

ICI Releases Detailed Regulatory Reform Proposal

ICI Outlines Detailed Regulatory Reform Proposal

Institute Recommends New Systemic Risk Regulator and Capital Markets Regulator

Washington, DC, March 3, 2009 - The Investment Company Institute today issued a white paper with recommendations on how to achieve meaningful reform of the current system for regulating the U.S. financial services industry, with particular emphasis on the functioning of the capital markets and the regulation of investment companies.

"The financial crisis highlights the longstanding need for regulatory reform to develop a more effective framework for overseeing modern financial markets and mitigating risks to the financial system at large," said ICI President and CEO Paul Schott Stevens. "Such a framework should, among other things close regulatory gaps, bolster regulatory expertise, and improve inter-agency coordination."

The ICI white paper, [Financial Services Regulatory Reform: Discussion and Recommendations](#), calls for the creation or designation of a "Systemic Risk Regulator," as well as a new "Capital Markets Regulator" that would encompass the combined functions of the Securities and Exchange Commission and the Commodity Futures Trading Commission. It includes suggestions for specific steps for the Capital Markets Regulator, including hiring more agency staff with significant prior industry experience, and establishing a multidisciplinary Capital Markets Advisory Committee comprised of private sector representatives from all major sectors of the capital markets. The paper also recognizes the critical need for effective coordination and information-sharing among financial regulators, including the Systemic Risk Regulator. In addition, ICI recommends that Congress consider consolidation of the regulatory structure for the banking sector and authorization of an optional federal charter for insurance companies.

Systemic Risk Regulator Proposal

Under the ICI reform model, the Systemic Risk Regulator would help assure greater overall stability for the financial system as a whole. This agency (or inter-agency body) would broadly monitor the financial markets; evaluate the risks of practices as they evolve; identify practices that implicate the health of the financial system at large; and act to mitigate such risks in coordination with other responsible regulators.

ICI cautions, however, that very careful consideration should be given to this regulator's authority to ensure it doesn't stifle sensible innovation or beneficial competition, displace any primary regulator, or impose inapposite forms of regulation or needless bureaucratic burdens. Policy makers should consider explicitly defining the Systemic Risk Regulator's relationship with the other, primary financial regulators.

Capital Markets Regulator Proposal

ICI proposes the creation of a Capital Markets Regulator that would be responsible for oversight of U.S. capital markets, market participants, and all financial investment products. The Capital Markets Regulator would be the regulatory standard setter for all registered investment companies, including money market funds, and the first line of defense with respect to risks across the capital markets. This agency would be charged explicitly with the power to address gaps in regulation relating to hedge funds, derivatives, and municipal securities, as well as to harmonize the legal standards applicable to investment advisers and broker-dealers. The Capital Markets Regulator would be dedicated to investor protection and law enforcement and would be required to weigh the impact of its rulemaking activity on efficiency, competition and capital formation.

"ICI looks forward to working with other stakeholders and policymakers to ensure that the U.S. financial services regulatory system can meet new challenges posed by the continuing evolution of the financial markets, market participants, and financial products," Stevens concluded.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.