



**Financial Crisis Inquiry Commission**  
**Agenda Item 8 for Telephonic Business Meeting of June 15, 2010**  
**Draft Outline and Process for Review and Approval of the Report**

*Outline for*  
*Final Report of the*  
**Financial Crisis Inquiry Commission**  
*June 14, 2010*  
For Discussion Purposes Only

What follows is a summary of the four main sections of the report. Preceding these main sections would be an introductory section discussing the main themes of the report. In addition, a concluding section would come at the end of the report.

Section I. \_\_\_\_\_

This section is meant to establish the tableau for the financial crisis. Among other things, this section will examine America's financial and economic conditions in the decades leading up to the early 2000s. In these decades, household debt rose dramatically as access to credit increased and costs of borrowing fell. This section will trace the changing structure of the US financial system, including the growth of markets, such as "shadow banking markets" and securitization; financial products, such as over-the-counter derivatives; and the increased use of very short-term funding. This section will explore the degree to which market participants underpriced risks and regulators and policy makers underestimated risks. This section will also discuss ways in which financial institutions took on increasingly risky and nontransparent positions, often with slim capital. This discussion will address the extent to which failures in risk management and corporate governance, including compensation incentives, may have played a role. This section would also include a discussion of the changes in the regulation of the financial system and the broad forces behind those changes, including the influence that the financial sector may have had over financial policy, regulation, and oversight. Many of these trends and changes in financial markets may have been encouraged by the view that the US was experiencing a "great moderation."

Section II. \_\_\_\_\_

This section will explore the credit boom as well as the historic decline in home prices. As liquidity rose globally, and monetary policy remained accommodative, long- and short-term interest rates were remarkably low. Overall, market participants began aggressively to chase returns and risk premiums fell. Asset bubbles appeared in housing, commercial real estate, and

other assets. Among other things, this section will discuss how the housing bubble, with historic records in home price appreciation, may have been fueled by factors such as the domestic and international investors who desired AAA assets with higher yields, US homeownership policy, aggressive mortgage lending (including the increased offering of exotic and inappropriate mortgages), and securitization. This section will also explore the potential role played by important participants in this bubble, including individuals who borrowed beyond their ability to repay, speculators, mortgage originators, and financial institutions, including the Government-Sponsored Enterprises. This section will examine warning signs that may have been unappreciated, overlooked, or ignored by those in a position to see them and act on them, including regulators, corporate management, and the credit rating agencies. This section will discuss asset bubbles in other countries as well and in what ways the US housing bubble, in particular, was unique.

After historic home price appreciation, home prices fell at historic rates. Losses on mortgage-related assets brought down mortgage originators and major financial institutions including the GSEs. The bursting of the housing bubble and the drying up of mortgage lending generated a devastating foreclosure crisis. The section will trace the extraordinary losses faced across the system (in the US and abroad) resulting from the collapse of the housing bubble.

### Section III. \_\_\_\_\_

This section will discuss the collapse or near-collapse of major financial firms, the freezing of credit, and the drying up of liquidity—exploring how a not-unprecedented collapse of a bubble helped to trigger a crisis in the financial system. Among other things, the section will explore how the crisis spread, including the downward spiral in asset values; what markets (such as securitization markets), products (such as derivatives), and firms (both shadow banking and traditional banking firms) played a key role in the spreading of the crisis; the role played by management at these firms in the crisis; the extent to which contagion put so many markets in crisis; and the reasons and degree to which financial markets, firms, and regulators failed to respond to warning signs, prepare for this decline in value, and act in advance of the crisis. This section will also examine the role of the failure or near-failure of firms considered too big to fail by policy makers, market participants, and the firms themselves. Finally, this section will explore how other countries fared during the depths of this crisis.

### Section IV. \_\_\_\_\_

This section will describe how the foreclosure crisis and ensuing financial crisis led to the economic crisis, a deep recession with ongoing economic pain, exploring how the financial system and the real economy are deeply interrelated. This section will also stress the international interconnectedness of the financial system and the world economy.

**Process for Review and Approval of the Report by the Commission**  
**June 14, 2010**  
*For discussion purposes only*

Below is an outline of a suggested process for the preparation and consideration of the report by the Commission. The report preparation and consideration will move in parallel with the Commission's consideration of findings and conclusions to be incorporated into the report. In that vein, Commission meetings will be scheduled as needed in addition to the regularly scheduled business meetings and the meetings indicated below. The Executive Director, under the direction of the Chair and Vice Chair, will be responsible for preparing the report for consideration by the Commission.

- **Review of Initial Drafts of Sections of the Report** – The staff will start to draft sections of the report that can be written now, recognizing that they will contain language/preliminary conclusions that will be changed or added as the research and investigation continue and that findings and conclusions will be added as the Commission's deliberative process proceeds.
  - Section 1
    - 1<sup>st</sup> draft to Commissioners **Due: July 9**
    - Written comments from Commissioners **Due: July 16**
    - 2<sup>nd</sup> draft to Commissioners with track changes, identification of comments made and disposition of comments (including listing of comments still sought but not yet incorporated) **Due: July 24**
  - Commission meeting to discuss first section of the report, outline for the remaining sections, and other matters related to the report **July 28 – July 29**
  - Section 2
    - 1<sup>st</sup> draft to Commissioners **Due: July 23**
    - Written comments by Commissioners **Due: July 30**
    - 2<sup>nd</sup> draft to Commissioners with track changes, identification of comments made and disposition of comments (including listing of outstanding comments not yet incorporated) **Due: August 13**
  - Section 3
    - 1<sup>st</sup> draft to Commissioners **Due: August 6**
    - Written comments from Commissioners **Due: August 13**
    - 2<sup>nd</sup> draft to Commissioners with track changes, identification of comments made and disposition of comments

- (including listing of outstanding comments not yet incorporated) **Due: August 23**
- Section 4
    - 1<sup>st</sup> draft to Commissioners **Due: August 13**
    - Written comments from Commissioners **Due: August 20**
    - 2<sup>nd</sup> draft to Commissioners with track changes, identification of comments made and disposition of comments (including listing of outstanding comments not yet incorporated) **Due: August 27**
  - Commission meeting to discuss second, third, and fourth sections of the report and other matters related to the report **September 2 – 3**
  - **Review of Full Report** - Based on the drafts produced above, additional information received during the research and investigation process, and deliberations to date on findings and conclusions, staff will produce a 1<sup>st</sup> draft of full report for Commission review and comment.
    - 1<sup>st</sup> draft of full report to Commissioners with tracked changes against final drafts of sections including comments from commissioners that are not incorporated **Due: September 17**
    - Written comments by Commissioners on 1<sup>st</sup> draft **Due: September 24**
    - Commission meeting to discuss report **September 28 – 29**
    - 2<sup>nd</sup> draft to Commissioners with track changes, identification of comments made and disposition of comments (including listing of comments not incorporated) **Due: October 15**
  - **Meetings of Commission to consider and approve report** **October 26 thru November 12**
  - **Approval of Commission Report** **Due: November 15**

### **Process Questions**

1. Who controls the pen?

The executive director, under the direction of the chair and the vice chair.

2. When do Commissioners see drafts?

Per the above schedule. The chair and the vice chair will review drafts prior to distribution to commissioners. These drafts will go to the remaining eight Commissioners at the same time.

3. How do Commissioners give comments on drafts?

Commissioners send in comments electronically using a process similar to “track changes” in a word processing program. This program can keep track of all ten Commissioners’ comments in the same merged document after all comments are submitted to the staff.

4. How are comments incorporated/not incorporated?

In the “2<sup>nd</sup> draft” of each section will respond to comments made by Commissioners. This draft will identify changes, identification of comments made and disposition of comments (including listing of outstanding comments not yet incorporated).

The draft sections as well as all comments not yet incorporated into the draft that Commissioners still wish to discuss will be the subject of Commissioner meetings on July 28 - 29 and September 2 - 3. Results of these discussions will be incorporated into the 1<sup>st</sup> full draft.

Commissioners will submit electronic comments on the 1st full report draft in “track changes” as above. These comments will be discussed at the Commission meeting on September 28 – 29. Results of these discussions will be incorporated into the 2<sup>nd</sup> full draft.

5. How are disagreements resolved?

**[Commissioners will discuss and propose ideas for dispute resolution.]**

6. What is the process for the approval of the final report?

The final report will be voted on by the Commission.