The Daily Dish

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The Hill is reporting that the FCC is moving forward with the controversial net neutrality 'fast lanes' vote. Despite calls from other commissioners, Chairman Wheeler will hold the vote on May 15. The rule "would allow Internet providers to charge content companies, like Netflix, more for better access to users, were met with backlash from both sides of the aisle when he announced his proposal last month." This is something to watch with a number of tech companies weighing in on both sides.

The Weekly Checkup- Some State Marketplaces Still At Risk of Instability: Some state exchanges are in danger of instability. The states studied have far fewer young people than the demographics of the state would predict. This top-heavy result can lead to insurance companies raising premiums on all to recoup costs.

Eakinomics: FSOC

The Financial Stability Oversight Council, or FSOC, is the most powerful regulator you never heard of. It was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act — commonly known as Dodd-Frank — it consists of ten members (largely financial regulators like the Chair of the Federal Reserve, the Chair of the SEC, the Comptroller of the Currency, etc.), and is led by the Secretary of the Treasury.

As the FSOC has moved from theory to practice, two related concerns are arising: (1) how it does its business, and (2) its actual business.

On the former, it is not much of a stretch to say that the FSOC is an uber regulator that has no accountability, oversight, and little transparency. Unlike other regulatory agencies, e.g. the Environmental Protection Agency, the FSOC is not funded by Congress in the appropriations process. Accordingly, it does not have to account for its actions in congressional oversight to justify future funding. Instead it exercises its very broad powers on an agenda set internally and subject to little public comment or congressional constraint.

In particular, under Dodd-Frank, FSOC has the authority to designate any financial firm as a systemically important financial institution, or SIFI, if the FSOC decides that "financial distress" at the firm will lead to "instability in the US financial system." This language is so loose as to permit the FSOC to designate nearly any firm as a SIFI if it so desires. Once a firm is labeled a SIFI, it falls under the Federal Reserves aggressive regulator net for more "stringent" regulation.

The SIFI designation was clearly intended for large banks. However, the FSOC's regulatory imperialists have now marched through the banking landscape and have set their sights on insurance companies and, more recently, asset managers (for example, mutual funds) like BlackRock or Fidelity. This simply makes no sense. It is true that BlackRock, Fidelity, and other asset managers are large firms. However, every dollar of assets they manage is contributed by an investor and owned by those investors. If, for whatever reason, every investor wanted its money back, then the money would be there — very unlike a bank. If there was a "run" on an asset manager, it would not fail. It would simply return the equity investors their money.

It is true that those investments could be liquidated at fire-sale prices. That is, investors could face losses. But that is the nature of investing. Is the FSOC really saying that every individual investor is "too big to fail" and must face little or no risk?

The FSOC is a visible and active example of over-regulation, poor regulation, and dangerous regulation. At the very least it should respect the differences between insurance companies and banks, or asset managers and banks and resist the straightjacket of one-size-fits-all Federal Reserve "stringent" regulation. More generally, Congress should re-think its mandate and powers.