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Dems Claim Upper Hand, Confident of GOP Support

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WASHINGTON - Despite recent tough talk about problems with the regulatory reform bill, Republicans are unlikely to win significant concessions as the legislation moves to the Senate floor.

By Wednesday, it appeared that Democrats had the upper hand, with one GOP member joining them in the Senate Agriculture Committee to approve a key part of reform - a bill to regulate derivatives.

Senate Republican leaders insisted that Sen. Chuck Grassley's defection did not undercut their position, but Democrats said it proved that at least some GOP members are likely to support a reform package without many substantive changes.

"I think we'll begin to see Republicans start to support it," Sen. Sherrod Brown, D-Ohio, said in an interview. "Particularly Republicans who are up for reelection. You know Grassley is up for election in 2010. I'm not saying that's why he voted for it."

A final deal appears imminent.Senate Banking Committee Chairman Chris Dodd said he had made an offer to Sen. Richard Shelby and told the panel's lead Republican he needed an answer "soon." Shelby met with Republican colleagues during the afternoon and was expected to discuss the bill. Dodd and Shelby were scheduled to meet again later in the evening.

The bill's chances were also bolstered by a Congressional Budget Office estimate that the bill would save $21 billion over the next 10 years.

The Democrats, assuming they all vote to support the bill, only need one Republican vote to ensure reform cannot be stopped by a filibuster. Grassley's vote to approve the derivatives bill, which large banks fiercely oppose, was the first GOP vote for any part of the reform effort.

In a statement, Grassley insisted he still opposes the full reform package.

"My vote for this important reform of the derivatives market doesn't mean I'll be able to support the larger financial reform bill on the Senate floor," he said. "The derivatives piece is significant, but that larger bill has a number of flaws that need to be resolved before I'd support it."

Yet Republicans appear to be curbing their ambitions for changes.

A week ago, Republican leaders claimed that the bill would result in "endless taxpayer-funded bailouts" and needed to be dramatically overhauled. But Democrats agreed to drop a proposed $50 billion resolution fund, and that appeared - at least for now - to put the bailout argument to rest.

Instead, Sen. Richard Shelby, the lead Republican on the Senate Banking Committee, sounded more focused on tightening language than on making major changes.

On Wednesday, he told reporters he remained positive about cutting a deal. "We are closer than we have ever been," he said.

Mark Calabria, a former Shelby aide who is now the director of financial regulation at the **Cato Institute,** said it does not appear Republicans are getting much for their negotiations.

"Shelby is going to get a few things; they are not going to get a lot," he predicted.

Most of the changes in the bill are likely to be around the edges to ensure that the bill does what Dodd claims it will do. "I think that basically everyone is bought into the same framework," he said. "They've all bought a house, and they are arguing over what colors it should be."

Other Republicans continued to play down their differences on the bill, suggesting a deal is close.

Sen. Saxby Chambliss, R-Ga., the lead Republican on the Agriculture Committee, who opposed the derivatives bill as drafted, suggested the two sides were closer together than they appear.

"It was pretty obvious we agree on probably 90% of the issues that are out there," he said. "They would like to close that gap even more. Certainly, we would."

He suggested that Grassley's defection was just an attempt to encourage more cooperation.

"It showed that there is a bipartisan spirit in the Ag Committee, and Sen. Grassley decided to be more bipartisan than the rest of us," he said.

Chambliss predicted that some of the tougher elements in the derivatives bill may be dropped. The bill would bar any financial institution that receives federal support - including access to the Federal Reserve Board's discount window and deposit insurance - from acting as a swaps dealer.

The provision is opposed by the major banking companies, which would have to spin off their dealers, and even by the Treasury Department, which has asked for it to be changed.

"The administration has been opposed to that, too, and I think for the right reason," Chambliss said. "I think that's an area where we have still got to continue to discuss and continue to work, and hopefully we can come to some mutual ground on that."

But some other analysts did not think the provision would be removed.

Brian Gardner, an analyst at KBW Inc., said that he had assumed the measure would be dropped before the committee's 13-to-8 vote. The fact that it remains in the bill indicated it may have significant political support.

"You cannot just dismiss out of hand that the ban on banks as swaps does not stick," he said. "It's very unclear. I have no idea exactly how this will play out."

Democrats, meanwhile, are hoping to press their advantage. In the interview, Brown said he is less concerned about Dodd's striking a bipartisan deal than he is about seeing a strong bill advance.

"If bipartisanship means giving Wall Street what it wants ... , that's not what the public wants," he said. "Republicans understand it now: We mean it; we are going to do it right, and we want them to come along, but if it means giving Wall Street a seat at the table and allowing them to help write the bill, that's not going to work."

Brown said he supports banning banks from acting as swaps dealers.

"I'm good with that - this is a big, big victory today," he said.

Overall, the bill would require most derivatives to be centrally cleared and traded on exchanges. It would require real-time price reporting on all derivatives transactions to ensure full transparency of such trades.

The bill would let the Commodity Futures Trading Commission establish future margin requirements and impose position limits.

Agriculture Committee Chairman Blanche Lincoln, D-Ark., toughened the bill further on Wednesday by narrowing an exemption. Previously, the bill had said banks with less than $50 billion of assets could be exempted from clearing requirements if they were end-users. Under the version that came out of committee, no banks would be exempted.

The revised bill did address at least one banking industry concern. Rather than requiring all foreign currency swaps to be regulated as other contracts are, the bill would let the Treasury secretary determine whether there should be exceptions.

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