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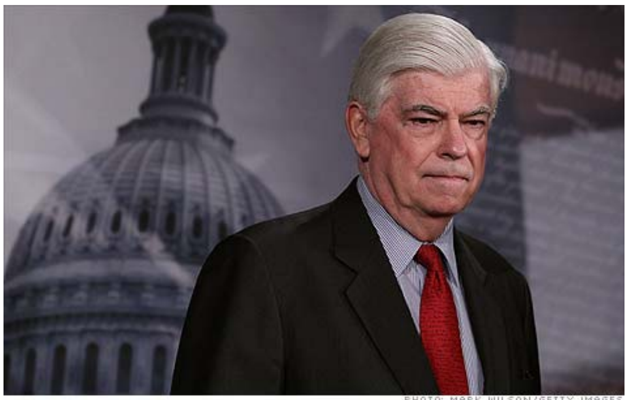
Congress fixes Wall Street - and orders up 68 studies



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By Jennifer Liberto, senior writer

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WASHINGTON (CNNMoney.com) -- In Washington, there's a code phrase for the middle ground that lawmakers find after a torrent of industry lobbying or partisan debate: "Let's do a study."

The Wall Street reform bill may be the most extreme example: The legislation, which could become law later this month, orders government officials to conduct some 68 studies, according to a CNNMoney analysis.

Instead of toughening up ethical and marketing standards for financial planners, Congress studies the issue in the financial overhaul bill. Instead of making it easier to sue lawyers, accountants and bankers who help commit securities fraud, Congress studies the issue.

The bill also studies, among other things: short selling, reverse mortgages, improved i nsurance regulation, private student loans, oversight of carbon markets and the "feasibility of requiring use of standardized algorithmic descriptions for financial derivatives."

Financial sector lobbyists say the bill's sweeping nature -- even more than the health care bill, which mandated about 40 studies -- leads to the studies.

"A lot of the topics the new bill deals with are very complex and interconnected, and one change in one area can set off a domino effect," said Scott Talbott, senior lobbyist with the Financial Services Roundtable, a bank lobbying group. "It's better to take the time to do a study and do it right then to do something in haste to get it wrong."

Sometimes lawmakers turn to studies to sidestep a thorny issue they aren't ready to deal with. Take the study of the increasingly troubled government-owned mortgage

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lenders Fannie Mae and Freddie Mac, which Sen. Christopher Dodd, D-Conn., recently c ompared to "kicking the can down the road."

Dodd spokeswoman Kirstin Brost suggested that the bill's reforms focus on more immediate ways to strengthen the economy, while its studies lay the "groundwork for future reforms."

Among the bill's immediate reforms: It creates a new unwinding process so the government can take down and break up failing Wall Street firms. It requires giant banks to keep more cash-like assets on hand, as a safeguard against troubled times. And it creates a new consumer financial protection agency to regulate disclosures and fees on credit cards and mortgages.

The House passed the bill last Wednesday. The Senate is expected to pass and send President Obama the bill in mid-July. (Read 'What's so tough about this financial reform bill?' by Allan Sloan.)

It's not clear how much all the studies would cost, because Congress didn't appropriate specific resources for them. Lawmakers task federal regulators and its own investigative arm with the job of carrying out the studies.

And Congress' budget arm didn't break out the cost of such studies when it priced the bill.

Congressional veterans who watch financial legislation say they can't remember a b anking bill that commissioned more studies. Former Republican Senate Banking staffer Mark Calabria said the large number of studies reflects the wrangling strategy, chasing 60 Senate votes needed to get the bill passed.

"Studies help provide sufficient cover to sometimes gain a vote," said Calabria, who directs financial regulation studies at the Cato Institute, a libertarian think tank.

A couple of studies may have helped woo particular lawmakers. Take the study on the independence of presidentially appointed inspectors general, which highlights an issue championed by Sen. Chuck Grassley, R-Iowa. In May, Grassley voted with three other Republicans to support the bill, although his vote on the final version is still in play.

One study came about in the late-night hours of final negotiations, after months of tough fighting between industry and consumer groups. Congress had been considering measures to force brokers to act in the best interests of their clients when giving investment advice.

Different financial industry groups, ranging from investment firms to life insurers, tried

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to kill it all together. But it ended up as the subject of a six-month study, with a mandatory follow-up to carry out the recommendations.

"That study was a save," said Ed Mierzwinski, national consumer program director at Public Interest Research Groups. "But, the general theme of studies is to delay or kill -- it's a strategy taught on K Street," the Washington thoroughfare synonymous with lobbying.

Some studies are worse than others, congressional watchers say. Studies that don't require any follow-up or deadlines can be dead ends.

A multi-agency study to combat mortgage foreclosure scams has no deadline nor follow-up rules. A study on executive compensation consultants and another on financial literacy among investors must meet deadlines, but doesn't require Congress or regulators to act on the findings.

Much more useful is a study on financial firms' hedge funds and trades made on banks' own accounts. That study has a deadline and is followed up with mandates: regulators must limit so-called proprietary trades and bank ownership of hedge funds.

"There's no question that research done at the mandate of Congress is a real addition," said Raj Date, executive director of the Cambridge Winter Center for Financial Institutions Policy. "But it's only a real addition if Congress pays attention when the results come back."

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