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ASSOCIATION

THE FINANCIAL SERVICES ROUNDTABLE 

September 16, 2008

President George W. Bush
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Re: Enhancing the President's Working Group on Financial Markets

Dear Mr. President:

The undersigned represent the voices of the millions of small and large businesses and their investors across the country and around the world that rely on the U.S. capital markets to fuel their investment and growth activities. As global competitive forces have increased pressure on the U.S. financial services industry, our organizations have called for the establishment of a mechanism to provide greater communication, collaboration, and coordination on national policy issues that span across our financial markets. In order to achieve this goal and increase our ability to compete with foreign markets, we recommend that the current Executive Order establishing the President's Working Group on Financial Markets ("PWG") be replaced with an expanded Executive Order that includes the scope, functions, and mandates recommended below.

As our markets and economy continue to weather the recent market volatility, the critical need for such a coordination mechanism has never been clearer. The current U.S. financial services regulatory structure is a patchwork of many functional and holding company regulators at the federal and state level. Our system is often slow to respond to changing market forces, international competition, and the dynamic needs of consumers. In the near term, a more effective PWG will have the ability to consider, maintain, and enhance the competitive position of U.S. financial institutions in the global economy.

Background

In response to the 1987 stock market crash, the PWG was established by Executive Order 12631 on March 18, 1988. Its purpose is to serve as an effective interagency coordinator that is capable of enhancing the efficiency of financial markets and maintaining investor confidence. The PWG is currently chaired by the Secretary of the Treasury and includes the Chairs of the Federal Reserve Board, the Securities and Exchange Commission (“SEC”), and the Commodity Futures Trading Commission (“CFTC”). Although the current PWG has been effective within the scope of its original mandate, there is a need for better communication, collaboration, and coordination among the other federal and state regulators of financial institutions. The PWG currently lacks the appropriate membership and resources to achieve the level of regulatory coordination necessary to efficiently adapt to changes in the financial markets. We recommend that the President and Congress ensure that the PWG has the necessary resources to implement these recommended mandates.

Proposals from the Department of the Treasury

In March of 2008, the Department of the Treasury (“Treasury”) released its *Blueprint for a Modernized Financial Regulatory Structure* (“*Blueprint*”). Treasury set forth the following proposals to modernize the current Executive Order and augment the PWG’s role as a coordination and communication mechanism for financial policy:

1. Broaden the PWG’s focus to include the entire financial sector, rather than solely financial markets.
2. The PWG should facilitate better inter-agency coordination in four distinct areas: (1) mitigating systemic risk to the financial system; (2) enhancing financial market integrity; (3) promoting consumer and investor protection; and (4) supporting capital markets efficiency and competitiveness.
3. Expand the PWG membership to include heads of the Office of the Comptroller of the Currency (“OCC”), Federal Deposit Insurance Corporation (“FDIC”), and Office of Thrift Supervision (“OTS”). The new Executive Order should also clarify that the PWG has the

authority to engage in consultation efforts, when appropriate, with other entities such as the Federal Reserve Bank of New York, National Credit Union Administration (“NCUA”), Office of Federal Housing Enterprise Oversight,* Federal Housing Finance Board, and the Farm Credit Administration. The PWG should also have the ability to engage in other consultation efforts, as might be appropriate, with other domestic or international regulatory and supervisory bodies.

4. Clarify that the PWG has the ability to issue reports or other documents to the President and others, as appropriate, through its role as the coordinator for financial regulatory policy.

Recommendations

We applaud Treasury’s recognition of the PWG as the appropriate body to provide greater communication and coordination across the financial services regulatory agencies and generally support the above recommendations set forth in the *Blueprint*. However, we believe that more sharply defined mandates and greater enhancements are necessary to ensure the future competitiveness of the U.S. financial services industry and U.S. financial markets and to maintain or restore stability in the financial markets.

Expansion of Membership and Focus – We support the scope of Treasury’s recommendation to expand the permanent membership of the PWG. This will ensure greater regulatory coordination while balancing the interests of operating efficiency. To further augment coordination among the federal and state financial regulators, the Executive Order should make clear that the PWG has the authority to engage in consultation efforts, on an as needed basis and when appropriate, with experts in state banking, insurance, and securities regulation as well as market participants, including regulated institutions and investors.

Regulatory Coordination – Today, neither the current PWG nor the Federal Financial Institutions Examination Council (“FFIEC”) monitors developments across the entire financial sector. Through greater

* On July 30, 2008 the Housing and Economic Recovery Act of 2008 was enacted. Among other things, the act abolished the Office of Federal Housing Enterprise Oversight and Federal Housing Finance Board and created a new agency – the Federal Housing Finance Agency – as their successor.

coordination of federal agencies, the PWG should work to enhance prudential supervision, maintain the stability and integrity of the financial markets, strengthen investor and consumer protection, and monitor and measure the health and competitiveness of the financial services industry. Providing a coordinated response to market issues that cut across the broader financial services industry will benefit all market participants.

Modernization of the Financial Markets Regulatory Structure – The enhanced PWG should develop a unified, coherent vision for the financial sector using, as references, Treasury’s *Blueprint* and the numerous financial industry studies focused on enhancing U.S. financial market competitiveness. A comprehensive, forward-looking strategy for the U.S. financial services industry and its regulatory agencies is necessary to ensure that this industry and our markets remain competitive and globally attractive.

Common Principles to Guide Financial Regulation – The expanded PWG should develop, adopt, and oversee the implementation of principles that will guide balanced rulemaking decisions by regulatory agencies across all segments of the financial sector. These principles will ensure that regulators appropriately weigh the competitive needs of our economy with the interests of investor protection and market stability. In developing these principles, the PWG should follow an appropriate deliberative process and seek comment from a broad range of market participants.

Conclusion

The independence and specialized focus of our regulators has been one of the strengths of our financial services regulatory system. However, we need a more focused, accountable, and coordinated approach to market issues that span across the broader landscape of our financial markets. An enhanced PWG will be capable of achieving our national policy objectives more efficiently and ensure that U.S. financial institutions and markets continue to thrive in periods of market volatility and in the increasingly competitive global marketplace.

President George W. Bush
September 16, 2008
Page 5

Sincerely,



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cc: The Honorable Ben S. Bernanke, Chairman, Board of Governors of the
Federal Reserve System
The Honorable Christopher Cox, Chairman, U.S. Securities and Exchange
Commission
The Honorable Walter Lukken, Acting Chairman, U.S. Commodity
Futures Trading Commission
The Honorable Henry M. Paulson, Jr., Secretary, U.S. Department of the
Treasury
The Honorable Sheila C. Bair, Chairman, Federal Deposit Insurance
Corporation
The Honorable John C. Dugan, Comptroller, Office of the Comptroller
of the Currency
The Honorable John M. Reich, Director, Office of Thrift Supervision