THE NEW ENGLAND COUNCIL

Committee Update

May 23, 2014

Financial Services Committee Meeting with Congressman Capuano

May 16, 2014 9:30 - 10:00 a.m.
The Hampshire House
84 Beacon Street
Boston, MA 02108

Attendees

- Jim Febeo, Fidelity Investments
- Jim Segel, Smith, Segel, & Ruddock
- John Murphy, NAMIC
- Jack Armstrong, Liberty Mutual
- Tracey Flaherty, Natixis
- Esther Schlorholtz, Boston Private Bank & Trust Company
- John Skarin, Massachusetts Bankers Association
- Sean Morrisey, TD Bank
- Ray Hoefling, Webster Bank
- Joanne Sullivan, Federal Home Loan Bank of Boston
- Jim Smith, Smith, Segel, & Ruddock
- Susan Livingston, Brown Brothers Harriman
- Lenny Glynn, Putnam Investments
- Rebecca Frisch, TD Bank

Meeting Summary

During both the general remarks and the subsequent Financial Services Committee meeting, the committee members and Congressman Capuano reviewed a number of issues, including:

- TRIA Reauthorization;
- State of the Financial Services Industry;
- Dodd-Frank Implementation;
- Fannie/Freddie Reforms; and
- Retirement Security.

1) Terrorism Risk Insurance Act (TRIA) Reauthorization
    - Congressman Capuano has been a leading voice on Capitol Hill calling for TRIA reauthorization and has introduced legislation to extend the program that expires December 31, 2014 called the "Terrorism Risk Insurance Program Reauthorization Act of 2013" (TRIPRA), or H.R. 2146. The bill, which would reauthorize TRIA for ten years, currently has 68 cosponsors.
    - Congressman Capuano said that everyone wants to extend TRIA except for a few small interest groups.
    - Congressman Capuano and committee members in attendance agreed that TRIA mitigates the risk of building in urban areas like Boston that could be considered risky to insure. Without TRIA, risk would be too great for insurers to insure companies against terrorism. This would lead to a subsequent decrease in funds available to stimulate construction and overall economic activity.
    - Members of the Senate have introduced their own proposal (S. 2244) to extend the program for seven years and make two changes to the current program that will be phased in over a five-year period: increasing the insurer copayment from 15 to 20% and raising the mandatory policyholder surcharge from $27.5 billion to $37.5 billion. It is slated for markup by the Senate Banking Committee on June 3rd.
    - Conservatives members of the House are working on their own legislation that is expected to be considered by the House Financial Services Committee next month. While reauthorizing TRIA for three years through 2017, the draft proposal that has been floated would create a two-tiered system for classifying terrorist attacks by raising the trigger for non-nuclear, biological, radiological, and/or chemical (NBCR) events from $100 million to $500 million. It would also lower the deferral share of insurers' losses for any non-NBCR events from an 85 percent copay to 75 percent, and the total $100 billion cap on federal payments and insurer liability would drop to $75 billion for non-NCBR events.
    - The Council recently joined 258 other business organizations from across the country in urging Congress to reauthorize the law.

2) State of the Financial Services Industry
   - NEC Financial Services Committee Chair Jim Febeo provided statistics that showed the significant contribution of the Financial Services industry to the Commonwealth's economy and detailed how the services they provide positively ripple throughout the economy leading to increased macroeconomic growth.
   - Specifically, he noted that according to last year's Mass Insight/PwC report on the sector's impact on the Massachusetts economy, financial services firms support more than 165,000 direct jobs, many of them in the middle class. Additionally, he noted that the industry in responsible for $36 billion, or nine percent, of Gross State Product.
   - Congressman Capuano posited that the financial services industry used to be more cohesive and able to speak with a more unified voice. Today it is siloed into discrete components, which has led to fragmented voices calling for narrowly tailored legislation that addresses the needs of their particular company.
     - Congressman Capuano said he frequently hears "regulate however you want for everyone else but leave my company alone."
     - Congressman Capuano challenges Council members to provide specific regulations of concern when bringing up the topic of regulations, rather than speaking more generically about the overall cost and weight of regulations.
     - Acting with unified voice would lead to greater political pressure for change—Congressman Capuano advised members to "see what can be agreed upon and then work on that issue."
3) Dodd-Frank Implementation
   - There was much praise and thanks to Congressman Capuano for his letter, along with Rep. Stephen Lynch, to Treasury Secretary Jack Lew urging the Financial Stability Oversight Council (FSOC) "to embrace an open and transparent process when evaluating financial companies for potential designation as systemically significant financial institutions (SIFIs)." Congressman Capuano noted that with any major piece of legislation, there will be different interpretations; however, there is no reason why regulators cannot be upfront and transparent about the rules and actions they are considering.
   - Congressman Capuano also told Council members, "I don't see risky activity in asset management."

- Congressman Capuano and Committee members expressed concern regarding the efforts of the Financial Stability Board to introduce new international financial regulations and the designation process for G-SIFIs
    - Process is even more opaque in Europe than it is in the United States. Increased transparency of process would be beneficial
    - Regulations in Europe are more burdensome but not more effective
    - Concern regarding the apparent lack of United States' leadership in steering how the FSB operates and is thinking about new regulations since it has the clout to impose international rules on the US financial system
- Members asked Congressman Capuano if they could expect to see any changes to the Dodd-Frank financial industry reform Act in the near future
    - Congressman Capuano said to expect only minor changes to individual parts of the law but also said that the collective changes could add up to be something significant.

4) Fannie Mae and Freddie Mac Reforms
- Members expressed concern regarding the proposed reforms to the housing financing GSE's Fannie Mae and Freddie Mac.
    - Members called for modest and incremental changes to the agencies instead of sweeping changes that create uncertainty in the housing/asset management industries
    - Congressman Capuano said that no action will be taken this year to reform Fannie and Freddie. Eventually, he would like to see the two merge into a single entity.
- The Senate Banking Committee marked up legislation to wind down Fannie Mae and Freddie Mac and reform the housing finance system on Thursday, May 18th. It passed the committee on a 13-9 vote. The bill, introduced by Committee Chairman Tim Johnson (D-SD) and Ranking Member Mike Crapo (R-ID), would have eliminated Fannie Mae and Freddie Mac and replaced them with a new mortgage securitization platform along with an explicit government backstop. The vote was postponed from earlier in the month to try to get additional Senators to support the measure; however, during that time, leaders were only successful in acquiring one additional vote. It is widely believed that the full Senate will not take up the measure during the remainder of this year,

leaving the future of housing finance reform in doubt, possibly slipping until after the 2014 midterm elections or even the 2016 presidential election.

- Several Council members found recent comments by Federal Housing Finance Agency Director Mel Watt comforting since they suggested the FHFA would take a cautious approach toward enacting any reforms. On May 13th, Watt announced that the Obama Administration would reverse course on certain efforts to tighten mortgage-lending standards in order to allow Fannie and Freddie to making additional credit available to homeowners.

5) Retirement Savings
   - Committee members asked the congressman to maintain and preserve the incentives for Americans to save for retirement.
   - The retirement savings industry is especially strong in Boston-metro area
     - Lenny Glynn of Putnam Investments said "Boston is to retirement services as Houston is to oil production and refining."