BACKGROUNDER: THE FINANCIAL SYSTEM STABILIZATION AND REFORM ACT OF 2009

Senator Collins believes that regulatory reform is essential to restoring public confidence in our financial markets. America's consumers, workers, savers, and investors deserve the protection of a new regulatory system that modernizes regulatory agencies, sets safety and soundness requirements for financial institutions to prevent excessive risk-taking, and improves oversight, accountability, and transparency.

Senator Collins will soon introduce ***The Financial System Stabilization and Reform Act*** **(FSSRA) of 2009** to fundamentally restructure our nation's outdated financial regulatory system, strengthen oversight and accountability, and help rebuild the confidence of our citizens in our economy and restore stability to our financial markets.

<u>No such oversight entity has ever existed to oversee our nation's financial system.</u>

The bill would create an independent **Financial Stability Council (FSC)** to serve as a "systemic-risk monitor." The Council would maintain comprehensive oversight of all systemic risks to the financial system, and would have the power to prevent or mitigate those risks.

The FSC will have the authority to:

- Propose changes to regulatory policy, working with existing federal regulatory agencies, when systemic risk could emerge due to regulatory gaps or the emergence of risky new financial products;
- Obtain information from federal financial agencies, state regulators, and market participants to fulfill its responsibility to prevent or mitigate systemic risk;
- Adopt rules to ensure that financial institutions do not grow "too big to fail," by imposing different capital requirements, raising risk premiums, or requiring a larger percentage of debt be held as long-term debt;
- Act to close the regulatory "black holes" that pose a systemic risk when risky products or activities fall outside the authority of existing federal financial regulators; and
- Impose civil penalties to enforce its regulations.

The responsibilities of the FSC Chairman include:

- Reporting to Congress twice a year on the state of the country's financial system and areas in which systemic risks are anticipated;
- Providing budget guidance to the federal financial agencies to better monitor and prevent systemic risk;
- Reviewing all proposed and existing rules and regulations of any federal financial regulator to determine whether they effectively prevent or mitigate systemic risk; and
- Making recommendations to the Council for the revision of existing rules and regulations or the introduction of additional safeguards when necessary to prevent or mitigate systemic risk.

(MORE)

Council members (except for the Chairman) would be drawn from the major federal financial regulators:

- Presidentially Appointed, Senate Confirmed Chairman of the FSC
- Chairman of the Federal Reserve
- Secretary of the Treasury
- Chairman of Federal Deposit Insurance Corporation
- Chairman of the SEC
- Chairman of the CFTC
- Chairman of the National Credit Union Administration

Additional provisions would:

- Close the credit default swaps loophole to ensure oversight of a financial instrument that contributed heavily to the current financial crisis and the downfall of AIG. This regulatory gap allowed systemic risk to build in our financial system without the oversight and transparency needed to prevent a collapse;
- Impose safety and soundness requirements on new investment banks by requiring them to organize under the Bank Holding Company Act. Under the current system, investment bank firms such as Bear Stearns and Lehman Brothers were left largely unregulated with no agency given the authority to examine the full scope of their operations;
- Merge the Office of Thrift Supervision (OTS) and Office of the Comptroller Currency (OCC) to consolidate and reduce the number of banking regulators, improving the effectiveness of the entire system. This merger was recommended by many experts, and the Treasury Inspector General recently raised concerns about the objectivity and effectiveness of OTS;
- Protect the rights of states to regulate the insurance industry.

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CASTLE INTRODUCES LEGISLATION TO ESTABLISH SYSTEMIC RISK MONITOR

Washington, Mar 25 -

Delaware Congressman Mike Castle, Senior Member on the House Financial Services Committee, will introduce the House companion to S. 644, The Financial System Stabilization and Reform Act (FSSRA) of 2009 to restructure our financial regulatory system and strengthen oversight and accountability in our financial markets. Senator Collins introduced S. 664 earlier this week.

"The financial markets are still sluggish, in part due to regulatory uncertainty," said Rep. Castle. "We can restore some investor confidence back into our financial markets by enacting the common sense reforms in this bill. Here, an independent Financial Stability Council (FSC) will serve as a 'systemic-risk monitor' to strengthen oversight and accountability and bring more trust through modernized financial regulation and transparency. The Council would maintain comprehensive oversight of all systemic risks to the financial system, and would have the power to prevent or mitigate those risks. I look forward to working with Senator Collins to ensure that provisions of this bill are included as we move regulatory reforms through the legislative process."

"Given his seniority on the House Financial Services Committee, I am pleased that Representative Castle has joined me in an effort to fundamentally reform our financial regulatory system. As a former Maine financial regulator, I am convinced that financial regulatory reform is essential to restoring public confidence in our financial markets and to preventing a recurrence of a crisis like the one our nation now faces," said Senator Collins. "America's Main Street small businesses, homeowners, employees, savers, and investors deserve the protection of an effective, new regulatory system that modernizes regulatory agencies, sets safety and soundness requirements for financial institutions to prevent excessive risk-taking, and improves oversight, accountability, and transparency. Establishing an independent Financial Stability Council as a systemic-risk regulator, and providing a strong Chairman to lead the Council, would help rebuild the confidence of our citizens in our economy and help restore stability to our financial markets."

Details of the Legislation

FSSRA calls for the creation of an independent Financial Stability Council (FSC), composed of representatives from existing federal financial regulators which now have the responsibility to oversee portions of the financial system. The FSC will serve as a "systemic-risk monitor," and would maintain comprehensive oversight of potential systemic risks to the financial system. It would have the ability to propose changes to regulatory policy, working with existing federal regulatory agencies, when systemic risk could emerge due to regulatory gaps or the emergence of risky new financial products. The FSC would also have the authority to close regulatory "black holes" that pose a systemic risk when risky products or activities fall outside the current authority of federal financial regulators. The FSC would also have the authority to adopt rules that ensure financial institutions do not grow "too big to fail," by imposing different capital requirements, raising risk premiums, or requiring a larger percentage of debt be held as long-term debt.

Additional provisions in the FSSRA would:

· Close the credit default swaps loophole to ensure oversight of a financial instrument that contributed heavily to the current financial crisis and the downfall of AIG. This regulatory gap allowed systemic risk to build in our financial system without the oversight and transparency needed to prevent a collapse;

· Impose safety and soundness requirements on new investment banks by requiring them to organize under the Bank Holding Company Act. Under the current system, investment bank firms such as the Bear Stearns and Lehman Brothers were left unregulated with no agency given the authority to examine the full scope of their operations;

· Merge the Office of Thrift Supervision (OTS) and Office of the Comptroller Currency (OCC) to consolidate and reduce the number of banking regulators, improving the effectiveness of the entire system. This merger was recommended by many experts, and the Treasury Inspector General recently raised concerns about the objectivity and effectiveness of OTS;

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