

The Stop Wall Street Looting Act: *End Private Equity's Predatory Practices*

The private equity industry has grown massively over the past decade. Assets held by private equity (PE) firms have grown from \$1 trillion prior to the 2008 financial crisis to a new record of \$5.1 trillion in 2017. Today, private equity-owned companies employ almost 6 million workers. In other words, what PE does has a huge influence over the American economy and the well-being of American workers.

Unfortunately, this has been bad news for most of us. While a small handful of industry executives have become billionaires, they have done so at the expense of wages and wealth of working people.

Why? Private equity firms have rigged the system to create a “heads I win, tails you lose” situation. These executives can gain control of companies while risking negligible amounts of their own money, use various tactics to extract money from those companies, and then leave workers and communities saddled with the losses if those companies fail or are downsized.

Loopholes and exceptions in law and regulation create incentives for private equity firms (and other big Wall Street players, notably hedge funds) to load the companies they acquire with excessive debt, and drain money to enrich themselves. In other words, the current system allows private equity firms to buy companies, weaken or destroy those same companies, and still make money for the Wall Street executives. PE firms too often also mislead their own investors, such as pension funds, about actual returns in order to keep attracting dollars, and keep growing their own fortunes.

New federal policies are needed to address the predatory elements of the private equity business model that harm workers, investors, and communities. The Stop Wall Street Looting Act would:

Make private equity executives legally liable for the damage they cause. The private equity model provides unique advantages that allow its executives to avoid responsibility for the financial and legal liabilities incurred by the companies they control. This lack of accountability creates incentives for activities that harm workers and communities. There is no plausible public policy reason to allow it to continue.

Stop looting that enriches PE executives at the expense of workers, communities, and businesses. PE executives take money for themselves out of the businesses they own. Their tactics include paying themselves fees for nonexistent

services and quickly converting the assets of the companies they have bought into dividends for the private equity firm. This leaves the companies without resources to invest in sustaining and growing their businesses, or paying workers fairly. The bill stops specific kinds of looting, and its accountability measures sharply reduce incentives to pursue a broader range of extractive practices.

Close tax loopholes and change rules that encourage predatory financial activities. The tax rules, as currently written, create incentives that make it more profitable for PE executives to burden the businesses they buy with debt. The carried interest loophole also allows them to avoid their fair share of taxes on the money they take in, and to pay lower rates than teachers or firefighters or other working people. The bill ends these unfair advantages. It also addresses the problem of debt-driven takeovers. Wall Street players that arrange corporate loan securitizations, which frequently fund leveraged buyouts, would have to retain a share of the risks, to make it harder for them to leave others to pay the consequences if things go wrong.

Protect workers if employers go bankrupt. The bill revises bankruptcy laws so that workers get paid severance and pension contributions they were promised, and so that worker wages and benefits owed are a higher priority. It also prevents bonuses and special payouts to executives when workers are left high and dry. If the assets in the bankruptcy estate are insufficient to ensure that workers are treated fairly, it allows courts to pursue the wealth of PE general partners who actually controlled the company.

Require PE firms to be fair and transparent to investors in disclosing costs and returns. Too often, PE fund managers use incomplete or inaccurate information to attract investment from outside investors like pension funds. The bill updates securities laws to require PE firms to be clear and honest about the fees and expenses they charge and to disclose much more financial information about the firms they buy and own. And it strengthens requirements that PE executives put the interests of the investors whose money they manage ahead of their own.

By creating accountability for the Wall Street tycoons who lead private equity takeovers and reversing the policies that enable wealth extraction, this set of policies can protect workers, families, and communities.

For more information, contact:

Marcus Stanley
AFR Policy Director
(202) 466-3672
marcus@ourfinancialsecurity.org

Heather Slavkin Corzo
AFR Senior Fellow
(202) 486-2967
heather@ourfinancialsecurity.org