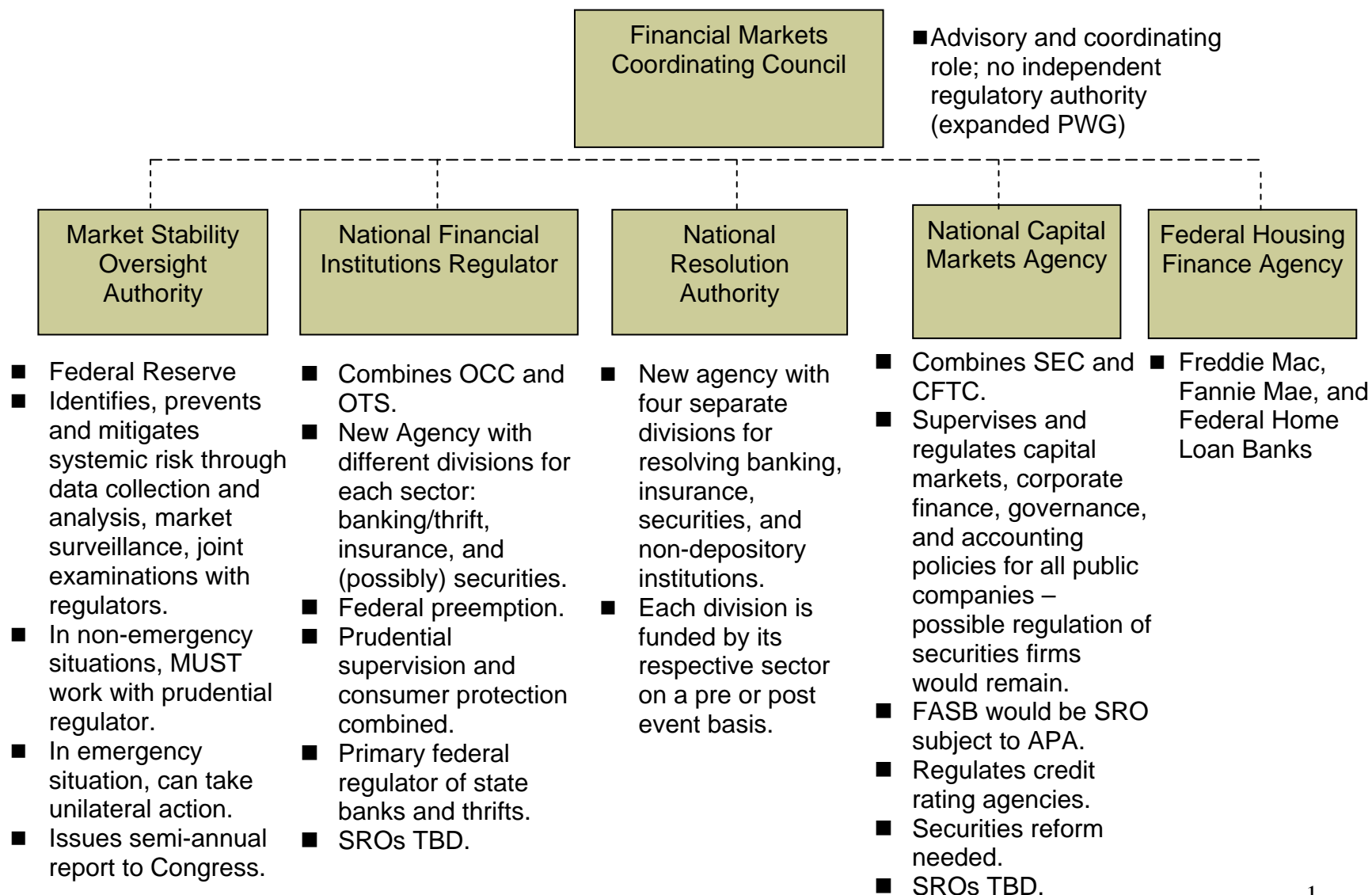


Roundtable “Architecture” Proposal



THE FINANCIAL SERVICES ROUNDTABLE
PROPOSAL FOR FINANCIAL REGULATORY REFORM

The Roundtable's Architecture Proposal is designed to: preserve state financial regulation; provide for greater coordination among all financial regulators; provide for national regulation for insurance companies and insurance producers; reduce regulatory overlap; promote uniform regulation and supervision; limit systemic risk; and create a failure resolution mechanism for non-banking financial firms.

Financial Markets
Coordinating Council

To enhance coordination and cooperation among the many and various financial regulatory agencies, we propose to expand membership of the President's Working Group on Financial Markets (PWG) and rename it as the Financial Markets Coordinating Council (FMCC). This Council should be established by law, in contrast to the existing PWG which has operated under a Presidential Order. This would permit Congress to oversee its Council's activities. The Council should include representatives from all major federal financial agencies, as well as individuals who can represent state banking, insurance and securities regulation. The Council should serve as a forum for national and state financial regulators to meet and discuss regulatory and supervisory policies, share information, and develop early warning detections.

The Council should not have independent regulatory or supervisory powers. However, it might be appropriate for the Council to have some ability to review the goals and objectives of the regulations and policies of federal and state financial agencies, and thereby ensure that they are consistent.

Federal Housing
Finance Agency

To supervise the Federal Home Loan Banks and to oversee the emergence and future restructuring of Fannie Mae and Freddie Mac from conservatorship we propose that the Federal Housing Finance Agency remain in place, pending a thorough review of the role and structure of the housing GSEs in our economy.

Market Stability
Oversight
Authority

The Financial Services Roundtable supports the creation of a federal market stability oversight authority to oversee our nation's financial services firms and financial markets and identify and address risks that could threaten the stability and integrity of our financial system and the economy.

- Market Stability Oversight Authority should be part of comprehensive regulatory reform.

The market stability oversight authority should not be just another layer of regulation added to the existing system; it should not be a "super-regulator". Absent an immediate, systemic threat, the market stability oversight authority should be required to work with and through other financial regulators, including a national insurance regulator. A national insurance regulator is needed to give the federal government a better understanding and role in the supervision of this key part of our nation's financial services sector.

The purpose of Market Stability Oversight Authority should be to promote the long-term stability and integrity of the nation's financial markets and financial services firms by identifying and addressing significant risks to the financial system as a whole.

- Market Stability Oversight Authority should have authority to oversee all financial markets and firms, whether regulated or unregulated.

A market stability oversight authority should not focus on financial services firms based upon size. The designation of "systemically significant financial services firms" would have unintended competitive consequences and increase moral hazard as these firms would be deemed too big to fail.

- Systemic Risk

Systemic risk should be defined as an activity or practice that crosses financial markets or financial services firms, and, which if left unaddressed, would have a significant, material adverse effect on financial services firms, financial markets, or the U.S. economy.

- Market Stability Oversight Authority should balance risk and innovation.

A market stability oversight authority should balance the identification of activities or practices that pose a systemic risk against the need for continuing market innovation and competitiveness. A market stability oversight authority should not stifle innovation, or preclude isolated failures. Innovation is a key to economic growth and new job creation.

- Market Stability Oversight Authority should focus attention on factors that present the greatest potential for systemic risk.

Such risk may include excessive concentrations of assets or liabilities, rapid growth in assets or liabilities, high leverage, a mismatch between long-term assets and short-term liabilities, currency mismatch, and regulatory gaps. A market stability oversight authority should not focus attention on products or practices that pose little or no systemic risk.

- Federal Reserve Board (Board) should be designated as Market Stability Oversight Authority.

Such a designation is a natural complement to the Board's existing role as the nation's central bank and lender of last resort. To perform this responsibility, the Board should be –

- Authorized to expand its staff to include experts in all types of financial activities, practices, and markets;
 - Required to establish a governance structure for this new role to minimize any potential conflicts with its existing responsibilities; and
 - Authorized to establish an Advisory Council on Market Stability to review activities and practices that may pose a systemic risk, balanced against the need for continuing market innovation and competitiveness. The Advisory Council should include representatives of domestic and international financial services firms doing business in the United States as well as representatives of consumers of financial services.
- Functions of Market Stability Oversight Authority.
 - **Data collection and analysis.** Collect and analyze data from other financial regulators and individual financial services firms to understand potential or existing systemic risks in the financial system. Data on individual firms should be treated as confidential supervisory information.
 - **Market surveillance.** Establish a surveillance system for activities and practices to detect early crisis warning signs and vulnerabilities, conduct scenario planning, and develop contingency planning with other prudential financial regulators across all financial markets.
 - **Examinations.** Examine individual financial services firms. If a firm is regulated by another national or state financial regulator, such examinations should be coordinated with such regulator. Examination results should be treated as confidential supervisory information.
 - **Reports and notices.** Issue, as necessary, reports and public notices on activities or practices that may pose a systemic risk.
 - **Non-emergency actions.** Make recommendations to other regulators and Congress to address activities and practices that could pose a systemic risk, but do not pose an immediate systemic risk.
 - Recommendations to other regulators. Whenever the Board identifies a practice or activity that could pose a systemic risk and such practice or activity is within the jurisdiction of another national or state financial regulator, the Board should issue a finding and recommend appropriate preventive actions to the other regulator. The Board also should submit any such findings and recommendations to the Congress and the Financial Markets Coordinating Council (FMCC). If the other regulator disagrees with the Board's finding and recommendation, then the regulator can submit its own findings and recommendations to the Congress and the FMCC.
 - Recommendations to Congress. If the Board identifies an activity or practice that could pose a systemic risk, and such activity or practice is not subject to regulation or supervision by another regulator, the Board should make a recommendation to Congress on how best to regulate and supervise such activity or practice in the future.

- Functions of Market Stability Oversight Authority (cont'd).
 - **Emergency actions.** Take unilateral actions to address activities or practices, which the Board determines pose an immediate, systemic risk, and which could not be addressed in a timely fashion if the Board were to recommend actions by any other regulator. Such unilateral actions would include the power to issue orders or regulations affecting actions or practices of individual firms or categories of firms. Such unilateral actions should be approved by a super majority of the Board, and they should be agreed to by the Secretary of the Treasury, who must consult with the President. Such unilateral actions also should be reported immediately to Congress. This authority would be in addition to the Board's existing authority under section 13(3) of the Federal Reserve Act to make extend credit to financial or non-financial institutions in "unusual and exigent" circumstances. The Board should retain that authority.
 - **Regulatory consultation.** Maintain an on-going dialogue with other domestic and international financial regulators.
 - **Reports to Congress.** Issue a report to Congress on a semi-annual basis that describes how it has performed the functions enumerated above.

National Financial
Institutions
Regulator

To reduce gaps in regulation, we propose the consolidation of several existing federal agencies into a single, National Financial Institutions Regulator (NFIR). This new agency would be a consolidated prudential and consumer protection agency for banking, insurance, and possibly securities. The NFIR would reduce regulatory gaps by establishing comparable prudential standards for all of these of nationally chartered or licensed entities. For example, national banks, federal thrifts and federally licensed brokers/dealers that are engaged in comparable activities should be subject to comparable capital and liquidity standards. Similarly, all federally chartered insurers would be subject to the same prudential and market conduct standards. Each industry would be legally and functionally separated within the NFIR.

National
Resolution
Authority

To protect depositors, policyholders, and investors, we propose the creation of the National Resolution Authority to act as the insurer of bank deposits, the guarantor of retail insurance policies written by nationally chartered insurance companies, and a financial backstop for investors who have claims against broker/dealers. These three resolution systems would be legally and functionally separated and assessed according to the specific sectors touched during the resolution process. Additionally, this authority would permit an agency to act as the receiver for large non-bank financial services firms. The failure of Lehman Brothers illustrated the need for such a better system to address the failure of large non-banking firms.

National Capital
Markets Agency

To focus greater attention on the stability and integrity of financial markets, we propose the creation of a National Capital Markets Agency (NCMA) through the merger of the Securities and Exchange Commission (SEC) and the Commodities Futures Trading Commission (CFTC), preserving the best features of each agency. The NCMA would regulate and supervise capital markets and exchanges. As noted above, the existing regulatory and supervisory authority of the SEC and CFTC over firms and individuals that serve as intermediaries between markets and customers, such as broker/dealers, investment companies, investment advisors, and futures commission merchants, and other intermediaries would be transferred to the NFIR. The NCMA also should be responsible for establishing standards for accounting, corporate finance, and corporate governance for all public companies. It is possible that the NCMA would retain its regulatory authority over securities firms, if these firms were not moved to the NFIR. In either case, securities reform is necessary.