dodd, chairman of the Senate Banking Committee, spoke yesterday in Washington about financial reform.

Experts suggest there could be a week or more of increased rhetoric from policymakers, which may hit a fever pitch this weekend as key policymakers from the world's most important economies gather in the U.S. capital for talks on reform.

"It will make it much harder for financial institutions to lobby against progress, and it might even galvanize the [push] for a global bank tax," said Ralph Bryant, senior fellow of economic studies at Washington-based think-tank, the Brookings Institute.

"It is going to push [reforms] along -- not always in the right direction but chances are it raises the

probability of some agreement on financial regulation."

The SEC has alleged in an indictment that Goldman Sachs defrauded a group of investors out of more than US\$1-billion by selling them a subprime mortgage investment product that, unbeknownst to the investors, was set up to fail.

Goldman Sachs has described the charges as "completely unfounded" and said it will "vigorously" defend itself.

The coming G20 meeting in Washington would mark the first time Canadian officials --led by Finance Minister Jim Flaherty -- faced their global peers after Ottawa officially opposed efforts championed by some developed countries to slap a tax on financial institutions.

Mr. Flaherty has argued Canadian banks emerged relatively unscathed from the credit crisis, due to their lending practices and the regulatory environment they operated under.

But proponents of the global bank tax have used the Goldman Sachs charges as fresh ammunition, led by Gordon Brown, Britain's Prime Minister, arguing it proves a new global banking constitution -- that includes a tax -- is required.

"We will get people saying, 'We need reform now,' " said Mark Calabria, director of financial regulation studies at the Washington-based Cato Institute.

But Mr. Calabria is among those who doubt the G20 would agree to a co-ordinated tax, even amid hard-hitting allegations against a Wall Street giant.

"Proponents have always couched this bank tax in terms of, 'We want to do this bank tax but we won't do it alone,'" he said, adding he believes there's little appetite for it in the White House.

"I don't know anybody who seriously thinks a bank tax would make a difference in stopping a crisis. We have very large house transfer taxes in the U.S., but that didn't stop us from having a housing bubble."

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