



Leo W. Gerard
International President

May 13, 2010

VIA FAX

United States Senate
Washington, D.C. 20510

Dear Senator:

On behalf of the 850,000 active members of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW), I am writing to urge you to vote for the financial regulatory reform package now before the Senate, S. 3217, "the Restoring American Financial Stability Act of 2010," and against attempts to weaken provisions in this critically important piece of legislation. I also urge you to fight for strengthening amendments to regulate leveraged buyout funds, tighten loopholes against reckless proprietary trading and treat employees fairly when large banks fail. Hundreds of thousands of USW members and millions of working families across the nation have suffered tremendous economic harm from the deregulation of financial markets. It is time for Congress to act boldly to right the wrongs of Wall Street and to put in place serious reforms that will prevent such an economic debacle from wreaking havoc again.

No Exemption for Private Equity and Venture Capital Funds

The USW applauds the new regulation and registration requirements in S. 3217 for hedge fund managers to prevent the buildup of systemic risks in the financial system and to protect investors. Yet, private equity managers and venture capitalists have also engaged in investment strategies that can cause a systemic threat to the stability of the U.S. financial system. In 2006 – 2007 alone approximately \$1 trillion in LBO (private equity) loans were issued, while according to Moody's almost 20 percent of the companies purchased by the 14 largest private equity firms during January 2008 to September 2009 have defaulted. Those companies that have not yet defaulted face considerable refinancing risks as more debt comes due in the next few years. Indeed, defaults could result in losses to investors and banks in excess of losses suffered from the subprime mortgage crisis.

For these reasons, the USW believes that *all* private investment fund managers with more than \$100 million under management should be subject to the same level of regulation. Senators Reed, Johnson and Sherrod Brown have offered an amendment (No. 3958) that achieves this objective by removing the exemption for private equity and venture capital. This amendment, which we urge you to support, will ensure that all large private fund managers have a fiduciary duty to their investors, Ponzi schemes have no place to hide and the SEC and Financial Stability Oversight Council will have the information needed to protect against systemic risks. Support the Reed-Johnson-Brown amendment (No. 3958).

Curb Abuses of Proprietary Trading by Large Investment and Commercial Banks

The Senate should curb abuses of proprietary trading so that taxpayers never again will be called upon to save bankers when bankers make bad bets. Risky proprietary trading by a handful of major financial firms contributed mightily to the collapse of some of the world's largest financial firms, which in turn, caused hundreds of billions of dollars in losses for U.S. taxpayers and the near collapse of the entire global economy. For years, investment banks packaged and sold toxic financial products while using their own money to bet against those very products. These banks got rich while investors got taken and taxpayers got stuck with the bill. It is past time to rein in such pernicious Wall Street greed and to end these blatant conflicts of interest and unfair and deceptive practices.

For these reasons, the USW strongly supports the proposal offered by Senators Merkley, Levin, Kaufman, Sherrod Brown and Shaheen that would strengthen provisions in S. 3217 on proprietary trading. This amendment is critical to stopping major investment and commercial banks from engaging in reckless proprietary trading and putting the rest of us at risk of more taxpayer bailouts in the future. Support the Merkley-Levin-Kaufman-Sherrod Brown-Shaheen proposal.

Strong And Comprehensive Derivatives Regulation Should Not be Weakened

S. 3217 contains comprehensive provisions to regulate the over-the-counter derivatives market. The bill requires that 90 percent of all derivatives go through an open clearing house mechanism while providing a full exemption for commercial end users. This would capture, for example, the largest credit default swaps (CDS) dealers, which are the five "too big to fail" banks, and which anticipate earnings of \$35 billion from currently opaque derivatives trading this year. Returning most derivatives to an open exchange is a common sense, real world solution to the excessively risky bets that were made (and could be in the future) – ultimately – with taxpayer dollars. In fact, the U.S. market has been utilizing open exchanges for hundreds of years for financial products as such transparency permits market participants to see pricing information in real time and to allow regulators and participants to take notice if a dealer is taking on excessive risk.

Finally, the USW would urge you to fight to retain two key provisions relating to derivatives trading. First, requiring that a fiduciary duty apply to dealers selling derivatives to pension funds and state and local governments so that never again can these dealers sell derivatives in that regard without disclosing the true risk and whether they are betting on those products failing. Second, retain the requirement that banks spin off their derivative trading.

Create a Truly Independent Consumer Financial Protection Bureau

S. 3217 makes considerable progress in providing basic consumer protections relating to financial products by setting up a Consumer Financial Protection Bureau. As the Bureau is not a separate and distinct agency but instead is housed in the Federal Reserve, it is important to ensure that the Bureau will be independent. S. 3217 moves in the right direction by having the chief be appointed by the president and having an independent funding source that will have authority to write rules and the ability to enforce them. However, the USW would urge that you support

amendments aimed at solidifying the Bureau's independence, its scope of enforcement and that would remove the ability of the systemic risk council to veto decisions by the Bureau.

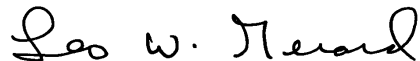
Employees Must Be Treated Fairly When a Big Bank Fails

While there is an orderly liquidation process detailed in S. 3217 regarding the resolution authority, it fails to include a wage priority. Adding a wage priority to the list of unsecured claims would go far in protecting employees from the impacts of an employer's liquidation and also would counterbalance the rights provided to other creditors.

For these reasons, the USW strongly supports an amendment offered by Senator Sherrod Brown that would clarify the rights of workers under the section of S. 3217 dealing with resolution authority by including a wage priority in the list of unsecured creditors. Support the Sherrod Brown proposal.

American workers and their families can ill-afford another financial crisis. Millions have seen their jobs, homes and retirement savings obliterated. Congress must now step up and secure the future of the nation and our democracy by ensuring a well-regulated financial system free from avarice, crony capitalism and rigging.

Sincerely,

A handwritten signature in black ink that reads "Leo W. Gerard". The signature is written in a cursive, flowing style.

Leo W. Gerard
International President

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