

March 30th
2007



Government Affairs Bulletin

Contact Us

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<http://www.fsround.org>

Core Beliefs of The Financial Services Roundtable:

- . *Large, integrated financial services companies finance most of the nation's economy and are critical to its sustained growth. Large is defined as one of the largest 150 financial services companies in the United States.*
- . *The competitive marketplace should largely govern the delivery of products and services, and regulation should provide safety and soundness, and consumer protections.*
- . *Uniform national standards across state lines are critical for the efficient and effective delivery of products and services.*
 - . *The effective use of technology is essential for the delivery of services in this new industry.*

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[To view the Roundtable calendar, click here](#)

Legislative News

Hearing: Non-Prime Mortgage Market

The House Subcommittee on Financial Institutions held the first in a series of hearings on the non-prime market and predatory lending. The Subcommittee members focused on the federal regulators guidance and what (if anything) should be done by Congress on this issue. They concentrated on how to apply the guidance to lenders outside the federal regulators jurisdiction, including utilization of state bank supervisors and the Fed's powers under HOEPA.

For a detailed summary of the hearing, please contact Katie Stevens, Katie@fsround.org.

Hearing: Credit in Rural America

A House Agriculture Subcommittee held a hearing on credit availability in rural America. Farm Credit System (FCS) witnesses made an appeal for expanded business and mortgage lending authority (a.k.a. FCS Horizons initiative) from Congress. Two community bank witnesses refuted the FCS request by discussing the availability of credit in rural America. The Roundtable opposes expanding FCS lending authority because as a Government Sponsored Enterprise (with significant tax and lending advantages), it would be serving a market already served more than adequately by the competitive marketplace –the Roundtable submitted a statement for the record.

Members of the Subcommittee were not persuaded by the FCS's arguments for expanded lending authority. When asked if Horizons was in response to credit gaps in rural America, FCS witnesses answered it was not; they were also questioned on the need to expand their mortgage lending from communities of less than 2,500 to up to 50,000 people, to which they provided no good justification.

For more information, please contact Paul Begey, Paulb@fsround.org.

Senate Finance Committee Looks at U.S.–China Relations

The Senate Finance Committee held two hearings this week on U.S.-China relations. The first hearing focused on the opportunities and challenges of the U.S.-China economic relationship. Norman Sorensen, President and CEO of Principal International Inc., testified at the first hearing on the financial services industry's interests, involvement, and challenges in China. Sorenson also expressed a desire to see China advance their Enterprise Annuity Pension System (similar to our 401(k) system) with the participation of U.S. companies.

The second hearing focused on China's currency. Senators Chuck Schumer (D-NY) and Lindsey Graham (R-SC) expressed doubt about the ability of the Administration to move China to a market-based currency rate. The Senators discussed their intent to create legislation to address the currency issue, which, unlike their previous bill approved by the Senate, would not run afoul of WTO rules.

For more information, please contact Paul Begey, Paulb@fsround.org.

Regulatory

Comment Letter: Basel IA

The Financial Services Roundtable has written a comment letter to the Office of Thrift Supervision (OTS), Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve System regarding the Notice of Proposed Rulemaking (NPR) to establish an alternative risk-based capital framework for non-Basel II banking organizations. The proposal is intended to mitigate the competitive concerns created by two capital standards, one for larger banks and the other for the remainder of the industry by providing a more risk-sensitive alternative to Basel I without the extensive regulatory burden associated with the Basel II approach.

The Roundtable notes that the NPR contains many useful proposals that will help improve the current Basel I capital standards. However, some of the proposals should be enhanced to improve the correlation between risk and capital, to reduce the regulatory burden, and to lessen the competitive concerns inherent in a two system approach to capital. Additionally, the Roundtable contends that all of the options included in the international Accord should be made available in the U.S., particularly the Standardized Approach and the methodology for determining Operational Risk.

For more information, please contact Rich Whiting, Rich@fsround.org.

Comment Letter: Proposed Rulemaking to Implement Basel II

The Financial Services Roundtable has written a comment letter to the Office of Thrift Supervision (OTS), Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve System regarding the Notice of Proposed Rulemaking (NPR) to implement the Basel II Capital Framework in the United States. The Roundtable strongly supports the implementation of the Basel II Capital Framework in the U.S. However, the Basel II Notice of Proposed Rulemaking (NPR) includes a variety of provisions that are not a part of the Basel II Capital Framework, such as; having only one compliance option, having a delayed start date, having long transitional floors, having a ten percent aggregate floor, having a leverage ratio, having a different definition of default, not receiving a capital adjustment for loans to small and medium-sized businesses, calculating multiple loss given default estimates, and imposing a more restrictive capital treatment for equity investments.

The Roundtable's comment letter expresses concern that the provisions in the Basel II NPR which are not a part of the Basel II Framework reduce the risk-sensitivity of the rule, place U.S. banking organizations at a competitive disadvantage to foreign banks, and impose sizeable compliance costs on U.S. banking organizations. The Roundtable recommends that the Basel II NPR be harmonized with the Basel II Capital Framework.

For more information, please contact Rich Whiting, Rich@fsround.org.

Amicus Brief for En Banc Consideration on Writ of Mandamus to U.S. District Court, In Re Seagate Technology, LLC

The Financial Services Roundtable, along with the Securities Industry and Financial Markets Association (SIFMA), filed an amicus brief for En Banc consideration on writ of mandamus to the U.S. District Court for the Southern District of New York In Re Seagate Technology, LLC case. The case could set precedent on the affirmative duty doctrine in patent infringement cases. The Roundtable opposes the affirmative duty doctrine. The financial services industry has faced increasing exposure to patent infringement suits since the Courts began recognizing that computer-implemented systems and business methods are patentable subject matter.

In the brief, the Roundtable argued that the affirmative duty doctrine, which states that where a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. This affirmative duty includes seeking the opinion of counsel and extensive investigation, which is extremely expensive. In order to avoid enhanced damages for willful infringement, these costs must be incurred every time there is a claim of patent infringement, no matter how baseless. As such, abusive practices by patent holders have been a negative result of the doctrine. Additionally, the Roundtable argued that the affirmative duty doctrine had the unintended consequence of chilling attorney-client communications because the privilege must be waived if the defense of advice of counsel is asserted at trial.

For more information, please contact Rich Whiting, Rich@fsround.org.

FDIC: Proposed Assessment Rate Adjustment Guidelines

The Financial Services Roundtable joined the American Bankers Association (ABA) and the American Community Bankers (ACB) in writing a comment letter to the FDIC regarding the Proposed Assessment Rate Adjustment Guidelines for Large Institutions and Insured Foreign Branches in Risk Category I.

The Roundtable voiced several concerns about the proposal. The two key concerns are that the current premium schedule established in November 2006 by the FDIC is excessively high. The reserve ratio remains well above the lower bound of the normal range (1.15 percent) and there is no timeframe required to reach the Designated Reserve Ratio. The second key concern is that this premium-adjustment authority should not be linked to whether the institution has a system for determining insured account status.

For more information, please contact Rich Whiting, Rich@fsround.org.

Comment Letter: Regulation R

Earlier this week, the Roundtable filed a formal comment letter on Regulation R, the joint proposed rule to implement certain exemptions for banks and thrifts from the definition of "broker" under the Securities Exchange Act of 1934 with the Securities & Exchange Commission and the Federal Reserve Board. It has been 8 years since the passage of the Gramm-Leach-Bliley Act; the industry has long anticipated a final "broker" rule relating to the securities activities within a

bank. In large part, the proposed rule is a step in the right direction, but the Roundtable recommended specific changes in the following areas: 1) Third-Party Networking, 2) Trust and Fiduciary Activities, 3) Investment Company Securities, 4) Bank Service Provider, and 5) Dual Employees. The complete Roundtable letter can be found here: <http://www.fsround.org/hyperlink/FSRRegRMARCH2633.pdf>.

For more information, please contact Irving Daniels, Irving@fsround.org.

Sarbanes-Oxley (SOX) Reform

On Wednesday, April 4, the Securities and Exchange Commission (SEC) will hold an open meeting concerning the Public Company Accounting Oversight Board's (PCAOB) proposed SOX 404 auditing standard and coordination of that standard with the SEC's related proposal for management of public companies implementing Section 404. The meeting starts at 10:00 a.m. in the auditorium, Room L-002.

The Roundtable filed comment letters on the proposed standard with the PCAOB and the SEC. The Roundtable also supports H.R.1508, the "Compete Act of 2007", Congressman Meeks' (D-NY) SOX reform legislation. H.R.1508 includes the following provisions:

1. An entity-wide "base year" audit in year one, followed by subsequent audits every three years
2. The SEC shall develop a materiality standard
3. Reliance on the Work of Others will include bank examinations and inspections
4. The SEC and PCAOB must stake reasonable steps to increase auditor competition and eliminate de minimis conflict of interest provisions

The Roundtable will additionally pursue SOX reform through regulatory relief legislation in Congress. For more information, please contact Irving Daniels, Irving@fsround.org.

Housing Policy Council

GSE Reform: H.R. 1427 passes the House Financial Services Committee

H.R. 1427, the Federal Housing Finance Reform Act of 2007, better known as the GSE Reform Bill, was passed by a vote of 49-15 with 11 Republicans voting for the bill in Committee yesterday, March 29. The bill overhauls the regulatory structure for the nation's housing finance GSEs that include Fannie Mae, Freddie Mac and the Federal Home Loan Banks. H.R. 1427 focuses on the safety and soundness regulation of GSEs while preserving their ability to accomplish their key housing mission, a long-standing concern of the Housing Policy Council. HPC will continue to work for passage by the full House and then action by the Senate.

For more information, please contact Paul Leonard, Paul@fsround.org.

BITS

Federal Regulators on Model Privacy Notice

BITS and the Roundtable held a conference call on Friday, March 30 to discuss member response to the proposed model privacy form that eight federal regulators released on March 21. As required by the Gramm Leach-Bliley Act, financial institutions can use the model privacy form for model privacy notices to their consumers. The proposal was issued jointly by the following federal agencies: Board of Governors of the Federal Reserve System, Commodity Futures Trading Commission, Federal Deposit Insurance Corporation, Federal Trade Commission, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Securities and Exchange Commission.

For more information, contact John Carlson, John@fsround.org.

BITS Advisory Board on Emerging Issues

Members of the BITS Advisory Board met by conference call on March 29. An expert from Edgar Dunn, a payments consulting company, provided a comprehensive overview of changes, trends, risks and opportunities emerging in the

mobile payments environment. John Carlson, BITS Executive Director, described trends and emerging issues in the regulatory environment with potential implications for the financial services industry. The Advisory Board reviewed the status of BITS deliverables, plans for CEO action at the Spring Meeting, and new projects.

For more information, contact John Carlson, John@fsround.org.

Addressing High Profile Data Breaches

The BITS Debit Card/ATM Fraud Working Group has met several times recently to share information concerning high-profile and significant data breaches, including the breach of TJX Companies, Inc.'s data. More than 200 representatives of member financial institutions participate in this Working Group. The ad hoc calls serve as a means for members to share information about the current and potential impact for fraud from such events. They also are used to identify trends in how and where stolen data and account information may be used. These calls also allow for members to hear what their peers are doing in terms of approaches to reissuing cards, customer notification, monitoring of accounts, mitigation strategies, and internal and external communication. In related activities, BITS is engaged in efforts to meet with representatives from the National Retail Federation (NRF) to begin high-level, exploratory discussions to improve communications and preventative measures for addressing data breach issues.

For more information, contact Heather Wyson, Heather@fsround.org.

Other



“Simplifying Regulation for Agents and Brokers...”

Agents for Change continues on two fronts: advocacy and recruitment. Upcoming events include in-district meetings and our annual legislative conference on June 5th and 6th in Washington, D.C.

Please help us identify producers to attend our legislative conference and in-district meetings. Upcoming meetings include: April 2nd with Rep. Price in Marietta, GA; April 16th with Rep. Myrick in Charlotte, NC; April 23rd with Chairman Frank in Newton, MA, and; June 25th with Rep. Israel in Hauppauge, NY.

We continue to collect signatures for an open letter to Congress urging Members to support optional federal charter legislation. To date, more than 300 producers nationwide and from across all lines of insurance have signed the letter.

Visit the Agents for Change website – www.agents4change.net – for additional information, updates, background material, FAQ's, and more. To receive periodic e-mail updates from Agents for Change please contact Peter Ludgin, Peter@agents4change.net or 202-589-1928.

Community Build Day 2007 -- Spotlight on State Farm Insurance

State Farm participates in Community Build Day in a variety of ways. State Farm uses community service activities that are already on the calendar, like sponsoring a child safety seat check, funding lunches for a volunteer crew working on a 14-day build, and conducting a food drive for a homeless shelter. These and other events were identified by State Farm by asking their Zone Public Affairs departments if there were any community service activities scheduled during August.

Additionally, State Farm participates in the traditional Community Build Day model of joining other Roundtable member companies to share the costs and labor of a community service event like a project to build a Habitat House, a project to renovate a little league baseball park with NeighborWorks® America, and a project to rehab a house for Rebuilding

Together.

Take a look at what community service events that your company has already scheduled for mid-July, August, or early September. As long as you have at least one project scheduled – like a food drive or Day of Caring – your company can be included in 2007 Community Build Day.

National Sponsors contribute \$15,000 to underwrite the costs of Community Build Day while Participating Companies allow the Roundtable to include any community service project(s) scheduled for August under the Community Build Day banner. The most recent Community Build Day flyer with participating member companies and cities can be found at http://www.fsround.org/community/pdfs/CBD_03_27_07.pdf.

To register your event, please complete a Community Build Day Registration Form that can be found on the Roundtable's website (www.fsround.org and click on the Community Build Day logo), or contact Shirley Nycum, 202.589.2428; Shirley@fsround.org or Elise Brooks, 202.589.2428; Elise@fsround.org.

Human Resource Council: Next Meeting May 17th

This week, The Financial Services Roundtable's Human Resource Council, Chaired by John Daniel of First Horizon, were briefed via conference call on Congressional efforts to limit non-qualified deferred compensation and Congress's focus on executive compensation, pensions, health care, and other issues. Time did not allow for an in-depth discussion of the issues, therefore ***an in-person meeting of the HR Council is being planned for May 17th.***

We would encourage companies not participating in the HR Council to join us for the May 17th meeting, as the HR Council helps to focus and support the Roundtable's efforts in policy areas that affect our members companies as large employers and financial services providers.

The Roundtable's HR Council and this meeting are open to senior HR executives from member companies. To join the HR Council or for more details on the upcoming meeting, please contact Paul Begey, Paulb@fsround.org.

Roundtable Calendar

April 11, 2007	Third Party Service Provider Roundtable
May 17, 2007	Human Resource Council In-Person Meeting
June 5-6, 2007	Agents for Change Legislative Conference
June 19-20, 2007	BITS Wireless Security Forum
June 26-28, 2007	Public Affairs Council Meeting
August 4, 2007	Community Build Day Kickoff

The Mission of The Financial Services Roundtable:

To be the premier executive forum of the financial services industry.

To provide powerful legislative and regulatory advocacy.

To enhance the industry's reputation.

Led by BITS, to promote best practices and a strong infrastructure in technology.

