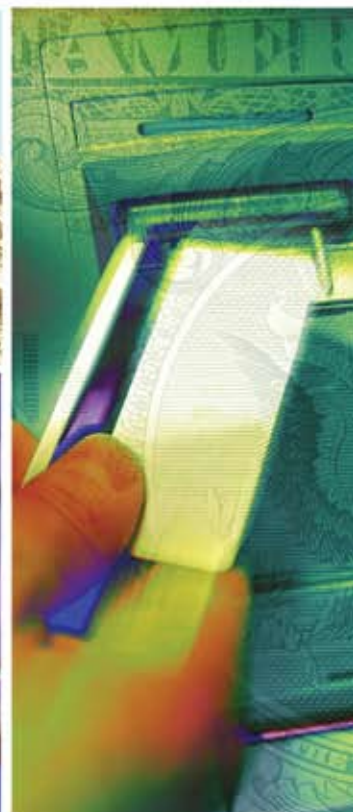


THE FINANCIAL SERVICES ROUNDTABLE   
Impacting Policy. Impacting People.

# EXECUTIVE SUMMARY



*Principles-Based Regulation | An Agenda For Reform | Modernized Charters*



RICHARD M. KOVACEVICH  
JAMES DIMON  
THOMAS A. JAMES  
THOMAS A. RENYI

## MESSAGE FROM COMMISSION CO-CHAIRS RICHARD M. KOVACEVICH AND JAMES DIMON

Effective regulation and the competitiveness of U.S. financial markets and firms are vital to consumers, capital formation, job creation, and sustained economic growth. Consumers of all kinds – small savers, first-time homebuyers, college students, small businesses and medium-size enterprises, large corporations, issuers, investors, pension funds, and even governments – benefit when markets are safe, stable, and secure as well as when they are vibrant and innovative, and financial services firms actively compete for their business. Today, financial services firms directly account for five percent of total U.S. employment, and 8 percent of U.S. gross domestic product (GDP).

Three recent studies, including a bipartisan study issued by New York Mayor Michael R. Bloomberg and U.S. Senator Charles E. Schumer (D-NY), have called for a legal and financial regulatory system that is more effective, balanced, and responsive to the needs of consumers and our economy. The Blue Ribbon Commission on Enhancing Competitiveness was formed to build upon the work of these earlier studies. The Commission’s mandate was threefold:

- To develop a set of Guiding Principles for a more balanced, consistent, and predictable legal and financial regulatory system
- To create a financial services reform agenda based upon the application of the Guiding Principles to eight legal and regulatory issues (prudential supervision, litigation reform, consumer credit and opportunities for long-term financial security, anti-money laundering, risk-based capital regulation, insurance regulation, Sarbanes-Oxley Act (Section 404), and U.S. and international accounting standards)
- To identify charter enhancements for existing depository institutions and propose new optional national charters for serving consumers more effectively and efficiently in the future.

*The Blueprint for U.S. Financial Competitiveness* is the product of the Commission’s deliberations. Our goal is that this Blueprint—and its policy reforms and more than 60 specific recommendations—serve as a starting point for a broader dialogue and constructive engagement with policymakers, regulators, and all interested parties to improve our legal and financial regulatory system and thereby enhance our ability to compete and serve consumers in national and international markets.

We firmly believe that the United States would benefit from the adoption of a set of common Guiding Principles and better oversight by regulators across all financial markets. Our proposed Guiding Principles would not replace rules, but would provide regulators and firms with a common framework to guide policies and practices. We also believe it is

time to ensure that financial regulation across all financial markets is risk-based and cost-effective and that prudential supervision is the standard across these same financial markets. This is not a call for de-regulation; it is a call for more constructive engagement between regulators and firms that allows issues to be addressed in a timely and effective manner.

This Blueprint addresses eight specific policy areas where principles-based financial regulation could be implemented to achieve better policy and regulatory outcomes for financial services firms and the consumers they serve. These “case studies” include reform of our legal system that is needed to support a shift to a more principles-based approach to financial regulation. The Blueprint also calls for the modernization of existing financial services charters and the creation of three new optional financial charters: a national insurance charter, a national securities license, and a universal financial services charter.

We do not underestimate the effort involved to implement our recommendations, but we also strongly believe that these recommendations address some of the most fundamental issues facing the financial services sector, consumers, and our economy today. The United States needs to act now to maintain its leadership role in financial services globally.

On behalf of The Financial Services Roundtable and the Commission on Enhancing Competitiveness, we stand ready to work with all interested parties to achieve our common objectives and desired policy results. Better regulation and enhanced competitiveness are needed urgently to serve the dynamic and diverse needs of all consumers of financial services in the future.

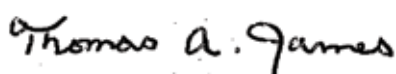
Respectfully,



**Richard M. Kovacevich**  
Chairman  
Wells Fargo & Company  
Co-Chair  
Commission on Enhancing Competitiveness



**James Dimon**  
Chairman and Chief Executive  
JPMorgan Chase & Co.  
Co-Chair  
Commission on Enhancing Competitiveness



**Thomas A. James**  
Chairman and CEO  
Raymond James Financial, Inc.  
Chairman, The Financial  
Services Roundtable



**Thomas A. Renyi**  
Chairman and CEO  
The Bank of New York Mellon  
Chairman-elect, The Financial  
Services Roundtable

## ACKNOWLEDGEMENTS



The Financial Services Roundtable is a unique trade association, limited to 100 of the largest financial services companies in the United States. Built on the legislative foundation created in the Gramm-Leach-Bliley Act of 1999, members are banking, securities, insurance, and other diversified financial services firms. The Roundtable believes that a competitive market is the best system for financing the economy, and that regulation should ensure safety and soundness and consumer protection without stifling innovation. The Roundtable is also committed to uniform national standards, a strong economy, and the active promotion of U.S.-based companies in the global economy.

The Roundtable's Blue Ribbon Commission on Enhancing Competitiveness was formed in response to several recent studies on the competitiveness of U.S. financial markets and firms, including the bipartisan Bloomberg-Schumer report. This Blueprint also builds upon two previous Roundtable studies: *Reconciliation of Regulatory Overlap for the Management and Supervision of Operational Risk in U.S. Financial Institutions* (May, 2005) and *The Compliance Function in Diversified Financial Institutions* (July, 2007). The Commission's mandate was to: (1) develop a set of guiding regulatory principles for more balanced, consistent and predictable regulation; (2) create a financial services reform agenda by applying those guiding principles to key legal and regulatory issues; and (3) propose enhancements for existing charters and new national chartering options to serve and protect consumers better. This Blueprint, and its over 60 general and specific recommendations, are the product of the Commission's deliberations.

The Roundtable is grateful to the members of the Commission and the many other individuals who lent their time, energy, and expertise to this project.

In particular, we owe deep gratitude to the Co-Chairmen of the Commission, Richard M. Kovacevich, the Chairman of Wells Fargo & Company, and James Dimon, the Chairman and Chief Executive Officer of JPMorgan Chase & Co. This Blueprint could not have been completed without their leadership.

The Blueprint also could not have been produced without the input provided by the 63 Commission members, who researched, considered, and discussed the issues in the Blueprint over the past several months. A complete list of the Commission members appears in Appendix C. Nor could the Blueprint have been possible without the subject matter experts who assisted in the preparation of the case studies.



The Roundtable is grateful for the outstanding guidance provided throughout this project by William A. Longbrake of Washington Mutual, Inc., who also is the Anthony T. Cluff Senior Policy Advisor to The Financial Services Roundtable. He also provided invaluable editorial assistance in drafting the Blueprint. The Roundtable staff and Connie Nelson in particular deserve our special thanks. Connie kept us organized, on schedule, and focused throughout the project.

The Roundtable also thanks Jim Sivon, a partner in the Washington, D.C. law firm of Barnett Sivon & Natter P.C., and Greg Wilson, President of Gregory P. Wilson Consulting, for serving as Co-Project Study Directors. They were responsible for drafting much of this Blueprint and incorporating the recommendations and insights of Commission members and subject matter experts. They performed these tasks in a professional and courteous manner.

Additionally, the following individuals provided expertise, and advice on various topics: Robert Barnett, Raymond Natter and Sujey Kallumadanda, Barnett Sivon & Natter, P.C.; Cheryl Evans, U.S. Chamber; Hal Scott, Harvard Law School; Ross Delston, GlobalAML.com; Adam Gilbert, JPMorgan Chase; John N Wright, Wells Fargo; Gary Parker, Washington Mutual; Tim Robison, The Bank of New York Mellon; Jeanne de Cervens, AEGON; Denise Ferguson, Ameriprise; Scott Rothstein, The New York Commission to Modernize the Regulation of Financial Services; and Bruce D. Wilson, Ernst & Young.

Finally, the Roundtable thanks the Cluff Fund and the member organizations of the Commission, which provided the financial support for this effort.

## EXECUTIVE SUMMARY



This Blueprint seeks to serve and protect American consumers with better regulation and enhanced competitiveness. The Blueprint is a call to action to the financial services industry, national and state legislators, regulators, and other policymakers. The Blueprint's recommendations are intended to serve and protect consumers, promote economic growth, job creation, and market stability through a combination of better regulation and the enhanced competitiveness of the financial services industry. Achieving a dynamic balance between enhanced competitiveness and better regulation will assure that both U.S. financial services firms and regulators adapt quickly to rapidly evolving domestic and global markets in a manner that promotes innovation, while simultaneously maintaining safety and soundness as well as financial system stability and security.

Better regulation can be achieved across U.S. financial markets by adopting Guiding Principles to govern existing and new regulations, improving regulatory oversight and coordination, and promoting more regular and open communication between firms and regulators through prudential supervision. Enhanced competition can be achieved by modernizing existing charters and creating new options for national charters to serve and protect consumers better in the future.

For decades, U.S. financial markets and financial firms have been the envy of the world. Our dynamic and innovative financial markets and financial firms have provided consumers, businesses, investors, governments, and other organizations with the means to invest, save, borrow, finance, and exchange funds. Likewise, our legal and regulatory system and regulators have played an important role in maintaining the stability and security of our financial system. This has helped the U.S. economy to grow and to produce record levels of employment. U.S. financial services firms directly account for 5 percent of all jobs nationwide and 8 percent of the U.S. gross domestic product (GDP).

However, with the accelerating expansion of global markets and competition, it appears that we may have reached a "tipping point," where the inability of our current legal and financial regulatory system to adapt to new global methods of regulation is putting the competitiveness of U.S. firms at risk. As demonstrated by recent events, it also appears to be increasingly less effective in adequately serving and protecting consumers of financial products as well as fully supporting the stability of financial markets.

Three major studies - the bipartisan report by New York Mayor Michael R. Bloomberg and New York Senator Charles E. Schumer (D-NY), the U.S. Chamber report, and the study by the Committee on Capital Markets - have concluded that the United States is losing its position as the world's leading financial marketplace.<sup>1</sup>

More recently, the liquidity crisis and ensuing credit crunch in several significant capital markets sectors has revealed weaknesses in the regulatory system. Many homeowners have been confronted with the prospect of foreclosure, and U.S. financial markets

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<sup>1</sup> Michael R. Bloomberg and Charles E. Schumer, *Sustaining New York's and the US' Global Financial Services Leadership*, January 2007 at [www.nyc.gov](http://www.nyc.gov); hereafter, Bloomberg-Schumer Report. See also Michael R. Bloomberg and Charles E. Schumer, "To Save New York, Learn from London," *Wall Street Journal*, November 1, 2006, p. A-18; Committee on Capital Markets Regulation, *Interim Report*, November 2006 at [www.capmktreg.org](http://www.capmktreg.org); hereafter, Interim Report; Commission on the Regulation of U.S. Capital Markets in the 21st Century (U.S. Chamber of Commerce), *Report and Recommendations*, March 2007 at [www.uschamber.com](http://www.uschamber.com); hereafter, U.S. Chamber Report.

have been roiled by problems that can be traced to aggressive practices by some firms, gaps between national and state regulation of the U.S. mortgage industry, and opaqueness in some structured financial instruments innovations. Many of these problems also have impacted the broader credit and capital markets, both domestically and globally.

These market and regulatory challenges are the result of both external and internal factors. External factors threatening the competitive position of U.S. financial firms and the stability of financial markets include the relentless growth in international financial services competition, rapidly expanding foreign financial markets, and foreign regulatory regimes purposefully designed to adjust quickly to market developments. These factors are beyond our control.

On the other hand, issues raised by our legal and regulatory system are within our control. While our system of financial regulation has served as a source of strength in the past, it is not flexible or adaptive enough to accommodate growing global competition, respond rapidly to innovative market developments, or fully meet the dynamic financial needs of all consumers. The recent events in the mortgage market are the latest example of the inability of our current regulatory system to respond rapidly to market developments and technology changes. Policymakers at all levels of government have recognized the direct links among the health and stability of U.S. financial markets, job creation, and economic growth. U.S. Treasury Secretary Henry M. Paulson, Jr., has made this point clear:

*Competitive capital markets are the lifeblood of the U.S. economy. They help entrepreneurs implement new ideas and businesses expand operations, creating new jobs. They give our citizens the confidence to invest, earn higher returns on their savings, and reduce the cost of borrowing.<sup>2</sup>*

The limitations of our existing legal and regulatory system also should be a concern to the multiple



national and state regulators who supervise financial markets and institutions doing business here and abroad, the thousands of executives who compete in the increasingly global financial marketplace, and – most importantly – the millions of consumers and companies who depend on competitive financial services to enhance their prosperity and make the conduct of their daily financial affairs more valuable, efficient, and convenient.

### **The Bloomberg-Schumer Report**

In their January 2007 report, *Sustaining New York's and the US' Global Financial Services Leadership*, Mayor Bloomberg and Senator Schumer found that our regulatory system, and the legal environment upon which the system is based, is stifling innovation and reducing the ability of financial services firms to serve consumers effectively and efficiently. Accordingly, the Bloomberg-Schumer report recommended the development of a national vision for the regulation of financial markets and financial services firms in the United States based upon a set of regulatory principles that could guide the future development of our financial marketplace:

*. . . (O)ur regulatory framework is a thicket of complicated rules, rather than a streamlined set of commonly understood principles, as is the case in the United Kingdom and elsewhere . . . The time has come . . . to undertake broader reforms, using a principles-based approach to eliminate duplication and inefficiencies in our regulatory system.<sup>3</sup>*

<sup>2</sup> Opening Remarks of the Honorable Henry M. Paulson, Jr., U.S. Secretary of the Treasury, Capital Markets Competitiveness Conference, Georgetown University, March 13, 2007; hereafter, Paulson, Georgetown University Speech.

<sup>3</sup> Bloomberg-Schumer Report, p. 2.

## Treasury Secretary Paulson's challenge

After the Bloomberg-Schumer report was issued, Treasury Secretary Paulson challenged all stakeholders to take a hard look at a more principles-based approach to financial regulation:

*... (W)e should also consider whether it would be practically possible and beneficial to move to a more principles-based regulatory system as we see working in other parts of the world.<sup>4</sup>*

Other key financial policymakers also are pursuing, or have expressed interest in, a more principles-based regulatory system. Today, the Commodity Futures Trading Commission (CFTC) exercises its statutory responsibilities based on 18 core principles enacted into law by the Commodity Futures Modernization Act of 2000. As Acting CFTC Chairman Walter Lukken has stated: “a principles-based oversight regime – compared to the traditional rules-based one – provides a more effective regulatory approach for financial services in this global technological age.”<sup>5</sup>

In February 2007, the President's Working Group on Financial Markets (PWG) adopted a principles-based approach to private pools of capital, including hedge funds, focusing on principles for investor protection and systemic risk.

More recently, the Chairman of the Federal Reserve Board, Ben S. Bernanke, also suggested that U.S. regulators look to the U.K.'s principles-based approach to regulation as a potential model for the United States: “We should strive to develop common, principles-based policy responses that can be applied consistently across the financial sector to meet clearly defined objectives.”<sup>6</sup>

## The Roundtable's response

To meet Secretary Paulson's challenge, and build upon the recommendations of the Bloomberg-Schumer report, the U.S. Chamber's report, and other recent studies, The Financial Services Roundtable established a Blue Ribbon Commission on Enhancing Financial Competitiveness, co-chaired by James Dimon, Chairman and Chief Executive Officer of JPMorgan Chase & Co., and Richard M. Kovacevich, Chairman of Wells Fargo & Company.<sup>7</sup>

The Roundtable is well positioned to take up Treasury Secretary Paulson's challenge and propose reforms for the regulation of our financial markets and financial institutions. In addition to two studies previously mentioned (on Regulatory Overlap and the Compliance Function), Roundtable member companies are active in all of the nation's major financial markets. Further, financial market competitiveness that serves consumers is a core belief of the Roundtable.<sup>8</sup>

## The Commission's mission was threefold:

1. *Financial regulatory principles.* Develop a set of Guiding Principles for financial regulation that delivers more balanced, consistent, and predictable outcomes for financial institutions, consumers, and other market participants.
2. *Regulatory case studies.* Create a reform agenda based upon applying the Guiding Principles to key regulatory issues that have an impact on consumers and the competitiveness of the financial services industry, including: prudential supervision; litigation reform;

<sup>4</sup> Paulson, Georgetown University Speech.

<sup>5</sup> Walter Lukken, “It's A Matter of Principles,” University of Houston's Global Energy Management Institute, January 25, 2007.

<sup>6</sup> Chairman Ben S. Bernanke, Board of Governors, Federal Reserve System, “Regulation and Financial Innovation,” remarks to the Federal Reserve Bank of Atlanta's 2007 Financial Markets Conference, May 15, 2005; hereafter, Bernanke, Regulation and Financial Innovation. See also “Bernanke calls for UK-style regulation,” Financial Times, May 16, 2007, p. 1.

<sup>7</sup> William A. Longbrake, Vice Chairman of Washington Mutual and senior policy advisor to the Roundtable, served as the Commission's project coordinator. James C. Sivon of Barnett, Sivon, & Natter, P.C., and Gregory P. Wilson, President of Gregory P. Wilson Consulting, served as project co-directors for the Commission.

<sup>8</sup> The Financial Services Roundtable (hereafter Roundtable) is a unique trade association limited to 100 of the nation's largest, integrated U.S. financial services firms. Roundtable members employ over 2.4 million people, have a market capitalization of \$2.7 trillion, and manage over \$65.8 trillion in financial assets. Among other things, the Roundtable's core beliefs include: “the competitive marketplace should largely govern the delivery of products and services, and regulation should provide safety and soundness, and consumer protection;” and “uniform national standards across state lines are critical for the efficient and effective delivery of products and services.”



consumer credit and opportunities for long-term financial security; anti-money laundering; risk-based capital regulation; insurance regulation; Sarbanes-Oxley Act (Section 404); and U.S. and international accounting standards.

3. *Modernized charter and structural options for serving consumers.* Identify alternative ways in which U.S. financial services charters, organizing structures, and state and federal regulatory regimes can be modernized and enhanced to meet the challenges of global competition and better serve consumers.

### *The Blueprint for U.S. Financial*

*Competitiveness* is the product of the Commission's deliberations. The Blueprint and its recommendations are a collective call for better, more effective regulation based upon guiding regulatory principles and greater prudential supervision across the entire financial services industry. Our proposed Guiding Principles would not replace rules; they would provide regulators and firms with a common framework to guide policies and practices. Similarly, prudential supervision is not a call for de-regulation; it is a call for a more constructive engagement between regulators and firms that allows issues to be addressed in a timely and effective manner before they become serious problems. This approach to regulation will benefit consumers both individually and collectively.<sup>9</sup>

The Commission recognizes that a key issue for policymakers and financial regulators is how to structure a regulatory system that balances important societal objectives, such as consumer and investor protection, market integrity, financial stability, and risk mitigation, with competitive markets and firms. In this regard, we fully support Treasury Secretary

Paulson's recent assessment that regulatory and competitive balance is a national imperative:

*When it comes to regulation, balance is the key. And striking the right balance requires us to consider the economic implications of our actions. Excessive regulation slows innovation, imposes needless costs on investors, and stifles competitiveness and job creation. At the same time, we should not engage in a regulatory race to the bottom, seeking to eliminate necessary safeguards for investors in a quest to reduce costs. The right regulatory balance should marry high standards of integrity and accountability with a strong foundation for innovation, growth, and competitiveness.<sup>10</sup>*

Regulatory reforms to enhance the competitiveness of U.S. financial markets and firms do not have to conflict with the broader public policy goals of financial system stability and security. To the contrary, ensuring the competitiveness of U.S. financial markets and firms complements the systemic objectives of financial regulators. For example, securities regulators today are required by law not only to promote orderly markets and investor protection, but also to consider "efficiency, competition, and capital formation". A landmark court ruling recently affirmed this statutory mandate for a more balanced approach to financial regulation of our markets.<sup>11</sup>

The Commission's ten regulatory policy reforms are intended to strike the appropriate balance between the competitiveness of financial services firms, consumer protection, and a strong, stable, and secure financial system. Our policy reforms are unique to financial services, but they are not exhaustive. Important national policy issues such as tax reform, immigration reform, open trade, data security, and

<sup>9</sup> For us, the term "consumers" captures not only all retail customers, but also small- and medium-sized businesses, larger national and international businesses, investors, issuers, governments, and others who rely upon financial services firms in the conduct of their business.

<sup>10</sup> Remarks by Treasury Secretary Henry M. Paulson, Jr., on the Competitiveness of U.S. Capital Markets at the Economic Club of New York, November 20, 2006; hereafter, Paulson, New York Economic Club Speech. See similar remarks by Mary L. Schapiro, Chairman and Chief Executive Officer, NASD, before the SIFMA Compliance & Legal Division's 38th Annual Seminar, March 26, 2007; and remarks by Timothy F. Geithner, President and Chief Executive Officer, Federal Reserve Bank of New York, on Principles to Guide the Future Evolution of Financial Supervision and Regulation, at the Bond Market Association's 2006 Annual Meeting, May 19, 2006.

<sup>11</sup> Chamber of Commerce v. Securities and Exchange Commission, 412 F.3d, pp. 133, 141 (D.C. Cir. 2005), Chamber v. SEC, April 2, 2006, slip opinion. See also Peter J. Wallison, "Landmark Ruling: Could the Court's Decision in Chamber v. SEC Be a Turning Point in Securities Regulation?" American Enterprise Institute for Public Policy Research, May 2006. Peter Wallison is the Arthur F. Burns Fellow in Financial Market Studies at the American Enterprise Institute (AEI) and a member of the Roundtable's Commission on Enhancing Competitiveness.

privacy also have implications for the U.S. economy, but are beyond the scope of this Blueprint.

## **THE COMMISSION'S POLICY REFORMS**

The Commission's ten policy reforms for serving consumers with better regulation and enhanced competitiveness are summarized below. A complete list of the Commission's detailed recommendations appears in Appendix A.

### ***Policy Reform I - Enact Principles-based Regulation.***

Congress should enact Guiding Principles for Financial Regulation and authorize the President's Working Group on Financial Markets to oversee the implementation of the Guiding Principles.

The Commission proposes that Guiding Principles be blended with and guide a body of rules to interpret the principles in a policy and legal context. Our principles-based approach to U.S. financial regulation envisions a set of fundamental principles standing ahead of, and guiding, the application and review of policies, laws, and rules affecting the activities and behaviors of both financial market participants and their regulators. The Guiding Principles recommended by the Commission are designed to be a unified and cohesive response to the needs of consumers, financial services firms, and regulators. At their core, the Commission's six Guiding Principles are intended to ensure that the regulation of financial services and markets is more balanced, consistent, and predictable and therefore achieves three fundamental objectives: 1) enhancing the competitiveness of firms to serve and protect consumers better; 2) promoting financial market stability and security; and 3) supporting sustained U.S. economic growth and job creation.

**Policy Reform I** has three parts: Guiding Principles; greater oversight by the President's Working Group on Financial Markets; and Regulatory Action Plans.

## **Guiding Principles**

First, the Commission recommends that Congress enact into law a set of overarching Guiding Principles for national and state financial regulators and firms. The Guiding Principles would not only enable regulators to focus on desired policy outcomes and material risks to markets, but also reduce the potential for consumers to fall through gaps between the national and state legal and regulatory systems. These Guiding Principles would not replace regulations. To the contrary, regulations will remain necessary, especially at the retail level for the protection of consumers. However, once enacted into law, the Guiding Principles would become a touchstone against which all existing and new national and state financial regulations would be evaluated in a policy and legal context. Regulations that are not consistent with these Guiding Principles would be identified, analyzed, and then revised or eliminated, with regulators recommending changes to existing national or state laws, if necessary to achieve the intent of the Guiding Principles. The Commission's Guiding Principles are highlighted below and discussed further in Chapter 2.

## **President's Working Group on Financial Markets**

Second, the Commission recommends that Congress codify and expand the current President's Working Group on Financial Markets (PWG) to ensure greater accountability and transparency across financial market regulatory agencies. The PWG would continue to be chaired by the Secretary of the Treasury and would be composed of appropriate national financial regulators and representatives of state financial regulators. The PWG would have a two-part statutory mandate. The first part of the PWG's mission would be to oversee the implementation of the Guiding Principles by individual national and state regulators to ensure better regulatory outcomes in the future. It would pursue this mission through its oversight of the Regulatory Action Plans discussed below.

Since we have a complex regulatory system composed of multiple, functional, and holding company



regulators at both the national and state levels, the United States is often slow to respond to changing market forces, international competition, and the dynamic needs of consumers. One of the primary tasks of the Secretary of the Treasury, as Chairman of the PWG, will be to ensure that the national and state financial regulators balance the competitive needs of our economy with financial stability and security. This would occur through an open and transparent rule-review process based on the Guiding Principles and through systematic monitoring of market developments. Therefore, the second part of the PWG's mission would be to serve as a forum for regulatory coordination.

Today, neither the current PWG nor the Federal Financial Institutions Examination Council (FFIEC) performs that role. No single agency spans all financial markets or is accountable across the entire financial sector of our economy, not even the U.S. Treasury Department. Over the past three decades, when specific events in the financial markets have impacted the U.S. economy, both the Congress and the Administration have empowered the Secretary of the Treasury to assume a leadership role in convening and overseeing various aspects of financial

regulation.<sup>12</sup> Based upon these precedents, we propose that the Secretary of the Treasury continue to preside over the enhanced PWG. The Secretary's role would be limited to the oversight of financial regulation and general coordination; the Secretary would have no role in supervision of any particular institution by a national or state financial regulatory authority or other aspects of an individual regulator's statutory mandate (e.g., prudential supervision by all agencies, monetary policy of the Federal Reserve).

The recent market volatility here at home and around the world underscores the urgent and critical need for better regulation and more effective coordination. It also highlights the growing imperative to better manage the complex structural and regulatory issues that challenge all of us – regulators and firms alike. Better coordination among all federal and state agencies based on fundamental principles, more balanced regulation and prudential supervision, should enable financial services firms and regulators to see issues sooner, understand complicated inter-market workings better, and resolve problems faster. While we may not have been able to avoid all of the fallout from the recent market volatility, the PWG would have been the point of first response for a more focused, accountable, and coordinated approach to market issues across all segments of the financial services industry.

### **Regulatory Action Plans**

Third, under the oversight of the PWG, each financial regulator would be required to develop its own Regulatory Action Plan to implement the Guiding Principles. We would expect that all national and state financial regulatory agencies would design a multi-year plan to conduct a comprehensive and balanced review of all regulations that affect the ability of financial services firms to compete and serve consumers' financial needs. Our goal is that this individual agency review process would lead to better regulation - regulations that are consistent with their

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<sup>12</sup> For example, the Secretary of the Treasury played a leading coordinating role for the deregulation of interest rates in the 1980's as the head of the Depository Institutions Deregulation Committee (DIDC), the resolution of failed assets during the savings and loan crisis as head of the Resolution Trust Corporation Oversight Board, and the response to the stock market crash of 1987 as head of the President's Working Group on Financial Markets, which still exists today.

policy objectives and desired regulatory outcomes. Good regulations should be proportionate, risk-based, cost-effective, and consistent with the Guiding Principles. The PWG would serve as the U.S. Government's review panel to monitor and measure the progress of each agency in implementing the Guiding Principles.

To ensure accountability and transparency, the PWG would report annually to the Congress and the President on its activities and progress in implementing the Guiding Principles through the Regulatory Action Plan. It is not our desire to have the PWG intrude on the mission of individual regulators or become an impediment to other needed regulatory reforms. To the contrary, because we do not have one single financial regulator, we expect the PWG to provide greater focus, accountability, and transparency to regulatory issues that cut across the financial services industry and affect broader national policy objectives.

The Commission recommends, therefore, that Congress and the Administration work together to enact into law the following Guiding Principles for financial regulation:

## **Guiding Principles for U.S. Financial Regulation**

*Preamble. These Guiding Principles are intended to ensure that the regulation of financial services and markets is more balanced, consistent, and predictable for consumers and firms, and therefore achieves three fundamental objectives: 1) enhancing the competitiveness of firms to serve and protect consumers better; 2) promoting financial market stability and security; and 3) supporting sustained U.S. economic growth and job creation. Consumers' needs include those of retail customers, small- and medium-sized businesses, larger national and international businesses, investors, issuers, governments, and others who rely upon financial services firms in the conduct of their business. These Guiding Principles should guide the supervisory and regulatory policies and practices of national and state financial regulatory authorities as well as the policies and practices of financial services firms, and they should be enforced by the firm's primary regulator. They are not*

*intended as a complete substitute for rules, but should guide both the development of new rules and the review of existing rules.*

1. *Fair treatment for consumers (customers, investors, and issuers).* Consumers should be treated fairly and, at a minimum, should have access to competitive pricing; fair, full, and easily understood disclosure of key terms and conditions; privacy; secure and efficient delivery of products and services; timely resolution of disputes; and appropriate guidance.
2. *Competitive and innovative financial markets.* Financial regulation should promote open, competitive, and innovative financial markets domestically and internationally. Financial regulation also must support the integrity, stability, and security of financial markets.
3. *Proportionate, risk-based regulation.* The costs and burdens of financial regulation, which ultimately are borne by consumers, should be proportionate to the benefits to consumers. Financial regulation also should be risk-based, aimed primarily at the material risks for firms and consumers.
4. *Prudential supervision and enforcement.* Prudential guidance, examination, supervision, and enforcement should be based upon a constructive and cooperative dialogue between regulators and the management of financial services firms that promotes the establishment of best practices that benefit all consumers.
5. *Options for serving consumers.* Providers of financial services should have a wide choice of charters and organizational options for serving consumers, including the option to select a single national charter and a single national regulator. Uniform national standards should apply to each charter.



6. *Management responsibilities.* Management should have policies and effective practices in place to enable a financial services firm to operate successfully and maintain the trust of consumers. These responsibilities include adequate financial resources, skilled personnel, ethical conduct, effective risk management, adequate infrastructure, complete and cooperative supervisory compliance as well as respect for basic tenets of safety, soundness, and financial stability, and appropriate conflict of interest management.

### ***Policy Reform II*** – Apply prudential supervision to all financial services firms.

The Commission recommends that all financial services regulators, including self-regulatory organizations, adopt and apply a system of prudential supervision. A system of prudential supervision encourages constructive engagement between regulated firms and their regulators, thereby permitting firms and regulators to address and correct issues in a timely and effective manner.

### ***Policy Reform III*** – Reform securities and other class-action litigation.

Our existing regulatory system is a reflection of our existing legal system. If we are to improve financial regulation and move toward a system of prudential supervision, then we must address securities and other class action litigation. The Commission recommends a series of litigation reforms essential to complement a principles-based approach to regulation and prudential supervision.

### ***Policy Reform IV*** – Improve consumers’ access to credit and opportunities for long-term financial security.

The Commission recommends that Congress, the Administration, financial regulators, and the industry take actions to meet the credit and long-term financial security needs of consumers. Such

actions should include enhanced financial education programs in school curricula, more meaningful and simpler disclosure requirements, uniform national consumer protection laws, alternative mechanisms for resolving consumer disputes, and the creation of a centralized portal for filing consumer complaints. Consumer lending has become a vital part of the U.S. financial services industry and an engine for the entire economy. Our proposed reforms will enhance prudent consumer lending in the future.

### ***Policy Reform V*** – Make anti-money laundering supervision more effective.

The Commission recommends that Congress and the Administration take statutory and administrative actions to make anti-money laundering supervision more effective through prudential, proportionate, and risk-based supervision. The financial services industry performs an important role in the fight against money laundering and terrorist financing. These crimes pose serious threats to the well-being of our society, and we seek to fulfill our obligations fully and faithfully. However, to do so, regulations need to be focused properly and resources need to be applied effectively.

### ***Policy Reform VI*** – Expand the risk-based focus of capital regulation.

The Commission recommends that U.S. and international financial regulators build upon the Basel II Capital Accord, and apply a risk-based focus to capital regulation for all financial services firms. One of the underlying purposes of Basel II is to enhance the risk focus of capital regulation. We believe this approach to capital regulation should be extended to all financial services firms, including Solvency II for insurance companies.

### ***Policy Reform VII*** – Ensure the effective implementation of Sarbanes-Oxley Act (Section 404) regulatory reforms.

The Commission recommends that the Securities and Exchange Commission (SEC), the Public Companies

Accounting Oversight Board (PCAOB), and the financial services industry take actions to ensure the prompt implementation of recent administrative reforms to Section 404 of the Sarbanes-Oxley Act. The SEC and PCAOB have taken several initiatives to reform the Section 404 process, including risk-based principles, which we applaud. We offer several recommendations to ensure that these reforms achieve their intended purposes and are implemented effectively with appropriate oversight to monitor and measure the benefits of the new reforms.

### ***Policy Reform VIII*** – Accelerate U.S. accounting standards modernization.

The Commission recommends that the SEC, the Treasury, and the industry continue to improve financial reporting standards. The Commission endorses the full use of International Financial Reporting Standards (IFRS) without reconciliation to U.S. generally accepted accounting principles (GAAP) as soon as possible, and the accelerated convergence of global accounting standards. High-quality financial reporting, comprehensive standards, and effective audits are critical components of vibrant financial markets.

### ***Policy Reform IX*** – Modernize existing charters.

The Commission recommends that Congress and the Administration adopt statutory and administrative changes to enhance the powers, authority, and flexibility of national and state banks, federal and state savings associations, and financial holding companies to better serve consumers in the future. Consistent with our proposed principles for financial regulation, the managers of U.S. financial institutions should have a choice of the most modern, competitive, and productive charters and legal structures possible. Modernizing charters and legal structures allows firms to innovate and serve consumers more effectively and efficiently in their local markets as well as in the global financial marketplace.

### ***Policy Reform X*** – Enact new national charter options.

The Commission recommends that Congress and the Administration authorize three new national charter options for financial services firms: an optional national insurance charter, an optional national securities charter, and an optional universal financial services charter.

During the past 20 years, various proposals have been made to reform the existing regulatory system by merging regulatory bodies. None of those proposals has been successful. Accordingly, we have taken a different approach to regulatory reform. Rather than eliminate agencies, we recommend the creation of new charters and, where appropriate, new national regulators. These new national charter options would put U.S. financial services firms on a more equal competitive footing with their international competitors that operate globally with a single license supervised by a single prudential home regulator. More effective coordination of multiple regulators can be accomplished through an enhanced PWG.

## **MOVING FORWARD NOW**

As demonstrated in this Blueprint and earlier studies, factors such as the fundamental complexity of our regulatory system, potential legal exposure, delays in serving consumers with innovative products and services, and rising legal and regulatory costs are having a direct impact on the ability of U.S.-based firms to compete and serve consumers domestically and globally and on the stability of U.S. financial markets. It is critical to move expeditiously to address these problems by reforming financial regulation to assure better regulation and enhancing the competitiveness of U.S. financial markets so they may better serve all kinds of consumers, create new jobs, and finance a growing U.S. economy.

The Commission anticipates that implementation of its recommendations will require a long-term commitment of effort and resources. The Commission's recommendations are ambitious but

necessary if the U.S. financial system is to remain healthy, stable, and competitive. Moreover, recent market events have demonstrated the current shortcomings of our financial regulatory system, notwithstanding the efforts of individual regulators to address immediate problems in the segment of the financial system for which they are responsible.

Reforming the regulation of our markets and firms will not only help to meet the financial needs of all consumers, but also help the health of our economy as well. We hope that our recommendations will be the starting point for bipartisan discussions by policymakers and the broader financial services industry. Those discussions need to start now and should be open to everyone.



## STRUCTURE OF THE COMMISSION'S BLUEPRINT

*Chapter 1, “Rules or Principles: Two Approaches to Financial Regulation,”* describes the two competing approaches to financial regulation – rules-based regulation that predominates in the United States and a more principles-based regulation approach such as the one evolving in the United

Kingdom. Chapter 1 also discusses the strengths and weaknesses of these two approaches to regulation.

*Chapter 2, “Guiding Principles to Enhance U.S. Financial Regulation and Competitiveness,”* proposes six Guiding Principles designed to improve financial regulation and provide greater direction and consistency to the regulation of U.S. financial markets and firms. It also supports the enhancement of the PWG to oversee the implementation of these principles through individual Regulatory Action Plans and to better coordinate national and state regulatory policy across the financial services industry.

*Chapter 3, “Eight Case Studies Applying the Guiding Principles to Enhance Regulation and Competitiveness,”* presents eight case studies on financial services competitiveness, and makes a series of specific recommendations for both regulatory and legislative actions to enhance the U.S. competitive position for serving and protecting consumers better.

*Chapter 4, “Enhancing Charters and Creating New Options for Serving and Protecting Consumers,”* examines the current U.S. regulatory system and its development over time. We propose initiatives to modernize current charters and create three new options for enhanced national charters for serving and protecting consumers domestically and internationally.

*Chapter 5, “An Action Plan for Serving and Protecting Consumers Better in the Future,”* is a final call to action for policymakers, regulators, and the financial services industry to adopt reforms now for better regulation and enhanced competitiveness in the future.

# OVERVIEW OF POLICY REFORMS AND RECOMMENDATIONS

*This appendix lists the 10 policy reforms and 68 recommendations contained in The Blueprint for U.S. Financial Competitiveness.*

## POLICY REFORMS AND RECOMMENDATIONS

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## POLICY REFORM I. PRINCIPLES-BASED REGULATION.



Congress and the Administration should enact principles-based financial regulation. Specifically:

### ***Recommendation 1. Principles.***

Congress and the Administration, with input from the private sector, should enact the following Guiding Principles into law by 2008.

### **Proposed Guiding Principles for U.S. Financial Regulation**

*Preamble. These Guiding Principles are intended to ensure that the regulation of financial services and markets is more balanced, consistent, and predictable for consumers and firms, and therefore achieves three fundamental objectives: 1) enhancing the competitiveness of firms to serve and protect consumers better; 2) promoting financial market stability and security; and 3) supporting sustained U.S. economic growth and job creation. Consumers' needs include those of retail customers, small- and medium-sized businesses, larger national and international businesses, investors, issuers, governments, and others who rely upon financial services firms in the conduct of their business. These Guiding Principles should guide the supervisory and regulatory policies and practices of financial regulatory authorities as well as the policies and*

*practices of financial services firms, and they should be enforced by the firm's primary regulator. They are not intended as a complete substitute for rules, but should guide both the development of new rules and the review of existing rules.*

- 1. Fair treatment for consumers (customers, investors, and issuers).** Consumers should be treated fairly and, at a minimum, should have access to competitive pricing; fair, full, and easily understood disclosure of key terms and conditions; privacy; secure and efficient delivery of products and services; timely resolution of disputes; and appropriate guidance.
- 2. Competitive and innovative financial markets.** Financial regulation should promote open, competitive, and innovative financial markets domestically and internationally. Financial regulation also must support the integrity, stability, and security of financial markets.
- 3. Proportionate, risk-based regulation.** The costs and burdens of financial regulation, which ultimately are borne by consumers, should be proportionate to the benefits to consumers. Financial regulation also should be risk-based, aimed primarily at the material risks for firms and their consumers.
- 4. Prudential supervision and enforcement.** Prudential guidance, examination, supervision, and enforcement should be based upon a constructive and cooperative dialogue between regulators and the management of financial services firms that promotes the establishment of best practices that benefit all consumers.
- 5. Options for serving consumers.** Providers of financial services should have a wide choice of charters and organizational options for serving consumers, including the option to select a single national charter and a single national regulator. Uniform national standards should apply to each charter.

**6. Management responsibilities.** Management should have policies and effective practices in place to enable a financial services firm to operate successfully and maintain the trust of consumers. These responsibilities include adequate financial resources, skilled personnel, ethical conduct, effective risk management, adequate infrastructure, complete and cooperative supervisory compliance as well as respect for basic tenets of safety and soundness and financial stability, and appropriate conflict of interest management.

### ***Recommendation 2. President's Working Group on Financial Markets.***

Congress should codify the President's Working Group on Financial Markets, under the Chairmanship of the Secretary of the Treasury, with the following three responsibilities: 1) oversee implementation of the Guiding Principles; 2) manage the oversight of the Regulatory Action Plans in Recommendation 1.C. for existing and new regulations; and 3) provide greater coordination on policy issues across financial markets, including collaboration during times of market volatility and financial crises. The President's Working Group should include regulatory representation across the financial services industry, including representatives of state financial regulatory agencies, as appropriate.

***Recommendation 3. Regulatory Action Plans.*** The President's Working Group on Financial Markets, with input from the private sector, should oversee individual agencies Regulatory Action Plans to revise and align existing and

proposed regulations are consistent with the Guiding Principles. The President's Working Group should report at least annually to Congress and the President on the progress consistent with its responsibilities.



### **POLICY REFORM II. PRUDENTIAL SUPERVISION.**

Congress should enact laws to apply prudential supervision to all sectors of the financial services industry. Regulators and regulated entities should maintain a constructive engagement and open dialogue to ensure compliance with all applicable laws and rules. Prudential supervision should rely on regular communication between firms and regulators to discuss and address issues of mutual concern as soon as

possible. Prudential supervision also should encourage regulated entities to bring matters of concern promptly to the attention of regulators. Rather than respond to matters of concern with immediate enforcement actions, prudential supervision contemplates the regulator working with firms to correct practices, to address impacts of practices on consumers, and inform other firms of best practices developed from the process. Prudential supervision, however, should not be a means to avoid immediate enforcement in the case of serious abuse or fraud. Specifically:

***Recommendation 4. Mitigating factors.***

Financial regulators should be required by federal law to consider mitigating factors when initiating enforcement decisions under a system of prudential supervision.

***Recommendation 5. Continuum of prompt corrective actions.*** Congress should require financial regulators to pursue prompt corrective actions based upon a continuum of requirements, which begins with regulatory identification of an infraction and the opportunity for the institution to bring itself into compliance promptly through voluntary actions, and eventually graduates to public cease-and-desist orders and civil money penalties.

***Recommendation 6. Field examiners.***

The SEC and state insurance regulators should train and utilize their field

examination forces consistent with Principle 4 (Prudential supervision and enforcement).

***Recommendation 7. SEC communication and coordination.***

Building on the progress the SEC has made on prudential supervision for the nation's largest securities firms, the SEC should establish better lines of communication and coordination between the Office of Compliance, Inspections and Examinations (OCIE), and its nonenforcement divisions. Moreover, OCIE should be subject to greater oversight by the Commissioners to ensure that its investigations are resolved in a timely fashion consistent with the principle of prudential supervision and with a better balance between its responsibilities, including its mandate on competitive markets and capital formation.

***Recommendation 8. Attorney-client waivers.*** Congress should enact the Attorney-Client Privilege Protection Act to reverse government policies requiring companies to waive their attorney-client privilege to be deemed cooperative in a government investigation or prosecution. However, after enactment of this legislation and consistent with a system of prudential supervision, Congress should establish a limited waiver for attorney-client privilege and work product protections for materials provided by the

regulated firms to the SEC and insurance regulators.

***Recommendation 9. Fair Notice.***

Before authorizing an enforcement action, financial regulators should be required to find that an institution had “fair notice” of the requirement upon which the action is based.

**POLICY REFORM III. LITIGATION REFORM.**

***Recommendation 10. SEC shareholder review litigation process.***

Congress should establish a shareholder litigation review process under which shareholders present potential Section 10b-5 cases to the SEC prior to filing. Such cases would not be filed and would have no standing if the SEC determines to pursue an investigation and review of the matter.

***Recommendation 11. Joint and several liability.*** Congress should limit joint and several liability in securities litigation cases to the most egregious cases.

***Recommendation 12. Removal.***

Congress should expand the removal authority in the Class Action Fairness Act to facilitate the removal of cases from state to federal court when national matters are at issue.

***Recommendation 13. Interlocutory appeals.*** Congress should amend the PSLRA to permit interlocutory appeals

of dispositive motions (e.g., motions to dismiss and summary judgments).

***Recommendation 14. Loss causation.***

Congress should amend the PSLRA to require that loss causation be pleaded with particularity.

***Recommendation 15. Discovery stays.***

Congress should amend the PSLRA to eliminate gaps in discovery stay.

***Recommendation 16. Pay-to-play.***

Congress should amend the PSLRA to eliminate “pay-to-play.”

***Recommendation 17. Aggregation.***

Congress should amend the PSLRA to bar aggregation of plaintiffs for purpose of determining the lead plaintiff.

***Recommendation 18. Refunds.***

Congress should amend the PSLRA to require refunds of uncollected amounts of settlement funds, thus allowing each class member to take only his or her pro rata share of the settlement.

***Recommendation 19. Coordination.***

Congress should amend the PSLRA to better coordinate SEC Fair Funds and litigation distributions.

***Recommendation 20. Lead counsel.***

Congress should amend the PSLRA to authorize auctions for lead counsel.



***Recommendation 21. Certifications.***

Congress should amend the PSLRA to require certifications by lead plaintiffs.

***Recommendation 22. Arbitration.***

Congress should preserve the current securities industry arbitration system.

***Recommendation 23. Appellate review.***

Congress should amend SLUSA to permit appellate review of remand orders.

***Recommendation 24. Discovery stay.***

Congress should amend SLUSA to fix holes in discovery stay.



***Recommendation 25. Spin-off cases.***

Congress should amend SLUSA to preclude “spin-off” cases by institutional investors (or require that they be stayed until the resolution of federal class-actions).

***Recommendation 26. Interlocutory appeals.***

Congress should permit interlocutory appeals in all consumer class-action cases, consistent with the

rationale set forth in Recommendation 13 above.

***Recommendation 27. Settlement.***

The Advisory Committee on Civil Rules of the Federal Judicial Conference should endorse the appointment of special masters or interim class counsels to facilitate early settlements in consumer class-action cases.

***Recommendation 28. Shared costs.***

Congress should amend the Federal Rules of Civil Procedure to require that costs of discovery be shared by the parties.

***Recommendation 29. Deference to regulatory determinations.***

Congress should require trial judges in class-actions case to give appropriate deference to regulatory determinations.

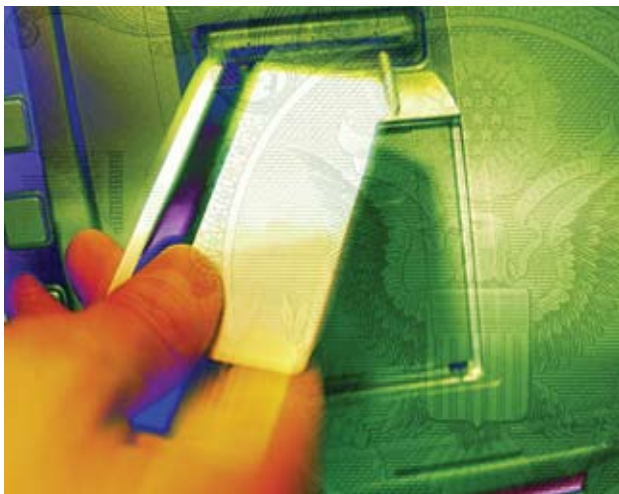
**POLICY REFORM IV. CONSUMER CREDIT AND FINANCIAL SECURITY.**

Financial services opportunities for all consumers should be enhanced through a combination of policy, regulatory, and industry initiatives. Specifically:

***Recommendation 30. National financial literacy plan.***

National and state educational authorities, working in conjunction with financial regulators and the financial services industry, should develop a national financial literacy program that includes the incorporation of financial literacy training in school

curricula. Such a program should address not only the use of credit, but also long-term retirement savings and financial security.



***Recommendation 31. Alternative dispute resolution mechanism.***

Congress, with input from the financial services industry and its consumers, should create alternative dispute resolution mechanisms for consumer disputes.

***Recommendation 32. Model disclosure forms.*** Congress should authorize the federal financial regulators to develop simplified model disclosure forms for consumer lending and other financial activities based upon extensive consumer testing and interaction with the financial services industry, and shield firms from class-action lawsuits when they follow the forms in good faith. To be most effective, disclosures should be provided at the beginning of a transaction, not the end. Moreover, Congress also should resist mandating specific disclosure terms, type,

size, or other details in favor of a more general principles-based approach to consumer disclosure.

***Recommendation 33. Uniform application.*** Congress should ensure that national consumer protection laws are applied uniformly throughout the United States.

***Recommendation 34. Consumer compliant portal.*** Federal and state financial regulators should establish a uniform consumer complaint form and single point of contact for consumer complaints related to financial products and services.

**POLICY REFORM V. ANTI-MONEY LAUNDERING.**

Policymakers and regulators should make anti-money laundering supervision more proportionate, risk-based, and prudential.

***Recommendation 35. New guidelines for examinations.*** The Director of FinCEN and the heads of financial regulatory agencies should adopt a revised approach to examinations – throughout all levels of their agencies – that is based upon the following factors:

- Consistency – The agencies should continue to strive toward consistency in examination approaches and interpretation of anti-money laundering laws and regulations
- Context – Examination findings should be placed in the context of an institution's overall

risk-based program and profile

- Collaboration – Examiners and management should share information to find more effective ways to detect significant risks
- Coordination – Examinations should be coordinated among regulators to eliminate supervisory or regulatory duplication.

**Recommendation 36. Information sharing.** Regulators and law enforcement agencies should enhance confidential information sharing between governmental authorities and financial institutions to prevent money-laundering.

**Recommendation 37. Security clearance.** Regulators and law enforcement agencies should provide appropriate security clearances to select financial institution personnel, beginning with money center banks.

**Recommendation 38. Selective information sharing.** Regulators and law enforcement agencies should promote more selective information and targeted sharing based on financial and other intelligence.

**Recommendation 39. Greater use of Section 314(a) process.** Regulators and law enforcement agencies should reduce the burden of conducting unfocused information searches for most financial institutions by making greater use of the Section 314(a) process.

**Recommendation 40. Regular meetings.** Regulators and law enforcement agencies should organize periodic meetings between industry and regional SAR review teams in local US attorneys' offices to discuss trends, and patterns of activities, and share examples of effective SAR filings.

**Recommendation 41. Customer due diligence.** The current guidance and direction by regulatory authorities for financial institutions to collect and document "usual and expected" activity should be reviewed to determine if it should be subject to public comment.

**Recommendation 42. Training of examiners.** Treasury and the financial regulators should develop a training program designed to give both compliance staff and examiners a better understanding of the operations and business of financial institutions.

**Recommendation 43. CTR filings.** Regulators should reform the CTR filing process to reduce the compliance burden associated with this filing requirement, while preserving the goals of anti-money laundering enforcement. Specifically:

**Recommendation 44. SAR filings.** Regulators should substitute SAR filings for the CTR report and Form 8300 (cash equivalent reports) on multiple transactions under \$10,000.



**Recommendation 45. GAO study.**

Regulators and the GAO should meet with representatives of the financial services industry prior to the release of the GAO's report on CTRs to discuss the GAO's pending recommendations.

**Recommendation 46. Title 31 enforcement.**

To encourage the use of CTR exemptions, the Title 31 enforcement doctrine for CTR exemption violations should be evaluated by law enforcement agencies and financial regulators.

**Recommendation 47. Guidance.** Law enforcement agencies and regulators should provide guidance to the industry on stored value cards and domestic political persons.

**Recommendation 48. Outcomes-based SARs.** FinCEN, in conjunction with feedback from the industry, should develop outcomes-based SARs.

**Recommendation 49. Affiliates SAR sharing.** Regulators should allow the sharing of SARs with affiliates.

**Recommendation 50. Standardized training.** Regulators should develop a standardized training program for agents and brokers. Insurance companies should be given a safe harbor for compliance when they use agents or brokers who have successfully passed such a training program.

**Recommendation 51. International compliance guidance.** U.S. regulators should provide financial services firms with guidance on compliance with privacy and anti-money laundering requirements imposed by other countries that conflict with U.S. requirements.

**POLICY REFORM VI. RISK-BASED CAPITAL REGULATION.**

The U.S. and international financial regulators should build upon the approach taken in the Basel II Capital Accord and apply a consistent risk-based focus to capital regulation for all financial services firms. More specifically:

**Recommendation 52. Competitiveness.**

As U.S. financial regulators implement the new Basel II Capital Accord, they should adhere to Principle 2 (open and competitive markets), to ensure that the Accord does not place either smaller U.S. banks at a competitive disadvantage to larger banks or larger U.S. banks at a competitive disadvantage to their foreign competitors. To meet this objective, regulators should implement the



international standardized approach as an option for non mandatory banks.

**Recommendation 53. Capital components.** U.S. financial regulators should review all components of capital, with the active participation of the financial services industry, to make sure they are fully aligned internationally. The regulators should report their findings publicly.

**Recommendation 54. Leverage ratio.** The U.S. financial regulators should undertake a review of the continued role of the leverage ratio within the Basel II framework in the context of international competitiveness. The regulators should report their findings publicly.

**Recommendation 55. Comparable capital rules.** The U.S. and international financial regulators should harmonize capital requirements across industry lines. Moreover, the Secretary of the Treasury, in the absence of a national insurance regulator, should begin a dialogue with U.S. insurers and the NAIC on the Solvency II process to ensure that the requirements for U.S. and E.U. firms are comparable.

#### **POLICY REFORM VII. SOX 404 IMPLEMENTATION.**

Policymakers, regulators, and the financial services industry should monitor the

implementation of recent regulatory initiatives to enhance the implementation of Sarbanes-Oxley Section 404 and, based on the results of this monitoring, take appropriate actions as necessary. Specifically:

**Recommendation 56. Methodology.** Both the regulatory agencies and the industry should establish a methodology for monitoring and measuring the impact of recent initiatives to enhance the implementation of Sarbanes-Oxley Section 404. Specifically, they should jointly establish benchmark levels for the time and cost involved in Section 404 compliance, (e.g., the number and type of process and entity-level controls examined, and the number of deficiencies identified). Public companies, the regulatory agencies, and the accounting industry should compare the actual implementation burden with the benchmarks and if the benchmarks are exceeded, further study and modification should be undertaken.

**Recommendation 57. SEC supervision of the PCAOB.** The SEC should take a more active supervisory role with the PCAOB to ensure the PCAOB takes a more balanced role in executing its responsibilities and in the furtherance of the SEC's mandate for competitiveness, efficiency, and capital formation.



**Recommendation 58. Roundtable survey.** The Financial Services Roundtable should take a leading role in monitoring the implementation of the new SEC and PCAOB Section 404 guidance.

**Recommendation 59. PCAOB industry participation.** The PCAOB should be expanded to include a representative of the public reporting companies.

**Recommendation 60. Periodic public reporting.** The PCAOB should be required to make both annual and quarterly public reports. These reports should include information on the Board's proposed regulatory agenda, the status of the implementation of PCAOB policies, the existence of identified problem areas and explanation of the cause of these

problems, and a summary of significant comments raised to the PCAOB by the public, public reporting companies, or the accounting industry.

#### **POLICY REFORM VIII. MODERN ACCOUNTING STANDARDS.**

Accelerate needed reforms in U.S. accounting and reporting standards to improve comparability and efficiency of financial reporting across global markets. Policymakers, regulators, and public companies including financial services firms should continue to advocate improving U.S. accounting standards. Specifically:

**Recommendation 61. Current initiatives.** Policymakers, regulators, and public companies including financial services firms should support current policy efforts by the Treasury Department, the SEC, FASB and the IASB to improve financial reporting and accounting.

**Recommendation 62. IFRS.** Policymakers and regulators should permit the full use of IFRS now without reconciliation to GAAP. Both the Roundtable and individual member companies should participate in the current public comment period and any future considerations.

**Recommendation 63. Convergence.** Policymakers and regulators, with support

from public companies including financial services firms, should accelerate the convergence of IFRS and U.S. GAAP.

***Recommendation 64. Transition.***

Policymakers and the regulators should allow an appropriate transition period to educate issuers, investors, accountants, and others on IFRS.



**POLICY REFORM IX. MODERNIZE EXISTING CHARTERS.**

***Recommendation 65. Existing Depository Institution Charters.*** The financial regulators and Congress should modernize national and state banking and thrift charters by removing outdated or redundant requirements that inhibit the ability of firms to innovate and serve their consumers more effectively and efficiently in their local markets as well as the global financial marketplace. For example, Congress should eliminate outdated restrictions on the interstate

and intrastate operations of banks and thrifts. Banks and thrifts should be able to use different organization forms as they evolve. Congress also should review and amend the Bank Holding Company Act and the International Banking Act to enhance the competitiveness of financial holding companies and internationally active financial services firms.

**POLICY REFORM X. NEW NATIONAL CHARTER OPTIONS.**

Congress should authorize three new optional national charters that permit financial services firms to serve and protect consumers better both domestically and internationally, and which permits individual firms to be subject to regulation, supervision, and enforcement by a single national authority.

***Recommendation 66. Optional national insurance charter.*** Congress should provide for the optional chartering, regulation, supervision and enforcement of national insurers, agencies, and individual insurance producers by a bureau of the Treasury Department. Nationally-chartered insurance firms, agencies and producers would be permitted to operate in any state with full competitive pricing, subject to one license and one set of prudential and market conduct rules.



**Recommendation 67. Optional national securities charter.** Congress should provide for the optional chartering, regulation, supervision and enforcement of national securities firms and individual brokers by a single national authority, such as the SEC, FINRA, or some new agency. Nationally-chartered securities firms and brokers should be permitted to operate in any state, subject to one license and one set of prudential and market conduct rules.

**Recommendation 68. Optional universal financial services charter.** Congress should create a new, optional

universal financial services charter that would permit a financial services firm to engage in financial activities under the regulation, supervision, and enforcement by a single national authority, which could be the Office of the Comptroller of the Currency, the Federal Reserve Board, or some new agency. For purposes of this charter, “financial activities” are activities that are financial in nature, incidental or complementary thereto, but are not commercial activities.



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**Mr. Thomas J. McInerney**

Chairman and Chief Executive Officer  
ING Insurance Americas

**Mr. Henry L. Meyer III**

Chairman, President and Chief Executive Officer  
KeyCorp

**Mr. David R. Nissen**

President and Chief Executive Officer  
GE Consumer Finance  
GE Money

**Mr. William A. Osborn**

Chairman and Chief Executive Officer  
Northern Trust Corporation

**Mr. Aubrey B. Patterson Jr.**

Chairman and Chief Executive Officer  
BancorpSouth, Inc.

**Mr. Thomas A. Renyi**

Executive Chairman  
The Bank of New York Mellon Corporation

**Ms. Lisa A. Rickard**

President  
US Chamber Institute for Legal Reform

**Mr. Edward B. Rust Jr.**

Chairman and Chief Executive Officer  
State Farm Insurance Companies

**Mr. Arthur F. Ryan**

Chairman, President and Chief Executive Officer  
Prudential Financial Inc.

**Mr. Michael Ryan**

Senior Vice President and Executive Director  
Center for Capital Markets Competitiveness

**Mr. Donald J. Shepard**

Chairman of the Executive Board and Chief  
Executive Officer of AEGON N.V.  
AEGON USA, Inc.

**Mr. James C. Smith**

Chairman and Chief Executive Officer  
Webster Bank, N.A.

**Mr. G. Kennedy Thompson**

Chairman, President and Chief Executive Officer  
Wachovia Corporation

**Mr. Peter J. Wallison**

Arthur F. Burns Fellow in Financial Market Securities  
American Enterprise Institute

**Mr. William L. Walton**

Chairman and Chief Executive Officer  
Allied Capital

**Mr. Thomas R. Watjen**

President and Chief Executive Officer  
Unum Group

**Mr. James M. Wells III**

President and Chief Executive Officer  
SunTrust Banks, Inc.

**Mr. Robert G. Wilmers**

Chairman, President and Chief Executive Officer  
M&T Bank Corporation

**Mr. Robert Wolf**

Chairman and Chief Executive Officer, UBS Group  
Americas  
UBS



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1001 Pennsylvania Ave., NW, Suite 500 South  
Telephone: 202.289.4322 | Fax: 202.628.2507  
Website: [www.fsround.org](http://www.fsround.org)

THE FINANCIAL SERVICES ROUNDTABLE 