AMERICAN COMPASS

PROPOSAL OVERVIEW

Policymakers have been derelict in their duty to maintain rules for the financial sector that would channel its activities toward its core tasks in support of the real economy. Of course, the left-of-center is awash in regulatory proposals, but these belie a fundamental distrust of markets and a preference for overriding rather than reinforcing their function. The right-of-center, for its part, errs in extending a blind trust that the market will function well even with no rules at all.

This paper presents the case for policymakers who favor free markets and appreciate the value of a well-functioning financial system to reform the rules governing that system—refashioning the bankruptcy process, requiring broad disclosure of private-fund activity, and instituting new restrictions and taxes on unproductive transactions:

A. Align Risk and Reward.

1. **Create a new, primary obligation to workers that is paid first in the event of a bankruptcy.** Workers laid off in advance of or during a Chapter 11 reorganization, or in a Chapter 7 liquidation, should hold a substantial claim on the firm's assets senior to those of creditors. The proposal here contemplates payment equal to six months' salary.

2. **Eliminate the deductibility of interest.** The tax code should remove its subsidy for debt, instead placing debt and equity financing on equal footing.

B. Increase Information.

1. **Require pre-registration of public benchmarks.** Private funds should be required to include upfront identification and public disclosure of appropriate benchmarks (based on asset type, risk profile, etc.) that the fund proposes to outperform.

2. **Require self-capping of fees.** Private funds should be required to declare a total expense ratio, representing the maximum in fees they will collect annually and over the life of the fund, and then report on fees collected each year.

3. **Require public release of annual performance.** The SEC should establish financial reporting standards for private funds, which should be required to publish comprehensive financial statements on an annual basis.

C. Reduce Financial Engineering.

1. **Apply an economic activity test.** Firms seeking to list their shares on a public exchange should be required to demonstrate in their filings that those shares represent an economic interest in a going business concern. Speculative mechanisms for placing leveraged bets and SPAC-like cash grabs for deployment at a later date should not qualify.

2. **Ban buybacks.** The SEC should repeal Rule 10b-18, promulgated by the Reagan Administration in 1982, which legalized corporations trading in their own stock.

3. **Impose a financial transaction tax.** The seller of a security on an American exchange, should be charged a tax equal to one-tenth of 1% of the transaction's value. Other measures to make actual investment in the real economy more attractive should offset the revenues from this tax and from the elimination of the interest deduction described above.