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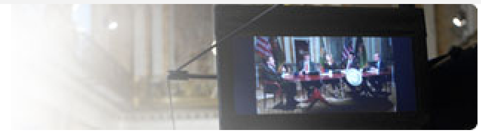

Fact Sheet: Administration’s Regulatory Reform Agenda Moves Forward

7/22/2009

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TG-227

Systemic Risk Legislation Sent to Capitol Hill

Continuing its push to establish new rules of the road and make the financial system more fair for consumers and investors, the Administration today delivered proposed legislation to Capitol Hill that would require strong, consolidated supervision and regulation for all financial firms. The legislation also provides a regulatory regime to monitor, mitigate, and respond to risks in the financial system. Tomorrow the administration will release additional legislative language to create a National Bank Supervisor through the consolidation of the Office of Thrift Supervision and the Office of the Comptroller of the Currency, and to provide the government the tools it needs to adequately respond to a financial crisis.

Create A Financial Services Oversight Council: The President's plan will create a Financial Services Oversight Council to facilitate coordination of financial regulatory policy and resolution of disputes and identify emerging risks in financial markets. The Financial Services Oversight Council will replace the President's Working Group on Financial Markets and will have a permanent, full-time staff at Treasury.

Council Members Will Include each of the Principal Federal Regulators: The Council will have eight members, one from each of the principal federal financial regulators:(i) the Secretary of the Treasury, who shall serve as the Chair; (ii) the Chairman of the Board of Governors of the Federal Reserve System; (iii) the Chairman of the Commodity Futures Trading Commission (CFTC); (iv) the Director of the proposed Consumer Financial Protection Agency; (v) the Chairperson of the Federal Deposit Insurance Corporation (FDIC); (vi) the Director of the Federal Housing Finance Agency (FHFA); (vii) the Director of the proposed National Bank Supervisor (NBS); and (viii) the Chairman of the Securities and Exchange Commission (SEC).

Supervise and Regulate All of the Largest, Most Interconnected Firms

Effective Consolidated Supervision of All of the Largest, Most Interconnected Firms: Under the President's plan, all financial firms that are found to pose a threat to our economy's financial stability based on their size, leverage, and interconnectedness to the financial system will be subjected to strong, consolidated supervision and regulation. These Tier 1 financial holding companies ("Tier 1 FHCs") will be subject to consolidated supervision and regulation by the Federal Reserve regardless of whether they own insured depository institutions and will be subject to the nonfinancial activities restrictions of the Bank Holding Company Act.

Higher Prudential Standards For Large, Interconnected Firms: As part of the President's plan, Tier 1 FHCs will be subject to stricter and more conservative prudential standards than those that apply to other bank holding companies – including higher standards on capital, liquidity, and risk management. These standards will be set with a focus on the risks that these firms could pose to the financial system as a whole, not just the risks to each institution.

Require Prompt Corrective Action From Large, Interconnected Firms Should Their Capital Levels Decline: Tier 1 FHCs will be subject to a prompt corrective action regime that would require the firm and its supervisory agency to take corrective actions as the firm's regulatory capital levels decline. This regime will mirror the prompt corrective action regime for insured depository institutions established under the Federal Deposit Insurance Corporation Improvements Act (FDICIA).

Require Resolution Plans From All Large, Interconnected Firms: The Federal Reserve will require each Tier 1 FHC to prepare and maintain a credible plan for the rapid resolution of the firm in the event of severe financial distress.

Raise Standards For All Financial Firms

Raise Capital And Management Requirements For All Financial Holding Companies: The legislation will require all financial holding companies – including Tier 1 FHCs – to be "well capitalized" and "well managed" on a consolidated basis, significantly raising minimum capital standards for these firms.

Strengthen Firewalls Between Banks And Their Affiliates: The legislation strengthens firewalls between banks and their affiliates to better protect the federal safety net that supports banks, to better prevent spread of the subsidy from the federal safety net to non-depository bank affiliates, and to better address conflicts of interest in banking organizations.

Close Loopholes and Gaps in the Bank Regulatory System

Eliminate Loopholes In The Bank Holding Company Act: All companies that control an insured depository institution will be subject to robust, consolidated supervision and regulation at the federal level by the Federal Reserve and will be subject to the nonfinancial activity limits contained in the Bank Holding Company Act – strengthening the separation between banking and commerce; providing for strong oversight and blocking regulatory arbitrage.

Comprehensive Regulation of Critical Markets

Require Risk Retention and Transparency in Securitization Markets: Banking regulators and the SEC will issue regulations that require the securitizer of an asset-backed security to retain 5 percent of the credit risk of the underlying assets. The legislation also expands the SEC's authority to require loan-level disclosure for asset-backed securities in a standard format to enhance the ability of investors to perform their own due diligence.

Strengthening Oversight of Systemically Important Payment, Clearing, and Settlement Systems: The legislation gives the Federal Reserve strong statutory authority to oversee systemically important payment, clearing, and settlement activities and systems. T he Federal Reserve will be required to consult with the Financial Services Oversight Council in identifying systemically important systems and in setting standards for those systems and to coordinate its oversight with the CFTC or the SEC, which will remain the primary regulators of such systems.

Strengthen Accountability for Emergency Authorities

Accountability on the Use of Emergency Lending Authority: The legislation will require prior written approval of the Treasury Secretary for lending by the Federal Reserve under its emergency lending authority.

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