THE FINANCIAL SERVICES ROUNDTABLE
Impacting Policy. Impacting People.

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STEVE BARTLETT
PRESIDENT AND
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July 8, 2009

The Honorable ________
United States Senate
Member of the Committee on Banking, Housing, and Urban Affairs
Washington, D.C. 20510

Dear Senator:

On behalf of the Financial Services Roundtable, I am writing to express our views on the Administration's proposal for Financial Regulatory Reform. The Roundtable favors comprehensive reform now, but recommends a number of practical and important improvements to the Administration's initial proposal to achieve a common objective: a strong and resilient financial system that not only complements full economic recovery in the short-run, but also sustained and stable economic growth in the future.

We support the efforts of the Senate Banking Committee to pledge that such reform will take place this year, but we need to get this right so that another crisis of this magnitude does not occur.

As such, there are specific features of the Administration's initial proposal that must be modified. These are highlighted below:

- <u>Consumer Financial Protection Agency</u>

The Roundtable fully supports the development of strong, uniform, national standards for consumer protection for all retail financial services. The Roundtable recommends that consumer regulation should remain with the prudential regulators. The Roundtable is strongly opposed to the creation of another layer of regulation by a new agency, the Consumer Financial Protection Agency, proposed by the Administration. This agency will separate consumer protection from the safety and soundness regulation of the current prudential regulators, the agencies best positioned to monitor and enforce consumer protection. It will jeopardize the safety and soundness of many firms and stifle innovation by requiring firms to offer "plain vanilla" products. The Administration's proposal is likely to produce unintended consequences by creating a patchwork of differing state and national requirements that will confuse consumers, increase costs for consumers, and limit opportunities for consumers which will not advance the expressed consumer protection goals of simplicity and consistency.. Additionally, simpler, uniform, coordinated disclosures and protections for consumers can be best achieved through regulation and legislation among the agencies at the national level. Ironically, the Treasury's white paper acknowledges the negative impact of state-by-state regulation on consumers when it notes that state insurance regulation has "led to a lack of uniformity and reduced competition across state and international boundaries, resulting in inefficiency, reduced product innovation, and higher costs for consumers."

- Executive Compensation

The Roundtable supports the key tenets of executive compensation to be included within the larger regulatory restructuring debate. The Roundtable members developed its own set of principles on executive compensation, which include: 1) the Board of Directors should oversee the executive compensation system's design and practices; 2) the Board of Directors or Board Committee should consult with the firm's risk management personnel and/or outside experts regarding the risk components of the firm's executive compensation programs; 3) executive incentive compensation should be based on performance and aligned with shareholder interests and long-term, sustainable, firm-wide success; 4) executive compensation mix and payout schedules should be sensitive to the time horizon of risks; and 5) termination of benefits provided to executives, including severance, should be consistent with good corporate governance.

- OTC Derivatives

The Roundtable supports a regulatory framework for standardized and customized over-the-counter (OTC) derivatives that maintains these products' usefulness and protects consumers. OTC derivatives are a key tool for American corporations to manage their risks and finances. It is important to strike an appropriate balance between effective oversight of OTC derivatives trading and their risk-managing benefits. The Roundtable recommends that standardized derivatives are cleared through a qualified central clearinghouse to provide more transparency and to reduce systemic risk within the industry. However, clearing sophisticated, customized derivatives should not be required because they allow flexibility for institutions to meet their customers' needs.

- Systemic Risk Regulator and Tier 1 FHCs

The Roundtable supports the designation of the Federal Reserve Board as a systemic risk oversight authority that can collect data on the financial services industry and identify potential systemic risks. The Board should not be an additional super-regulator, but rather should work with the prudential regulator in non-emergencies to address potential systemic risks. The Board also should not publicly identify systemically significant institutions ("Tier 1 FHCs"); it should focus on activities and practices across the entire financial system, not individual institutions. In retrospect, the activities of relatively small, state-licensed mortgage brokers created significant systemic risk, but they would not fall into the Administration's Tier 1 FHC category. Institutions designated as Tier 1 FHCs could be viewed as "too-big-to-fail." This designation could have the unintended consequence of encouraging such institutions to take excessive risk (i.e., create even more of a moral hazard) and/or create a competitive imbalance in the market as customers choose to do business with "too-big-to-fail" institutions. Furthermore, requiring each Tier 1 FHC to comply with the nonfinancial activity restrictions of the BHC Act addresses no cause of the current credit crisis or threat to the safety and soundness of the financial system.

Commercial ownership of financial services has been a source of strength and capital to the nation's economy, and restricting it would reduce the total amount of credit available to consumers and businesses.

- National Resolution Authority

The Roundtable supports the establishment of a resolution regime for insolvent nonbank financial institutions that pose a significant systemic risk to U.S. financial markets, but only during financial emergencies. Bankruptcy laws should be harmonized for national equal treatment and applied in all nonemergency situations. The Administration's proposal relies too heavily upon the Federal Deposit Insurance Corporation (FDIC) to act as a receiver or conservator for such institutions, and the proposed resolution regime is ambiguous as to its interaction with current regimes for affiliates of a nonbank firm. We recommend that the Treasury Department appoint the appropriate prudential regulator of the institution upon a determination that such authority is necessary. We oppose funding such an authority with assessments of all systemically significant institutions but advocate the FDIC's Deposit Insurance Fund, the Securities Investor Protection Corporation, and the insurance guarantee funds be retained and protected for their intended uses.

- Insurance

The Roundtable supports the establishment of an Office of National Insurance, as outlined in the Administration's proposal, and the proposal's six principles for insurance regulation: effective systemic risk regulation, strong capital standards, meaningful and consistent consumer protection, comprehensive and consolidated regulation of insurance companies and affiliates, international coordination, and increased national uniformity. However, history has proven that these principles can only be accomplished by giving that Office the authority to charter and exclusively regulate national insurers and reinsurers. While state insurance regulation should remain available for those who choose it, the current environment, coupled with state systems' structural limitations and today's global and integrated insurance business, underscores the need for a dedicated federal insurance regulator that can coordinate with other financial service regulators at home and abroad. Strong, uniform federal regulation and supervision of insurance companies, producers, and holding companies would reduce risks to consumers and the economy.

- National Bank Supervisor

The Roundtable supports the merger of the Office of the Comptroller of the Currency and the Office of Thrift Supervision to create the new National Bank Supervisor (NBS). Creating a single bank supervisor will enhance the prudential regulation between such a supervisor and the entities under its authority. We recommend that the state bank regulation and supervision responsibilities of the Federal Reserve and the FDIC move into the NBS. The Roundtable does not view the various financial charters that exist today as a "gap" in regulation. Institutions have been free to choose the charter that best serves their competitive strategy to serve their customers and are fully regulated at the state and national level. The choice of a national or state bank charter will still be possible even if the Administration's plan is adopted as proposed.

Therefore, the Roundtable supports grandfathering existing charters (such as ILCs and thrift charters). Placing even greater restrictions on affiliations between commercial and financial firms would force unnecessary separations of finance companies from their parent institutions, often a source of strength for the finance company, and in some cases, would cause their outright divestiture. ILCs and nonbank finance companies have been a vital source of affordable credit for consumers and small businesses at a time when many other sources of credit have all but dried up. The Roundtable supports increased regulatory oversight of the financial affiliates of commercial companies to assure that such finance companies continue to provide this much needed credit in a safe and sound manner, but cautions against proposals that eliminate or severely restrict the activities of such institutions.

- Financial Services Oversight Council

The Roundtable generally supports the creation of a new Financial Services Oversight Council (Council) described in the Administration's proposal, but with additional suggestions: 1) as part of a more forward-looking mandate, the Council should monitor the adherence to basic principles that Congress legislates to guide future financial regulation and preferred regulatory outcomes for regulators and regulated firms; and 2) each regulatory agency should develop comprehensive regulatory action plans to review the costs and benefits of each regulation under an agency's purview on a continuous basis. These action plans would be regularly presented and reviewed by the Council to ensure regulations are effective and efficient in serving their intended purpose while adapting to changes in consumer needs and competitive market conditions. Consistent with our views on the need for a national insurance regulator and a national charter, the national insurance regulator should also have a seat on the new Coordinating Council.

- Financial Literacy

The recent financial crisis highlighted the need to strengthen financial education for consumers. The financial preparedness of our nation is essential to not only consumers' well-being but of vital importance to our economic future. Consumers make better decisions if they are better informed and, in essence, the whole economy benefits. Roundtable member companies offer financial literacy opportunities to consumers in a variety of ways, including online curriculums, workshops and seminars, and free-of-charge tips and advice booklets. The Administration's proposal envisions the CFPA focusing on financial literacy. While we support the underlying goal of government-wide streamlining of existing financial literacy and education initiatives, the Roundtable does not support the creation of the CFPA. Rather, we recommend the creation of a K-12 and post-secondary level financial literacy curriculum for the nation's school system, particularly for students with federal financial support.

- Accounting Standards

The Roundtable has been a consistent advocate of improving the quality of financial reporting information. We support accounting standards that provide transparent information, but not ones that drive economic activity. While we believe that Congress should not legislate accounting standards, we propose that Congress subject the Financial Accounting Standards

Board (FASB) to the Administrative Procedures Act by placing FASB under the jurisdiction of the Securities and Exchange Commission (SEC). The Roundtable supports efforts to review current accounting standards to improve and streamline financial reporting, with an emphasis on accelerating convergence and harmonization internationally. The Roundtable supports modifications of procyclical accounting standards, including loan loss reserves, fair value accounting, and purchase accounting.

- Retirement Security

The Roundtable developed a comprehensive set of policies to improve American retirement readiness. Some of these policies, such as enacting automatic IRAs and strengthening the saver's credit, are included in the Administration's proposal. The Roundtable supports voluntary auto-IRAs that are administered by the private-sector. The Roundtable supports expanding and improving the Saver's credit to give low-income households greater incentives to save. Additional Roundtable proposals on retirement security include: 1) creating incentives for lifetime income options in DC plans; 2) developing clear and meaningful disclosure for plan participants and plan sponsors; 3) creating mechanisms to reduce leakage from DC and DB systems by increasing the cash-out distribution balance for auto rollovers to IRAs to $10,000; 4) temporarily doubling the cap on annual dollar deferral contributions to retirement accounts for the next five years to allow for the recent market downturn; and 5) eliminating the current 10% auto escalation cap and providing employers the option to apply an initial default rate between 3% and 6%, with a maximum escalation to 15%.

- Payment Systems

Payment systems are an integral part of our nation's financial system. They are the conduit for funds to flow between and among domestic and international businesses, consumers and government agencies. The Roundtable supports regulatory improvements that ensure the integrity, security and availability of these payments systems. The Roundtable believes that the Congress and regulators should not inhibit the ability of the private sector to sponsor and operate various payments systems. The Roundtable encourages the U.S. financial regulatory agencies to engage other federal agencies with oversight of telecommunications providers and consumer protection responsibilities to address safety and soundness and consumer protection concerns with emerging mobile financial services products.

- Housing

The Roundtable supports simplified, uniform, coordinated mortgage disclosures for consumers. We are supportive of the Administration's proposal to assign appropriate levels of risk retention by mortgage originators on loans, provided regulators retain sufficient discretion in establishing risk retention. The Roundtable supports the prohibition of yield spread premiums for mortgage loans.

- Global Harmonization

The Roundtable generally supports the Administration's proposal and statements made during the G20 meeting on the need for new and harmonized international regulatory standards. We support open and competitive global markets that are well regulated and supervised as a precondition for sustained, stable economic growth. We support better coordination and cooperation at the international level and cannot risk regulatory fragmentation among individual countries. Significant differences in regulatory regimes can undermine the safety and soundness of the financial system and produce competitive disparities across countries with which we trade and invest. Consequently, the Administration needs to step up its leadership role in the G20 and the new Financial Stability Board (FSB) to ensure that new international regulatory standards for capital, liquidity, and risk management are not only balanced, effective, and risk-based, but also recognize the benefits of globally competitive financial markets. Any change in U.S. financial laws and regulations must be consistent with new international norms.

- <u>Credit Rating Agencies</u>

Credit ratings are an integral part of the financial system. As such, ratings should be independent, reliable, clear, and unbiased. The credit ratings process should be made more transparent so investors can make a more informed analysis of the relevance of specific ratings. Toward that end, the SEC should publish, on a regular basis, audits of credit rating agencies that include the following information: (i) an analysis of the credit rating agency's compliance with its own internal policies and procedures; (ii) a comparison of the agency's ratings for individual securities with the actual experience of the rated securities, and (iii) the time periods used by the agency in estimating probability of default. Credit rating agencies should address conflicts of interest within their published processes and policies that include the separation of the fee discussion from the ratings process. SEC should continue to permit the issuer-paid model with adequate disclosure and firewalls. SEC should examine how to manage inherit conflicts of interest in general and issue a report to Congress in 6 months on its findings and recommendations.

In summary, the Roundtable supports strong and comprehensive reform now, but recommends that there are a number of practical and important improvements to strengthen the Administration's initial proposal to achieve such reform. The Roundtable stands ready to work closely with Congress to achieve our common goals.

Sincerely,

Steve Bartlett

Steve Bartlett
President and CEO