



THE BLUEPRINT
FOR U.S. FINANCIAL COMPETITIVENESS

**Financial Services Roundtable
Blue Ribbon Commission on Enhancing Competitiveness**

November 13, 2007
American Enterprise Institute
Washington, D.C.

CURRENT FINANCIAL CENTER INITIATIVES ARE ACTIVE GLOBALLY



CORE BENEFITS OF FINANCIAL CENTER DEVELOPMENT

- Enhanced GDP growth and employment benefits
- Increased domestic market competitiveness and efficiency
- Rise of regional- and global-scale financial institutions in conducive growth environment
- Greater resilience to potential financial crises
- Enhanced diplomatic positioning

LONDON'S NEW GLOBAL FINANCIAL CENTRES INDEX TOP TEN

Ranking

1. London
2. New York
3. Hong Kong
4. Singapore
5. Zurich
6. Frankfurt
7. Sydney
8. Chicago
9. Tokyo
10. Geneva
- .
- .
- .
46. Athens

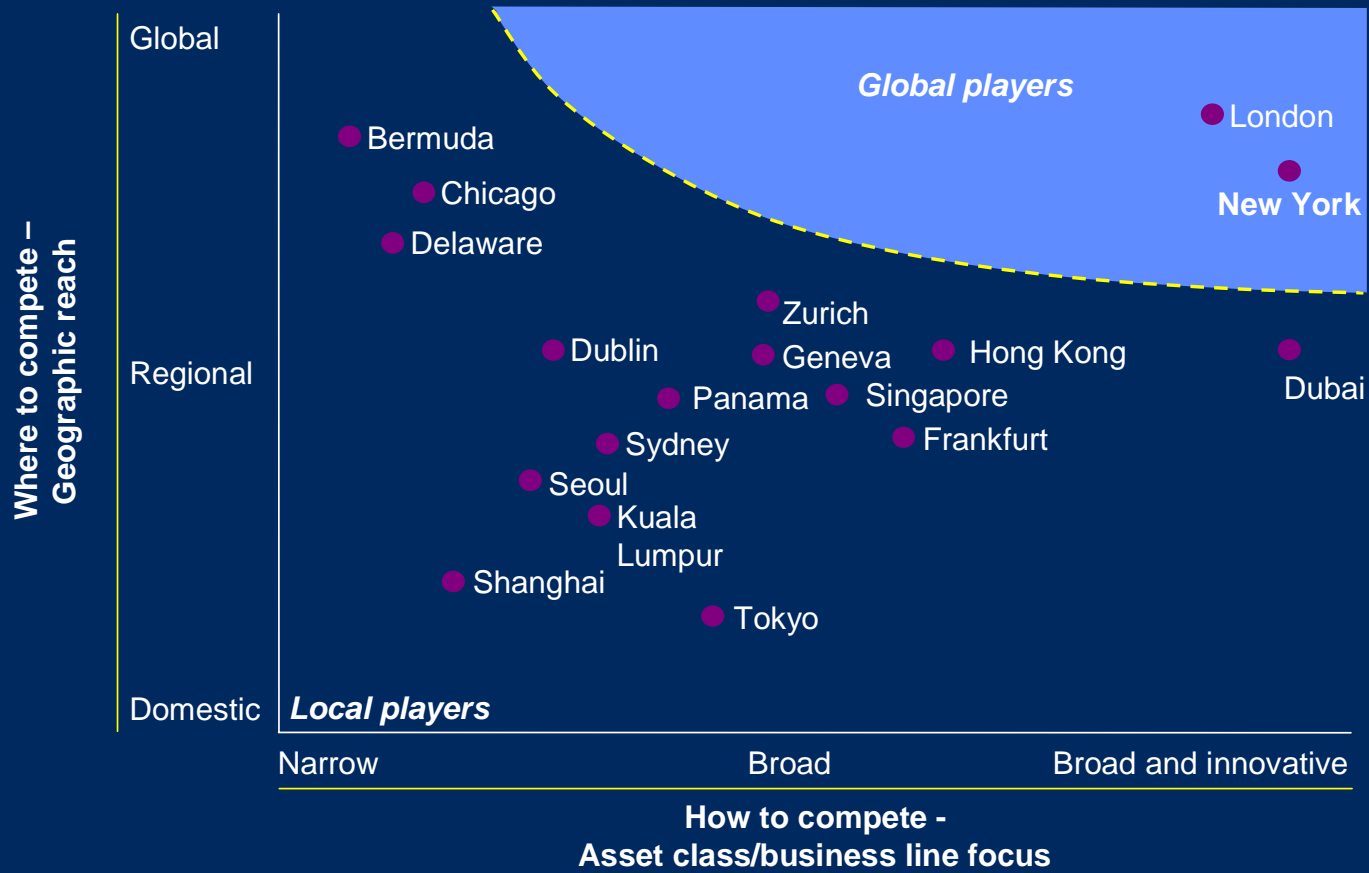


HOW WILL FINANCIAL CENTERS DEVELOP IN FUTURE?

- Varying starting points and legacies
- Variety of strategies possible
- Room for multiple, competing centers regionally, globally

Source: City of London, *The Global Financial Centres Index*, March 2007. Competitiveness indicators include: people, business environment, market access, infrastructure, and general competitiveness.

FINANCIAL CENTER STRATEGIES CAN VARY



KEY SUCCESS FACTORS FOR FINANCIAL CENTERS

Intrinsic factors

Examples

- Geographic proximity
- Time zone adjacency
- Political/economic centralisation ('capital city' effect)
- Economic history
- Legacy as a financial center

Cost/ease of doing business

- **Legislation**
- **Regulation**
- Taxation of corporations, institutions and individuals
- Accounting
- Litigation
- Availability of real estate

Attractiveness

- Skills
- Education
- Transportation
- Housing
- Immigration
- Internationalism
- Quality of life
- Security



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- **Principles-based Regulation**
- **An Agenda for Reform**
- **Modernized Charters**

OBJECTIVES OF FINANCIAL REGULATION

1. Enhance the competitiveness of financial services firms to serve and protect consumers.
2. Promote financial market stability and security.
3. Support sustained economic growth and job creation.

THE BLUEPRINT'S PROPOSAL FOR PRINCIPLES-BASED REGULATION

1. Guiding Principles of U.S. Financial Regulation
2. Enhanced President's Working Group on Financial Markets
3. Regulatory Actions Plans

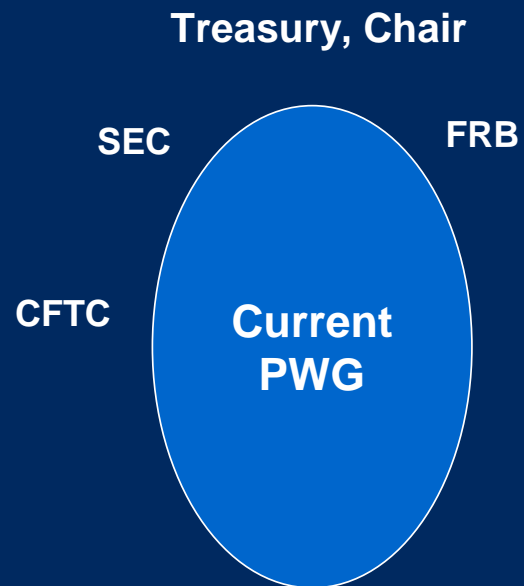
RECOMMENDATION 1 - SIX GUIDING PRINCIPLES

1. Fair treatment for consumers (customers, investors, issuers)
2. Competitive and innovative financial markets
3. Proportionate, risk-based regulation
4. Prudential supervision and enforcement
5. Options for serving consumers
6. Management responsibilities

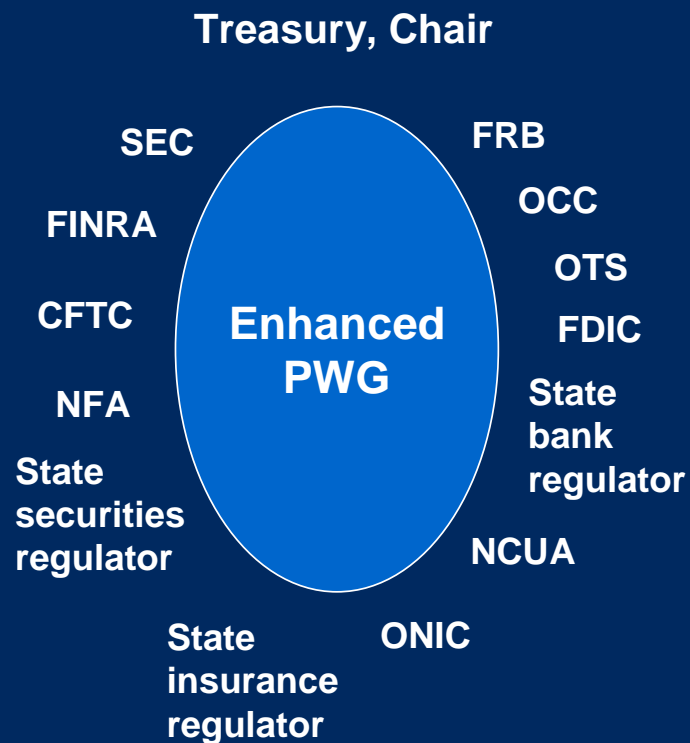
RECOMMENDATION 2 – ENHANCE THE PRESIDENT’S WORKING GROUP ON FINANCIAL MARKETS

1. Expand to include all national and representative state financial regulators
2. Oversee implementation of Guiding Principles by individual agencies
3. Coordinate policies across all financial markets, especially during times of market volatility and financial crisis

CURRENT PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS



ENHANCED PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS



RECOMMENDATION 3 – REGULATORY ACTION PLANS

1. Develop formal Regulatory Action Plans by individual regulators
2. Consider all major and new regulations in light of proposed Guiding Principles (e.g., consumers, competitiveness, innovation, risk-based, cost-effectiveness, proportionality)
3. PWG Report progress on Regulatory Actions Plans publicly to Congress and President at least annually

AN AGENDA FOR REFORM - “MUST DO” REFORMS

- Prudential supervision
- Litigation reform
- Consumer lending and financial security
- AML
- Risk-based capital
- Insurance regulation
- Sarbanes-Oxley Section 404
- U.S. and International Accounting standards

PRUDENTIAL SUPERVISION

Recommendations 4 - 9 – Congress should enact laws to apply prudential supervision to all sectors of the financial services industry.

- Mitigating factors
- Continuum of corrective actions
- Field examiners
- SEC communication and coordination
- Limited waivers
- Fair notice

LITIGATION REFORM

Recommendations 10 - 29 - Congress should amend federal securities and other relevant laws to achieve a better balance between protecting the rights of injured parties and assuring financial market competitiveness and capital formation.

- Reform class action litigation process
- Amend Private Securities Litigation Reform Act (PSLRA)
- Amend Securities Litigation Uniform Standards Act (SLUSA)

CONSUMER LENDING AND FINANCIAL SECURITY

Recommendations 30 - 34 - Financial services opportunities for all consumers should be enhanced through a combination of policy, regulatory, and industry initiatives.

- Financial literacy
- Uniform national standards
- Disclosures
- Alternative dispute mechanism
- Centralized complaint system

ANTI-MONEY LAUNDERING

Recommendations 35 - 51 - Policymakers and regulators should make Bank Secrecy Act supervision and enforcement more proportionate, risk-based, and prudential.

- New exam guidelines
- Information sharing
- Substitute SAR filings for multiple CTRs
- Standardized training for insurance agents and brokers

RISK-BASED CAPITAL

Recommendations 52 - 55 - The U.S. and international financial regulators should build upon the Basel II Capital Accord and apply a consistent risk-based focus to capital regulation for all financial services firms.

- Examine components of capital
- Review leverage ratio
- Adopt comparable capital rules – including Solvency II

SARBANES-OXLEY ACT – SECTION 404

Recommendations 56 - 60 - Policymakers, regulators, and the financial services industry should monitor of 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.

- Benchmarks
- SEC supervision of PCAOB
- Industry survey
- Public reporting

ACCOUNTING REFORMS

Recommendations 61 - 64 - Policymakers, regulators, and public companies including financial services firms should continue to advocate that U.S. accounting standards be modernized.

- Current initiatives
- IFRS
- Convergence
- Transition

ENHANCING CURRENT CHARTERS TO SERVE CONSUMERS

Recommendation 65 - The regulators and Congress should modernize national and state charters to allow firms to innovate and serve their customers more effectively and efficiently in their local markets as well the global financial marketplace.

- National bank charter
- State and thrift charters
- Federal thrift charter
- Financial holding companies

THREE NEW NATIONAL CHARTER OPTIONS

Recommendations 66-68 - Congress should authorize 3 new national charter options to serve consumers.

Charter

National insurance charter –
National Insurance Act of
2007, S.40, H.R. 3200

National securities charter

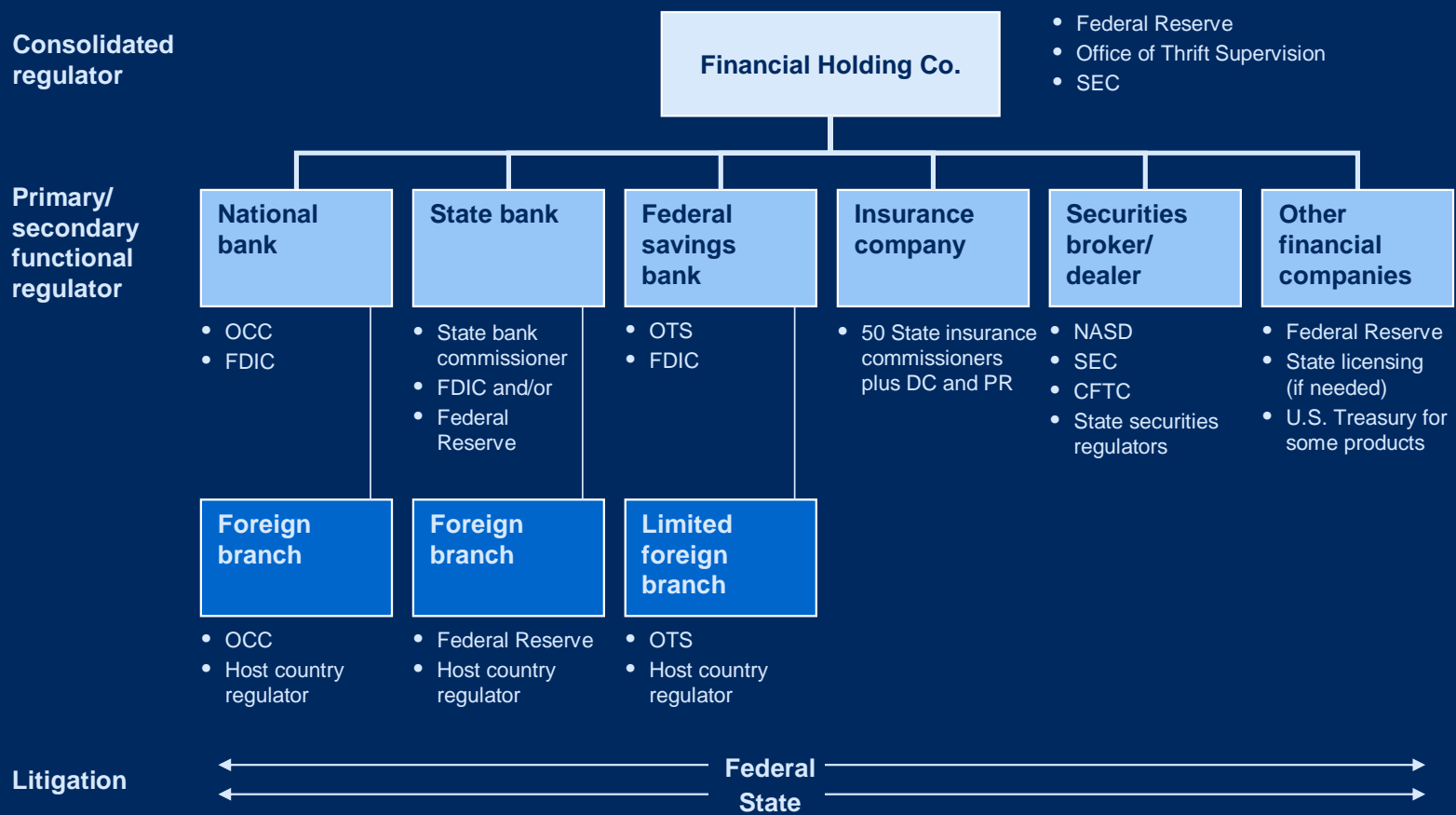
Universal financial services
charter

Regulator

- National Insurance Commissioner (U.S. Treasury) - proposed
- To be determined
- To be determined

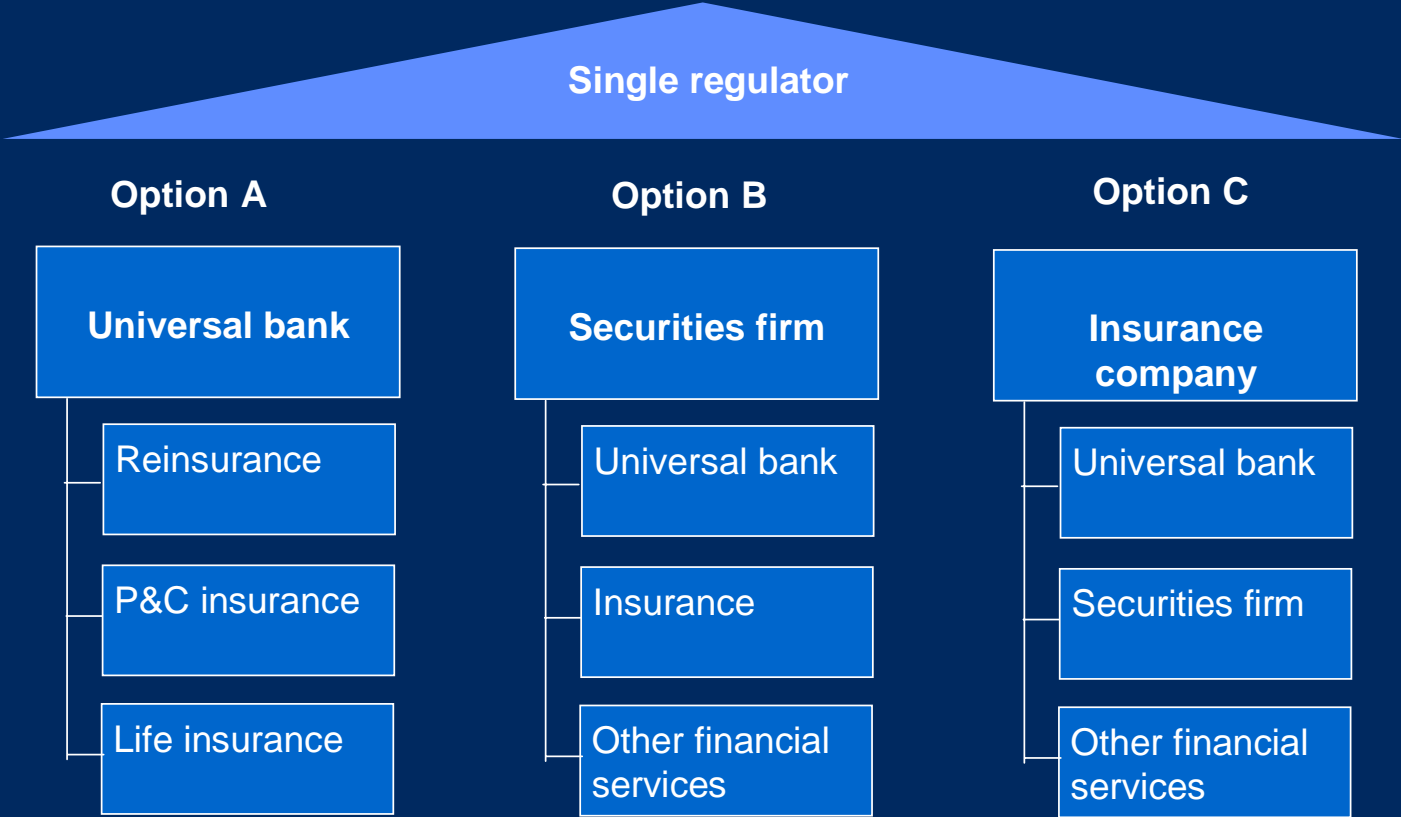
THE UNITED STATES' REGULATORY REGIME IS COMPLEX AND FRAGMENTED

ILLUSTRATIVE



MULTIPLE UNIVERSAL FINANCIAL SERVICES OPTIONS ARE POSSIBLE TO SERVE CONSUMERS

Illustrative





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