

## **Roadmap to Restoring Capital Market Integrity**

The financial crisis has given rise to broad consensus that robust reforms are required to restore public, investor and global confidence in the United States capital market—from business practices to regulation. Various interests are pressing for speedy overhauls. But America's capital markets are the core of savings, investment and job creation. We cannot afford to get the required changes wrong. The American people expect intelligent market reform.

Signatories of this statement advocate a phased roadmap to reform the capital markets: (1) far-reaching, 'shovel-ready' improvements that can be implemented immediately; and (2) a blueprint for 'built-to-last' regulation reform, including reform of systemic risk, linked to the ongoing work of the Financial Crisis Inquiry Commission (S. 386).

### **'Shovel-Ready' Reforms**

Key reforms to enhance accountability and transparency of market participants have been championed for years, but failed to win sufficient traction while the economy boomed. They are like plans to fix crumbling roads and bridges, stored away until political will and budgets converge to allow progress. Now is the time to put capital market fixes into action. A package could include:

- Empowering financial regulators to apply credible, seamless oversight to hedge funds and private equity.
- Improved oversight of key derivative products, including whether a credit default swap settlement mechanism should be adopted.
- Mandating stepped-up standards and supervision of credit rating firms.
- Authorizing new regulation of mortgage brokers, consumer credit matters and similar issues.
- Ensuring that "access" rules crafted by the Securities and Exchange Commission are protected under federal law, so that investors can more easily nominate candidates to corporate boards.
- Mandating that all public companies offer annual advisory shareowner votes on compensation policies ('say on pay').
- Calling for independent, non-executive chairmanship of corporate boards, upon succession, or explaining with appropriate reasons why another model is preferable.
- Legislating creation of a permanent, broad-based commission to develop, refresh and oversee a US code of corporate governance best practice principles.
- Merging the Commodity Futures Trading Commission into the Securities and Exchange Commission.
- Requiring the Department of Labor to ensure that America's retirement savings plans feature peak accountability and disclosure, and that such funds act as engaged owners at portfolio companies to safeguard value.

### **'Built-to-Last' Regulation Reform**

Engineering a renewed architecture for oversight is critical to enhancing confidence in market participants and to reducing risks of systemic meltdown. Regulators need to be fit for purpose in the context of modern conditions, particularly in respect to oversight of financial services, the insurance industry and self-regulatory organizations. These regulators should operate in close coordination with counterparts in other jurisdictions around the globe. Further, business challenges may require fresh legislative approaches, such as a short-of-bankruptcy reorganization process.

On May 20, 2009 President Obama signed legislation establishing the Financial Crisis Inquiry Commission. Its mission is to identify causes of the crisis in a report to Congress due December 15 2010. Like the 1933 Pecora Investigation, which paved the way for congressional action on broad market reforms following the 1929 Crash, the new inquiry should be able to identify underlying failures in practice and regulation and point the way to solutions to today's problems.

The signatories propose that the White House and Congress agree on a timetable to address broad regulation reform and systemic risk regulation, and that this timetable be linked to the outcome of the Commission's research, hearings, and information it will be assembling from national and international sources. Current proposals for a systemic risk regulator may ultimately prove a good idea. Final decisions as to the locus of the regulator and its powers, however, should be grounded in insights from the Commission's ongoing work.

Preparation for such 'built-to-last' regulation reform may get underway as the Financial Crisis Inquiry Commission proceeds with its research, hearings, and information gathering. Final blueprints for new regulation would be at the discretion of the Administration and Congress. This deliberate process and careful study should avoid unintended damage to the American economy.

This proposal represents a fair consensus of our viewpoints and reflects our support for the principal recommendations. We did not believe it necessary to ensure that each Endorser agree with every word of the statement.

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