Legislative and Regulatory
Status Update
Association for Financial Professionals®
AFP—Your Daily Resource
A monthly summary of federal issues *June 2009*

Overview

This month has been marked by a great deal of action in Washington to reform a number of important areas of interest to financial professionals. Foremost among these was an 85- page white paper released by the Obama Administration outlining its reforms for the financial markets regulatory system. At the root of these proposals is empowering the Federal Reserve to unwind systemically important entities that are in danger of failing and bringing down significant portions of the economy with them. Alongside the Fed, the proposal includes a Systemic Risk Council, composed of f a number of regulators to advise the Fed when such an event has the potential to occur. Further, the plan proposes to establish a new regulatory agency to protect consumers of financial products. Along with these new powers and entities, the paper outlines significant reforms in the areas of derivatives regulation, the payments systems, and credit rating agencies. For more on this plan, see page 2 and our extended analysis on page 8.

On the plan sponsor front, the House Education & Labor Committee passed important legislation for retirement plans. The bill would increase disclosure of 401 (k) fees, require all plans offer an index fund to obtain certain legal protections, prohibit conflicted investment advice, and offer some defined benefit plan funding relief. For more information about this legislation, see page 4.

The Federal Reserve took actions this month to assess the state of its many liquidity programs. The Fed released a study demonstrating the use and effectiveness of its programs, along with limited extensions for some of the more successful and necessary programs. For more information, see page 5.

As part of the President's regulatory overhaul, he has indicated his wish to expedite US and international accounting standards convergence. For more information on this effort along with increased international accounting coverage, please see page 6.

Inside this issue

Legislative Issues
Treasury and Finance

06/09 **AFP Releases Advocacy Toolkit** - Earlier this month, AFP announced the creation of a new toolkit to help t AFP members communicate with elected officials. This toolkit was designed to prepare financial professionals to be effective citizen lobbyists on issues impacting treasury and finance. To download a copy of the toolkit, click here.

06/09 **AFP Urges Congress to Take Action on Rating Agency Reform –** In May 2009, the Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee of the House Financial Services Committee held a hearing to examine the need for more effective regulation of credit rating agencies. Witnesses offered testimony on how Congress and the Securities and Exchange Commission could better reform the system.

AFP provided formal comments to the Subcommittee and suggested two proposals for credit rating agency reform that would significantly alter the way the ratings business is run. The first proposal would have rating agencies adopt a stand-alone model, where the only business of the credit rating agency would be to produce credible and reliable ratings. The second proposal recommended that the Federal government be required to use alternative rating organizations, encouraging competition and breaking the government's addiction to Standard & Poor's, Moody's and Fitch. To read AFP's complete written statement, click here.

06/09 **Obama Administration Release Plan to Overhaul Financial Regulatory Structure** – On June 17, 2009, the White House released an 85-page white paper that outlined the Administration's plans for an overhaul of our nation's system of financial regulation. This plan detailed a series of proposals that seek to involve the government more deeply in the activities of financial firms and institutions to protect the integrity of financial markets. The plan would impose more stringent limits on the largest companies to curb risk-taking measures.

Highlights of the Administration's proposal include:
• Empowering the Federal Reserve Board (the Fed) to serve as the consolidated supervisor for holding companies of large interconnected financial firms, with authority to conduct examinations and increase capital requirements for those companies;
• Giving the Fed oversight of payment, clearing and settlement systems;
• Strengthening the regulation of credit rating agencies;
• Creating comprehensive regulation of OTC derivatives products including credit default swaps (CDS);
• Establishing a new federal consumer financial protection agency with sweeping authority to protect against unfair or deceptive practices;
• Creating a systemic risk council chaired by the Treasury Department to make recommendations on systemic threats;
• Reducing the susceptibility of Money Market Mutual Funds (MMF) to extreme losses;
• Improving accounting standards and working toward a single set of global accounting standards; and
• Eliminating all specialty bank charters including thrift and industrial loan company charters, credit card banks, trust banks and "nonbank" banks.

While AFP is supportive of many of these goals, the methods used to pursue them and the details of final legislation will determine AFP's position on the overall proposal. As details are added to the proposal, AFP will continue to analyze and report on developments that could directly impact financial professionals. To view the complete Treasury proposal, click here.

06/09 **Council for Systemic Risk Gains Steam After Obama Plan Announcement –** Following the release of President Obama's Regulatory Reform proposal, Federal Deposit Insurance Corporation (FDIC) Chairman Sheila Bair reiterated her idea for the creation of a systemic risk council to oversee large financial companies. The council would consist of existing regulators and would have the ability to intervene and take action to unwind systemically important entities if their stability comes into question. Chairman Bair suggested that the council be made up of the Fed, the FDIC, Treasury and the Securities and Exchange Commission (SEC), with the possible addition of other prudential supervisors. This council, who would work together to track trends, follow risky products, set risk-based capital standards that extend beyond depository institutions and find ways to harness market discipline.

Last month, Chairman Bair introduced this idea while testifying before the Senate Banking Committee (click here to read her complete testimony). More recently, Chairman Bair amended her comments by suggesting that the powers of the proposed council be strengthened in an effort to mitigate potential conflicts of interest. In a recent interview Chairman Bair said, "Having the Federal Reserve handle monetary policy while simultaneously regulating systemic risk could lead to conflicts of interest.".President Obama's regulatory plans include a systemic risk council that is advisory in nature and includes representatives from Treasury, the Fed, the SEC, the Commodity Futures Trading Commission (CFTC), the new national bank supervisory agency and the Federal Housing Finance Authority.

06/09 **OTC Derivatives Regulation Proposals –** As part of President Obama's plan to overhaul the financial regulatory system, the White House has released new guidance on the regulation of all over-the-counter derivatives (OTC) products and markets. The goals of the proposal include:
• Preventing activities in the OTC markets from posing risk to the overall financial system;
• Promoting the efficiency and transparency of OTC markets;

• Preventing market manipulation, fraud, and other market abuses; and
• Ensuring that OTC derivatives are not marketed inappropriately to unsophisticated parties.

The administration has rolled out a series of proposals for how to achieve this, described in testimony by Commodities Futures Trading Commission Chairman (CFTC) Gary Gensler. The recommended changes include:
• Require that all standardized OTC derivatives be cleared and subject to robust margin requirements;
• Require that all OTC derivative dealers be required to report all trades and position to prevent systemically risky exposures;
• Empower the CFTC to set aggregate position limits to prevent systemically risky exposures

These recommendations would increase transparency to address systemically risky situations such as AIG's heavy credit default swap (CDS) exposure, but still allow for companies to manage risk while complying with FAS-133 constraints for effective hedges.

This proposal is likely to be the lead as comprehensive regulatory reform is discussed. While there are a number of other proposals, key members of Congress have expressed support for the Obama/Gensler proposals.

Separately, the main climate change legislation working its way through Congress includes restrictive language on energy futures contracts. It is unclear what role this language would have on comprehensive derivative reforms.

AFP fully supports regulations that encourage secure and transparent markets. AFP continues to reiterate that derivative products are essential risk management tools financial professionals rely on to help stabilize prices and mitigate risk.

However, AFP has expressed concerns regarding inflexible regulation of the OTC derivatives and the potential impact it could have on members attempting to prudently hedge risk. AFP has been actively engaging policy makers on how our members use derivatives to mitigate their risk. As part of this effort, AFP has highlighted FAS-133 requirements for demonstrating an effective hedge and the consequences this would have should ALL OTC derivatives be required to go through a clearing process.

On June 11, 2009, AFP sent a letter to the Treasury Department, Commodity Futures Trading Commission and Members of the House and Senate outlining specific AFP member concerns with regulation of the OTC derivatives markets. Going forward, we will continue to work to ensure that the end-user corporate perspective is considered.

06/09 **Cap-and-Trade Tax Treatment** - On June 12, 2009, the Congressional Joint Committee on Taxation issued a report outlining the tax implications of a cap-and-trade system on businesses. The report considers the implications of traded emission allowances, government issued allowances, traded allowances, and carbon offsets. Given the complex nature and accounting surrounding these assets, their tax treatment will be a critical part of implementing a cap-and-trade system.

06/09 **Cap-and-Trade –** On Friday, June 27, 2009, the House of Representatives passed a climate change bill, the American Clean Energy and Security Act of 2009 (HR 2454). The bill passed by a narrow vote and still needs to be approved by the Senate before being signed into law. The bill would implement a cap-and-trade program where companies that exceed a cap on greenhouse gas emissions would have to obtain credits to balance excess emissions. Companies below the cap would be able to sell excess emissions. The goal is to give incentives to companies that can easily lower their emissions. Financial professionals should consider evaluating their exposure in the event this legislation passes.

In addition to the cap-and-trade system, the bill would also increase regulation of energy derivative products. Several amendments were introduced to eliminate this language, but they were not successful. President Obama has indicated he would prefer more transparency in the derivatives markets, but is against restricting customized over the counter (OTC) contracts.

President Obama has made this legislation a priority and has been actively pushing legislators on Capitol Hill to pass the legislation. AFP will continue to track the legislation's progress and its potential affect on financial professionals.

Payments

06/09 **Cybersecurity –** On May 29, 2009, President Obama announced the results of his 60-day Cybersecurity Review. Along with the results, the President announced a framework for addressing the issues discussed in the review. To coordinate policy, the President will appoint a Cybersecurity Advisor who will report to the National Security Advisor and the National Economic Council This office will coordinate federal standards and also identify systemically important private sector concerns.

In his announcement, the President mentioned the need to secure electronic payments systems, describing his fear donors' payment information had been compromised when his campaign web site was hacked.

The President's announcement co-opted a number of proposals under consideration in Congress, including The Cybersecurity Act of 2009 (S. 773), introduced by Senate Commerce Committee Chairman John "Jay" Rockefeller (D-WV). It is unclear whether further legislative reforms will be sought following the President's announcement. AFP will continue to follow this issue and communicate the need for secure electronic payments system for our members.

05/09 **Credit Card Act of 2009 –** On May 22, 2009, President Obama signed into law H.R. 627, the "Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009". This new law will prohibit a number of practices by card companies, such as double-cycle billing; require a 45 day notification of interest rate increases; require that payments apply to higher interest balances first; and limit the length of time consumers can be charged punitive interest rates as a result of missed payments.

The bill also requires that the Government Accountability Office (GAO) conduct a study on interchange fees to determine merchants' ability to negotiate rates. The study will also look into transparency issues and the method card companies use to determine interchange fee rates, including the effects of marketing and rewards programs.

Pensions and Investments

06/09 **401(k) Fee Disclosure** - The House Education and Labor Committee voted out the 401(k) Fair Disclosure and Pension Security Act of 2009 (HR 2989). The legislation has three major parts – 401(k) disclosure, investment advice, and defined benefit plan provisions. Rep. George Miller (D-CA) Chairman of the Committee is the chief sponsor of the legislation. The legislation covers disclosure of costs and fees by service providers to plan sponsors; greatly expanded disclosure to participants; and a requirement for all plans to offer at least one very broad index fund (stocks or bonds). The bill calls for detailed information on investment expenses, administrative and transaction fees and any other charges that may be deducted from a participant's account. Bundled services would have to be 'unbundled' for purposes of fee disclosure. The bill would require all plans to offer a passively managed investment that is "…representative of the US investable equity market (including representation of small, mid, and large cap stocks) or the US investment grade bond market … or a combination thereof …"

06/09 **Investment Advice in Defined Contribution Plans** - As mentioned above, HR 2989 also includes reform of the regulation of investment advice. The bill prohibits "conflicted advice"—advice given to participants by individuals who may have a conflict of interest. The Pension Protection Act (PPA) allows plan investment managers to provide advice as long as they notified participants of any potential conflicts of interest. This legislation would repeal those provisions. The status of the Department of Labor's advisory opinion (SunAmerica) 2001-09(A), which facilitates the use of a computer model to provide advice is unclear.

06/09 **Defined Benefit Plan Funding** - The Fair Disclosure and Pension Security Act of 2009 (HR 2989) includes limited relief for defined benefit plan sponsors facing greatly increase funding requirements because of the economic downturn. The bill would:
- Provide flexibility to plan sponsors by allowing them to change their funding methods in 2010 without Internal Revenue Service approval;
- Clarify that investment expenses can be amortized;
- Delay the effective date of any regulation implementing the Pension Protection Act that are issued this year;
- Amortize 2008 investment losses over a longer period. Plans would pay interest of their plans' losses for the next two years, but would not have to start amortizing those losses until 2011.
- Require all plans with $50 million or more in underfunding to provide detailed financial and actuarial information to the Pension Benefit Guaranty Corporation (PBGC). Currently, plans that are less than 80% funded are subject to the for PBGC notification.

The bill also includes some funding relief for multiemployer pension plans.

06/09 **PBGC Investment Controversy** – Following a Senate Special Committee on Aging hearing on May 20, 2009 regarding contacts by the previous Director, Charles E.F. Millard with investment firms awarded contracts with the PBGC, Committee Chairman Herb Kohl (D-WI) discussed introducing legislation to bar directors from being involved with contract negotiation.

The proposal would expand the PBGC board and increase its oversight responsibilities as well. The proposals largely stem from a letter written to the Committee by Labor Secretary Solis.

While formal legislation has yet to be introduced, the controversy over the former Chairman's involvement, the PBGC's increased deficit, and the increased reliance on the PBGC is likely to lead to significant reforms.

Regulatory Issues

Treasury and Finance

06/09 **Federal Reserve Announces Extension of Liquidity Programs and Releases Report on their Success –** In late June, the Federal Reserve announced extensions and modifications to a number of its liquidity programs citing the improvement of financial markets in recent months. In an effort to promote financial stability and support the flow of credit to households and businesses, the Federal Reserve has extended a number of liquidity facilities through early 2010. The following liquidity programs have been extended through February 1, 2010:
- Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF);
- Commercial Paper Funding Facility (CPFF)
- Primary Dealer Credit Facility (PDCF); and
- Term Securities Lending Facility (TSLF).

The expiration date for the Term Asset-Backed Securities Loan Facility (TALF) currently remains set at December 31, 2009.

On June 10, 2009, the Federal Reserve released the first of a series of reports on its credit and liquidity programs that were implemented to provide relief to the nation's distressed capital markets. The report, entitled "Federal Reserve Credit and Liquidity Programs and the Balance Sheet" makes public a wide range of data concerning borrowing patterns and collateral.

The Fed's report revealed that while there were some improvements in financial market conditions in recent weeks, there was a drop in credit extended through many of the Fed's liquidity program. The report notes declines in borrowing under the Primary Dealer Credit Facility (PDCF) and the Term Securities Lending Facility (TSLF). Further, the report revealed that the level of reserve balances has remained quite high. To view the complete report, click here.
AFP has compiled a list of several programs that might affect treasury and finance professionals; click here.

06/09 **SEC Proposes Rule Changes for Money Market Funds –** On June 24, 2009, the Securities and Exchange Commission (SEC) voted on several rule changes to the regulatory framework for money market mutual funds to improve their stability. The SEC's proposal would seek amendments in the following three areas:

• Tightening the risk-limiting conditions under the rule governing the operation of 2a-7 money funds;
• Enhancing disclosures regarding portfolio securities; and
• Improving money fund operations.

The SEC did not suggest a change to require money funds to sell and redeem their shares at a floating share price rather than the current stabilized net asset value. However, they did announce that they are seeking comments on the floating NAV and other issues related to money funds.

06/09 **AFP Continues to Push for Expansion of the Commercial Paper Program –** In March of 2009, AFP members and staff participated in a conference call with the staff of the Federal Reserve Board of Governors and the Federal Reserve Bank of New York to discuss a previous request to extend the Commercial Paper Funding Facility (CPFF) to Tier 2 commercial paper issuers (Click here to view AFP's original request to the Fed).

AFP members have argued that this expansion will help ease credit availability for Tier 2 companies and result in less demand for bank credit by Tier 2 companies. As additional evidence of tightening credit markets is made available, AFP will continue to engage the Fed on this issue and encourage them to consider expanding the program. AFP staff is currently exploring ways to further engage both the Fed and the White House to take action in the near future.

06/09 **Bernanke to Revise Fed Rules on Rating Agencies –** Last month, the Federal Reserve Board announced the expansion of the number of credit-ratings companies permitted to rate assets for the Term Asset-Backed Securities Loan Facility (TALF). Currently only five of the 10 nationally recognized statistical rating organizations (NRSRO) are eligible to provide analysis.

The Fed said newly issued and older commercial mortgage-backed securities (CMBS) must have at least two AAA ratings from DBRS, Fitch Ratings, Moody's Investors Service, Realpoint LLC or Standard & Poor's and cannot have a rating below AAA from any of them. The Fed said it is "more broadly" determining which ratings companies to use to determine eligible collateral for the central bank's credit programs. For additional information, click here.

06/09 **Treasury Plans to Launch Liquidity Program –** According to reports, the Treasury Department will soon launch the first stage of the Public-Private Investment Program (PPIP) to help heal bank balance sheets. This FDIC/Treasury joint program, was created to address the challenge of legacy assets and help cleanse bank balance sheets of troubled legacy loans.

In recent months, several agencies have implemented various programs aimed at adding liquidity back to our nation's troubled markets. AFP has compiled a list of several programs that might affect treasury and finance professionals; click here.

06/09 **EU Approves Plan for Europe-Wide Systemic Risk Regulator –** On June 19, 2009, the European Council approved a plan to create a European Systemic Risk Council for European Union member-states (EU). The council would be headed by the President of the European Central Bank (ECB). While the council itself would be advisory, the ECB itself could act when a systemically critical institution is threatened with failure.

This mirrors similar developments being explored by the United States to empower the Federal Reserve or a Systemic Risk body to act similarly.

Pensions and Investments

05/09 **Iwry Assumes New Post at Treasury -** J. Mark Iwry has been appointed as senior advisor to the Secretary and deputy assistant secretary for retirement and health policy, a newly created position. Iwry most recently served as a senior fellow at the Brookings Institution and served as tax benefit counsel in the Clinton Administration. Iwry is credited with authoring the automatic IRA proposal. The proposal, part of President Obama's budget, would require any employer who does not offer a retirement plan to set up direct-deposit Individual Retirement Accounts for their employees.

04/09 **Borzi Nominated for EBSA -** The Obama Administration has nominated Phyllis Borzi to serve as Assistant Secretary of Labor for Employee Benefit Security. In this capacity, Borzi will lead the Employee Benefit Security Administration (EBSA) at the Department of Labor. EBSA is primarily responsible for regulation and enforcement of ERISA's fiduciary requirements. Borzi has long experience in the employee benefits arena, including serving as pension and employee benefits counsel to the House Education and Labor Committee for 16 years. Borzi is currently a research professor at the School of Public Health and Health Services at the George Washington University and she is of counsel to O'Donoghue and O'Donoghue, a law firm specializing in employee benefits.

Financial Accounting and Reporting

06/09 **Obama Administration's Plan for Restoring Confidence -** In its proposal for financial oversight to restore confidence in the financial system, the Obama Administration recommends the following improvements to accounting standards:

1. The accounting standard setters clarify and make consistent the application of fair value accounting standards, including the impairment of financial instruments, by the end of 2009;

2. The accounting standard setters improve accounting standards for loan loss provisioning by the end of 2009 that would make it more forward looking as long as the transparency of financial statements is not compromised; and

3. The accounting standard setters make substantial progress by the end of 2009 toward development of a single set of high quality global accounting standards.

In light of the Administration's interest in the last item, AFP intends to proactively monitor the International Accounting Standards Board's (IASB) discussions and voice our member's concerns with fair value as the US and IASB move toward convergence. Click here for further analysis.

06/09 **IASB Issues Discussion Paper on Credit Risk in Liability Measurement -** The International Accounting Standards Board (IASB) issued a discussion paper on whether an entity's own credit risk should be factored in the liability measurement. Specifically, when a liability is first recognized;

1. Should its measurement always, sometimes or never incorporate the price of credit risk inherent in the liability;

2. Should current measurements follow initial recognition always, sometimes or never incorporate the price of credit risk inherent in the liability; and

3. How should the amount of a change in market interest rates attributable to the price of the credit risk inherent in the liability be determined?

In a comment letter to the Financial Accounting Standards Board (FASB) on FSP 157-f, AFP was not supportive of including credit risk in the fair value measurement. However, we will be conducting further research into the questions posed and issuing a response to the IASB request for comments. Click here to view the exposure draft and submit comments. Comments are due by September 1, 2009.

06/09 **IASB Issues Exposure Draft on Fair Value Measurement –** On May 28, 2009, the International Accounting Standards Board (IASB) issued an exposure draft on Fair Value Measurement. The proposed guidance deals with how fair value should be measured when it is required by existing standards. If adopted, the proposals would replace the current fair value measurement guidance with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets.

Sir David Tweedie, Chairman of the IASB, said, "This exposure draft is an important milestone in our response to the global financial crisis. The proposed guidance proposes clear and consistent guidance for the measurement of fair value and also addresses valuation issues that arise in markets that have become inactive. This guidance is consistent with the report of the Expert Advisory Panel and with US GAAP and would achieve overall convergence with US GAAP." The comments received on the exposure draft will aid the IASB in developing an international standard on fair value measurement, which it plans to publish in 2010. Comments are due by September 28, 2009.

06/09 **FASB Finalizes FSP on Determining the Fair Value for Liabilities-** The Financial Accounting Standards Board (FASB) finalized FSP 157–f, Measuring Fair Value under FASB Statement No. 157. The FSP provides additional guidance for determining the fair value of financial liabilities in cases where there is a lack of observable market information. AFP issued a comment letter indicating that the guidance appears to be significantly flawed. See comment letter for further details.

06/09 **FASB Proposed More Guidance on Fair Value Measurement -** On June 8, 2009, The Financial Accounting Standards Board (FASB) proposed FASB Staff Position (FSP), Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide (FSP 157-g). The FASB determined that that net asset value per share is the most relevant estimate of fair value available that would not require undue cost and effort for investments within the scope of this FSP. As a practical expedient, the Board decided that a reporting entity should be permitted to estimate the fair value of an investment within the scope of this FSP using net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) without further adjustment, if the net asset value per share of the investment is determined in accordance with the investment companies Guide as of the reporting entity's measurement date. Comments must be sent to FASB by July 8, 2009

06/09 **Lease Accounting** - The International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) launched a public discussion on lease accounting by publishing their preliminary views in a joint discussion paper that discusses a possible new approach to lease accounting. AFP has been asked to sign onto a joint comment letter with the Equipment Leasing and Financing Association (ELFA) and the US Chamber of Commerce on the discussion paper. Comment letters are due July 17, 2009. It is estimated that US public companies have $1.3 trillion in operating lease payments that currently are not being reported on the balance sheet. According to the Equipment Leasing and Finance Association (ELFA), greater than 75% of all the operating lease rents are not equipment leases, but are real estate leases. If this proposal is passed, companies' right to use all of their equipment and rental properties will be shown on their books as assets that are subject to an initial measurement at cost, which equals the present value of the lease payments discounted using the lessee's incremental borrowing rate and subject to straight-line depreciation over the rental life. A corresponding liability is shown for the obligation to make payments and initially measured at the present value of the lease payments also discounted using the lessee's incremental borrowing rate. Click here for further details.

06/09 **Elimination of Qualifying Special Purpose Entities** - The Financial Accounting Standards Board (FASB) published Financial Accounting Statements No. 166, Accounting for Transfers of Financial Assets, and No. 167, Amendments to FASB Interpretation No. 46(R), which change the way entities account for securitizations and special-purpose entities. The new standards will impact financial institution balance sheets beginning in 2010. These projects were initiated at the request of investors, the Securities and Exchange Commission (SEC), and The President's Working Group on Financial Markets. Statement 166 will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. Statement 167 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated.

Issue Analysis

Obama Administration Plan to Overhaul the Financial Regulatory Structure

By Jeanine Arnett, Government Relations Manager, AFP

In June, the Obama Administration released its plans for a complete overhaul of our nation's system of financial regulation. The plan detailed a series of proposals that seek to involve the government more deeply in the activities of financial firms and institutions to protect the integrity of financial markets. The plan would impose stringent limits on the largest companies to curb risk-taking measures.

Although the plan addresses financial regulatory reform in general, there are several subject matter areas within the plan that are likely to have a direct impact on AFP members and treasury and finance professionals. Below are some highlights.

Efforts to reduce risks to money market funds' credit and risk profile.

The Administration has mandated that the Securities Exchange Commission (SEC) and the President's Working Group on Financial Markets (PWG) prepare a report, due on or before September 19, 2009, outlining a specific plan to strengthen the regulatory framework around Money Market Mutual Funds (MMFs) in order reduce the credit and liquidity risk profile of individual MMFs. The Administration would like to make the MMF industry as a whole less susceptible to runs experienced late last year. Specifically, the President has instructed the SEC and the PWG to consider the following reforms and investigate the impact of regulations that would:

- Require MMFs to maintain substantial liquidity buffers;
- Reduce the maximum (WAM) of MMF assets;
- Tighten the credit concentration limits applicable to MMFs;
- Improve the credit risk analysis and management of MMFs; and
- Empower MMF boards of directors to suspend edemptions in extraordinary circumstances to protect the interests of fund shareholders.

Increased regulation and transparency of OTC derivatives, including credit default swaps

The Obama Administration is clear in their intent to create comprehensive regulation of over-the-counter (OTC) derivatives products, including credit default swaps. The President and Treasury Secretary Timothy Geithner have indicated that regulation in this area will meet the following public policy objectives:

- Preventing activities in the OTC markets from posing risk t the overall financial system;
- Promoting the efficiency and transparency of OTC markets;
- Preventing market manipulation, fraud, and other market abuses; and
- Ensuring that OTC derivatives are not marketed inappropriately to unsophisticated parties.

New Federal Reserve oversight authority for payments, clearing and settlement

Under this plan, President Obama intends to strengthen oversight of payment, clearing and settlement systems and provide oversight by giving the Federal Reserve the authority to conduct oversight of systemically important payment, clearing and settlement systems, and activities of financial firms. The specifics of how this new authority will be exerted have yet to be determined, but it is clear that the Administration intends to regulate this major treasury function.

Revisions to accounting standards, including fair value, loan processing and global standards

To restore confidence in the financial system, the Obama Administration recommends the nation's accounting standards setters consider reforms that would:

• Clarify and make consistent the application of fair value accounting standards, including the impairment of financial instruments, by the end of 2009;
• Improve accounting standards for loan loss provisioning by the end of 2009 that would make it more forward looking as long as the transparency of financial statements is not compromised; and
• Make substantial progress by the end of 2009 toward development of a single set of high quality global accounting standards.

AFP supports the Obama Administrations recommendation for the development of consistent fair value accounting rules. Recently, AFP has submitted comments to accounting standard setters further explaining the real world implications of current accounting practices.

Strengthening the regulation of credit rating agencies

The Obama Regulatory reform plan also included guidance on strengthening regulation of the credit rating agencies noting that the performance of the rating agencies, especially related to mortgage-backed securities, "contributed significantly to the financial crisis." The Administration recommends that the oversight of rating agencies be consistent with the International Organization of Securities Commissions' (IOSCO) December, 2004, Code of Conduct Fundamentals for Credit Rating Agencies and the Group of 20's (G-20) April, 2009, Declaration on Strengthening the Financial System.

Over the past seven years, AFP has posited that with increased competition and oversight, the inherent problems of having a government-created duopoly would be corrected. Given the utter failure of the rating agencies over the past several years to identify the credit crisis, AFP believes it is time to try a new approach to provide investors with the information they need to make prudent investment decisions. We fully support the President's proposal for increased regulation and disclosure. We will continue to engage policy makers to ensure that the end- user perspective is considered throughout the debate.

In addition to the areas highlighted above, the Administration also suggested regulatory reform over other areas impacting our nation's capital markets. Additional highlights of the Administration's proposal include:

• Empowering the Federal Reserve Board to serve as the consolidated supervisor for holding companies of large interconnected financial firms, with authority to conduct examinations and increase capital requirements for those c ompanies;
• Establishing a new federal consumer financial protection agency with sweeping authority to protect consumers against unfair or deceptive practices;
• Creating a systemic risk council chaired by Treasury Department to make recommendations on systemic threats;
• Increasing supervision of financial firms' use of short-term credit;
• Establishing f an Office of National Insurance charged with reviewing risk management products; and
• Eliminating all specialty bank charters including thrift and industrial loan company charters, credit card banks, trust banks and "nonbank" banks.

The Administration outlined a number of goals and a framework for addressing them. As formal legislative & regulatory proposals are introduced, AFP will address them. For more information on particular interests, contact Jeanine Arnett at jarnett@afponline.org.

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-- Washington on the Web --

The AFP Web site is your direct link to current Washington activities impacting treasury and banking. Links to the following sites, and others, are located at the Government Relations section of http://www.AFPonline.org.

Congressional Record	http://www.access.gpo.gov/su_docs/aces/aces150.html
Department of the Treasury	http://www.ustreas.gov
Federal Register	http://www.access.gpo.gov/su_docs/aces/aces140.html
Financial Accounting Standards Board	http://www.fasb.org
Federal Deposit Insurance Corporation	http://www.fdic.gov
Federal Reserve Board	http://www.federalreserve.gov
The Federal Web Locator	http://www.infoctr.edu/fwl
***FedWorld**	http://fedworld.gov
Financial Management Service	http://www.fms.treas.gov
International Accounting Standards Board	http://www.iasb.org.uk/cmt/0001.asp
Office of the Comptroller of the Currency	http://www.occ.treas.gov
Securities and Exchange Commission	http://www.sec.gov
SEC EDGAR Database	http://www.sec.gov/edgar.shtml
****THOMAS**	http://thomas.loc.gov
The U.S. House of Representatives	http://www.house.gov
The U.S. Senate	http://www.senate.gov
The White House	http://www.whitehouse.gov

--Canada on the Web --

Canadian Payments Association	http://www.cdnpay.ca/
Government of Canada	http://www.canada.gc.ca
Department of Finance	http://www.fin.gc.ca
Canadian Institute of Chartered Accountants	http://www.cica.ca
Canada Deposit Insurance Corporation	http://www.cdic.ca
Bank of Canada	http://www.bankofcanada.ca
Investment Dealers Association of Canada	http://www.ida.ca
Canada Customs and Revenue Agency	http://www.tbs-sct.gc.ca
Canada Pension Plan Investment Board	http://www.cppib.ca
Invest In Canada	http://www.investincanada.com
Canada Business Network	http://www.cbsc.org
Canada Mortgage and Housing Corporation	http//www.cmhc-schl.gc.ca
Auditor General of Canada	http://www.oag-bug.gc.ca

--Europe on the Web --

European Commission Euro	http://europa.eu.int/comm/economy_finance/euro_en.htm
European Union General	http://europa.eu.int/index-en.htm
European Central Bank	http://www.ecb.int/

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* FedWorld is a central access point to locate and acquire government information

** THOMAS is the Library of Congress legislative information site