

August 1, 2014

Summary of NEC Financial Services Conference Call with Chris Russell, Policy Director, House Financial Services Subcommittee on Capital Markets and Government-Sponsored Enterprises

Mr. Russell began the call by reviewing both the legislative initiatives and oversight actions both his subcommittee and the full House Financial Services Committee have undertaken recently before taking questions from the call participants.

Subcommittee on Capital Markets and GSEs

- **FSOC Oversight** – Mr. Russell said this is his subcommittee’s #1 issue. He pointed to bipartisan concern about the lack of transparency and accountability at FSOC, and said the subcommittee’s goal is trying to get a more structure process from the panel that is open to the public and Congress. The full committee has passed legislation authored by the subcommittee’s chairman, Rep. Scott Garrett (R-NJ) called the *FSOC Transparency and Accountability Act* ([H.R. 4387](#)), and he cited legislation that Reps. Dennis Ross (R-FL) and John Delaney (D-MD) [recently introduced](#) to put confines around the FSOC’s SIFI designation process and improve its transparency (the [Financial Stability Oversight Council Improvement Act of 2014](#), H.R. 5180).
- **Equity market structure** – Mr. Russell said that this has been a priority since before Michael Lewis’ book, *Flash Boys*, was released. On Monday, Rep. Garrett held a roundtable with three panels, including CEOs from stock markets, broker-dealers, and other market participants. A number of members of Congress attended, including new House Majority Leader Kevin McCarthy (R-CA) and Rep. Stephen Lynch (D-MA). SEC Commissioner Michael Piwowar also listened in on some of the proceedings.
- **Small business capital formation** – Mr. Russell pointed to the subcommittee’s efforts on how to help small businesses raise capital, including by considering a number of tweaks to securities laws and streamlining and modernizing regulations, as well as allowing Business Development Companies (BDCs) to promote more capital formation. He also noted the subcommittee’s review of the implementation of the JOBS Act by the SEC, saying they had passed a number of bills related to it through the full committee.

- **SEC oversight** – Mr. Russell discussed recent actions by the SEC regarding proxy advisors and the outsized role they play in shareholder solicitation (Rep. Garrett thanked the SEC’s Director of Corporation Finance at a July hearing for the agency’s recent decision on the topic) and how investment advisors factor into proxy advisors’ recommendations. The subcommittee also recently held a hearing with the SEC’s Director of Trading and Markets regarding broker-dealers and derivatives.
- **FHFA oversight** – Mr. Russell also mentioned the subcommittee’s concern over some actions taken by recently approved Federal Housing Finance Agency (FHFA) Director Mel Watt that run counter to actions taken by the previous Acting Director, Edward DeMarco, that the subcommittee will be monitoring.

Full Committee

- **Dodd-Frank Act** – On the day of the call, the Government Accountability Office was set to release a report on the presence of Too-Big-To-Fail (TBTF). He also mentioned that the committee [released a report](#) last week that found that Dodd-Frank perpetuates TBTF as “official government policy,” and is working on legislation related to Dodd-Frank and TBTF, including broader reforms to Titles I and II of the law. Last week was the 4th anniversary of the Dodd-Frank Act, and the committee [held a hearing](#) with former Chairman Barney Frank (D-MA) as a witness. Mr. Russell also noted the committee’s interest in oversight of the Consumer Financial Protection Board (CFPB).
- **Federal Reserve** – The committee recently passed legislation called the Federal Reserve Accountability and Transparency Act which would require the Federal Reserve to make rule-based monetary policy; Congress would not be able to tell the Fed what rule to adopt, and the Fed could change its rule, but would need to explain to Congress why it was changing it. According to committee Chairman Jeb Hensarling (R-TX) and [media reports](#), this is just the first in a series of upcoming bills to reform the Federal Reserve.

Questions

- ***What’s the outlook for housing reform?***
 - Mr. Russell said that he’s still optimistic about enacting housing reform legislation, but that the clock is ticking. He said that many in the Senate agree that the current status quo of government funding for over 90 percent of the mortgage market is unsustainable. He believes that the issue will be kicked into next year, and that Chairman Hensarling is willing to wait.
- ***Tom Samoluk (John Hancock) said he was surprised to see how fast the so-called “[Collins Amendment fix](#)” passed the Senate. He asked what the prospects were for passage in the House, and whether or not extraneous items will be attached to it there?***

- Mr. Russell said that they are committed to making sure the fix passes this Congress.
- ***Shawn Gallagher (AIG) asked about the timeline for passage of a TRIA reauthorization bill in the House?***
 - Mr. Russell indicated that the chairman is committed to getting something done before heading into the elections. The two options, he said, are passing legislation that includes reforms to the program, or passing a 6-month extension of the program as is and then coming back to the subject early next Congress.
- ***Is the committee or subcommittee considering any action in light of the SEC's recent approval of a [final rule](#) on money market mutual funds (MMFs) and the Treasury Department's [guidance](#)?***
 - Mr. Russell said that the staff is still reviewing both items before making any decisions and that “the jury is still out” on the matter.
- ***What was the reaction to the Dodd-Frank 4th anniversary [hearing](#) last week, and would there be any legislative follow-up from it?***
 - Mr. Russell said that it was a privilege having Chairman Frank as a witness, and highlighted Frank's comments that the implementation of the law was not going the way he envisioned and that he agreed that it was not appropriate for asset management firms to be designated as SIFIs and be on the hook to pay for the wind down of large firms. He also pointed to Frank's comments that it was not his idea to have non-bank SIFIs be designated in perpetuity, as well as Frank's concerns over not having an appropriate risk retention rule in place.
- ***Jim Febo (Fidelity) asked about feedback on the de-designation process for designated SIFIs?***
 - Mr. Russell said it was a great question, because there is still a lot of uncertainty as to the entire SIFI designation process. He argued that, since a SIFI is required to provide a living will that has to show how it would be wound down, and the FSOC has to approve the living will, how can the FSOC then say that a non-bank is still a SIFI when the company has shown a plan on how to resolve these issues.
- ***What is the outlook for Export-Import Bank reauthorization?***
 - Mr. Russell said that right now, Chairman Hensarling is not convinced that it needs to be reauthorized. He said larger participants can get nearly equal funding elsewhere, and pointed to recent allegations of kickbacks (explored by the House Oversight and Government Reform Committee) and deals that have helped Russian companies close to President Vladimir Putin as reasons why there was so many questions about the bank. He also said that Congress tried to make reforms to the bank in 2012 but they went nowhere, so he is skeptical that the bank could even be reauthorized along with reforms.

- *Jeevan Ramapriya (State Street) asked what Mr. Russell's reaction was to the [GAO report on Too-Big-To-Fail due out that day?](#)*
 - Mr. Russell said he could not comment specifically due to the embargo in place, however he said not to expect any kind of big number that quantifies support from the government for large bank holding companies.

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