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NOMINATIONS OF: NEEL KASHKARI, CHRISTOPHER WALL, SHEILA MCNAMARA GREENWOOD, SUSAN PEPPLER, JOSEPH MURIN, LUIS AGUILAR, TROY PAREDES, ELISSE WALTER, DONALD MARRON, AND MICHAEL FRYZEL

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

NEEL T. KASHKARI, OF CALIFORNIA, TO BE ASSISTANT SECRETARY OF THE TREASURY, INTERNATIONAL AFFAIRS

CHRISTOPHER R. WALL, OF VIRGINIA, TO BE ASSISTANT SECRETARY OF COMMERCE, EXPORT ADMINISTRATION

SHEILA MCNAMARA GREENWOOD, OF LOUISIANA, TO BE ASSISTANT SECRETARY, HOUSING AND URBAN DEVELOPMENT, CONGRESSIONAL AND INTERGOVERNMENTAL RELATIONS

SUSAN PEPPLER, OF CALIFORNIA, TO BE ASSISTANT SECRETARY, HOUSING AND URBAN DEVELOPMENT FOR COMMUNITY PLANNING AND DEVELOPMENT

JOSEPH J. MURIN, OF PENNSYLVANIA, TO BE PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

LUIS AGUILAR, OF GEORGIA, TROY A. PAREDES, OF MISSOURI, AND ELISSE B. WALTER, OF MARYLAND, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

DONALD B. MARRON, OF MARYLAND, TO BE A MEMBER, PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS

MICHAEL E. FRYZEL, OF ILLINOIS, TO BE A MEMBER, NATIONAL CREDIT UNION ADMINISTRATION BOARD OF DIRECTORS

TUESDAY, JUNE 3, 2008

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C O N T E N T S

TUESDAY, JUNE 3, 2008

	Page
Opening statement of Chairman Dodd	1
Opening statements, comments, or prepared statements of:	
Senator Bennett	3
Senator Menendez	3

WITNESSES

Neel T. Kashkari, of California, to be Assistant Secretary of the Treasury, International Affairs	5
Prepared statement	50
Christopher R. Wall, of Virginia, to be Assistant Secretary of Commerce, Export Administration	6
Prepared statement	52
Sheila McNamara Greenwood, of Louisiana, to be Assistant Secretary, Housing and Urban Development, Congressional and Intergovernmental Relations	8
Prepared statement	54
Susan Peppler, of California, to be Assistant Secretary, Housing and Urban Development for Community Planning and Development	9
Prepared statement	57
Joseph J. Murin, of Pennsylvania, to be President, Government National Mortgage Association	10
Prepared statement	60
Luis Aguilar, of Georgia, to be a Member, Securities and Exchange Commission	26
Prepared statement	63
Response to written questions of:	
Senator Dodd	75
Senator Reed	78
Senator Carper	79
Senator Tester	80
Senator Crapo	82
Troy A. Paredes, of Missouri, to be a Member, Securities and Exchange Commission	28
Prepared statement	65
Response to written questions of:	
Senator Dodd	83
Senator Reed	91
Senator Carper	93
Senator Tester	94
Senator Crapo	95
Elisse B. Walter, of Maryland, to be a Member, Securities and Exchange Commission	29
Prepared statement	67
Response to written questions of:	
Senator Dodd	95
Senator Reed	99
Senator Carper	100
Senator Tester	101
Senator Crapo	102

Page

Donald B. Marron, of Maryland, to be a Member, President's Council of Economic Advisers 31
Prepared statement 69
Response to written questions of:
Senator Dodd 102
Michael E. Fryzel, of Illinois, to be a Member, National Credit Union Administration Board of Directors 31
Prepared statement 70

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Statement of Bob Dole, former Senator from the State of Kansas 106
Letter to Chairman Dodd from the Security Traders Association 107

HEARING ON PENDING NOMINATIONS

TUESDAY, JUNE 3, 2008

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 2:48 p.m., in room SD–538, Dirksen Senate Office Building, Hon. Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order.

First of all, let me apologize to our witnesses. We just had the family photograph taken over in the Senate, an annual—I guess a—no, a biannual event. So we are a little bit late getting started.

Let me thank all of you who are here today, thank our nominees, and the audience that is here, as well as my colleagues.

How we will proceed, we have got a busy afternoon. We have got a lot of people before us. And so I am going to move through an opening statement here rather quickly, turn to my friend and colleague from Alabama, Senator Shelby, for any opening comments he may have. Obviously, I invite my colleagues for any thoughts they may have on the nominees, as well, although I would encourage my colleagues to, if they could, restrain themselves. I promise them all of their opening statements in support or opposition to any nominee will be included, so we might hear from our witnesses and move through.

We have got two panels of witnesses, so we have got a crowded afternoon to try and cover an awful lot of ground.

This afternoon we meet to consider 10 of the President's nominees for offices that are within the Committee—this Committee's jurisdiction. I want to thank each of these nominees for their willingness to appear before the Committee, to serve our country, and welcome them, their families, and their friends to the Senate Banking Committee.

I would also like to thank them, as I said a minute ago, for their willingness to serve their country in the positions for which they have been nominated. In my view, one of the great virtues of our democratic system is that we allow, and indeed encourage, private citizens to give back to their country for periods of time as public servants.

All of today's nominees have made a decision to submit to a nominating process, enter a term of service that can, in many respects, be difficult even while at the same time immensely reward-

ing. And for that, I commend each and every one of you who are at the table today, and those who will follow you.

What is particularly noteworthy about these nominees is that they have allowed their names to be placed in nomination at the end of the current administration. With the possible exception of 4 witnesses on the second panel, all of these men and women understand that, if confirmed, they are likely to serve a relatively brief amount of time. And yet while they may serve only a brief time, there is much work to be done in that time.

All of today's witnesses have been nominated to fill offices whose missions involve—that addresses some of the major economic challenges of our time. I have no doubt that these witnesses are motivated, in no small measure, by a desire to successfully address those very challenges during their term of service.

This Committee has worked diligently to address many of these same challenges, not only by developing and advancing legislation but also by seeking to consider and confirm qualified nominees. Thus far in the 110 Congress, we have confirmed 13 nominees for positions in the administration. As my colleagues know, last December we were prepared to move 3 additional nominees through the Senate but they were blocked for reasons unrelated to the merits of the nominees themselves.

Similarly, 12 days ago, on the same day as his confirmation hearing, the Committee was prepared to move the Senate confirmation of Steven Preston's nomination to serve as Secretary of the Department of Housing and Urban Development. Regrettably, that nomination was blocked for reasons unrelated to Mr. Preston's qualifications either. I am hopeful that he will be confirmed, by the way, in very short order. We need a Secretary of HUD.

With that, let me say a brief word about this afternoon's first panel of nominees. Our first nominee is Mr. Neel——is it Neel?—Neel Kashkari of California, to be Assistant Secretary of the Treasury for International Affairs. This position was created as part of the Foreign Investment and National Security Act, which was passed unanimously by this Committee and signed into law in the first session of this Congress.

Mr. Kashkari currently serves as a Senior Advisor to Secretary Paulson, and prior to coming to Treasury Department he worked as Vice President of Goldman Sachs and Company.

Next on the panel is Mr. Christopher Wall of Virginia, to be Assistant Secretary of Commerce for Export Administration. Mr. Wall currently serves as the Senior International Trade Partner of the law firm Pillsbury Winthrop Shaw Pittman. Prior to this, he served as the firm's managing partner.

Ms. Susan Peppler of California has been nominated to be the Assistant Secretary of Community Planning and Development at the Department of Housing and Urban Development. Ms. Peppler currently serves as the Deputy Associate Administrator in the Office of Intergovernmental Affairs at the General Services Administration. Prior to holding that position, she served as Mayor of the city of Redlands, California. Earlier in her career, she served as a public affairs specialist at State Farm Insurance. So we thank you for being with us.

Next we have Ms. Sheila McNamara Greenwood of Louisiana, to be the Assistant Secretary for Congressional and Intergovernmental Affairs. Ms. Greenwood currently serves as the Deputy Chief of Staff at the Department of Housing and Urban Development and previously she served as the Director of Legislative Affairs in the Office of the Federal Coordinator for the Gulf Coast Rebuilding at the Department of Homeland Security. Earlier in her career she served as the Senior Legislative Officer in the Office of Congressional Intergovernmental Affairs at the Department of Labor.

Mr. Joseph Murin of Pennsylvania has been nominated to be the President of the Government National Mortgage Association, also known as Ginnie Mae. Mr. Murin previously served as President and Managing Partner of the Mortgage Settlement Network. He is the former Chief Executive Officer of the Basis100 Corporation. Earlier in his career he served as President and Chief Executive Officers of Lender's Service Incorporated.

I look forward to the testimony of our witnesses.

Before I ask you to take an oath here, let me turn to my colleague from Alabama. Senator Shelby.

Senator SHELBY. Chairman Dodd, to move on this afternoon I would like to ask that my entire statement be made part of the record, and we can move on with the people hopefully.

Chairman DODD. I thank you for that.

Do any of my colleagues want to be heard?

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Yes, Mr. Chairman, I apologize that I will have to leave before we get to the second panel and simply want the record to reflect that Donald Marron, who is a nominee for the President's Council of Economic Advisors, served as the Chief of Staff for the Republicans on the Joint Economic Committee when my assignment was to be Vice Chairman of that Committee. And he served with great distinction. He is an excellent economist. The President has made a very wise choice. And I hope the Committee will confirm him unanimously.

Chairman DODD. Thank you, Senator. I appreciate that very much.

Senator MENENDEZ. Mr. Chairman.

Chairman DODD. Yes.

OPENING STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Mr. Chairman, I just want to—I hope I can stay for the second panel. But Luis Aguilar is one of the nominees to the Securities and Exchange Commission. I have known Luis for a very long time. He is an excellent attorney, someone who has developed a strong background in the securities field, and who is the type of balance that we need on the Securities and Exchange Commission to fulfill the mission that I think the Commission has and that members of this Committee believe in. And we certainly need a full quorum of that Commission, which has lacked the ability I think to move forward in a way that is important, particularly at a critical time in the Nation's securities field.

So I look forward to hopefully his successful process here and his moving forward.

And finally, Mr. Chairman, I am happy to see that the Administration has nominated someone who actually, in addition to having the qualities, continues to provide some diversity in these fields. Roel Campos was the former Securities and Exchange Commissioner, and the first Hispanic ever to be nominated to that position. I am glad to see the Administration has done the same, somebody very qualified to fulfill his replacement.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

If I could ask our witnesses to rise and raise your right hand while I administer the oath of office—not the oath of office, excuse me.

[Laughter.]

I am a little ahead of myself here. Just another day we are in today.

Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you god?

Mr. KASHKARI. I do.

Mr. WALL. I do.

Ms. GREENWOOD. I do.

Ms. PEPPLER. I do.

Mr. MURIN. I do.

Chairman DODD. And do you agree to appear and testify before any duly constituted committee of the U.S. Senate?

Mr. KASHKARI. I do.

Mr. WALL. I do.

Ms. GREENWOOD. I do.

Ms. PEPPLER. I do.

Mr. MURIN. I do.

Chairman DODD. I thank you for that.

Let me ask you all, if I could just briefly before we begin, because it is always a day of great import for families. Beginning with you, Mr. Kashkari, any family members here you would like to introduce to the Committee?

Mr. KASHKARI. Yes, thank you, Mr. Chairman.

My wife Minal is seated right behind me. She is here with me.

Chairman DODD. Very good, welcome. Mr. Wall.

Mr. WALL. My wife, Barbara is here today with me. My two children, Read and Louisa, are college age. They are embarked on great adventures and projects this summer and unfortunately could not be here today.

Chairman DODD. Very good. Ms. Greenwood.

Ms. GREENWOOD. You will be sorry you asked. My mother, my husband, my son, two sisters, and several friends are here today.

Chairman DODD. Is anyone not with the Greenwood family?

Ms. GREENWOOD. No.

[Laughter.]

Chairman DODD. I just wanted to check on that. Ms. Peppler.

Ms. PEPPLER. Thank you. I am honored to introduce my husband, Bob, and our two granddaughters here visiting with us for the summer here in Washington, D.C.

Chairman DODD. Terrific. Welcome, glad to have them here. Mr. Murin.

Mr. MURIN. Yes, I am with Sheila.

[Laughter.]

Chairman DODD. We did not know that ahead of time.

Mr. MURIN. I think we have the whole audience.

I have my wife, Angela, my daughter, Shannon. And I am fortunate enough to have my mother and father in the audience, along with my two brothers today.

Chairman DODD. Welcome. We are delighted they are all here. It is a moment of great import.

I want all of you to know that your written statements and any material you think would be pertinent for the Committee will be included in the record as part of your remarks, and that is also true of my colleagues here as well. I want to thank you for joining us today.

We will begin with you, Mr. Kashkari. Try and keep your remarks, if you can, to about 5 minutes so we can move along and get to the questions.

TESTIMONY OF NEEL T. KASHKARI, NOMINEE, TO BE ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

Mr. KASHKARI. Thank you, Mr. Chairman.

Chairman Dodd, Ranking Member Shelby, and members of the Committee, I am honored to appear before you today as the President's nominee to serve as Assistant Secretary of the Treasury for International Affairs.

Please allow me to express my gratitude to the President and to Secretary Paulson for the confidence and trust that they have shown in me. I would also like to thank you for your consideration of my nomination. And, as I just did, I would like to thank my wife, Minal, who is here with me today, for her continuous support of my career and my public service.

If confirmed, I look forward to working closely with this Committee, with your colleagues in the U.S. Senate, and in the U.S. House of Representatives, to advance U.S. economic interests at home and abroad.

I would like to briefly discuss my experience and how it has prepared me for the position to which I have been nominated. In my role as Senior Advisor to Secretary Paulson, I have been responsible for developing and executing several international and domestic policies for the Department to foster a more conducive investment climate for the U.S., as well as to support global economic growth.

Prior to my Government service, I worked as an investment banker, where I executed financial and strategic transactions that have also prepared me for the position to which I have been nominated.

Since joining the Treasury Department in July 2006, I have led several policy initiatives for the Department, including No. 1, promoting Indian financial sector liberalization and free trade through strengthened economic engagement and increased infrastructure investment.

Two, enhancing U.S. energy security by implementing policies that will, over time, reduce our exposure to the global oil market by encouraging the development of alternative fuels and by improving the efficiency of our auto fleet.

And No. 3, spearheading our response to the housing crisis by mobilizing the private sector to avoid preventable foreclosures and working to ensure the flow of capital to the housing market going forward, enabling the housing correction to move forward as quickly as possible, while minimizing spillover from housing to the rest of the real economy.

Prior to joining Treasury, I was a Vice President at Goldman Sachs, where I advised U.S. and international companies on both debt and equity financings as well as global mergers and acquisitions. As an advisor to management teams and boards of directors, I gained firsthand insight into the challenges that U.S. companies face as they strive to access markets abroad as well as competing with global players here at home.

This transactional experience will be particularly important to help implement our critically important investment security policy through the Committee on Foreign Investment in the U.S. I will work hard to ensure that our national security interests are protected, while maintaining an open investment climate.

Prior to joining the financial services industry, I strengthened my analytical skills as an aerospace engineer, developing technology for future NASA space science missions, such as for the James Webb Space Telescope, that is due to launch in 2013.

My educational background includes a Bachelor's and Master's degree in engineering from the University of Illinois at Urbana-Champaign and an M.B.A. in finance from the Wharton School.

If confirmed, I look forward to working with the administration, with the Congress, and with my colleagues at the Department of the Treasury to promote global economic growth, financial market stability, and open markets for U.S. goods and services.

Mr. Chairman, Senator Shelby, and members of the Committee, I am grateful for the opportunity to appear before you today. I would be very pleased to answer any of your questions.

Chairman DODD. Thank you very much.

Mr. Wall.

TESTIMONY OF CHRISTOPHER R. WALL, NOMINEE, TO BE ASSISTANT SECRETARY FOR EXPORT ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. WALL. Chairman Dodd, Senator Shelby, and Members of the Committee, it is a great honor as well for me to be here today as the President's nominee for the position of Assistant Secretary of Commerce for Export Administration.

I thank the President and Secretary Gutierrez for their confidence and trust in me.

I would also like to thank the members of the Committee's staff who have taken the time to meet with me prior to today's hearing.

If confirmed, I look forward to building on the cooperative working relationship between the Bureau of Industry and Security and this Committee.

Of course, I would like to thank my wife, Barbara, as well, who is here.

Mr. Chairman, I recognize the importance of the obligation that I will be undertaking, if confirmed. BIS plays a critical role in advancing U.S. national security, foreign policy and economic objectives by ensuring an effective export control and treaty compliance system, while at the same time facilitating continued U.S. strategic technology leadership.

For close to thirty years, I have had the opportunity to work on and examine these important issues as a partner at a large international law firm. I have advised clients on export controls and other international trade matters. I have also been active in professional organizations addressing these and other international trade matters and have chaired and spoken frequently at conferences which promote a dialog between industry and Government leaders.

Of course, as a practicing attorney, one is professionally obligated to focus on the interests of one's clients, but more important is an obligation to the law itself. The focus of my practice has always been on assisting clients to comply with and to achieve results that are consistent with the laws and guidance in this complex area. At the same time, my continuing involvement in professional and other organizations has also enabled me to focus on the larger policy issues that inform this area. I believe this focus has made me a better counselor, and has better prepared me to address these issues from the perspective of a policymaker, if confirmed.

One of the highest priorities in the near term is the passage of S. 2000, the Export Enforcement Act of 2007. I believe I can speak on behalf of the entire exporting community, Mr. Chairman, in thanking you for introducing this legislation to reauthorize the Export Administration Act. The legislation is essential to provide the tools for vigorous enforcement. It is important for the rule of law and good government.

The threats we face today are very different from those that we faced when the Export Administration Act was enacted, principally terrorism, non-state actors, and the proliferation of weapons of mass destruction.

The economic realities we face today are very different, as well. Crafting legislation that addresses these 21st century issues is a task that cannot realistically be accomplished in a short period of time but I would hope, if confirmed, to play an active role in stimulating discussion with all parties and to start the process of building a consensus or at least a broadly shared approach that may lead to enactment of such legislation in the foreseeable future.

Even within the existing system, however, important efforts are underway to address these new threats and economic realities. These efforts include the President's export reform initiative, responding to the recommendations of the Deemed Export Advisory Committee, and continued focus on illegal transshipment concerns. If confirmed, I would hope to contribute the knowledge and experience I have acquired over the years to advancing these efforts and, where possible, bringing them to a successful conclusion.

If confirmed, I look forward to contributing this knowledge and experience to the service of our country. I welcome the opportunity to work with the Committee on these important initiatives in this

area, and I would like to thank the Committee for its consideration of my nomination.

I would be pleased to answer any questions.

Chairman DODD. Thank you, Mr. Wall.

Ms. Greenwood.

STATEMENT OF SHEILA MCNAMARA GREENWOOD, NOMINEE, TO BE ASSISTANT SECRETARY FOR CONGRESSIONAL AND INTERGOVERNMENTAL RELATIONS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. GREENWOOD. Chairman Dodd, Ranking Member Shelby, and distinguished members of the Committee, thank you for inviting me to appear before you today. I am both honored and humbled to come before you as the nominee for the position of Assistant Secretary for Congressional and Intergovernmental Relations at the U.S. Department of Housing and Urban Development.

I would like to express my gratitude to President Bush for nominating me for this position and am grateful for the confidence he has placed in me. Interestingly, in over 15 years of working before Congress, I have either prepared a witness, written the testimony, or both, any number of times. And I realize that, up until today, I have been in the cheap seats. This actual being the witness is a far more daunting prospect and I have newfound respect for all those I have cajoled to a witness table over the years.

I also would like to again thank my husband, and our son, Tripp, who are here today. I must take this time to thank my husband for all of his patience and support throughout my years in this Administration. He and my son are my proudest accomplishments.

In the course of my years working before Congress on a wide range of topics, I became increasingly interested in housing, specifically while working on the rebuilding of the Gulf Coast after Hurricanes Katrina and Rita. I was the Director of Legislative Affairs for the Office of Gulf Coast Rebuilding, Chairman Donald Powell, and worked closely with HUD on one of the more daunting post-hurricane challenges: which was finding housing for so many after the diaspora.

Through that assignment, I came to better realize the true meaning of home and the complex socioeconomic factors that go into both where and how families live across the United States.

The Assistant Secretary for Congressional and Intergovernmental Relations at HUD is the primary resource to the Congress for the information it needs in carrying out its Constitutional responsibilities. I have a proven history of above-board and honest discourse with members and their staff and plan to maintain that open dialog in the Assistant Secretary's position, should I be confirmed. It is my promise before you today to work tirelessly and expeditiously in the remaining months of this Administration to ensure that the information you request from HUD is provided in a timely and thorough fashion.

Clear and thoughtful information allows us to work together on the myriad of legislative initiatives that remain and to better inform the difficult policy choices before us all.

I last want to take this opportunity to thank my family and many friends who are here today. My sisters, brother and parents

have always been there for me over the years and I am eternally in their debt.

Mr. Chairman and Senators, thank you again for your time and your courtesy in listening to my remarks, and I am happy to answer any questions you might have.

Chairman DODD. Thank you very much.

Ms. Peppler.

STATEMENT OF SUSAN PEPPLER, NOMINEE, TO BE ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. PEPPLER. Thank you.

Good afternoon Chairman Dodd, Ranking Member Shelby, and distinguished members of the Committee. It is a true honor and privilege to appear before you today as President Bush's nominee for Assistant Secretary for the Office of Community Planning and Development at the Department of Housing and Urban Development.

I would like to thank the Committee members and your staff members for taking the time to meet with me over the past few months, and if confirmed, I look forward to continuing frequent and open communication to address affordable housing and urban issues facing our Nation today.

HUD is a good organization that needs to be reinvigorated with strong leadership. And while I realize there is but a short amount of time in which my colleagues and I can effect positive change, I can assure the Committee that I will roll up my sleeves and make significant contributions with the time that I am given.

With over 17 years of experience in affordable housing and community development, I bring strong leadership qualities from the grassroots, community and executive levels, as well as a unique perspective and understanding of HUD programs and their effect on families and communities.

I first became interested in housing issues during the early 1990s, when I became involved with a HUD-affiliated non-profit organization called Neighborhood Housing Services of the Inland Empire. I initially joined Neighborhood Housing as a volunteer, working with them on the weekends with neighborhood clean-up and revitalization projects, home repairs, et cetera. After seeing firsthand how successful the program was and what a positive difference it made in many communities, I joined Neighborhood Housing's Board of Directors and became involved in the administration and management of the organization's programs, including Neighborhood Revitalization/Rehabilitation, Homebuyer Education, Downpayment Assistance, and the Youthbuild job training program.

Working from the grassroots level up to the business and financial side of this organization, I developed a deep appreciation for the important role homeownership plays in fostering strong, healthy and safe communities.

During my nearly 8 years on the Redlands City Council and as Mayor, I took that hands-on education in community revitalization and housing, together with the program and business knowledge I

gained as an Executive Board Member at Neighborhood Housing, and put it to work in our city.

One of my top priorities as Mayor was the improvement of the city's affordable and multi-family housing stock. By working with the community, establishing and building relationships, we developed an improvement plan of action. The city began cracking down on absentee landlords whose property had fallen into disrepair and substandard condition. Through enforcement of building and safety codes, including placing non-responsive homeowners' properties in receivership, our neighborhoods began to improve.

The city utilized several HUD programs, including Community Development Block Grant funds, to improve the properties and assist some of the apartment renters in becoming homeowners. Additionally, we began improving economic development by promoting small business ownership and recruiting larger businesses to the area, which created jobs, accomplishing a dramatic positive change in a community that had been neglected for generations.

I have also had the honor of serving for 4 years as a member of the Governor's Task Force on Affordable Housing, and as the League of California Cities' Director of Housing, Inland Empire Division. The Task Force studied the lack of affordable housing in California, developed innovative solutions, and made recommendations to the Governor and state legislature. Our work to update the State's housing laws led to the use of tax increment financing to provide incentives for the development of low-income and affordable housing, bill language that clarified and strengthened the anti-NIMBY law relating to the approval of affordable housing projects, and the ability for cities to receive housing credits for rehabilitation of existing affordable housing stock.

As I mentioned, I bring a unique perspective and understanding of HUD programs, as I have seen firsthand how those programs change the lives of children, their families and our communities. I also know firsthand the benefit of CPD programs on local and State government. Simply put, these programs work.

From working with HUD programs as a grassroots volunteer, to my involvement in the financial management of HUD programs through NHSIE, to implementing and managing affordable housing and economic development programs as Mayor, to effecting change in housing and economic development laws at the state level, I believe I have the experience of leadership, teamwork and commitment needed to serve as the Assistant Secretary in the Office of Community Planning and Development.

I thank you for this opportunity to address the Committee and I look forward to your questions.

Chairman DODD. Thank you very, very much.

Mr. Murin.

STATEMENT OF JOSEPH J. MURIN, NOMINEE, TO BE PRESIDENT OF THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE), DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MURIN. Chairman Dodd, Ranking Member Shelby, and distinguished members of the Committee, I sincerely appreciate the opportunity to appear before you today. Thank you, Chairman

Dodd, for your kind words of introduction, and thank you to all of the members of the Committee and their staffs who have met with me over the last few months. Those meetings have provided valuable insight into the position for which I have been nominated.

It is a privilege to appear before you today as President Bush's nominee for the position of Ginnie Mae President. I bought my first home with an FHA-insured loan. I have spent my entire career in the housing industry, from lending to back office operations and even construction. For a man who has worked in just about every job in the housing and mortgage finance industry, it is an honor to seek your confirmation as president of an organization I consider critical to sustaining and promoting homeownership opportunities in America.

They say behind every successful man is a woman. My wife, Angela, is here today. Without her love and support, I simply would not be here today, nor would I have my wonderful family or enjoyed such a successful career. It has been a 37-year partnership between us, and I would be remiss if I did not thank her for her steadfast love and support.

Angela and I bought that first FHA home in 1977. Since then, because my career required it, we have moved 7 times. In every new city, we designed and built a home. We understand the importance of owning a home, how it ties you to your community, how children benefit from the stability it provides, and the manner in which it helps to build wealth. That is why I believe in homeownership and I am committed to helping others achieve the dream of owning a home.

But homeownership is not just about families and communities. For the last few years, it has served as the primary engine of our economy. Buying, building, renovating, all of these have a tremendous impact on jobs growth and sales revenue, the heart of the economy in our cities and towns. It is not just local economies that are helped or hurt by whether a family can afford to buy a home. National and international credit markets are also affected. We are witnessing this today.

The mortgage-backed securities industry is the reason local housing markets impact international credit markets. In 1971, Ginnie Mae issued the first ever mortgage-backed security. In doing so, they revolutionized the way housing is financed. Because an investor in Asia can buy into a pool of U.S. mortgages, a family in Pennsylvania can own a home.

It has been 30 years since Ginnie Mae issued the first MBS. The industry has evolved enormously since then. In the 1980s, I ran a mortgage bank. Government loans were our bread and butter. My loan officers fed their families on the income received from processing FHA and VA loans. But as capital became more available through the growth of the MBS industry, interest in government products declined.

Today, that is no longer true. The housing market is much different. The MBS that spurred investment in real estate is less attractive to investors. Home values are declining and foreclosure rates are increasing. Consequently, it has become more difficult for low- and moderate-income borrowers to obtain a mortgage.

The industry has come full circle on its view of government-insured loans. There is recognition that FHA and Ginnie Mae are important elements of a diverse housing finance system, necessary elements when credit tightens.

We are at a turning point in this industry, and Ginnie Mae is in a unique position to help the industry navigate its way through those challenges. Leading the agency at this critical juncture would be a formidable opportunity, and yet it is one I look forward to because it is a role that brings together a lifetime of skills. More than 35 years in this industry—in the title business, in building, and in banking—have provided me with invaluable insight into its inner workings, insight that will guide decisionmaking at Ginnie Mae.

Ginnie Mae's mission is to expand affordable housing by linking the global capital markets to the Nation's housing markets. That mission is about making the connection between local communities and international economies, never forgetting that behind the current discussion of credit crunches and fluctuating markets is a family that wants to buy a home or keep the one it has.

If confirmed, I will be committed to that mission, to drawing the link between homeownership, strong communities, and a thriving economy.

Ginnie Mae may be in the best position to meet its mission since its inception. Even with the challenges that we face today, we can continue to help American families become homeowners. Like the thousands who labor daily at HUD, I respect and care deeply about its programs, and I am committed to making a difference in lives throughout America. It would be an honor to participate in HUD's efforts as President of Ginnie Mae.

Mr. Chairman and Senators, thank you for your courtesy in listening to my remarks. I will be happy to answer any questions you may have.

Chairman DODD. Well, thank you very much, and I thank all of you for your statements and also the brevity of them, I appreciate that in terms of our ability to move along. I will take a few minutes. I will ask the clerk to—why don't you put 5 minutes up on the clock here, and we will try and keep to that time, if we can. And let me also just suggest to you at the outset that because of the number of you here and the second panel coming, I am going to leave the record open for several days for questions to come from colleagues, either who are here or are not here, to raise with you. And the quicker—I will not leave it open forever. I will leave it open for a few days. And I would urge you to respond as quickly as you can so that we can create the possibility of moving these nominations along should my colleagues so desire.

With that, let me turn to you, Mr. Kashkari, if I can, and the position you have been nominated for was created in part by the legislation this Committee adopted, as I pointed out in my opening statement, unanimously, and was signed into law last year. It all began, I think, as a result of the Dubai Ports issue that emerged, and then the question was whether or not we could balance the interests of attracting foreign investment and also maintaining the security of the country. So you have been nominated for a position that was created by this Committee, and a very short time ago, and a very important issue to all of us here.

So I would like you, if you could, to discuss the importance of this new law and your commitment to the appropriate enforcement of it, and aside from the specific duties that this legislation would require, I would like to comment as well on how you envision as the regional responsibilities associated with this post that may require greater engagement in various parts of the world—the Middle East, Latin America, Africa, Asia. Share with us your thought about that as well as the specific duties.

Mr. KASHKARI. Thank you, Mr. Chairman. There is no question that our responsibilities under CFIUS are of paramount importance and striking the balance, making sure our national security is protected, while also encouraging foreign investment in the U.S., which helps creates jobs.

Let me just give you a little background. One of my colleagues, Assistant Secretary Lowery, has been leading our work on CFIUS and will continue to do so. As you can imagine, over the past few years the case volume has really increased, and the workload has increased, the staffing has increased. So I'm going to be joining the team to help carry some of the caseload and leading individual cases as appropriate.

But in my job, if confirmed, working with the regional offices within Treasury and, as you said, going to the Middle East or going to Asia, I think part of our responsibility and part of our opportunity is to help educate other countries to make sure that they put the right foot forward. How can they be more transparent in their own investment decisions? Think about the issue of sovereign wealth funds. We are working with the IMF right now to try to put together a set of best practices to get the sovereign wealth funds to make sure that they are transparent in their motives and they are making investment decisions for commercial reasons only.

So I think not only is CFIUS really important in terms of protecting us and finding the right balance, I think our responsibility at Treasury is to help educate potential investors around the world how they can behave in a more responsible manner.

Chairman DODD. Let me just in that regard—because there are very specific triggers in the legislation. Just over the last year or so, there have been—you can gimmick and game the triggers a little bit. It is not just the letter of the law but the spirit as well, and I wonder if you might address this, because I have recommended in a couple of cases where I have been asked as to whether or not—while not meeting the thresholds, whether or not it would make some sense just to make the Department aware of some transactions going forward. And while they would not be required specifically under the law, the idea, again, of transparency, of a spirit of trying to make sure that we are not gaming the system in some way to avoid the balance and creating the very perceptions we were trying to avoid with the legislation.

I wonder if you might comment on that, if you would.

Mr. KASHKARI. Chairman, I will be honest, I have not drilled into as much depth because this has not been where I have been spending my time at Treasury. If confirmed, I will get into it in a lot of detail, as you can imagine. I think everything that you have said in the spirit of we agree with. I can't comment on the specific triggers that you are talking about just because I haven't spent my

time there. But I would be happy, if confirmed, to follow up with you in more detail.

Chairman DODD. Well, I would appreciate that, and I think you might want to do that. Again, I am not interested in changing the law in any way, but make sure we do exactly what you have described here, and that is to make sure this works so that people understand that we want the investments to come, we want them for commercial reasons. We also want the ability to be able to have that transparency to make sure that we are not falling prey to some of the problems that can arise.

Mr. Wall, thank you again for being willing to step forward. For over two decades, you have practiced export law exclusively in the private sector, representing companies seeking licenses either from the State Department to export weaponry or from the Commerce Department to export dual-use technology. I wonder if you might discuss with us the appropriate balance that you see made in the area of export administration between protecting our national security—not an unrelated question—and ensuring expeditious licensing procedures for U.S. companies, sort of the same line, in a way, that I asked Mr. Kashkari.

Mr. WALL. Yes, thank you, Mr. Chairman. The fundamental premise, of course, of the Export Administration regulations, the whole reason for regulating exports from the United States, is, of course, to protect national security as well as U.S. foreign policy interests in some cases. But at the same time, there is a balance, as you note, that is critical to find in every case, in every issue that arises before the agency, of doing so in a way that addresses that particular national security or foreign policy concern, but also in a way that doesn't squelch, doesn't stifle economic development, the ability to export. Exports are, of course, a powerful source of jobs and economic development in the United States. And that, of course, is something that as a policymaker, if confirmed, I would want to ensure that we continue.

But the foundation, of course, is to focus on the national security issues that arise in transactions and to drill down and understand exactly what those issues are. And in some cases, it is simply not possible to continue the business because the risks are not able to be addressed. But where they can be addressed, I would hope that they could be, and that is something that I would certainly focus on in my position, if confirmed.

Chairman DODD. Let me, if I can, on your Committee questionnaire, you discussed your role in the licensing dispute between the State Department and two U.S. aerospace companies who were fined a total of $22 million in civil penalties. In a 2004 Export Practitioner article, you suggested that this case demonstrated the challenges of determining whether export licenses should be sought from State or Commerce, and I wonder if you might comment on whether or not you think the State Department's characterization of your licensing practices is now outdated because of subsequent regulations issued by the Department of State and Commerce. And if so, how?

Mr. WALL. Well, thank you, Mr. Chairman. Yes, the State Department and I certainly had a disagreement over that particular issue. It had to do with the commodity jurisdiction over a civil avi-

onics device, civil certified, used in virtually every civil aircraft that flies in this country. And there is, frankly, a lack of clarity in the jurisdiction between which agency, the State Department or the Commerce Department, controls the export licensing of those items.

Now, back then—this is probably 1999, 2000—the State Department had never before asserted the position that it had jurisdiction over civil commercial end items containing what would be termed "defense article components," the so-called see-through rule. This is something that had never been announced, never been published, never been spoken about in any sort of guidance.

We prepared a commodity jurisdiction request to confirm the determination with respect to this particular item, fully in compliance with all published rules, regulations, and guidance. And yet, 4 years later, the State Department came back and said, well, it did have this jurisdiction over defense articles incorporated in civil end products, and that the information in that request wasn't fully—it didn't fully disclose the contents.

Obviously, we disagreed. It fully complied with all regulations. The State Department was simply looking back, changing its mind after the fact, expecting us perhaps to be mind readers. I don't know. But in any case, it has been my position, as I wrote in that particular article, that I thought the effort to enforce an unpublished rule retroactively is simply not consistent with due process.

But, be that as it may, that is a historical footnote. That was 8 years ago. The jurisdiction over these components has still been an issue over these years. And, interestingly, as a result of recent very good work between the Department of Commerce and Department of State, those issues have been to a certain extent clarified. Those regulations as they currently exist are essentially the same regulations that I and other practitioners in the area assumed existed back in 1998. It has been a period of controversy, a period of evolution, and those rules have now become clarified. And certainly if confirmed, I would hope to continue that effort, to try to clarify——

Chairman DODD. Are they clarified to your satisfaction?

Mr. WALL. Well, to a large degree, yes. There are certainly questions that companies have regarding the fine points, but in essence, the issue is that a civil aerospace item that is certified by the FAA, that is integral to the operation of the aircraft, is essentially going to be considered a Commerce Department jurisdiction matter as opposed to State Department jurisdiction, unless there are certain specific criteria that are articulated, such as whether it is considered to be an item of significant military equipment, or unless there is some doubt. But the point is that for most garden variety, what I would call aerospace component matters, there will be significantly greater clarity in knowing which agency has the jurisdictional control. And those items that are essentially military or have military origins or are used in military activities are properly licensed by the State Department. That is the way the jurisdictional issues divide themselves. But there is absolutely room for greater coordination, for greater transparency, and greater cooperation between the two agencies in dealing with close cases, cases where there are some doubts, so that companies can have certainty in knowing the type of business they can conduct.

Chairman DODD. Well, thank you, and that is obviously a very important point and issue for all of us.

Ms. Greenwood, you have been nominated to fill a position that is responsible for ensuring that Congress has accurate and timely information, and we have had some difficulty in obtaining accurate and timely information from the Department in the past. That information we request of the Department is obviously vital to our oversight function. You may have been familiar that we raised this issue back in previous hearings about having access to that information, and I will ask you here because it is very important that you would commit to give this Committee the data and information that we request in a timely fashion.

Ms. GREENWOOD. Absolutely, Senator.

Chairman DODD. I thank you for that. Also, I understand you spent almost the last 2 years working on Gulf Coast recovery efforts——

Ms. GREENWOOD. Yes, sir.

Chairman DODD [continuing]. And have continued to work since joining HUD. And as you know, the ability of people who are displaced to return home depends on there being housing available and affordable to them.

Last year, I introduced with Senator Mary Landrieu of Louisiana the Gulf Coast Housing Recovery Act, which would have provided funds to replace assisted housing that was destroyed in the hurricanes of 2005. And since coming to HUD, have you had an opportunity to play a role in how affordable housing is rebuilt in the Gulf Coast? And do you have an opinion as to whether more needs to be done to replace assisted housing that was destroyed as a result of the hurricanes?

Ms. GREENWOOD. The affordable housing has been the slowest and the hardest component to come back. I mean, the two bigger States, Louisiana and Mississippi—in terms of monies, I should say—both chose to triage their programs. They gave money to homeowners first, and so unlike a major metropolitan area, these are for the most part rural areas. So unlike New York City, where you have large apartment buildings that are primarily owned by investors and businessmen, you had a lot of—in New Orleans, we call them "duplexes" or "triplexes" or "four-plexes"—that, you know, somebody owns, but they themselves lost their own house. And so the small—both States have—I think Louisiana now has roughly $1 billion committed to small, affordable renting programs, and Mississippi has about $250 million, and Haley Barbour has promised to do more if necessary.

I think that that has been in the triage—I mean, the Road Home Program was slow to get checks out the door, and so if you are the homeowner who lost both your home and your rental properties, your first priority, of course, is going to be to repair your house, and then you will get to doing your affordable rental houses.

So as of today, I know that it is an ongoing problem in the Gulf Coast, specifically in New Orleans. It is our hope that as time goes on, that the monies start moving more rapidly and the States shift their focus away from the homeowner portion of it and into the affordable rental programs.

Chairman DODD. Well, I hope so. This has been just an ongoing tragedy and too long a time has gone on. I will not go into the great details of it, but it has been a tragedy to watch people have to pick up and move and change their lives entirely because of the absence of available housing.

Ms. GREENWOOD. Yes, sir.

Chairman DODD. So we are going to watch this carefully and urge greater action in the coming months, if we can. But we appreciate your willingness to work at it.

Let me thank you, Ms. Peppler, for being with us. You are a mayor, so I can't help resist: What do you think of the Community Development Block Grant Program?

Ms. PEPPLER. I can tell you it was probably, of all of the responsibilities I had as mayor, it was one of the most important times of the year spending with the Community Development Block grant funding. We had the nonprofits come before us. I think I could handle most everything. Those were the ones that gave me the sleepless nights. We had a lot of excellent nonprofits that came before us that needed the funding, and it was a very difficult choice to have to make to have a small amount of money to go a long way. So a very, very important program to the city and the county.

Chairman DODD. Well, I appreciate that. I would just point out to you that the administration has proposed significant cuts in the CDBG program each year, including a 22-percent cut for fiscal year 2009, and, again, the importance of this. If we are cut by 20 percent, I just know a number of initiatives and proposals have been put in place as a result of that program. So I appreciate your comments about the value of it, and through HUD, I want to just mention as well the homeless assistance programs. We have a couple of our colleagues here who have been very involved in the homeless programs. Certainly Senator Allard has been one of them involved, along with Senator Reed. The two of them have been pushing trying to get better coordination of that. It is shocking that over 3 million people experience homelessness each year, including over 1.3 million children. We passed legislation, again unanimously, out of this Committee to consolidate and streamline the homeless assistance accounts as well as provide funds to help communities prevent homelessness. And as mayor or in your other positions, were you involved in the McKinney-Vento homeless assistance programs, and do you support a move to greater consolidation?

Ms. PEPPLER. Yes, actually I was involved in the McKinney-Vento not only as mayor, but also in my position with GSA. Housing or any of our disposal properties that we had would always go to the homeless—nonprofits that served the homeless population first. I am very supportive of it, worked with the programs, homeless programs, significant in the city of Redlands. We were very lucky that we had a nonprofit that worked in transitional housing for homeless families. Often, generally people look at homeless as one person and putting him overnight in a place certainly takes care of the problems, and there are many issues involved with homeless, including families and children are living out of their cars. And we had a significant problem in Redlands and worked closely with many of the homeless programs and were very successful in either transitioning them into permanent housing and at

least getting their vouchers so that they had a place, warm, dry, a clean place to live, and the children to live as well.

Chairman DODD. Well, we would like you to urge to continue to work with our colleagues up here who have a strong interest in the subject matter.

Ms. PEPPLER. I look forward to it, yes. Thank you.

Chairman DODD. Last, Mr. Murin—and I have gone over the time I set myself, but to cover all of you here before turning to Senator Shelby, just a couple of quick questions. We have seen an increased demand at Ginnie Mae, obviously, about Ginnie Mae as a result of the present foreclosure crisis. I wonder, one, how Ginnie Mae is keeping up with the increased volume and making sure that quality stays high, if you have an opinion on that. And, second, just your opinions, we passed out of this Committee about 2 weeks ago, 19–2, the Hope for Homeowners Act, along with several other provisions dealing with a permanent affordable housing program as well as reforms of Fannie Mae and Freddie Mac. And Senator Shelby and I are both interested in having—if we can get these bills through the Senate and work out our differences with the House as quickly as we can and put the matter on the President's desk.

I presume you have had a chance to look at what we've done out of this Committee.

Mr. MURIN. I have, sir.

Chairman DODD. We would like your comments on it and any additional thoughts you have about how we might either strengthen this legislation or other suggestions you have for the Congress to be taking to try and do what we can do, to the extent we can at all, through some intervention here to try and reduce the number of foreclosures that are occurring and getting our housing back on a solid footing.

Mr. MURIN. Yes, sir. I think to answer your first question, the increased—you know, Ginnie Mae has gone from roughly $5 billion a month in issuances to over $22 billion in May. So it's increasing at an—the rate is increasing each and every month. That is the good news. That tells us that there are things working in the marketplace that we had hoped would work.

We are comfortable, you know, I think Ginnie Mae is comfortable with the insistence on FHA to continue prudent underwriting standards. That would give Ginnie Mae a comfort that the loans that are coming across and in the pools are being underwritten to ensure that the homeowner can afford the payments. So from that perspective, I think that is a comfort level, at least for me.

As time goes on, we are going to be faced with, I think, a market that is going to increasingly look at Ginnie Mae as a means to liquidate but, more importantly, I think it is a means to provide the market best execution on the securities. And what some folks don't really realize is that best execution means a better rate that moves downstream to the borrower. So we have to do everything we can. Ginnie Mae will ultimately have limited resources. It has a very unique business model right now where it utilizes roughly 65 full-time FTEs to manage third-party contractors, facilitate pool processing, you know, master subservicing, trusteeship, whatever it may be. But as time goes on and the volume increases, Ginnie Mae will be faced with issues.

I personally believe that the legislation that is pending is needed. I think every option that we can provide the market to facilitate the increase in foreclosures is necessary. I think the big problem in the market right now may be just the fact that it is a huge bubble that needs to be absorbed, but that does not mean that we should not, in fact, utilize every means by which it can facilitate the problem we are seeing.

If it is enacted, I think the investor community will embrace it, from what I am told and what I see. And we are going to work diligently to make sure that we can expedite as much of the fruits of that labor as we possibly can and facilitate not only the issuers but also the investment community to do the best execution we can.

Chairman DODD. I thank you for that very much.

Senator Shelby.

Senator SHELBY. Thank you, Chairman Dodd, for covering so many issues here.

On international investments, Mr. Kashkari, I believe, as you do, I am sure, that we must maintain the open investment climate for the United States of America and work also to ensure our national security is not compromised at the same time.

What role do you foresee yourself playing in the CFIUS process, Committee on Foreign Investment in the U.S., which we have more than a passing interest in this Committee in? And how will you work to keep our economy open to foreign investment, which we need and it benefits all of us, while ensuring national security issues are addressed? I think that is a central question that comes before this Committee from time to time, and probably all Americans.

Mr. KASHKARI. Thank you, Senator. As I mentioned with my answer to the Chairman's original question of me, I envision myself leading individual cases as appropriate and splitting them with my colleague, Assistant Secretary Lowery. As I mentioned, he has been running the process for the past couple years, and so there is going to be a little bit of time for me to come up to speed to really understand the details of the process.

Now, as you know, Senator, the President issued an Executive order that really strengthened the process, made sure all the national security agencies were at the table and have a voice.

Senator SHELBY. That is right.

Mr. KASHKARI. And we think having them all at the table is really important to maintaining that balance. So part of what we are going to do and part of what we do already is run a very rigorous process where all the voices are heard around the table, both the economic interests as well as the national security interests. But in terms of keeping it an open investment climate, I feel like the burden is on us to go out proactively to regions around the world to help, as I mentioned with the sovereign wealth fund example, to help educate them on how they could help themselves.

For example, these best practices that the IMF is working on, we are hopeful that this is going to create a race to the top so that sovereign wealth fund can compete amongst themselves to be more transparent in how they are making their investment decisions, because it is in their own interest. If they are good actors making

commercial decisions, more countries around the world are going to welcome their investment.

So, Senator, I do not have a perfect answer. It is a delicate balancing act that we take very seriously and would welcome suggestions as we move forward.

Senator SHELBY. But your role is going to be more—it is important today, but next month and the months to come, it is going to be very much more important as the sovereign wealth funds grow and look for somewhere, either here or in Europe and other places in the world, to make a solid investment for themselves. And what we want is their investment, but we don't want to give away our Nation. Right?

Mr. KASHKARI. Absolutely.

Senator SHELBY. OK. Mr. Wall, could you provide your assessment of the current effectiveness of the multilateral export control regimes to which the U.S. is party? Just roughly.

Mr. WALL. Well, I can speak, Senator Shelby, from my perspective as a private practitioner.

Senator SHELBY. Yes, sir and you have great experience here.

Mr. WALL. Thank you very much, sir. And in that capacity, I have had little dealings directly with these institutions. These are institutions that are governmental institutions. Governments, of course, gather and coordinate their policies and such. It is very important for the United States to work closely with our allies in these various bodies where we share interests, such as the Wassenaar arrangement, which is the larger group dealing with dual-use technologies; the Nuclear Suppliers Group, which deals with obviously countries manufacturing and producing nuclear technologies; the Missile Technology Control Regime; the Australia Group, dealing with chemical weapons and so forth; the CWC. All of these are very important bodies for the U.S. Government to participate in.

From the companies' perspective, it is very important to harmonize these rules to the extent we can, recognizing that in some cases it is simply not going to be possible. We simply share different interests and objectives than our allies, and we——

Senator SHELBY. Well, you might have a higher standard.

Mr. WALL. We might have a higher standard, yes, indeed, Senator. That is correct. That is correct, Senator Shelby. And we should not relax those standards.

Senator SHELBY. In those kind of situations, are you saying that we should reserve the right to unilaterally control certain technologies in certain areas where there are other multilateral agencies perhaps lax?

Mr. WALL. From my perspective, again, as a private practitioner, I would say that appears to be an appropriate way to resolve the issue, because while companies may complain that we can't sell to a particular regime because other countries can, that doesn't make it right.

Senator SHELBY. I agree.

Mr. WALL. And they are prepared, the companies at least that I have had the good fortune to work with in my career, they are prepared to comply and to further U.S. interests. They are not interested in subverting or undercutting any interest that would ad-

vance the interests of the United States. And so in some cases, that is recognized, it is essential. Our rules may well be stricter. We should argue for those stricter rules in these multilateral forums and achieve harmonies where we can.

Senator SHELBY. Well, it is very important, isn't it, that your position that you would balance the commercial needs of our companies with the security needs of our Nation, we have got to have a balancing act there, have we not?

Mr. WALL. Yes, indeed, Senator Shelby.

Senator SHELBY. In other words, we cannot sell everything. Everything is not for sale.

Mr. WALL. That is precisely the case, and in a similar vein as the question to Mr. Kashkari, there is a balancing between national security on the one hand and the policy on the other hand, within the Treasury portfolio of maintaining open foreign investment markets and the Commerce portfolio of ensuring U.S. technological leadership and economic growth. But that doesn't mean, as you say, we can sell everything to everybody. There are some individuals, there are some entities that are inimical to our interests, and the regimes as they currently exist focus on restricting sales to those entities.

There is a major focus right now, for example, on identifying who are trusted end users. Who can we do business with and have a low risk that the items will be diverted or used for activities that are against our interests? And that is an important development to lessen the risk of these sorts of transactions.

Senator SHELBY. You better know your customer, hadn't you?

Mr. WALL. Precisely. precisely.

Senator SHELBY. Senator Dodd, you have gone through some of the other nominees. I just want to tell you I support all the nominees and hope that we can have a vote on them as soon as possible.

Thank you.

Chairman DODD. Well, you are getting off awful easy there, I tell you.

Senator SHELBY. Today.

[Laughter.]

Chairman DODD. Wait until you see his written questions.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Congratulations to all the nominees on your nomination and your families.

Mr. Kashkari, I want to just understand something in your response to the Chairman's questions about your role in CFIUS. You said that you are taking a secondary role, an equal role on CFIUS? I would like to know if you get ultimately approved by the Senate, what role are you going to have in CFIUS?

Mr. KASHKARI. Sure. If I am confirmed, I am going to be working very closely with my colleague, Assistant Secretary Lowery. I can't tell you that I am going to spend—that I am going to be in the lead or he is going to be in the lead. I think given his expertise leading the process thus far, it does make sense for him to continue his leadership in that capacity until I come up to speed. But as an example, both of us, I imagine will have active travel schedules as we go to regions around the world. While Assistant Secretary Low-

ery is on the road, I will be holding down the fort, so to speak, and vice versa.

Senator MENENDEZ. OK. I ask that question because the title itself indicates that CFIUS will be under your jurisdiction, so I am trying to figure that out in your responses to question.

Let me ask you this: Do you believe that—are you comfortable with the CFIUS review process in place to successfully avert a repeat of what we had in the Dubai Ports World deal?

Mr. KASHKARI. I am, Senator. I think that a lot of thought went into the FINSA law, which is very well done, obviously, by the Committee. The President's Executive order I think was an important step forward. And then the Treasury has put out draft regulations for the CFIUS process right now that are also important in the comment period. And I think that given how much thought has been put into this, we feel very confident that we're not going to have a repeat of Dubai Ports.

Senator MENENDEZ. I am glad to hear that as someone who opposed it very strenuously. Let me ask you this about the clarity of controlling interest. There are a lot of questions going on about that because that is, in essence, what triggers a CFIUS review.

What is your sense of the Treasury Department's position as to what is the essence of a controlling interest?

Mr. KASHKARI. Senator, it is a great question, and very respectfully——

Senator MENENDEZ. I am looking for a great answer, too.

[Laughter.]

Mr. KASHKARI. Very respectfully, I will have to ask if I may, if confirmed, drill down into great detail. Again, it has not been where I have spent my time over the last 2 years at Treasury, and I would be more than happy to come up and spend time with you in detail, if I am confirmed, sir.

Senator MENENDEZ. I appreciate that. Let me ask you this with reference to sovereign wealth funds. Do you believe that they are adequately limited in their ability to act politically or the dangers of using investments as a political tool greater for less regulated markets such as hedge funds?

Mr. KASHKARI. It is hard to say, Senator. I do not know if it is greater or less. I understand the concern around sovereign wealth funds given the growth in assets that they have had and given that they are regionally based, as opposed to hedge funds which it is clear that they have more commercial interests. But, clearly, I think that our focus right now is on best practices, working with the IMF and working with the global community.

Again, what we are trying to do, Senator, is create a race to the top so that sovereign wealth funds who want to have access to the best commercial opportunities, they are hopefully going to compete with each other, because the more transparent they are, the more welcoming we are going to be to their foreign investment, not just the U.S. but, Senator, as you said, around the world—in Europe and other regions.

And so it's hard for me to say sovereign wealth funds behave a certain way, hedge funds behave a different way. It's hard to characterize them all as one lump. Not all sovereign wealth funds are going to behave the same, just as not all hedge funds behave the

same. But I think that we have got the right process in place to deal with it while also encouraging their investment.

Senator MENENDEZ. I share Senator Shelby's concern that we want to have the ability of investment, foreign investment to take place, but at the same time, we want to make sure that at the end of the day, particularly in critical infrastructure and critical entities of this country, that we don't have investments that ultimately can be used in a way that undermines our national interests, our national security interests. And in that respect, do you believe that—or have any concern that foreign investors, particularly sovereign wealth funds, are trying to avoid a review by holding their investment stakes to under 10 percent?

Mr. KASHKARI. Not to my knowledge, Senator. But, again, this is an area that I am going to drill into in a lot more detail, and I would be happy to follow up. But, again, I mean, I think that we have a lot of confidence in the CFIUS process that has been put together. That doesn't just govern foreign companies making acquisitions. It covers foreign entities. And so sovereign wealth funds, to the extent that they pass these triggers, as you mentioned, would fall into the CFIUS review, which we think strikes the right balance of national security and open investment.

Senator MENENDEZ. I know you are not going to have a lot of time, at least in the first instance, but I certainly would hope that your attention will be focused on some of the key issues as to how we balance this investment desire with national security and national interest desire.

Finally, Mr. Chairman, Ms. Peppler, Mrs. Peppler, I appreciate you being a mayor as having been a mayor. It's the toughest job in America, even tougher than this job. But as I understood your answer about CDBG, it sounded—and correct me if I am wrong. It sounded like what your regret was is that you didn't have more CDBG money, that you had to make tough decisions with the amount of money here.

Ms. PEPPLER. Well, we have to make tough decisions. It is always nice to have more money, but I can tell you that, you know, unfortunately, I wasn't part of the HUD budget process, and I know that they are trying to put together a budget and submit a budget in very tough financial times. I understand that some programs were cut. Some were added to. What I can tell you, though, is that the appropriations that Congress gives for those programs, my job is to make sure that the funds are administered fairly and equally and there is proper oversight. So that will certainly——

Senator MENENDEZ. But if you were here to testify here as mayor under oath, your—I am not going to push you to—you think I am going to push you, so don't worry about it.

Ms. PEPPLER. Thankfully, I am not.

Senator MENENDEZ. But I do want to ask you, if you were here as a mayor under oath, you would say that the CDBG program is a valuable tool to you as a mayor, is it not?

Ms. PEPPLER. Absolutely.

Senator MENENDEZ. And that it is one that, in fact, can often meet some of the challenges a community cannot meet on its own resource?

Ms. PEPPLER. That is correct.

Senator MENENDEZ. OK. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much. Thank you, Senator, and we will leave the record open unless colleagues have any additional questions.

Thank you again, all of you, for your willingness to serve, and I admire you for doing it, and we will see what happens here. We will try and move things along if we can and get you confirmed into your positions, at least give the Senate an opportunity to vote on your confirmation. So thank you very much, and thank you for bringing your families. As you get up and leave, we are going to ask our second panel to join us, and we will try and do this in a neat fashion. I will give you a minute or so here in recess while you adjust yourselves.

[Recess.]

Chairman DODD. The Committee will come to order. I would ask our audience to find seats.

Once again, I would like to thank our panel of witnesses here for all your willingness to serve and for your understanding of how these will be maybe abbreviated terms if you are confirmed, as you are all aware, given the lateness of the year.

What I would like to do, as I said to the first panel, there will be—probably some additional questions will be submitted by our colleagues here, and I would ask you to ask them, firstly through their staffs, to make sure they are submitted promptly so that you have a chance to respond to them promptly so we don't end up losing any valuable time in terms of the possible confirmation of these important posts.

Well, let me, if I can, ask you to rise. I won't ask you to take the oath of office. I will just swear you in here this afternoon. Raise your right hands, if you would for me, please. Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. AGUILAR. I do.

Mr. PAREDES. I do.

Ms. WALTER. I do.

Mr. MARRON. I do.

Mr. FRYZEL. I do.

Chairman DODD. And do you agree to appear and testify before any duly constituted Committee of the U.S. Senate?

Mr. AGUILAR. I do.

Mr. PAREDES. I do.

Ms. WALTER. I do.

Mr. MARRON. I do.

Mr. FRYZEL. I do.

Chairman DODD. I thank all of you. Thank you very much for your willingness, again.

Let me introduce our witnesses if I can, briefly, and then turn to each of you to make some opening statements, if you would.

Mr. Luis Aguilar, of Georgia, has been nominated to serve as a member of the Securities and Exchange Commission. He is currently a partner in the law firm of McKenna Long & Aldridge and has worked on issues pertaining to international transactions, investment companies and advisers, securities law and corporate finance. Previously, he served at the general counsel and executive

vice president of INVESCO, an institutional investment company with over $380 billion in assets under management. He has also served on the staff of the SEC. And, in fairness, I should also say that I know Mr. Aguilar. We have had a chance to meet and talk on a number of occasions over the years, and welcome here to the Committee this morning.

Next is Professor Troy Paredes. Did I pronounce that correctly? Is that close enough?

Mr. PAREDES. Yes.

Chairman DODD. OK. Of Missouri. He has also been nominated to serve on the SEC. Professor Paredes is a professor of law at Washington University School of Law where he teaches securities law, corporate governance, and corporate finance. Previously, he worked in private practice on corporate transactions, including leveraged buyouts, mergers and acquisitions, and private equity and other financings.

Our third SEC nominee is Elisse Walter, of Maryland. Ms. Walter is the senior executive vice president for regulatory policy and programs with the Financial Industry Regulatory Authority, and she serves on the board of the Investment Education Foundation of that organization. Previously, Ms. Walter served as the General Counsel of the Commodity Futures Trading Commission and Deputy Director of the Division of Corporate Finance. And, again, I know Ms. Walter, and I thank you very much for your willingness to serve and to appear before us today.

Third in our panel is Donald Marron, of Maryland—and again, I know Mr. Marron as well. We have known each other for some time—to be a member of the President's Council of Economic Advisers. Dr. Marron is known to many of us due to his service as Deputy Director of the Congressional Budget Office. Prior to this, he served as the chief economist on the Council of Economic Advisers. Earlier in his career, he served as the executive director and chief economist on the staff of the Joint Economic Committee.

And, finally, we have Michael Fryzel. Is that how you pronounce that, Fryzel?

Mr. FRYZEL. Yes, sir.

Chairman DODD. Of Illinois, to be a member of the Board of Directors of the National Credit Union Administration. If he is confirmed by the Senate, the administration has indicated its intent to name Mr. Fryzel to be Chairman of the Board of Directors. Mr. Fryzel is currently an attorney in the city of Chicago, also serves on the Illinois Governor's Board of Credit Union Advisers and prior to this he served as director of the Department of Financial Institutions for the State of Illinois and as a member of the Governor's Cabinet.

So we look forward to hearing from all of you this afternoon, and, again, we will begin with you, Mr. Aguilar, if you could make an opening statement. Your full statements, by the way, if you have additional materials you wish to share with us, we are glad to have them included as part of the record.

Why don't we begin with your families, by the way. I don't want to discriminate here against families. Who do you have with you today, Mr. Aguilar?

Mr. AGUILAR. Thank you, Chairman Dodd. Today with me I have my wife, Denise, who is right behind me, who has always supported and encouraged me. She's my closest friend, most trusted adviser.

Also with us today are my nephews, Mark and Jon Mark Traylor from the great State of Alabama.

Chairman DODD. Very smart. There you go.

[Laughter.]

Any other relatives from around the country?

Senator SHELBY. Let's confirm him.

Chairman DODD. Let me go down the rest of the row here and do the families as well. Mr. Paredes?

Mr. PAREDES. Thank you, Mr. Chairman. Today with me is my lovely wife, Laura, sitting right here behind me.

Chairman DODD. Very good. Thank you. Nice to have you with us.

Ms. Walter.

Ms. WALTER. Mr. Chairman, I have with me my husband of 34 years, Ron Stern.

Chairman DODD. Good. Ron, how are you? Nice to see you as well. Welcome.

Mr. Marron.

Mr. MARRON. Mr. Chairman, it is my honor to introduce my wife, Esther, who I would like to thank for all of her support. And I believe I have a few family members watching on the Internet at home.

Chairman DODD. Ah, very, very good. Technology.

Mr. Fryzel.

Mr. FRYZEL. Thank you, Mr. Chairman. Unfortunately, my wife, Gloria, cannot be with us today. She is with her job responsibilities in Chicago, but certainly her thoughts are with me, as is her support.

Chairman DODD. Thank you very much. Well, I am sorry she is not with us.

Mr. Aguilar, we will begin with you.

STATEMENT OF LUIS AGUILAR, NOMINEE, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

Mr. AGUILAR. Thank you, Chairman Dodd, Ranking Member Shelby, Senator Menendez, distinguished Members of the Committee.

Chairman DODD. You need that on, Luis.

Mr. AGUILAR. Chairman Dodd, Ranking Member Shelby, Senator Menendez, and distinguished Members of this Committee, I am deeply appreciative for the opportunity to appear before you today. I am deeply grateful and honored to have been nominated to serve my country on the Securities and Exchange Commission. It would be a special honor to follow into the footsteps of Roel Campos. I would be proud to continue his efforts toward well-functioning, effective capital markets and a Commission that effectively fights for all through a strong enforcement program. With your indulgence, I would like to briefly share some of my life's experiences and perspectives and then mention a few of the unique challenges facing the Commission.

The United States remains the land of opportunity and it is the beacon of freedom and democracy for the world. Our Declaration of Independence and our Constitution are an example to all. The opportunities that are available to us in our country are endless and allow us to dream big and then be able to make our dreams a reality.

I am one of the many examples of what can be achieved. I came to the United States from Cuba when I was 6 years old, basically with little more than the clothes on my back, and I have been a beneficiary of this country's terrific generosity. When I first arrived as a refugee from Cuba, we received many of our essential needs from the generosity of the American people, and gratefully, this country's public school system provided me a strong education which has been the foundation of any success I have achieved.

This country also provided the opportunity for me to work and earn some money. In my early years, I had a number of jobs including delivering newspapers, putting up fences, being a stock boy in a yarn store, and working at the Miami International Airport loading baggage and cargo into the bellies of airplanes. These activities allowed me to pay for my education. And, fortunately, I had the support of an extended family. I was able to live with various relatives my first years in the United States, and I was reunited with both my parents when I was 10 years old. Between the ages of 10 and 16, my family lived in various parts of the United States, from Miami, Florida, to Ravenne, Ohio; Little Rock, Arkansas; and Rome, Georgia.

When I was 16, my parents moved back to Miami where my father had a good job offer. I stayed in Rome to finish school. I was fortunate that a friend told his parents about my desire to finish school in Rome, and his parents asked to meet me and ultimately welcomed me into their home. This experience had its challenges. Among other things, I was in the process of improving my English, and my Spanish accent took time for them to get used to. I have always been grateful for the generosity of a Southern Baptist family who opened their home to a complete stranger from another country. It is a generosity many Americans have.

I believe in the American dream. I believe it is achieved through hard work, commitment, and perseverance. I believe the Commission plays a crucial role in helping to secure the American dream. The Commission does this by facilitated access to investment capital by growing businesses, by maintaining the credibility and integrity of our capital and financial markets, and by working vigorously to protect investors. The Commission's vigilance and its efforts to prevent and address fraudulent activity helps secure the savings and retirement assets of American families.

I have spent most of my professional life dealing with our securities laws. My professional career started at the Commission, and my involvement with the securities laws continued in private practice and as an in-house attorney to large global investment managers. I have regarded the Securities and Exchange Commission as one of the finest agencies of the U.S. Government, with the legacy of exercising fair and tough-minded regulatory authority. For 75 years, the Commission has been an example of regulatory excellence. I fully believe in the Commission's mission to protect inves-

tors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

The Commission's focus on fully protecting investors is particularly significant at a time when many of our citizens participate in the capital markets through direct investments, pension plans, mutual funds, and other vehicles. It is generally recognized that our Nation has the highest level of retail investor participation in the world. In our rapidly moving and innovative marketplace, it is very important that the Commission maintains pace with the continuing changes to protect investors and maintain confidence in the financial market.

For example, the recent issues surrounding certain credit ratings have shaken investor confidence and focused attention on how regulators can more effectively address potential conflicts of interest and make the process more transparent and increase accountability.

With respect to these and other matters, if I am confirmed, I pledge to work tirelessly with you and with my colleagues at the Commission to ensuring that the public has confidence in the integrity and efficiency of our financial markets. If I am fortunate enough to be confirmed, I will strive to meet the challenges of protecting the interests of investors without burdening the conduct of business, and to promote an environment in which enterprises can raise capital efficiently, whether they are large established entities or small entrepreneurial and emerging companies. I will also try to fairly and carefully determine the appropriate enforcement actions and sanctions in pending and future investigations.

Thank you for the opportunity to appear before you today. I would be honored if you would permit me to be a Commissioner of the Securities and Exchange Commission. I would be pleased to try to answer any questions that you may have.

Chairman DODD. Thank you very much, Mr. Aguilar.

Mr. Paredes.

STATEMENT OF TROY A. PAREDES, NOMINEE, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

Mr. PAREDES. Mr. Chairman, Ranking Member Shelby, and Members of the Committee, I am deeply honored and humbled to be before you today and to have been nominated by the President to serve as a Commissioner of the Securities and Exchange Commission. If I am fortunate enough to be confirmed, I can assure you that I will do my best each and every day to serve the public interest.

I am delighted that my wife, Laura, is here with me today. Her love and support are immeasurable. Also, I would like to express how much I appreciate all the love and support of my parents.

Justice Brandeis famously observed, "Sunlight is said to be the best of disinfectants; electric light the most efficient policeman."

Louis Loss, whom I have the pleasure of calling a co-author on the Securities Regulation treatise, put it more colorfully, once writing, "People who are forced to undress in public will presumably pay some attention to their figures."

These quotes drive at mandatory disclosure, a cornerstone of securities regulation that deserves credit for the longstanding success of U.S. securities markets.

Today we discuss disclosure in terms of transparency. Transparency is a linchpin of a market-based financial system. Investors need access to high-quality information. When investors are armed with accurate information, they make better decisions, and the efficiency and integrity of U.S. securities markets are promoted.

The SEC is responsible for administering and enforcing not only the mandatory disclosure regime, but the entirety of the Federal securities laws. As such, the Commission is uniquely positioned to instill investor confidence, which in turn underpins capital formation and well-functioning securities markets. Securities markets are not stagnant but evolve. While new opportunities present themselves, so do new challenges. Whether we focus on Enron, the recent credit market turmoil, technological advances, or increasing globalization, the SEC should reassess this facts-on-the-ground change and as developments unfold.

It is important for the Commission to be nimble and for the regulatory system to be state of the art. This means working collaboratively to fulfill the agency's goals in a way that is reasoned, balanced and based on the evidence and that weighs the benefits of regulation against the costs.

I care deeply about our financial system and recognize the SEC's integral role in overseeing our securities markets and helping to ensure that the U.S. continues to have the world's deepest, most liquid, and most competitive markets.

If the Senate confirms me, it would be an honor to have the opportunity to contribute to the agency's important mission. I have the highest regard for the Commission and for its expert, professional, and dedicated staff. It would be a pleasure to work with the staff as well as the other Commissioners. I also appreciate the important work that this Committee and its staff perform as the Committee discharges its oversight and legislative responsibilities. If confirmed, I look forward to working together with this Committee and its staff to serve the public interest.

Finally, if confirmed, I will fill the seat vacated by Commissioner Paul Atkins. I would like to recognize Commissioner Atkins for his years of service at the SEC.

I thank you for the opportunity to appear before you today and would be happy to answer any questions.

Chairman DODD. Thank you very, very much.

Ms. Walter, welcome.

STATEMENT OF ELISSE B. WALTER, NOMINEE, TO BE A MEMBER, SECURITIES AND EXCHANGE COMMISSION

Ms. WALTER. Thank you, Chairman Dodd.

Chairman Dodd, Ranking Member Shelby, distinguished Members of the Committee, I am extremely pleased to appear before you today, and I am honored that President Bush has nominated me to serve as a member of the Securities and Exchange Commission. I would like to thank Chairman Dodd for the confidence he has shown in me, and I am particularly grateful to Senator Jack Reed and also to Senator Schumer for their support.

I wouldn't be here today were it not for the support of my family, so, again, I would like to reintroduce Ron Stern, who is sitting behind me, my husband. And I also know that my parents, Shirley and Arthur Walter, would be bursting with pride and here today if were still with us. And speaking of pride, I would like to mention our two sons, Jonathan and Evan, who unfortunately couldn't be with us today because they are pursuing graduate degrees and careers of their own on the West Coast.

I would also like to thank my friends and colleagues, a number of whom are here today, for their invaluable support.

My family has come a long way since my four grandparents immigrated to this country. If confirmed, I am committed to giving back by doing my utmost as a Commissioner to serve the public.

I worked for the SEC for 17 years and know firsthand what an exceptional institution it is. The SEC has had a number of outstanding Commissioners, including Irv Pollack, who recently turned 90. Irv was a Commissioner when I first arrived at the SEC in 1977. He always went straight to the essence of each matter that came before the Commission and was guided by one overriding standard of conduct: Do the right thing. He remains today my symbol of integrity and excellence in public service.

Since those days at the SEC, protecting investors has continued to be at the heart of my career. I am privileged to have been a securities regulator for more than three decades. During that time, I have worked on many issues, including the regulation of the markets, disclosure questions, investor education, and protection of seniors—issues that are front and center today. I have had the honor of serving as the General Counsel of the CFTC and as a senior executive of FINRA, the self-regulatory organization that regulates broker-dealers. In all of these positions, I have been able to pursue my passion for the protection of investors and preserving fair and honest markets.

The U.S. securities markets are the crown jewels of our Nation's economy. We should be proud that the United States has the highest level of retail investor participation in the world. And with that high level of participation, the SEC has a critical job: protecting investors, facilitating capital formation, and assuring the integrity and transparency of those markets.

If confirmed, I pledge to join with the Chairman, my fellow Commissioners, and the agency staff to fulfill our mandate in a vigorous, balanced, fair, and pragmatic manner. I am committed to pursuing both strong enforcement and creative approaches to resolving the issues confronting our ever evolving financial markets. There is much for the Commission to accomplish, and I hope to have the opportunity to return and help it meet these challenges.

John F. Kennedy once said that there are four qualities that measure the success of a public servant: courage, judgment, integrity, and dedication. If confirmed, I will strive to act in a manner that reflects each of those traits.

Thank you very much. I would be pleased to answer any questions.

Chairman DODD. Thank you very, very much, Ms. Walter.

Mr. Marron.

STATEMENT OF DONALD B. MARRON, NOMINEE, TO BE A MEMBER, PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS

Mr. MARRON. Thank you, Mr. Chairman. Chairman Dodd, Ranking Member Shelby, and Members of the Committee, it is a great honor to appear before you today as a nominee to become a member of the President's Council of Economic Advisers.

The Council was formed in 1946 to provide the President with sound, objective advice on the economic policy issues that face our Nation. Those issues span a wide spectrum—macroeconomic performance, health care, globalization, regulation, and fiscal policy, to name just a few. Of particular importance today, of course, are the recent turmoil in credit markets, the ongoing downturn in housing, and the rapid escalation of food and energy prices.

The role of Council members is to provide policymakers with objective analyses that reflect the insights of the larger economics community. To do so, Council members rely on their past experience in research and policy. My experiences include a wide range of policy-related work in academia, the private sector, and, most recently, in public service. Since 2002, it has been my honor to serve both Congress and the administration in a series of economic policy positions. That service began here in the Senate, where I became staff director of the Joint Economic Committee under Senator Bennett. I then served as chief economist on the staff of the Council of Economic Advisers.

In 2005, I joined the Congressional Budget Office, serving as Deputy Director for almost 2 years, including more than a year as its Acting Director. It was a great honor to lead CBO's outstanding team of professionals who provide the Congress with objective, nonpartisan analyses of economic and budget issues. I left CBO last August, returning to the Council where I now serve as Senior Economic Adviser.

Before my public service, I had a diverse career in academia and the private sector. I served as chief financial officer of a medical software startup, provided business consulting and litigation support to companies in a variety of industries, and taught microeconomics, environmental policy, and entrepreneurial finance at the University of Chicago Graduate School of Business. I hope that my broad background will provide me with a solid base for my work at the Council.

Thank you for considering my nomination and for allowing me to appear here today. I would be happy to answer any questions.

Chairman DODD. Thank you, Mr. Marron.

Mr. Fryzel.

STATEMENT OF MICHAEL E. FRYZEL, NOMINEE, TO BE A MEMBER, NATIONAL CREDIT UNION ADMINISTRATION BOARD OF DIRECTORS

Mr. FRYZEL. Thank you, Chairman Dodd, Senator Shelby, and Members of the Committee. I very much appreciate this opportunity to come before you to discuss my views relating to my nomination as Chairman of the National Credit Union Administration.

I am humbled by the trust and faith placed in me by the President in nominating me to the NCUA Board. I am also grateful for the chance to have met with some of you in person in recent weeks

and discussed the responsibilities and expectations inherent in the NCUA chairmanship. If confirmed by the Senate, I look forward to discharging those responsibilities to the best of my ability.

For the past 19 years, I have been in the private practice of law in Chicago, Illinois, representing financial institution clients before the various regulatory agencies that license, examine, and monitor their activity. Prior to that time, I was the Director of the Illinois Department of Financial Institutions for almost 8 years. In that position, I was responsible for the regulation of credit unions, consumer credit lenders, currency exchanges, foreign exchange companies, and the administration of the Unclaimed Property Act. During my tenure, there were 700 State-chartered credit unions with assets exceeding $4.3 billion.

I have also worked with various credit union trade associations and for the last 16 years have been a Member of the Governor's Board of Credit Union Advisers for the State of Illinois. Based on my time as a State regulator of credit unions and my experience in the private sector in various legal and advisory capacities, I strongly believe that credit unions and other financial institutions need prudent and far-sighted regulatory oversight during these turbulent days for the financial marketplace.

There are specific principles that have guided and will continue to guide my regulatory philosophy if confirmed by the U.S. Senate.

First, safety and soundness must be the central focus of any Federal financial institution regulator. Both the Congress and President entrust tremendous responsibility to those who regulate, supervise, and ensure financial institutions. As Chairman of NCUA, I will be extremely vigilant in this area. Consumers place not only their money in credit unions; they place their trust; and I intend to maintain the most rigorous and diligent safety and soundness standards possible. federally insured credit unions have never cost a U.S. taxpayer a penny, and the high bar that has been set will remain intact throughout my tenure.

A closely related second element of my regulatory philosophy involves the consumers. I firmly believe that strong regulatory control that aggressively protects the rights of consumers is essential, particularly in this extremely complex and fast-moving financial marketplace. The multitude of choices presented to the consumer must be accompanied by plain language disclosures and understandable options. We must pursue common sense rules of the road that benefit both credit unions and the members they serve. As member-owned financial cooperatives, credit unions naturally gravitate toward giving consumers a fair deal. NCUA will continue to monitor credit unions to ensure that long-standing practice remains in place.

Finally, I want to stress the need for balance between regulators and the industry they supervise. Independence is an essential component of being an effective regulator. In Illinois, that was one of my core principles. At the same time, there needs to be a healthy and dynamic arm's-length relationship with the industry characterized by active listening, open-mindedness, and a willingness to work together to achieve a shared goal of a strong and vibrant credit union industry. We will work cooperatively with the indus-

try, but will not hesitate to exercise regulatory authority when necessary.

I also understand the importance of being accountable to Congress. Your oversight right is an essential aspect of the regulatory process, and I will always be willing to work with Capitol Hill in maintaining the well-regulated credit union industry. Government's role in regulating and insuring financial institutions should be as minimal as possible and as much as necessary. The credit union industry has proven itself a very valuable resource for the American consumer. This is due, at least in part, to a strong and credible Federal regulatory presence. My commitment to you is to continue this track record and build upon it.

I look forward to facing the challenges that all regulators face today and welcome the opportunity to work with the Congress in building a strong network of financial institutions.

Again, I appreciate the time afforded me today and will be happy to answer any questions you may have.

Chairman DODD. Thank you very much.

Again, I will try and limit our questions on this side and leave the record open for some additional ones.

We have been joined by Senator Reed of Rhode Island. I thank the Senator for joining us.

Let me begin with our SEC nominees. I will ask all three of you to comment on these questions. I want to raise the issue of proxy access and I want to raise the issue of the credit rating agencies. There are a lot of issues to talk about, but those are two that are of particular interest to me.

Obviously, we need a strong Commission that inspires investor confidence. In thinking of one word, the most important, confidence of investors is the critical word and has been during my tenure on the Committee. And addressing challenges that arise in our markets.

The proxy access, last year the SEC voted to deny shareholders access to the proxy for proposing procedures to nominate directors. Proxy access was the subject of a November 1, 2007 letter that, I, along with several members of this Committee, sent to Chairman Cox in which we stated, and I quote, "Shareholders' rights to place their proposals on the proxies of the public companies they own is extremely important." It was the subject of a Committee hearing, as well, I might point out.

After the Commission's decision, Chairman Cox stated, and I am quoting him, "I believe we can move forward and reopen this discussion in 2008 to consider how to strengthen the proxy rules to better vindicate the fundamental State law rights of shareholders to elect directors" end of quote.

So my questions for the three of you are the following: do you support the Commission reconsidering this issue and determining whether shareholder proposal rules should permit proxy access proposals? What are your views on when shareholders should have that proxy access? And what are your views on the process that the Commission should use in making significant changes in policy? That is a broader question.

In this case, the Commission had a policy of allowing shareholder proxy access that dated from 1976 until 1990. Then the staff at the

Division of Corporation Finance reversed the policy and denied proxy access in a no action letter for reasons that, as the Second Circuit Court of Appeals said in the *AFSCME* v. *AIG* case, and I quote, "the SEC has not provided, nor has the Division ever provided."

If confirmed, would you support transparent decisionmaking processes on these important issues?

Mr. Aguilar, I will begin with you.

Mr. AGUILAR. Mr. Chairman, thank you for that question.

I am aware that the Commission passed last year a status quo, if you will, to maintain the status quo. And I understand the Chairman hopes to revisit the issue when he has a full Commission. I welcome that opportunity.

I believe that shareholders, as owners of our companies, are entitled to a voice. I believe that State corporate law that gives them the right to vote for directors is something that the SEC should facilitate to the extent appropriate. So I would support Chairman Cox reopening that issue. I understand there were 34,000-plus comment letters that arrived and I would be interested in knowing what they say.

I believe that answers your first two questions.

The response to my views on the process in terms of making broad policy changes is that they should be subject to some notice and due consideration so that we can hear all sides of the views on the policy, how it has been, the reason why it was, the reason why changes are now required, for whatever reason they may be.

Chairman DODD. Mr. Paredes.

Mr. PAREDES. Thank you, Mr. Chairman.

The role of the shareholders in corporate accountability is certainly vitally important as we try to strike a balance between the discretion that managers and boards have to run the enterprise, but ensuring that there is the proper accountability to the shareholders. And so I would certainly welcome any consideration of ways in which that balance can be improved and the ways in which it can be appropriately struck in order to get the appropriate result.

And so to be sure, if this issue comes before us, I would be welcoming of considering it with an open mind.

Chairman DODD. But would you support—Chairman Cox is talking about reopening it. Would you support reopening?

Mr. PAREDES. I certainly support the fact that it is important for this issue to get a full——

Chairman DODD. We all acknowledge it is important. No one said it was not important.

Mr. PAREDES. I appreciate that, Mr. Chairman. To get a full hearing and assessment of this issue. It has been an issue that has been out there for some time, as Mr. Chairman, you all know. And to have it finally before the body of the SEC to hopefully have a final resolution at this particularly important time, I think, is a worthy step in the direction of bringing to conclusion and to end the uncertainty that I think surrounds the question of shareholder access.

In terms of the process of decisionmaking, I certainly am in favor of a transparent decisionmaking process. An action letter process

is an important process within the Commission. But transparency is certainly important, and the role of the Commissioners in assisting in the crafting of policy decisions is certainly of utmost significance and importance.

Chairman DODD. Putting aside whether or not you agree or not with the decision that was made here, but that was the policy from 1976 to 1990. To basically change a policy that had been in place for that long, without the kind of due deliberation and consideration, how does that strike you?

Mr. PAREDES. Mr. Chairman, I think when there is a significant change, it certainly—I am open to the fact that it needs to be properly vetted by the Commission. I am only cautious in not wanting to unduly abrogate the new action or the process. But I am certainly recognizing that there are some issues that are sufficiently important, to be sure, and of great magnitude that they warrant the Commission as a body weighing in and making the final determination as——

Chairman DODD. Does that decision strike you as one of those?

Mr. PAREDES. I certainly think the ways in which things have developed since then, at this particular moment in time, it certainly has received a great deal of attention. I would have to consider the circumstances back at that particular time. But right now, we have a renewed, if you will, attention on shareholder access. And certainly at this particular moment in time, shareholder access is a vitally important matter that needs to be finally resolved, I believe, by the Commission.

Chairman DODD. Ms. Walter.

Ms. WALTER. Thank you, Mr. Chairman.

I think questions of proxy access have to be—as many other issues under the securities laws—approached from the vantage point of individual investors. And in this case, as my fellow nominees have pointed out, a shareholders job, in effect, as an owner of a corporation is to elect those stewards of the corporation. And I think those issues in getting access to the proxy under important circumstances are quite important.

So I would welcome reconsideration of this decision. I think it is an extremely important one. And I think it is one that the Commission should approach as soon as possible, given the complications of the issue and the amount of input.

I also do think, in general, it is important to have a vigorous staff process that allows things to get done. It is also important, though, when long-standing positions are reversed, for that to be done in a transparent and thoughtful way so that both within and outside the Commission people can understand the reasons for change, which are appropriate from time to time but in fact are not appropriate in other occasions.

Chairman DODD. I thank you for that.

Let me ask you about the credit rating agencies. Senator Shelby and I have had hearings on this issue and obviously they help facilitate the sales of collateralized debt obligations. And during the past several months the delinquencies and foreclosures of subprime loans have prompted rating agencies to downgrade the ratings on thousands of tranches of residential mortgage-backed securities, as we all know.

Significant concerns have been raised about the performance of the rating agencies. The Committee had a full hearing on the subject matter. Chairman Cox has said he intends to recommend additional rulemaking in this area.

In your view, what types of additional rules should the Commission consider adopting to promote investor confidence and enhance the performance of credit rating agencies?

For example, would you seek to require nationally recognized statistical rating organizations to provide more information about their rating methodologies, the default rates of company comparatively rated debt to reduce conflicts of interest in the business model, to require more timely updates, or other measures that you might share with us as thoughts that you have about these matters, given the long-standing experience you have all had—the three of you have had—in this area.

And I will begin with you, Ms. Walter, just what different direction here? Any thoughts on this?

Ms. WALTER. It is a terribly important issue and it is one that is not a new one. It was a very important issue in the mid-1980s and one that, in my view, was not addressed as vigorously as it really needed to be. And I am glad to see that the Commission is going to be moving forward with rules in the very near term.

I do not have definitive views about exactly what those roles should look like, but the topics that you have outlined in terms of further information, addressing conflicts of interest, and addressing default rates are very important.

As I understand it, the Commission has also committed to look at its own rules and the extent to which those rules place a great deal of emphasis on ratings as an entre into the system in a lot of different ways and in ways that facilitate easier treatment under the Commission's rules. And I think those need to be looked at carefully, as well.

And I look forward, if confirmed, to participating in that process.

Chairman DODD. Thank you. Mr. Paredes.

Mr. PAREDES. Thank you. I agree with the sentiments of what was expressed. This is a critically important issue that needs further attention by way of potential action when it comes to conflicts of interest, potential disclosure of track records. I know the Commission is presently considering a rulemaking. And if I am fortunate enough to be confirmed, I certainly welcome the opportunity to consider what the Commission puts forward and what other changes perhaps might be reasonable in light of all that we have learned in recent months concerning the credit rating agencies.

Chairman DODD. Do you have any specific ideas, Mr. Paredes, that you think might work?

Mr. PAREDES. Thank you, Mr. Chairman.

You know, one possibility which I think is worth giving serious consideration to is the disclosure of track records and performance by way of trying to get a sense of the performance of the particular rating agencies. I certainly do not want to rule anything in. I think it would be premature on my part to rule anything in at a particular moment in time, or rule anything out.

But I think if there are steps that can perhaps promote transparency and competition in this base, they certainly deserve serious consideration.

Chairman DODD. Mr. Aguilar.

Mr. AGUILAR. Mr. Chairman, the credit rating agency involvement—the relationship with the SEC is relatively new. It began to be first registered by them I think within the last year. I think the first round of SEC rulemaking was roughly the summer of last year.

I think in light of what has happened in recent months, I think it is appropriate that the SEC take a hard look at the credit rating agencies and how they have been performing.

I understand from the newspapers and otherwise that there is a series of rules that the Commission is planning revolving around three main issues as I understand it: transparency, accountability, and increasing competitiveness, which I think are the three important issues. How they go about doing that and what the rules are I am not informed of currently, but I would look forward to, if confirmed, looking at the rules and trying to determine whether they, in fact, do what needs to be done to protect the American public.

Chairman DODD. But this is all three of you—I draw the conclusion that all three of you believe that this is a very important area for the Commission to engage in some serious rulemaking on? That you are as concerned as we are about the problems with the credit rating agencies as part of the overall problem we have seen over the last several years and the whole issue of the credit markets.

Mr. AGUILAR. Absolutely.

Mr. PAREDES. Absolutely.

Ms. WALTER. Absolutely.

Chairman DODD. Let me jump to you, Mr. Marron, very quickly, if I can. Ben Bernanke, the Chairman of the Federal Reserve, highlighted the importance of preventing foreclosures in a recent speech. Let me quote him to you. He said "high rates of delinquency and foreclosure can have substantial spillover effects on the housing market, the financial markets, and the broader economy. Therefore, doing what we can to avoid preventable foreclosures is not just in the interest of lenders and borrowers, it is in everyone's interest."

Do you agree with that? And do you have any opinions you want to share with us about the matter that this Committee just took a position on? We covered a lot of subject matters, but the Hope for Homeowners Act was a very important piece of it, the GSE reforms, the permanent establishment of affordable housing programs which Senator Reed had championed along with others.

Will you share with us very quickly your views of that piece of legislation, that has only come out of Committee. And we have yet to go to the floor of the Senate on?

Mr. MARRON. Certainly. Thank you, Mr. Chairman.

First of all, I would absolutely like to affiliate myself with Chairman Bernanke's remarks on the issues that are important in this basis.

I think for me a helpful way to frame that up is to look a little bit at the history of what we have gone through over the last 8 or 10 months on this issue, where I think looking back actually there

are a lot of positive things to say about the policy response, both from the administration efforts to try to get the private sector to work better to avoid preventable foreclosures through Hope Now.

And I think also from a recognition, which I think has broadened over time, that for more direct Government action the FHA is the right instrument and the right institution to do that. And then what we have seen on that is basically a trajectory on which first, the focus was on addressing the potential problem of resets and then in the intervening months we have come to recognize that because interest rates have fallen and because house prices have gone down resets are not as severe a problem as we were once concerned about and that it is really prices going down, house prices falling, that is really going to be the key driver for challenges in the housing market.

And that it therefore makes sense to think about, on the FHA front, sort of expanding it in directions that are more responsive to that challenge that is out there. The administration has taken some steps in that direction and my understanding of the bill that this Committee passed was that it will take some additional steps in that direction and in essence provide a carrot and incentive for lenders, for servicers to do some write-downs in situations where it makes sense for them to do that and it enables people to stay in their homes.

That seems to be to be exactly the right logical place to be looking.

Chairman DODD. So you indicate you are supportive of what we have done here in the Committee?

Mr. MARRON. I am personally supportive of the general outlines of it. I understand that the Administration has some concerns about some of the specifics.

Chairman DODD. I was not asking about them. I was asking about you.

Mr. MARRON. No, I was just setting out the—so, I am very supportive of the general structure. Being a—I am a CBO guy, I am a green eyeshade guy, I am a budget guy. I was brought up in that tradition. I was introduced to the Credit Reform Act. And I was taught about how FHA was structured to be, in essence, cost neutral for the Federal Government.

And so I recognize that it is a shift to move in a direction where that is no longer true and I think that is—I can understand why that is an issue on the table, but I think that is a change that one needs to focus on and take seriously before doing.

Chairman DODD. I would just point out to you that, according to some economics, the consumers have lost $2 trillion as a result of foreclosures that have already occurred. So as a numbers guy, I would presume you would be deeply concerned about the loss of value that is occurring and what that means to people in terms of the overall economy of the country and the contagion effect that has spread out to commercial and mortgage-backed securities, student loans, municipal finance. All of these areas have been adversely affected.

And we have got a tranche coming, a wave coming, of foreclosures after July 1 that may make the first wave look small by comparison. So my hope would be we would get some strong posi-

tive statements from people who are sitting in critical positions in support of these ideas. I am not asking that they support every dotted I and crossed t, but I think the longer we wait, failing to act, could even exacerbate the problem further.

Any additional comments you want to make?

Mr. MARRON. You know, my role thus far has been kind of advising on these issues. And again, I think the basic structure outline of using FHA in this way is the logical, reasonable way to go. And I hope and expect that folks will be able to reach some agreement on how to move forward.

Chairman DODD. Mr. Fryzel, I am going to move right along here. And again, there is lots to talk to you about, as well. Let me just ask you, as credit unions behave more and more like traditional banks and concerns are being raised all the time. I have been a strong supporter of credit unions. But more and more some ask why should they continue to be regulated differently?

How would you answer such a question?

Mr. FRYZEL. Well, Senator, credit unions are different from banks in that they are cooperatives owned by the members of the credit unions. In that sense, they are owners of the financial institutions themselves.

I think we need to look upon credit unions as what they really started as, as community-type financial institutions for individuals who needed those financial institutions. They have since grown. But keeping in mind the fact that they continue to serve those individuals of those communities.

Chairman DODD. What are your views on the expansion of the common bond requirement? That was sort of a unique moniker, in many ways, the branding of the credit union, was the common bond. And the expansion of the common bond requirement and the implication for credit unions and their competitors.

Mr. FRYZEL. Well, the common bond issue has been, of course, as you well know in the forefront for many years, in regards to the fact that many individuals felt that credit unions were going beyond what they were required to or allowed to initially serve.

But the position NCUA has taken is that if the credit union is able to serve a particular community, the common bond remains. So that it is still a defined area of which they can serve, be it a community or industrial area or what have you. The bond of the credit union or the ability to serve certain individuals is specifically designed and specified in their charter.

Chairman DODD. I just raise a flag of caution in this area. This is expanding. And the arguments of those who feel as though there has been a disadvantage from a tax standpoint and others are raising, begin to raise some legitimate questions. And I am a strong backer of credit unions over the years, and the value that they provide for their members.

But this is an area where I think to continue to expand those parameters is going to raise more and more questions with people if it is not carefully thought out. So I urge you to consider that as you move into this new role.

Let me turn to Senator Shelby.

Senator SHELBY. Thank you, Senator Dodd.

I will address this first in my statement and then a question to the SEC nominees.

The Financial Times recently reported that Moody's had erroneously awarded AAA ratings to certain securities due to an error in its rating model, and that it took considerable time for this error to be corrected. In light of the significant role that rating agencies play in our markets, as Senator Dodd has brought up, such errors by the rating agencies are simply not acceptable, it seems to me.

My question to all three of you, are you committed to using the tools Congress provided the Commission in the Credit Rating Agency Reform Act of 2006, which we passed here in this Committee, to ensure thorough oversight of the rating agencies? I think Chairman Cox and the other members of the Commission are already undertaking that and he has testified here before that.

But the question is are you three committed to looking seriously at the failings of the rating agencies under the auspices of the Act that I referenced in 2006?

Mr. AGUILAR. Yes, sir. Absolutely, no doubt.

Mr. PAREDES. Yes, sir.

Ms. WALTER. Yes, sir.

Senator SHELBY. Due diligence, I will ask you this question, all three of you. Several commentators have suggested that in the rush to book the large profits associated with structured financial products many underwriters during the last few years did not conduct sufficient due diligence to uncover the poor quality of the subprime loans being used to create many of these securities. We know that now.

Do you believe, the three of you, do you believe that due diligence standards in the structured financial products market suffered in the last few years? And if—I think that is a given. And if so, what steps could be taken to improve the quality of due diligence for offerings of these products?

I believe I will address this first to Ms. Walter. She has been on the staff there a long time.

Ms. WALTER. Thank you, Senator Shelby.

Due diligence clearly is always an important issue in the offering process. I do believe——

Senator SHELBY. It goes to the heart of it, does it not?

Ms. WALTER. Yes, it does. And I do believe that the SEC has the tools to address this issue. Some of it obviously has to be done in an investigative kind of way in the enforcement process. We also do need to look at whether or not there needs to be additional rulemaking of some sort. I am not at all sure that that is the case, but I think it is an issue that should be put on the table.

It is necessary for all of the participants in the offering process to play their appropriate role and at the level of quality that is really required in order to make the process work correctly.

And I think that is particularly important in the structured finance arena where the products that are being created can be quite complex, the ways in which they behave under a variety of economic circumstances need to be looked at very closely.

Mr. PAREDES. I agree with the sentiments of Ms. Walter and yours, Senator Shelby, that due diligence is at the heart of the offering process, that due diligence has to be adequate and up to

snuff so that individuals know what the nature of the investment, what the investment is.

So in that spirit, certainly there should be a consideration of what might be able to be done in this basis and needs to be done. But the enforcement tools and the investigation tools that are presently before the Commission are certainly at their disposal and should be used in an appropriate way.

Senator SHELBY. Yes, sir.

Mr. AGUILAR. Senator, as the end of the train here in this discussion, I am in agreement with my other nominees. I believe that the failings have been so systemic, so pervasive, that I think the SEC——

Senator SHELBY. It is unprecedented, is it not?

Mr. AGUILAR. In my lifetime for sure.

Senator SHELBY. Senator Dodd and I have been on the Committee here together a long, long time. I have never seen anything like it in the rating agencies.

Mr. AGUILAR. Senators, I am in agreement that this requires a careful, measured look to make sure that if we do not have the necessary rules and the necessary authority to address this to prevent future actions, then I think I would be among the first to come back to this Committee with any suggestion or recommendation I may have as to what additional authority or action should be taken.

Senator SHELBY. Rulemaking, expedited rulemaking. A recent report by the SEC's Inspector General has brought to light the long delays U.S. exchanges and other self-regulatory organizations, SROs, experience when seeking the Commission's approval of proposed rule changes. Under the securities law, certain SRO rule changes—it is my understanding—must be approved by the Commission before they can become effective. The Inspector General for the SEC found that the Commission did not consistently approve proposed rule changes within the prescribed statutory timeframe.

You are going to the SEC, I believe all three. Ms. Walter, you have worked at the SEC a long time, as well as at an SRO, the financial industry regulatory authority.

How can the SEC improve its review of the proposed SRO rule changes? And as a Commissioner—and I will ask the other two this, too—will you be supportive of efforts to improve the SEC's processes and performance in this area? Because I think they are a little lacking right now.

Ms. Walter, I will pick on you again and then move down.

Ms. WALTER. As an SRO employee, I must say I do think that the SEC approval process for rules is at times longer than it should be. And that has happened on more than one occasion in my own experience.

I do think that the Commission has the ability and the Commission staff has the ability to expedite that. It needs to be done, in part, perhaps by a triage process in terms of which rules——

Senator SHELBY. What do you mean by the triage process?

Ms. WALTER. There are some rules that could be moved through—SRO rules that could be moved through extremely quickly because they do not present the same level of critical issues that

others do, whereas there are others that obviously require more time and attention. But I do think——

Senator SHELBY. Well, some are more complex.

Ms. WALTER. That is absolutely right.

And I do believe that the Commission has said that it is committed to fixing this process, and of course it is particularly critical with respect to SROs that have competitors that are not regulated in the same sort of way.

And as a Commissioner, if I am fortunate enough to be confirmed, I would be very pleased and anxious to work with the staff and my fellow Commissioners to making sure that this process is expedited.

Senator SHELBY. What about you two gentlemen?

Mr. PAREDES. I, too, Senator, would be supportive of considering efforts to expedite the process in a prudent matter. Certainly, complicated issues need due consideration and deliberation. But without question there would be some rules that could be moved in a more expeditious manner. And ways to strike that appropriate balance is certainly worth serious consideration.

Mr. AGUILAR. Senator, I am in full agreement with what you just heard.

Senator SHELBY. Thank you.

I want to move to our economist here. The dollar and the oil prices, we have seen the U.S. dollar depreciate significantly against the euro in the past several years. At the same time, Gulf states such as Saudi Arabia link their currencies to the U.S. dollar and price oil in dollars.

What portion of the dramatic increase in oil prices could be explained by the trend in the value of the dollar? And what would you recommend as an appropriate policy response for the Administration with respect to the Gulf states and their link to the U.S. dollar? I think that is important.

Go ahead.

Mr. MARRON. Thank you, Senator.

I am not going to have a specific number for you, but it is clearly the case that if you look at the rapid rise of oil prices that we have seen over the last 3 years or 2 years, supply and demand have been key drivers of that. But in dollar terms there is clearly also an effect in the change in exchange rates.

I am not going to have a specific number for you, but if it were something in the 10 to 20 percent range——

Senator SHELBY. But a dollar that is too weak or perceived as getting weaker is not necessarily in our best interest, is it?

Mr. MARRON. Well sir, we are getting into delicate terrain, as you know, in that the usual talking point is that for things about the dollar the only people allowed to speak about that are the Treasury Secretary and the President. But subject to that constraint, clearly a rapid decline in the dollar would be bad for the U.S. economy in the long run. You do not want a disorderly unwinding.

And clearly, the change that we have seen in the exchange rate over the last several years, as I have said, has been one of the factors that has been contributing to the rise in oil prices. And, I should note, other commodities.

Senator SHELBY. Is part of the price of oil that closed today because of the feeling of the dollar in the world market?

Mr. MARRON. I think it is certainly the case that——

Senator SHELBY. It has got to be.

Mr. MARRON. Oh absolutely. The change in the dollar, the change in its value over time, has lifted basically most commodity or all commodity prices that trade on the world market.

Senator SHELBY. It is priced into the price of oil, is it not?

Mr. MARRON. Absolutely.

Senator SHELBY. There is some evidence of contradictory forces that play in the economy right now. Chairman Bernanke has recognized that. In the middle of the present economic slowdown, commodity and food prices have continued to increase. What do you judge to be the threat of slow growth continuing with inflation remaining above the Federal Reserve's comfort level? In other words, some people believe that we—can we—how do we fight a turn down in the economy and suspect or maybe the reality of some inflation out there, too. Is that not a dilemma?

Mr. MARRON. It is a dilemma. We clearly face a very challenging time. When you tote up the challenges the economy faces at the moment between credit and housing and oil and food prices, there are a lot of headwinds. Obviously we have seen that in the economy in the fourth quarter of last year, the first quarter of this year, where we have had very slow growth, close to just going sideways.

I would separate a little bit, both oil and food are significant challenges for American families. I would separate them a little bit on their overall macro effect, where oil is I think a much bigger challenge for us because we import so much. Whereas again, from the macro economy as a whole, food has a little bit of—on the one hand, it is a major hit to many American families. But on the other hand, we do have a very strong agricultural sector that is getting some lift from that.

And so from the macro point of view, it is not quite as much of a challenge, even though it is a significant challenge again for families and for kind of the inflation that folks face.

Senator SHELBY. Do you believe that in America we have many challenges? We have many successes, as you know, economically. But do you believe, doctor, that our biggest challenge, looking at the economy in the future, is the availability and the price of oil?

Mr. MARRON. I would—again, putting on my CBO hat for a moment, the standard talking point—which I actually agree with and embrace—is when you look sort of at the multiple decades point of view, the real No. 1 challenge is the long-run fiscal situation. But putting that aside, as you look at the next few years, I would say oil prices is clearly in the top 5 list of challenges that we face. We have gone from an environment in which oil prices——

Senator SHELBY. What is our No. 1 economic problem and challenge? Is it oil and the price of oil? Availability and price?

Mr. MARRON. I would say in the short run it would be housing and making sure that the financial markets do not basically go back to the way they were in some previous months.

And then I would probably get to oil and $130 oil is a major challenge for the economy and we are going to need to figure out ways to respond to that on both the demand and supply side.

Senator SHELBY. Do you see any answers to it, quickly, other than more supply?

Mr. MARRON. Some more supply, you see some response on the demand side and over time we will see more of it. Today's announcement from GM, frankly, is one aspect of what will be the response to this, which is a shift to more fuel efficient vehicles and away from larger ones which clearly has a lot of costs associated with it. But I think that will be part of the solution.

Senator SHELBY. One question on credit unions and I will be through.

Mr. Fryzel, in this continued period of unrest in the financial markets, housing markets and so forth, what do you see as the biggest challenge facing the stability and the continued profitability of our Nation's credit unions?

Mr. FRYZEL. Senator, fortunately, the majority of credit unions are not involved in the housing crisis. The ones that are, NCUA has taken swift action to monitor that situation and make sure that those credit unions have been——

Senator SHELBY. Are you telling us here today that the credit unions—that the housing downturn and the prices—downward trend of houses, the surplus of houses, the foreclosure problem, will not have any effect on the financial stability of the credit unions?

Mr. FRYZEL. No, sir.

Senator SHELBY. Well, what are you saying?

Mr. FRYZEL. Senator, I am saying that the majority of credit unions will not be impacted in a financial way by this downturn.

Senator SHELBY. But some will.

Mr. FRYZEL. There are some that will. And those are the ones that are being closely monitored.

Senator SHELBY. And some banks will, too, we have been told by the FDIC Chairman right here.

Mr. FRYZEL. But at NCUA, moves have been made to make sure that those credit unions are absorbed into stronger credit unions and those situations corrected. But for the most part, the credit union industry is still very strong.

Senator SHELBY. OK. Thank you, Mr. Chairman.

Chairman DODD. Thank you.

Senator Reed.

Senator REED. Thank you very much, Mr. Chairman. Gentlemen and Ms. Walter, welcome.

First, Mr. Paredes, as a distinguished academic, you have the opportunity to write a lot. That is a problem sometimes, but I do not think in your case.

But one quote, you talk in one of your articles about the overload in information and perhaps to scale back on disclosure, which tends—at least superficially—to argue against the mantra we all use, transparency, transparency, information.

Can you qualify that and put it in perspective?

Mr. PAREDES. To be sure. And quite frankly, in the article I also go on to talk about the very important virtues of the mandatory disclosures and what any costs would be to any scaling back.

What the paper drove at at its core was trying to recognize that the mandatory disclosure regime wants to ensure that individual investors, institutional investors have the information they need

but are also able to process that information in a way so that it is usable, as usable as possible.

It turns out there are a lot of studies to suggest that that is a very complicated analysis when you engage the question of the volume of information. And so it started with the recognition that there was a lot of information which needs to be disclosed and appropriately so.

But the question is are there ways in which we can consider how information is used to suggest that we could actually come up with a more effective mandatory disclosure regime. And to the extent that the volume of information can be a challenge, one obvious response is to say perhaps there should be less disclosed.

There are a lot of reasons why disclosing less is not a wise policy choice. So I go on in the paper to consider other possibilities in terms of the presentation of information and the like, so that the information which is disclosed is actually much more able to be used, and so therefore we end up with a more effective disclosure regime than what might alternatively be the case.

Senator REED. And based, I presume, on some behavioral model of how we process information?

Mr. PAREDES. Precisely, based on what we have learned about decisionmaking and psychology and the ways in which we tend to process information. It is obviously not a one-size-fits-all approach in terms of how we process information. It varies from context to context and person to person. But there are a lot of studies that have been done in this regard and it is building on that literature.

Senator REED. Ms. Walter, your comments on this whole issue of disclosure? Because we all pick up 10–K and the annual reports, and the agate print—or whatever the small size print they use—is daunting.

Ms. WALTER. It certainly is to someone like me who needs reading glasses, I will say.

It is an incredibly important issue. And again, it is one that we really need to look at from the vantage point of the investor. And I think particularly I am concerned about the retain investing public.

And I agree with Professor Paredes that we really need to look at issues like presentation and issues—there are solutions, for example the layer of disclosure.

At FINRA, I have been a proponent of a point of sale disclosure document for mutual funds that makes use of technology to do that, where you can present easily accessible, understandable disclosure to investors and at the same time allow them to access greater detail that they may want on one or more issues.

So we do have to deal with presentation. We do have to deal with understandability. And one of the things I have learned over the last few years is never to trust any of our instincts as to what is going to be accessible and understandable by the average person on the street, because I think when we have done testing through focus groups and interviews with retail investors we have gotten some surprising results.

So we need to make use of those kinds of techniques to test our judgment.

Senator REED. Mr. Aguilar, any comments?

Mr. AGUILAR. Senator Reed, I am in agreement with what Ms. Walter and Mr. Paredes have said. I would only add that with the advent of technology there may be ways to have disclosure better disseminated and when disseminated better manipulated by the ultimate investors so they can get out of the information what they want. Different investors in today's world look at different things. And it is hard to decide in an overarching umbrella manner that only X amount of disclosure is all people really need to have. So we need to be sensitive to what investors need.

With the advent of technology, there may be ways to provide it, allow it to be layered, to allow it to be disseminated in a more effective manner.

Senator REED. Let me flag another disclosure issue. That is that there are some secondary markets—in fact, as an example, the public reports of Merrill Lynch selling auction securities to Springfield, a municipality, in which because it was not a primary offering but a secondary offering, they felt no legal obligation to disclosure or have a prospectus or anything like that. In discussing with people, that seems to be not uncommon.

Is there a need to look beyond the initial disclosure to the secondary markets, the secondary aspects?

This is a jump ball, in college bowl terms. Any thoughts? Ms. Walter?

Ms. WALTER. There is a real balance that needs to be struck and the SEC has struggled with this in terms of its point of sale disclosure proposals between the desire to get the right information into the hands of investors and at the right time, and also not interfere with the ability to invest when they want to.

Again, technology ultimately will be the answer to this, and it is partially today given the fact that the investor community is becoming increasingly technologically—perhaps not savvy but at least marginally literate. So that you can get information into the hands of investors before they are making decisions.

But even if you go back to primary offerings, there is a flaw in the disclosure system in that for the most part prospectuses arrive after the fact. That is not the right time. So we do have to work very hard to ensure that people are not only getting the right information but getting it at the time when it matters.

Senator REED. Let me raise a general topic and ask if anyone has a comment. That is, Mr. Paredes and I had an opportunity to have a very thoughtful discussion much earlier today about a financial world that has changed dramatically in 20 or 30 years where so many of the institutions that were central to the economy were regulated, by the Federal Reserve, by the SEC, by the Comptroller, et cetera.

Now we have the proliferation of private equity funds, hedge funds, a huge amount of leverage is at work, raising the question how do you deal with this in your role as regulators of financial markets with this whole unregulated world out there where counterparty risks might be a serious issue, the ability of some of these institutions to manage these risks is basically something that you only can touch indirectly.

And I wonder, Mr. Aguilar, do you have any thoughts about this as you go forward?

Mr. AGUILAR. Senator, I do have some thoughts. I am afraid at this moment I do not have any solutions for you. I do agree with you that to have these pooled funds that can be very large in today's market, totally unregulated, is something that needs to be discussed and dialogued. Going back to 1990 and long-term capital management and the effect that it had on the market.

I think it is worthy of a serious thought and exactly what the answer is I look forward to getting input from this Committee and from other interested individuals.

Senator REED. My time is rapidly expiring. Mr. Paredes and Ms. Walter?

Mr. PAREDES. Thank you, Senator.

Certainly the degree and leverage in the marketplace and the degree to which there is financial innovation is something that we should be taking very seriously and whether there are steps that are prudent to take without chilling the productive behavior, whether there are steps that could be taken to facilitate market discipline or otherwise from a regulatory perspective are certainly a set of issues that need serious consideration.

Senator REED. Ms. Walter, quickly?

Ms. WALTER. I also think from an informational standpoint it is important for those who regulate markets to have information that goes across the board without significant gaps in parts of the market that are not transparent.

Senator REED. Thank you very much.

Mr. Marron, very quickly, one question is that we passed here a few months ago a stimulus package which let me ask you first, how would you evaluate its effectiveness in stimulating the economy to date?

Mr. MARRON. Well, as you might imagine, the answer is going to be the typical economist, sort of we do not know yet, on the one hand. On the other hand, on the consumer side, about half the money is out the door and about half the money is yet to come.

To be honest, we have not seen any obvious wiggles in the real-time data that we have, but the real-time data are not that good. And so this will be something where to really fundamentally evaluate it is going to be at least several months in the future when we start having good data.

Senator REED. I guess the impression I have, and my colleagues have the same sort of data, which is going back home and talking to people is with the gas prices accelerating, those checks got eaten up pretty quickly, just thinking ahead of how do we keep the gas tanks full in people's automobiles, and all the other issues we talked about, accelerating commodity costs, et cetera.

It seems that the initial data does not suggest a decisive impact, which raises a second question in your capacity of advising the president on the economy. Would you advise him to contemplate and to request a second stimulus package which might focus more on infrastructure rather than simply a rebate approach?

Mr. MARRON. I guess two parts to that. The first is, and I absolutely agree that the increase in energy prices and food prices is a serious headwind on consumers. That does not mean the stimulus is not working. It just unfortunately means that the stimulus will be working off of, in essence, a worse baseline than we had

originally intended and will also make it a little harder to tease out the effect. Because it might be—because part of the effect of the stimulus is basically going to be offsetting that.

My posture on any kind of additional policy actions is mostly at this point a watch and wait and see where we end up. In particular, on the infrastructure front—and this is part of the discussion that we had several months ago—I think the concern there is largely a spend out rate concern in that if we are trying to target a downturn that we expect in a particular time period, it is challenging to design spending on that front that actually ends up within the time period that we are worried about.

Senator REED. Thank you very much, Mr. Chairman.

Mr. Fryzel, good luck.

Chairman DODD. Thank you, as well.

I want to just follow up with Senator Reed's last point, and that is we have had a hearing here already. There has been a proposal that Senator Hagel and I have made after about a two-and-a-half year study done by the Center for Strategic International Studies on infrastructure need. There is a gap of around $1.3 or $1.6 trillion just in maintenance of where we are with basic infrastructure, whether it is sewage systems, wastewater treatment facilities, transportation, mass transit systems. We have literally a collapsing and decaying infrastructure in the country.

And it seems to me, given the residual effects and the implications of having some investments made by luring private capital with some seed money, initially there is some very exciting data that comes up here in terms of what we can be doing in this area for employment but also we have never had a period of economic growth in the history of our country without having a significant investment in basic infrastructure, as well.

And I would urge the Administration to take a closer look at this. There have been some pretty responsible people around the country who are looking at the issue as a way of stimulating some growth in the Nation. It does not have the kind of snappy quick answers, but it is clearly a part of what needs to be done, I think, for those of us that are looking at it.

Our intention is to try and mark up something here in this Committee, hopefully before the end of this Congress, on a matter like this, hopefully with some strong bipartisan support, as well.

So we would urge the Administration, if you are going to be confirmed, to take a look at this very seriously as a way in which to create some economic growth and stimulation.

Senator REED. Mr. Chairman, there is also another aspect, which is employment. In our neck of the woods, we are running about a 6.1 percent unemployment rate which understates, I think, real unemployment. One of the virtues of some of these programs is they actually put people to work as well as putting money into the economy for consumption.

So I would echo the Chairman's sentiment.

Thank you very much.

Chairman DODD. According to the American Society of Civil Engineers, the current condition of our Nation's major infrastructure systems earns a grade of an average of D, jeopardizing prosperity and quality of life for all Americans. So it goes beyond just sort of

a stimulation idea but rather one that there is a crying need for, as well, in the country. And it has gone unattended for too long.

I have a letter here from Bob Dole in support of you, Mr. Fryzel, and your nomination. We will include this as part of the record.

I think it is intriguing that he asked me to put this and not Elizabeth, but we will let that go.

You have all been very good and we appreciate your time. We appreciate the participation of our members here. There is a lot to chew and swallow on this afternoon but I am very grateful to all of you for your willingness to serve and to try and move these things along.

Again, I cannot predict outcomes, but we would like to see if we cannot get you up before this Committee and before the full Senate sooner rather than later.

With that, the Committee will stand adjourned.

[Whereupon, at 5:05 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

Statement of Neel T. Kashkari

Nominee for Assistant Secretary of the Treasury

For International Affairs to the

U.S. Senate Committee on Banking, Housing and Urban Affairs

Chairman Dodd, Ranking Member Shelby, and members of the Committee, I am honored to appear before you today as President Bush's nominee to serve as Assistant Secretary of the Treasury for International Affairs. Please allow me to express my gratitude to the President and to Secretary Paulson for the confidence and trust that they have shown in me, and I would also like to thank you for your consideration of my nomination. I wish to also thank my wife Minal – who is here today – for her continuous support of my career and my public service.

If confirmed, I look forward to working closely with this committee, and your colleagues in the United States Senate as well as the U.S. House of Representatives to advance U.S. economic interests at home and abroad.

I would like to briefly discuss my experience and how it has prepared me for the position to which I have been nominated. In my role as Senior Advisor to Secretary Paulson, I have been responsible for developing and executing international and domestic policies for the Department to foster a more conducive investment climate for the U.S., as well as to support global economic growth. Prior to my government service, I worked as an investment banker, where I executed financial and strategic transactions that have prepared me for the position to which I have been nominated.

Since joining the Treasury Department in July 2006, I have led several policy initiatives for the Department, including:

1. Promoting Indian financial sector liberalization and free trade through strengthened economic engagement and increased infrastructure investment;

2. Enhancing U.S. energy security by implementing policies that will, over time, reduce our exposure to the global oil market by encouraging the development of alternative fuels and by improving the efficiency of our auto fleet;

3. Spearheading our response to the housing crisis by mobilizing the private sector to avoid preventable foreclosures and working to ensure the flow of capital into the housing market, enabling the necessary housing correction to move forward as quickly as possible, and minimizing spillover from housing to the rest of the real economy.

Prior to joining Treasury, I was a Vice President at Goldman Sachs where I advised U.S. and international companies on both debt and equity financings and global mergers and acquisitions. As an advisor to management teams and boards of directors, I gained firsthand insight into the challenges that U.S. companies face as they strive to access markets abroad while also competing with global players here at home. This transactional experience will be particularly relevant to helping implement our critically important investment security policy through the Committee on Foreign Investment in the United States (CFIUS). I will work hard to ensure that U.S. national security is protected, while encouraging foreign investment in the U.S.

Prior to joining the financial services industry, I strengthened my analytical skills as an aerospace engineer, developing technology for future NASA space science missions, such as the James Webb Space Telescope, the replacement to Hubble, which is scheduled to launch in 2013.

My educational background includes a Bachelor's and Master's degree in engineering from the University of Illinois at Urbana-Champaign and an M.B.A. in finance from the Wharton School.

If confirmed, I look forward to working with the Administration, Congress, and the staff at the Department of the Treasury to promote global economic growth, financial market stability, and open markets for U.S. goods and services.

Mr. Chairman, Senator Shelby, Members of the Committee, I am grateful for the opportunity to appear before you today. I would be pleased to answer any of your questions.

Statement of Christopher R. Wall
Assistant Secretary-designate for Export Administration
U.S. Department of Commerce

Chairman Dodd, Senator Shelby, and Members of the Committee:

It is a great honor for me to be here today as the President's nominee for the position of Assistant Secretary of Commerce for Export Administration. I thank the President and Secretary Gutierrez for their confidence and trust in me. I would also like to thank the members of the Committee's staff who have taken the time to meet with me prior to today's hearing. If confirmed, I look forward to building on the cooperative working relationship between the Bureau of Industry and Security and this Committee. I would also like to thank my wife Barbara and our children, Read and Louisa, for their support.

Mr. Chairman, I recognize the importance of the obligation I will be undertaking if confirmed. BIS plays a critical role in advancing U.S. national security, foreign policy and economic objectives by ensuring an effective export control and treaty compliance system, while at the same time facilitating continued U.S. strategic technology leadership.

For close to thirty years, I have had the opportunity to work on and examine these important issues as a partner at a large international law firm. During most of that time, I have advised companies across a range of industry sectors and countries on U.S. export controls (both commercial and defense-related) , as well as economic sanctions, antiboycott issues, the Foreign Corrupt Practices Act and foreign investment. I have been active in professional organizations addressing these and other international trade matters, and I have chaired and spoken frequently at conferences which have promoted dialogue between industry and government officials on regulatory, policy and enforcement developments.

Of course, as a practicing attorney one is professionally obligated to focus on the interests of one's clients, but more important is an obligation to the law itself. The focus of my practice has always been on assisting clients to comply with and to achieve results that are consistent with the laws, regulations and agency guidance in this complex area. At the same time, my continuing involvement in professional and other organizations has also enabled me to focus on the larger policy issues that shape the environment in which these laws and regulations are applied. I believe this focus has made me a better counselor, and has better prepared me to address these issues from the perspective of a policy maker, if I am confirmed.

One of the highest priorities for me in the near term is the passage of S.2000, the Export Enforcement Act of 2007. I believe I can speak on behalf of the entire exporting community in thanking Chairman Dodd for introducing this legislation to reauthorize the Export Administration Act. This legislation is essential to provide the tools for vigorous enforcement. It is important for the rule of law and good government.

The threats we face today are diffuse – principally terrorism, non-state actors and the proliferation of weapons mass destruction. It is important to work with our international partners, both bilaterally and through multilateral arrangements such as the Wassenaar Arrangement, the Nuclear Suppliers Group, etc., to combat these threats. On the domestic front, we must also adapt export controls to the economic realities of worldwide manufacturing, sales and service, the instantaneous flow of technology and financial resources at the click of a computer mouse, and the migration of technology from commercial to defense applications and vice versa.

Crafting legislation that addresses these 21st century issues is a task that cannot realistically be accomplished in a short period of time, but I would hope, if confirmed, to play an active role in stimulating discussion with all parties and to start the process of building a consensus, or least a broadly shared approach, that may lead to enactment of such legislation in the foreseeable future.

Even within the existing system, however, important efforts are underway to address these new threats and economic realities. These efforts include the President's export reform initiative, responding to the recommendations of the Deemed Export Advisory Committee, and continued focus on illegal transshipment concerns. If confirmed, I would hope to contribute the knowledge and experience I have acquired over the years to advancing these efforts and, where possible, bringing them to successful conclusion.

When I began working in the area of export controls, I had the good fortune to start out with many individuals who have made their careers at BIS, and I am pleased that a number of them are still there making important contributions every day. I still count these individuals among my friends and, if confirmed, it will be a great pleasure and privilege for me to work with them as a colleague.

In conclusion, if confirmed, I look forward to contributing my knowledge and experience to the development of policy and the administration of U.S. export controls at the Bureau of Industry and Security and I welcome the opportunity to work with the Committee on important initiatives in this area. I would like to thank the Committee for its consideration of my nomination and I would be pleased to answer any questions.

STATEMENT OF SHEILA GREENWOOD

Nominee to serve as Assistant Secretary for Congressional and Intergovernmental Relations
U.S. Department of Housing and Urban Development

Hearing before the Committee on Banking, Housing and Urban Development

United States Senate

June 3, 2008

Chairman Dodd, Ranking Member Shelby, and distinguished Members of the Committee, thank you for inviting me to appear before you today. I am both honored and humbled to come before you as the nominee for the position of Assistant Secretary for Congressional and Intergovernmental Relations at the Department of Housing and Urban Development.

I would like to express my gratitude to President Bush for nominating me for this position and am grateful for the confidence he has placed in me. Interestingly, in over fifteen years of working before Congress, I've either prepared a witness, written the testimony, or both, any number of times – and I now realize that, until today, I've been in the "cheap seats" all this time. This actual "Being the Witness" is a bit daunting and I have newfound respect for all of those that I have cajoled to a witness table over these many years.

I also would like to recognize my best friend, my husband, and the father of Tripp, our four-year old son, Beau Greenwood. I must take this very public opportunity to again thank him for his patience, support, encouragement and guidance throughout our years together. Quite simply, I would not be here if not for him. Truly he and our son are my proudest accomplishments.

In the course of my fifteen years working before Congress on a wide range of topics, I became increasingly interested in housing issues while working on the rebuilding of the Gulf Coast after Hurricanes Katrina and Rita of 2005. I was the Director of Legislative Affairs for the Office of Gulf Coast Rebuilding and worked closely with HUD on one of the more daunting of the post-hurricane challenges: finding housing for so many families after this diaspora. Through that assignment, I came to more fully appreciate the true meaning of "home" and the complex socioeconomic factors that contribute to both where and how families live across the United States.

The Assistant Secretary for Congressional and Intergovernmental Relations at the HUD is the primary resource to Congress for the information it needs in carrying out its Constitutional responsibilities. I have a proven history of above-board and honest discourse with Members and their staff and plan to maintain that open dialogue in the Assistant Secretary's position, should I be confirmed. It is my belief that open communication, across party lines, has always been and remains the most effective path to sound public policy. Throughout my tenure in this Administration, whether doing legislative work for Secretary Chao at the Department of Labor or for Chairman Donald Powell at the Office of Gulf Coast Rebuilding, I have worked to build bipartisan coalitions to resolve complex national issues.

It is my promise before you today to work tirelessly and expeditiously in the remaining months of this Administration to ensure that the information you request from HUD is provided in a timely and thorough fashion. Clear and accurate information allows us to work together on the myriad of legislative initiatives that remain and to better inform the difficult policy choices before us. It is my pledge that, if confirmed, I

will fully dedicate myself to this important office and in doing so be accessible to all Members and Staff.

I lastly want to take this opportunity to thank family and friends, many of whom are here today. My sisters, brother and parents have always been there for me over the years and I am eternally in their debt. Mr. Chairman and Senators, thank you again for your courtesy in listening to my remarks and I'm happy to answer any questions you may have.

STATEMENT OF SUSAN PEPPLER

Nominee to serve as Assistant Secretary for Community Planning and Development
U.S. Department of Housing and Urban Development

Hearing before the Committee on Banking, Housing and Urban Development

United States Senate

June 3, 2008

Good afternoon Chairman Dodd, Ranking Member Shelby, and distinguished members of the Committee. It is a true honor and a privilege to appear before you today as President Bush's nominee for Assistant Secretary for the Office of Community, Planning and Development at the Department of Housing and Urban Development.

I would like to thank the Committee members and your staff members for taking the time to meet with me over the past few months, and if confirmed, I look forward to continuing frequent and open communication to address affordable housing and urban issues facing our nation today.

Before proceeding further, Mr. Chairman, I would like to take a moment to introduce some of my family here with me today. I am proud to have my husband Bob with me, and we are joined by our granddaughters Hailey and Renee, who are spending the summer with us here in Washington, D.C. I would also like to thank my colleagues and friends who are in attendance.

HUD is a good organization that needs to be reinvigorated with strong leadership. And while I realize there is but a short amount of time in which my colleagues and I can affect positive change, I can assure the Committee that I will roll up my sleeves and make a significant contribution with the time I am given.

With over 17 years of experience in affordable housing and community development, I bring strong leadership qualities from the grassroots, community and executive levels, as well as a unique perspective and understanding of HUD programs and their effect on families and communities.

I first became interested in housing issues during the early 1990s, when I became involved with a HUD-affiliated non-profit called Neighborhood Housing Services of the Inland Empire, Inc. (NHSIE). I initially joined NHSIE as a volunteer, working with them on the weekends with neighborhood clean-up and revitalization projects, home repairs, etc. After seeing first-hand how successful the program was and what a positive difference it made in many communities, I joined NHSIE's Board of Directors and became involved in the administration and management of the organizations' programs, including Neighborhood Revitalization/Rehabilitation, Homebuyer Education, Downpayment Assistance, and the Youthbuild job training program. Working from the "grassroots" level up to the business and financial side of this organization, I developed a deep appreciation for the important role homeownership plays in fostering strong, healthy and safe communities.

During my nearly eight years on the Redlands City Council and as Mayor, I took that "hands on" education in community revitalization and housing, together with the program/business knowledge I gained as an Executive Board Member at NHSIE, and put it to work for our City.

One of my top priorities as Mayor was the improvement of the City's affordable and multi-family housing stock. By working with the community, building and

establishing relationships, we developed an improvement plan of action. The City began cracking down on absentee property owners whose property had fallen into disrepair and substandard condition. Through enforcement of building and safety codes, including placing non-responsive owners' properties in receivership, our neighborhoods began to improve. The City utilized several HUD programs, such as Community Development Block Grant (CDBG) funds, to improve the properties and assist some of the apartment renters to become homeowners. Additionally, we began improving economic development by promoting small business ownership and recruiting larger businesses to the area, which created jobs, accomplishing dramatic positive change in a community that had been neglected for generations.

I have also had the honor of serving for four years as a member of the Governor's Task Force on Affordable Housing, and as the League of California Cities' Director of Housing, Inland Empire Division. The Task Force studied the lack of affordable housing in California, developed innovative solutions, and made recommendations to the Governor and state legislature. Our work to update the State's housing laws led to the use of tax increment financing to provide incentives for the development of low-income and affordable housing, bill language that clarified and strengthened the anti-NIMBY law relating to the approval of affordable housing projects, and the ability for cities to receive housing credits for rehabilitation of existing affordable housing stock.

As I mentioned, I bring a unique perspective and understanding of HUD programs. I've seen, first hand, how those programs change the lives of children, their families and their communities. I also know, first hand, the benefit of CPD programs to local and state government. Simply put: these programs *work*!

From working with HUD programs as a grassroots volunteer, to my involvement in the financial management of HUD programs through NHSIE, to implementing and managing affordable housing and economic development programs as a Mayor, to affecting change in housing and economic development laws at the state level, I believe I have the experience of leadership, teamwork and commitment needed to serve as the Assistant Secretary in the Office of Community Planning and Development for HUD.

Thank you for the opportunity to address the Committee and I look forward to your questions.

STATEMENT OF JOSEPH J. MURIN

Nominee to serve as President of the Government National Mortgage Association (Ginnie Mae)
U.S. Department of Housing and Urban Development

Hearing before the Committee on Banking, Housing and Urban Development

United States Senate

June 3, 2008

Chairman Dodd, Ranking Member Shelby, and distinguished members of the Committee, I sincerely appreciate the opportunity to appear before you today. Thank you, Chairman Dodd, for your kind words of introduction, and thank you to all of the members of the Committee and their staffs who have met with me over the last few months. Those meetings have provided valuable insight into the position for which I have been nominated.

It is a privilege to appear before you today as President Bush's nominee for the position of Ginnie Mae President. I bought my first home with an FHA-insured loan. I have spent my entire career in the housing industry, from lending to back-office operations and even construction. For a man who has worked in just about every job in the housing and mortgage finance industry, it is an honor to seek your confirmation as president of an organization I consider critical to sustaining and promoting homeownership opportunities in America.

They say behind every successful man is a woman. My wife, Angela, is here today. Without her love and support, I simply would not be here today, nor would I have my wonderful family or enjoyed such a successful career. It has been a 36-year partnership between us, and I would be remiss if I did not thank her for her steadfast love and support.

Angela and I bought that first FHA home in 1977. Since then, because my career required it, we have moved seven times. In every new city, we designed and built a home. We understand the importance of owning a home: how it ties you to your community, how children benefit from the stability it provides, and the manner in which it helps to build wealth. That is why I believe in homeownership and am committed to helping others achieve the dream of owning a home.

But homeownership is not just about families and communities. For the last few years, it has served as the primary engine of our economy. Buying, building, renovating – all of these have a tremendous impact on jobs growth and sales revenue – the heart of the economy in our cities and towns. It is not just local economies that are helped or hurt by whether a family can afford to buy a home. National and international credit markets are also affected. We are witnessing this today.

The mortgage-backed securities industry is the reason local housing markets impact international credit markets. In 1971, Ginnie Mae issued the first ever mortgage-backed security. In doing so, they revolutionized the way housing is financed. Because an investor in Asia can buy into a pool of U.S. mortgages, a family in Pennsylvania can own home.

It has been 30 years since Ginnie Mae issued the first MBS. The industry has evolved enormously since then. In the 1980s, I ran a mortgage bank. Government loans were our bread and butter. My loan officers fed their families on the income received from processing FHA and VA loans. But as capital became more available through the growth of the MBS industry, interest in government products declined.

Today, that is no longer true. The housing market is much different. The MBS that spurred investment in real estate is less attractive to investors. Home values are declining and foreclosure rates are increasing. Consequently, it has become more difficult for low- and moderate-income borrowers to obtain a mortgage.

The industry has come full circle on its view of government-insured loans. There is recognition that FHA and Ginnie Mae are important elements of a diverse housing finance system – necessary elements when credit tightens.

We are at a turning point in this industry, and Ginnie Mae is in a unique position to help the industry navigate its way through the challenges. Leading the agency at this critical juncture would be a formidable opportunity, and yet it is one I look forward to because it is a role that brings together a lifetime of skills. More than 35 years in this industry – in the title business, in building, and in banking – have provided me with invaluable insight into its inner workings, insight that will guide decision making at Ginnie Mae.

Ginnie Mae's mission is to "expand affordable housing by linking the global capital markets to the nation's housing markets." That mission is about making the connection between local communities and international economies, never forgetting that behind the current discussion of credit crunches and fluctuating markets is a family that wants to buy a home or keep the one it has.

If confirmed, I will be committed to that mission, to drawing the link between homeownership, strong communities, and a thriving economy.

Ginnie Mae may be in the best position to meet its mission since its inception. Even with the challenges that face us, we can continue to help American families become homeowners. Like the thousands who labor daily at HUD, I respect and care deeply about its programs, and I am committed to making a difference in lives throughout America. It would be an honor to participate in HUD's efforts as President of Ginnie Mae.

Mr. Chairman and Senators, thank you for your courtesy in listening to my remarks. I'd be happy to answer any questions you may have.

Statement of Luis A. Aguilar of Georgia
Commissioner-Designate
U.S. Securities and Exchange Commission

Before the Senate Committee on Banking, Housing, and Urban Affairs
June 3, 2008

Chairman Dodd, Ranking Member Shelby, and Distinguished Members of this Committee:

I am deeply appreciative for the opportunity to appear before you today. I am deeply grateful and honored to have been nominated to serve my country on the Securities and Exchange Commission.

It would be a special honor to follow in the footsteps of Roel Campos. I would be proud to continue his efforts toward well functioning, effective capital markets and a Commission that effectively fights fraud through a strong enforcement program.

Please allow me to introduce to you my wife, Denise, who has always supported and encouraged me. She is my closest friend and most trusted adviser. Also with us today are my nephews Mark and Jon Mark Traylor.

With your indulgence, I would like to briefly share some of my life's experiences and perspectives and then mention a few of the unique challenges facing the Commission.

The United States remains the land of opportunity and is the beacon of freedom and democracy for the world. Our Declaration of Independence and our Constitution are an example to all. The opportunities that are available to us in our country are endless and allow us to "dream big" and then be able to make our dreams a reality.

I'm one of many examples of what can be achieved. I came to the United States from Cuba when I was six years old – basically with little more than the clothes on my back – and have been a beneficiary of this country's terrific generosity.

When I first arrived as a refugee from Cuba, we received many of our essential needs from the generosity of the American people. And gratefully, this country's public school system provided me a strong education which has been the foundation of any success I have achieved.

This country also provided the opportunity for me to work and earn some money. In my early years, I had a number of jobs including delivering newspapers, putting up fences, being a "stock boy" in a yarn store, and working at the Miami International Airport loading baggage and cargo into the bellies of airplanes.

Fortunately I had the support of an extended family. I was able to live with various relatives my first years in the United States and I was reunited with both my parents when I was 10. Between the ages of 10 and 16 my family lived in various parts of the United States. These included Miami, Florida, Ravenna, Ohio Little Rock, Arkansas and Rome, Georgia.

When I was 16, my parents moved back to Miami, where my father had a good job offer, and I stayed in Rome to finish High School. I was fortunate that a friend told his parents about my desire to finish school in Rome and his parents asked to meet me and ultimately welcomed me into their home. This experience had its challenges. Among other things, I was in the process of improving my English and my Spanish accent took time for them to get used to. I have always been grateful for the generosity of a Southern Baptist family who opened their home to a stranger from another country.

It's a generosity many Americans have.

I believe in the American Dream. I believe it is achieved through hard work, commitment and perseverance.

I believe the Commission plays a crucial role in helping to secure the American Dream. The Commission does this by facilitating access to investment capital by growing businesses, by maintaining the credibility and integrity of our capital and financial markets, and by working vigorously to protect investors. The Commission's vigilance and its efforts to prevent and address fraudulent activity helps secure the savings and retirement assets of American families.

I have spent most of my professional life dealing with our securities laws. My professional career started at the Commission and my involvement with the securities laws continued in private practice and as an in-house attorney at a large global investment manager.

I have regarded the Securities and Exchange Commission as one of the finest agencies of the U. S. Government, with a legacy of exercising fair and tough-minded regulatory authority. For 75 years the Commission has been an example of regulatory excellence. I fully believe in the Commission's mission "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."

The Commission's focus on fully protecting investors is particularly significant at a time when many of our citizens participate in the capital markets through direct investments, pension plans, mutual funds and other vehicles. It is generally recognized that our Nation has the highest level of retail investor participation in the world. In our rapidly moving and innovative marketplace, it's very important that the Commission maintains pace with the continuing changes to protect investors and maintain confidence in the financial market. For example, the recent issues surrounding certain credit ratings have shaken investor confidence and focused attention on how regulators can more effectively address potential conflict of interests and make the process more transparent and increase accountability. With respect to these and other matters, if I am confirmed, I pledge to work tirelessly with you and my colleagues at the Commission toward assuring that the public has confidence in the integrity and efficiency of our financial markets.

If I am fortunate enough to be confirmed, I will strive to meet the challenge of protecting the interests of investors without burdening the conduct of business, and to promote an environment in which enterprises can raise capital efficiently, whether they are large, established entities or small, entrepreneurial and emerging companies. I will also strive to fairly and carefully determine the appropriate enforcement actions and sanctions in pending and future investigations.

Thank you for this opportunity to appear before you today. I would be honored if you would permit me to be a Commissioner of the Securities and Exchange Commission. I would be pleased to try to answer any questions you may have.

Statement of Troy A. Paredes of Missouri
Commissioner-Designate
U.S. Securities and Exchange Commission

Before the Senate Committee on Banking, Housing, and Urban Affairs
June 3, 2008

Mr. Chairman, Ranking Member Shelby, and Members of the Committee,

I am deeply honored and humbled to be before you today and to have been nominated by the President to serve as a Commissioner of the Securities and Exchange Commission. If I am fortunate enough to be confirmed, I can assure you that I will do my best each and every day to serve the public interest.

I am delighted that my wife, Laura, is here with me today. Her love and support are immeasurable. Also, I would like to express how much I appreciate all the love and support of my parents.

Justice Brandeis famously observed, "Sunlight is said to be the best of disinfectants; electric light the most efficient policeman." Louis Loss, whom I have the pleasure of calling a co-author on the *Securities Regulation* treatise, put it more colorfully, once writing that "People who are forced to undress in public will presumably pay some attention to their figures." These quotes drive at mandatory disclosure, a cornerstone of securities regulation that deserves credit for the longstanding success of U.S. securities markets.

Today, we discuss disclosure in terms of transparency. Transparency is a lynchpin of our market-based financial system. Investors need access to high-quality information. When investors are armed with accurate information, they make better decisions and the efficiency and integrity of U.S. securities markets are promoted. The SEC is responsible for administering and enforcing not only the mandatory disclosure regime, but the entirety of the federal securities laws. As such, the Commission is uniquely positioned to instill investor confidence, which in turn underpins capital formation and well-functioning securities markets.

Securities markets are not stagnant, but evolve. While new opportunities present themselves, so do new challenges. Whether we focus on Enron, the recent credit market turmoil, technological advances, or increasing globalization, the SEC should reassess as facts on the ground change and as developments unfold. It is important for the Commission to be nimble and for the regulatory system to be state of the art. This means working collaboratively to fulfill the agency's goals in a way that is reasoned, balanced, and based on the evidence and that weighs the benefits of regulation against the costs.

I care deeply about our financial system and recognize the SEC's integral role in overseeing our securities markets and helping to ensure that the U.S. continues to have

the world's deepest, most liquid, and most competitive markets. If the Senate confirms me, it would be an honor to have the opportunity to contribute to the agency's important mission. I have the highest regard for the Commission and for its expert, professional, and dedicated staff. It would be a pleasure to work with the staff, as well as the other Commissioners.

I also appreciate the important work that this Committee and its staff perform as the Committee discharges its oversight and legislative responsibilities. If confirmed, I look forward to working together with this Committee and its staff to serve the public interest.

Finally, if confirmed, I will fill the seat vacated by Commissioner Paul Atkins. I would like to recognize Commissioner Atkins for his years of service at the SEC.

I thank you for the opportunity to appear before you today and would be happy to answer any questions.

Statement of Elisse B. Walter of Maryland
Commissioner-Designate
U.S. Securities and Exchange Commission

Before the Senate Committee on Banking, Housing, and Urban Affairs
June 3, 2008

Chairman Dodd, Ranking Member Shelby, distinguished Members of the Committee,

I am extremely pleased to appear before you today, and I am honored that President Bush has nominated me to serve as a member of the Securities and Exchange Commission. I want to thank Chairman Dodd for the confidence he has shown in me, and I am particularly grateful to Senator Jack Reed and Senator Schumer for their support.

I wouldn't be here were it not for the support of my family — so I'd like to begin by introducing Ronald Stern, my wonderful husband of 34 years. I also know that my parents, Shirley and Arthur Walter, would be here bursting with pride if they were still with us. And, speaking of pride, I would like to mention our two sons, Jonathan and Evan, who unfortunately couldn't be with us today because they're pursuing graduate degrees and careers of their own on the West Coast. I would also like to thank my friends and colleagues, a number of whom are here today, for their invaluable support.

My family has come a long way since my four grandparents immigrated to this country. If confirmed, I am committed to giving back by doing my utmost as a Commissioner to serve the public.

I worked for the SEC for 17 years and know first hand what an exceptional institution it is. The SEC has had a number of outstanding Commissioners, including Irv Pollack who recently turned 90. Irv was a Commissioner when I first arrived at the SEC in 1977. Irv always went straight to the essence of each matter before the Commission and was guided by one overriding standard of conduct — do the right thing. He remains today my symbol of integrity and excellence in public service.

Since those days at the SEC, protecting investors has continued to be at the heart of my career. I am privileged to have been a securities regulator for more than three decades. During that time, I have worked on many issues — including the regulation of the markets, disclosure questions, investor education and protection of seniors — that are on the front burner today. I have had the honor of serving as the General Counsel of the CFTC and as a senior executive at FINRA, the self-regulatory organization that regulates broker-dealers. In all of these positions, I have been able to pursue my passion for the protection of investors, and preserving fair and honest markets.

The U.S. securities markets are the crown jewels of our nation's economy. We should be proud that the United States has the highest level of retail investor participation in the world. And with that high level of participation, the SEC has a critical job — protecting investors, facilitating capital formation and assuring the integrity and transparency of those markets.

If confirmed, I pledge to join with the Chairman, my fellow Commissioners and the agency's staff to fulfill our mandate in a vigorous, balanced, fair and pragmatic manner. I am committed to pursuing both strong enforcement and creative approaches to resolving the issues confronting our ever-evolving financial markets. There is much for the Commission to accomplish, and I hope to have the opportunity to return and help it meet these challenges.

John F. Kennedy once said that there are four qualities that measure the success of a public servant — courage, judgment, integrity, and dedication. If confirmed, I will strive to act in a manner that reflects each of those traits.

Thank you. I would be pleased to answer any questions.

Statement of Donald B. Marron
June 3, 2008
Senate Committee on Banking, Housing, and Urban Affairs

Chairman Dodd, Ranking Member Shelby, and members of the Committee, it is a great honor to appear before you today as a nominee to become a member of the President's Council of Economic Advisers.

The Council was formed in 1946 to provide the President with sound, objective advice on the economic policy issues that face our nation. Those issues span a wide spectrum – macroeconomic performance, health care, globalization, regulation, and fiscal policy to name just a few. Of particular importance today, of course, are the recent turmoil in credit markets, the ongoing downturn in housing, and the rapid escalation of food and energy prices.

The role of Council members is to provide policymakers with objective analyses that reflect the insights of the larger economics community. To do so, Council members rely on their past experience in research and policy. My experiences include a wide range of policy-related work in academia, the private sector, and, most recently, in public service. Since 2002, it has been my honor to serve both Congress and the Administration in a series of economic policy positions. That service began here in the Senate, where I became staff director of the Joint Economic Committee under Senator Bennett. I then served as chief economist on the staff of the Council of Economic Advisers.

In 2005, I joined the Congressional Budget Office (CBO), serving as deputy director for almost two years, including more than a year as its acting director. It was a great honor to lead CBO's outstanding team of professionals who provide the Congress with objective, nonpartisan analyses of economic and budget issues. I left CBO last August, returning to the Council where I now serve as Senior Economic Adviser.

Before my public service, I had a diverse career in academia and the private sector. I served as chief financial officer of a medical software start-up, provided business consulting and litigation support to companies in a variety of industries, and taught microeconomics, environmental policy, and entrepreneurial finance at the University of Chicago Graduate School of Business. I hope that my broad background will provide me with a solid base for my work at the Council.

Thank you for considering my nomination and for allowing me to appear here today. I would be happy to answer any questions.

STATEMENT

OF

MICHAEL E. FRYZEL
NOMINEE FOR
CHAIRMAN OF THE NATIONAL CREDIT UNION ADMINISTRATION

BEFORE THE

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

TUESDAY, JUNE 3, 2008

Thank you Chairman Dodd, Senator Shelby and members of the Committee. I very much appreciate this opportunity to come before you to discuss my views relating to my nomination as Chairman of the National Credit Union Administration. I am humbled by the trust and faith placed in me by the President in nominating me to the NCUA Board. I am also grateful for the chance to have met with some of you in person in recent weeks and discuss the responsibilities and expectations inherent in the NCUA Chairmanship. If confirmed by the Senate, I look forward to discharging those responsibilities to the best of my ability.

For the past 19 years, I have been in the private practice of law in Chicago, Illinois representing financial institution clients before the various regulatory agencies that license, examine and monitor their activity. Prior to that time, I was the director of the Illinois Department of Financial Institutions for almost eight years. In that position, I was responsible for the regulation of credit unions, consumer credit lenders, currency exchanges, foreign exchange companies and the administration of the Unclaimed Property Act. During my tenure, there were 700 state chartered credit unions with assets exceeding 4.3 billion dollars.

I have also worked with various credit union trade associations and for the last 16 years, have been a member of the Governor's Board of Credit Union Advisors for the State of Illinois. Based on my time as a state regulator of credit unions, and my experience in the private sector in various legal and advisory capacities, I strongly believe that credit

unions and other financial institutions need prudent and far-sighted regulatory oversight during these turbulent days for the financial marketplace.

There are specific principles that have guided and will continue to guide my regulatory philosophy if confirmed by the United States Senate:

First, safety and soundness must be the central focus of any federal financial institution regulator. Both the Congress and President entrust tremendous responsibility to those who regulate, supervise and insure financial institutions. As Chairman of NCUA, I will be extremely vigilant in this area. Consumers place not only their money in credit unions; they place their trust, and I intend to maintain the most rigorous and diligent safety and soundness standards possible. Federally insured credit unions have never cost the U.S. taxpayer a penny, and the high bar that has been set will remain intact throughout my tenure.

A closely related second element of my regulatory philosophy involves the consumers. I firmly believe that strong regulatory control that aggressively protects the rights of consumers is essential, particularly in this extremely complex and fast-moving financial marketplace. The multitude of choices presented to the consumer must be accompanied by plain language disclosures and understandable options. We must pursue common-sense rules of the road that benefit both credit unions and the members they serve. As member-owned financial cooperatives, credit unions naturally gravitate toward giving

consumers a fair deal. NCUA will continue to monitor credit unions to ensure that long standing practice remains in place.

Finally, I want to stress a need for balance between regulators and the industry they supervise. Independence is an essential component of being an effective regulator. In Illinois, that was one of my core principles. At the same time, there needs to be a healthy and dynamic, arms length relationship with the industry, characterized by active listening, open-mindedness, and a willingness to work together to achieve a shared goal of a strong and vibrant credit union industry. We will work cooperatively with the industry but will not hesitate to exercise regulatory authority when necessary.

I also understand the importance of being accountable to Congress. Your oversight role is an essential aspect of the regulatory process, and I will always be willing to work with Capitol Hill in maintaining a well-regulated credit union industry.

Government's role in regulating and insuring financial institutions should be as minimal as possible, and as much as necessary. The credit union industry has proven itself a very valuable resource for the American consumer. This is due, at least in part, to a strong and credible federal regulatory presence. My commitment to you is to continue this track record and build upon it.

I look forward to facing the challenges that all regulators face today and welcome the opportunity to work with the Congress in building a strong network of financial institutions. Again, I appreciate the time afforded me today and will be happy to answer any questions you may have.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM LUIS AGUILAR

Q.1. *Regulation of Investment Banks:* The current credit crisis and its impact on the markets, including the failure of Bear Stearns, has raised issues regarding the effectiveness of the Commission's regulation of investment banks, as well as other market participants. If confirmed, will you carefully review the Commission's regulatory oversight of the investment banks and support adding regulations and adding staff resources if necessary to protect investors and promote the stability of the markets? If so, what steps do you feel the Commission should take?

A.1. Yes. If confirmed, I would welcome the opportunity to review the SEC's program for supervision of investment banks and, if necessary, I would support adding regulations and staff resources. My understanding is that the SEC is already taking action, and looking into what additional authority and resources may be needed to better supervise investment banks through the Consolidated Supervised Entities (CSEs) program. I support such an effort. Among the things that the Commission should consider is dedicating more staff to the program, and working with Congress to review the regulatory framework, as currently there appears to be no regulatory agency with the explicit statutory authority and responsibility for the supervision of investment bank holding companies with certain bank affiliates.

Q.2. *Investment Advisors:* The RAND Study on "Investor and Industry Perspectives on Investment Advisers and Broker-Dealers" reported that there is widespread confusion among investors about key differences between investment advisers and broker-dealers in their duties (advisers have a fiduciary duty), their titles and their services.

What would you do as a Commissioner to reduce or eliminate this confusion for the protection of investors? For example, what actions would you support so that investors better understand the differences pursuant to which investment advisers owe them a fiduciary duty while broker-dealer registered representatives observe a standard of suitability?

A.2. It is my understanding that the SEC staff is developing a number of options for future regulation of investment advisers and broker-dealers that take fully into account the findings in the RAND Study. In addition, I would also urge a strong proactive educational initiative to better inform investors of the differences in the duties owed to by them by each regulated entity. If confirmed, I will look forward to participating in the process.

Q.3. *Cooperation with State Securities Regulators:* State securities regulators are vital to the protection of investors. They have made important contributions identifying and prosecuting misleading and fraudulent stock analyst recommendations, leading to the Global Settlement; late trading and market timing involving mutual funds, leading to enforcement actions and regulatory reforms; and in responding to retail investor concerns. Would you encourage strong cooperation by the Commission with State securities regulators?

A.3. Yes, such cooperation is a key element in investor protection.

Q.4. *Mutual Recognition:* The Commission is considering whether to implement mutual recognition, in which citizens in the U.S. could purchase or trade securities directly with foreign broker-dealers or on foreign exchanges and be regulated for many purposes by the foreign regulator instead of the SEC. The Commission announced that it has begun discussions with Australia, and such discussions are intended to enhance regulatory cooperation and investor access to foreign capital markets, and is making a schedule for a process intended to open discussions with Canada.

When considering a mutual recognition framework that would allow U.S. citizens to directly invest in foreign markets and be solicited by foreign brokers, what factors do you feel the SEC should take into account? For example, do you feel that the Commission should find comparability not only of laws but also of a foreign regime's enforcement and inspection resources, independence from the government, respect for the rule of law, culture of fair dealing, tradition of investor protection, impartial regulation over market participants, or other factors?

A.4. The factors mentioned are appropriate for any consideration in a mutual recognition program. Other additional factors may include the transparency and perceived fairness of the court system and the ease or difficulty in seeking redress if necessary.

Q.5. *Adequacy of the SEC Budget:* A key factor in maintaining investor confidence is having a Federal securities regulator that is fully funded. Do you feel that the President's proposed SEC budget for FY 2009 at $913 million is adequate to effectively perform its functions, including ramping up the regulation of credit rating agencies, investigating conduct related to the sub-prime crisis, reviewing corporate disclosures, overseeing rules for new markets and other important activities? If you are confirmed and, as a Commissioner, find that more resources are needed, will you support an agency request for additional funding?

A.5. I haven't reviewed the budget and staffing levels in detail but it is my understanding that Chairman Cox has indicated that the FY 2009 request is sufficient for the SEC to fulfill its mission. If I'm confirmed and I find that additional resources might be needed I will support a request for additional funding.

Q.6. *International Convergence of Financial Reporting Standards:* The SEC is currently considering allowing U.S. companies to file financial statements using the International Financial Reporting Standards, which would give them a choice between GAAP and IFRS. Such a change at this time raises serious questions.

A. While the FASB and IASB have undertaken efforts at convergence and made important progress, do you feel there are at present still significant differences between GAAP and IFRS?

B. Would investors, particularly retail investors, be able to make accurate comparisons for purposes of making investment decisions between U.S. companies reporting material financial information in GAAP and in IFRS at this time?

C. If given a choice between GAAP and IFRS, do you feel that there are circumstances under which a public company could

choose one standard above the other to enhance the representation of its finances to investors? If so, do you feel that such a choice is consistent with the Commission's investor protection mission?

D. Do you feel that adequate capacity exists today in accounting firms to provide auditing services for all companies that might select IFRS, if given the choice, and do you feel such a change would have an impact on the cost of audit fees to public companies, particularly small businesses?

A.6. As a U.S.-trained lawyer, rather than an accountant, my present understanding of GAAP is limited and I have less information about the substantive details of IFRS. It is my understanding, however, that both GAAP and IFRS are high-quality accounting standards. I'm also aware that the SEC has a mandate to oversee accounting standards so that investors can receive an understanding of an issuer's financial performance, as well as be able to draw comparisons between investment options. With increased globalization there have also been greater opportunities for investors to diversify their holdings among both U.S. and foreign companies. As a result there have been efforts to develop IFRS to serve as an international set of global accounting standards. It is my understanding that over 100 countries have adopted IFRS and more are considering its adoption, to the exclusion of U.S. GAAP. It is my understanding, however, that at the present time many U.S. auditors and accountants are not very familiar with IFRS and that it is not currently broadly taught by U.S. educational institutions. I also understand that there are still efforts underway to align the content of GAAP and IFRS and that the SEC continues to work toward a roadmap and timetable to develop a transition process.

The questions posed above are appropriate questions that need to be fully considered in the process of considering whether, and if so when, to allow transition to IFRS. If confirmed, I will look forward to acquiring more information about GAAP, IFRS and related issues and addressing those questions in depth, as well as others that may arise on this subject.

Q.7. *Opt-In for Proxy Materials:* A recent SEC new rule requires investors to make individual requests, or opt-in to obtain paper copies of proxy materials from companies in which they own stock. Reportedly, this rule has significantly reduced the number of individual shareholders who vote. *The Wall Street Journal* in late April reported that of "80 companies that have switched to the electronic model, dubbed e-proxy . . . on average, just 4.6% of individual shareholders voted on company matters using e-proxy, a sharp decline from the 19.2% who voted in the year-earlier period, when the companies sent out traditional paper ballots, according to Broadridge Financial Solutions Inc., which processes proxy votes."

Do you feel the Commission should monitor the impact of this rule and determine whether the opt-in to receive a paper proxy is having an unintended or undue negative impact on shareholder voting participation?

A.7. Yes, it's important to avoid adversely impacting shareholder participation in exercising their voting rights. I understand the SEC staff has been monitoring the impact that this rule has had on the industry, including retail shareholder turnout.

Q.8. *Short Sales in Shareholder Votes:* Some have raised a concern that institutions which hold investors' stock in "street name," such as brokers and banks, may not be able to accurately account for shares that are sold "short" in corporate elections and this could cause problems in producing a reliable shareholder vote count in a close, contested election. Would you assess this concern and seek to take any appropriate action?

A.8. Yes, I would look forward to doing so if confirmed.

Q.9. *SEC–CFTC Memorandum of Understanding:* In March 2008, the SEC and CFTC signed a Memorandum of Understanding (MOU) to enhance coordination and facilitate review of new derivative products. SEC Chairman Christopher Cox and Acting CFTC Chairman Walt Lukken jointly stated portfolio margining is an issue that should be addressed under the MOU.

Do you support addressing the customer protection issues presented by cross-margining futures and securities in customer portfolio margin accounts in the MOU process? If so, do you feel analyzing and potentially resolving this should be an important priority among the issues to be considered under the MOU?

A.9. Yes, these are important issues that need to be addressed whether through the MOU process or some other joint mechanism for resolving the issue.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM LUIS AGUILAR

Q.1. Please explain if you believe the adoption of IFRS by U.S. companies meets the requirements of Sarbanes Oxley for such companies to use professional accounting standards established by an independent standard setting body?

A.1. At present my understanding of the substantive details of IFRS is limited. I look forward to studying the entire issue of the potential use of IFRS by U.S. companies. It is my understanding from materials I have read, however, that IFRS are high-quality accounting standards. I believe that it is important that those standards be established and maintained by an independent standard setting body, free from undue conflict of interests. If confirmed, I will look forward to obtaining more information about how the standards are developed and interpreted to determine whether IFRS satisfies the intent and letter of the Sarbanes-Oxley Act.

Q.2. Financial services firms have become much more complex, and the markets have likewise become more complex. We have many non-bank entities engaging in banking activities and other players active in the markets, such as hedge funds. Many of these newer players remain unregulated, or are only lightly regulated, leaving some gaps in oversight throughout the financial system.

What should the SEC be doing to better review risks in a more complex and global financial system? How can the SEC have a better handle on emerging risks because of this complexity?

A.2. The U.S. and global financial capital markets continue to evolve at a rapid pace and seem to be more interconnected so that the dangers of systemic or "mega-risks" are potentially more feasible. Preparing to deal effectively with the complex market of the

21st century is a major challenge. I'm not fully informed about what steps the SEC may be taking or planning to take to better review risks but some possible suggestions include, among others: utilizing new technologies to more rapidly and efficiently collect and access information to determine trends or spot potential issues; being able, where appropriate, to provide information in "real time" to allow for quicker analysis and consideration; improving communication with the public and media so that accurate information can be disseminated when required; and enhancing international coordination and cooperation to better address globalization and cross-border issues.

Q.3. What is your perspective on the Treasury's "Blueprint For A Modernized Financial Regulatory Structure" reform as it relates to the SEC?

A.3. While I have not reached any conclusions about any of the particular proposals in the Paulson Blueprint or the other recent proposals on regulatory reform, I do believe that it's appropriate to periodically revisit the regulatory framework to assure that it continues to meet the needs of the American public.

Q.4. What is your viewpoint on a non-binding shareowner's right to vote on a company's executive compensation program?

A.4. As a general matter, it's always beneficial when shareholders are able to communicate their views to management and other shareholders on important issues. In connection with the legislative efforts underway in the House and the Senate, there have been reports discussing the advantages and disadvantages of having a mandatory vote (e.g., the benefits of shareholders' ability to voice a collective opinion versus the possibility that a mandatory vote would add a costly burden on companies and unnecessarily intrude into the affairs of corporate boards). If confirmed, I would be interested in seriously considering the benefits and costs of a non-binding shareholder vote on a company's executive compensation program.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CARPER FROM LUIS AGUILAR

Q.1. There is evidence that the U.S. has experienced some erosion in its leadership position in capital markets. Unless reversed, this may hurt Main Street as well as Wall Street. When companies choose to do IPOs outside the United States, they are locating not only investment banking deals, but also jobs, outside our country. A portion of this problem may be attributable to the securities litigation risk of being an American public company.

Our colleague, Senator Schumer, together with Mayor Bloomberg, issued a report on this problem in 2007. It was preceded by work done by Professor Scott of Harvard Law School and his colleagues at the Committee on Capital Markets Regulation. The Schumer-Bloomberg and the CCMR reports called for the SEC to take action.

Last August, a group of prominent academics from across the ideological spectrum wrote Chairman Cox with their concerns about securities class action lawsuits and the implications of such

suits for U.S. capital markets and investor protection. This letter expressed concern about the compensatory and deterrence rationales for these lawsuits, as well as the burdens the existing system places on small investors.

The conclusion of these experts is that litigation is effective at driving business and jobs out of the U.S., but is ineffective at deterring actual fraudulent conduct because "settlements almost never come out of the pockets of the managers who allegedly executed the fraud."

Chairman Cox has promised to convene an SEC roundtable to study these and other issues related to the existing securities class action system. However, little is happening at the SEC, at least as far as we can tell. Do you share the concerns raised by this group of prominent scholars?

In addition, do you support the idea of convening such a roundtable, as proposed by Chairman Cox? If so, will you work with Chairman Cox to schedule it expeditiously?

A.1. I do not presently have enough information to have reached a conclusion as to the validity of the concerns raised by the scholars. I understand that certain reports have suggested discussion around various issues, such as: whether to limit settlement amounts in SEC enforcement cases; whether it is necessary to provide clarity on fraud statutes frequently used in private lawsuits; who should bear the cost of attorney fees; the role of insurance in indemnification, etc. I am aware that Chairman Cox had announced plans to hold a roundtable forum on litigation reform and that the Chairman subsequently thought it best to delay it until such time as there was a full Commission. I would support the Chairman's effort to schedule it as soon as practicable once there is a full Commission.

If confirmed, I will keep an open mind as to whether any changes should be recommended. It is important to consider the balance between protecting investors' rights and avoiding frivolous lawsuits that may adversely impact the U.S. financial markets' competitive position.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TESTER FROM LUIS AGUILAR

Last Wednesday, May 28, 2008, *The Wall Street Journal* ran a front page story entitled, 'SEC Will Scour Bear Trading Data' stating that the SEC has an ongoing investigation into "whether there was insider trading or market manipulation of Bear Stearns, people familiar with the matter say."

Q.1. Without asking for you to comment on the accuracy of the story, as I understand the SEC—nor its nominees should comment on an ongoing investigation—can you tell me whether the SEC should look into the possibility of insider trading and/or market manipulation as it relates to the Bear Stearns situation?

A.1. Market manipulation, whether it's through spreading false rumors or other action, would be a violation of securities laws. It is important that the SEC continues to demonstrate that illegal market manipulation will not be tolerated. That would be particularly

the case if it occurs in high profile events such as the rapid collapse of Bear Stearns.

Q.2. Also, do you believe that the SEC has all of the tools necessary to investigate the possibility of impropriety in a case like Bear Steams and to a lesser extent Lehman Brothers?

A.2. I am not currently sufficiently informed about what the SEC has done in these matters to have reached a conclusion as to whether the SEC has all of the tools that would facilitate an investigation of the kinds of improprieties that have been rumored to have occurred with respect to Bear Steams or Lehman Brothers. Any investigations of these kinds of issues are, however, an obviously important function for the SEC and, if confirmed, I would regularly take stock of the adequacy of the SEC's enforcement and investigatory tools and would be supportive of addressing any gaps that might come to light.

Q.3. From your perspectives, are the Insider Trading Sanctions Act of 1984, Insider Trading and Securities Fraud Enforcement Act of 1988 and The Securities Exchange Act of 1934 sufficient?

A.3. It is important for the SEC to vigorously pursue violations of insider trading laws. The American public is investing in the stock market more than ever before. It is important that they trust and have confidence in the fairness and integrity of our securities markets. An essential part of our regulation of the securities market is the vigorous enforcement of our laws against illegal insider trading. In its basic form, illegal insider trading occurs when certain persons having confidential, non-public information about materially important events use that unique knowledge to profit, or avoid loss, on the securities market, to the detriment of investors who would buy or sell their securities without the advantage of such "inside" information.

In order to address the dangers of illegal insider trading Congress passed The Insider Trading Sanctions Act of 1984 (ITSA), and increased sanctions against trading in securities while in possession of material, nonpublic information. ITSA authorized the SEC to seek in federal court civil money penalties of up to three times the profit gained or loss avoided by a person who commits illegal insider trading.

Four years later, amidst several major Wall Street scandals involving insider trading, Congress again considered the adequacy of the Commission's remedies to combat insider trading and passed The Insider Trading & Securities Fraud Enforcement Act of 1988 (ITSFEA) to, among other things, broaden the scope of ITSA by requiring written policies of various regulated entities, increasing maximum criminal penalty from $100,000 to $1,000,000 and jail term from 5 years to 10 and expanded the potential exposure to civil penalties beyond primary insider trading violators to securities firms and other "controlling persons" who knowingly or recklessly fail to take appropriate measures to prevent insider trading violations by their employees.

In addition to these laws passed by Congress, there have also been numerous court cases that have contributed to the parameters of illegal insider trading, e.g. cases such as U.S. v. O'Hagan, Chiarella v. U.S. and Dirks v. U.S. These decisions have dealt with

the concepts of duty owed, and to whom, duties of a "tippee", theories of misappropriation, and other issues.

With developments in technology and globalization come new potential legal issues. In a recent speech the SEC's Director of Enforcement discussed issues raised if a computer expert, who could be located anywhere in the world, were to hack undetected into corporate databases and trade on the basis of information found there. It is unclear how those activities would be treated under current insider trading law.

Clearly this is a very complex and fluid area of the law. If I'm fortunate enough to be confirmed, I will keep an open mind as to what additional legislation or regulatory actions may be needed.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM LUIS AGUILAR

Q.1. Secretary Paulson's blueprint for a modernized financial regulatory structure, along with other studies, recommends both regulatory and legislative changes to modernize the SEC's oversight of the securities market. That means addressing the increasing global nature of the financial marketplace, speeding up the rule approval process, and updating and harmonizing existing statutes governing brokers and investment advisors to reflect current market conditions and client needs. The SEC is currently working on a broad array of issues including mutual recognition, principal trading relief, and short selling. What are the two or three issues you believe the SEC needs to resolve this year to enhance the competitiveness of our capital markets?

A.1. The U.S. capital markets continue to be the deepest, most efficient, and most transparent in the world. By most measurements we remain the uncontested world leader. Our markets, however, are not immune to challenges. To promote the conditions for American prosperity and economic growth, it is essential that we maintain the competitiveness of our capital markets.

The SEC has a number of matters under consideration which would have a positive impact on enhancing the competitiveness of our capital markets. A few that I believe could be resolved, hopefully, this year include: the proposals for additional rules regarding NRSROs to enhance accountability, transparency and competition, and restore market confidence in the credit rating agencies; the various proposed rules changes relating to foreign private issuers that are intended to improve accessibility to the U.S. public capital markets; consideration of whether U.S. domestic issuers should be given the option of reporting in either International Financial Reporting Standards (IFRS) or U.S. Generally Accepted Accounting Principles, and, if so, what transition process would be appropriate; and consideration of amendments to the cross-border tender offer rules to decrease the burdens of bidders and issuers who must comply with multi-jurisdictional regulatory systems, and facilitate the inclusion of U.S. securities holders in such transactions.

These and other initiatives are commendable and, if confirmed, I welcome the opportunity to participate in the process of considering them. It is important, of course, to move forward in such a

manner so as to maintain the credibility and integrity of our capital markets and vigorously protect investors.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM TROY A. PAREDES

Q.1. *Regulation of Investment Banks:* The current credit crisis and its impact on the markets, including the failure of Bear Stearns, has raised issues regarding the effectiveness of the Commission's regulation of investment banks, as well as other market participants. If confirmed, will you carefully review the Commission's regulatory oversight of the investment banks and support adding regulations and adding staff resources if necessary to protect investors and promote the stability of the markets? If so, what steps do you feel the Commission should take?

A.1. The regulation of investment banks is a very important matter that deserves the serious attention it is receiving. Recent credit market events, including the Bear Stearns situation, instantiate concerns about systemic risk and the importance of proper risk management. If I am fortunate enough to be confirmed, I am committed to working with the Chairman, the other Commissioners, and the staff in carefully evaluating the SEC's regulatory oversight of investment banks. Without having the benefit of all that I will learn if confirmed and given the opportunity to serve as a Commissioner, it would be premature to speculate on what precise regulatory changes may be called for given this matter's complexity. Indeed, there may be different responses for the short-, medium-, and long-terms. That said, some possibilities include a reconsideration of the Consolidated Supervised Entity program and additional coordination among regulators to ensure proper risk management. Another possibility is to consider what additional disclosures by investment banks may be appropriate to bolster market discipline. In general, I would support regulatory changes and additional staff resources if necessary to ensure the proper oversight of our markets in order to protect investors and promote the stability of U.S. securities markets. Indeed, I understand that the SEC already has undertaken a more active oversight role in response to recent events.

Q.2. *Investment Advisors:* The RAND Study on "Investor and Industry Perspectives on Investment Advisers and Broker-Dealers" reported that there is widespread confusion among investors about key differences between investment advisers and broker-dealers in their duties (advisers have a fiduciary duty), their titles and their services.

What would you do as a Commissioner to reduce or eliminate this confusion for the protection of investors? For example, what actions would you support so that investors better understand the differences pursuant to which investment advisors owe them a fiduciary duty while broker-dealer registered representatives observe a standard of suitability?

A.2. The RAND study makes an important contribution to the understanding of the investment adviser and broker-dealer industries and investor perspectives of them. The SEC should be commended for initiating this project, and it may serve as a useful template for

other studies. The distinctions between investment advisers and broker-dealers have blurred. Nonetheless, the legal obligations of investment advisers and broker-dealers differ, and so whether one is an "investment adviser" or a "broker-dealer" matters. (Interestingly, the RAND study found that despite investor confusion regarding the differences between investment advisers and broker-dealers, investors generally were pleased with the services they received.) I understand that the staff is considering the RAND study and, if confirmed, I welcome the opportunity to participate in that process. One possibility to consider to reduce confusion is to require a short (perhaps one- or two-page) disclosure document that explains to investors in plain English (perhaps with the use of bullet points and tables) the key differences between an investment adviser and a broker-dealer, including differences in their duties. The disclosure document could include representative examples that illustrate in more concrete terms the practical consequences of these differences. Investors could then be directed to the SEC's web site for additional information.

Q.3. *Cooperation with State Securities Regulators:* State securities regulators are vital to the protection of investors. They have made important contributions identifying and prosecuting misleading and fraudulent stock analyst recommendations, leading to the Global Settlement; late trading and market timing involving mutual funds, leading to enforcement actions and regulatory reforms; and in responding to retail investor concerns. Would you encourage strong cooperation by the Commission with State securities regulators?

A.3. State securities laws predate the federal securities laws. As the question suggests, state "blue sky" laws remain an important part of our system of securities regulation. Indeed, the federal securities laws contemplate a continuing role for the states. In addition to recognizing the contributions of State securities regulators, it is also important to recognize the value of national law crafted at the federal level, for example to achieve uniformity and advance national interests. If confirmed, I would encourage strong cooperation by the Commission with State securities regulators. One area where there seems to have been successful recent cooperation has concerned seniors, as evidenced by the joint 2007 report by the SEC Office of Compliance Inspections and Examinations and the North American Securities Administrators Association, along with the Financial Industry Regulatory Authority, on "Protecting Senior Investors: Report of Examinations of Securities Firms Providing 'Free Lunch' Sales Seminars."

Q.4. *Mutual Recognition:* The Commission is considering whether to implement mutual recognition, in which citizens in the U.S. could purchase or trade securities directly with foreign broker-dealers or on foreign exchanges and be regulated for many purposes by the foreign regulator instead of the SEC. The Commission announced that it has begun discussions with Australia, and such discussions are intended to enhance regulatory cooperation and investor access to foreign capital markets, and is making a schedule for a process intended to open discussions with Canada.

When considering a mutual recognition framework that would allow U.S. citizens to directly invest in foreign markets and be solicited by foreign brokers, what factors do you feel the SEC should take into account? For example, do you feel that the Commission should find comparability not only of laws but also of a foreign regime's enforcement and inspection resources, independence from the government, respect for the rule of law, culture of fair dealing, tradition of investor protection, impartial regulation over market participants, or other factors?

A.4. Securities regulation should not ignore globalization. Increasing globalization has spawned an important debate, including concerning mutual recognition. There are benefits to be gained from a well-conceived system of mutual recognition. For example, U.S. investors may gain expanded and more efficient access to foreign markets, which provide additional investment opportunities. Further, mutual recognition may be a productive starting point for expanded cross-border cooperation among regulators. Any mutual recognition arrangement should ensure the adequate protection of U.S. investors. This requires a careful assessment of a foreign regime's regulatory structure and practices. More than just the "laws on the books" make up a country's securities regulation regime, and different countries may achieve investor protection in different ways. Indeed, one can conceptualize a country's securities regulation regime as a system comprised of a number of legal and non-legal parts that work together, hopefully in a constructive, complementary fashion. Recognizing this, it follows that no two countries' systems will be mirror images, although they may both ensure adequate investor protection and market integrity. A careful comparability analysis would engage a range of legal and non-legal factors—such as those identified in the question—that are part of the institutional mix that makes up a country's securities regulation system.

The SEC has taken some steps down the road of mutual recognition, including work with Australia and Canada. The SEC also held a roundtable on the topic in 2007. If confirmed, I look forward to participating in the ongoing deliberations. While there are potential benefits for investors from mutual recognition, the details of any such arrangement are complicated. It is important to proceed in a deliberate and well-informed fashion.

Q.5. *Sarbanes-Oxley Act:* SEC Chairman Cox has pointed out that as a result of the Sarbanes Oxley Act, "Investor confidence has recovered. There is greater corporate accountability. Financial reporting is more reliable and transparent. Auditor oversight is significantly improved." [Quoted in "Sarbanes-Oxley Has Been a Pretty Clean Sweep; Most Agree It's a Big Success," USA Today, July 30, 2007.] Former SEC Chairman Bill Donaldson has said "Corporate boards are working better." Thomas Healey, a retired partner of Goldman Sachs and Senior Fellow at Harvard's Kennedy School said, "The last five years have made it irrefutably clear. Sarbanes-Oxley (Sarbox) is a textbook case of how regulations should ideally work in a democracy: A scandal is addressed through strong legislative reaction, followed by fine-tuning by relevant agencies . . . Is it any wonder that variations of Sarbox and its rigorous internal

controls are being adopted in Japan, France . . . and other countries around the world?" ["Sarbox Was the Right Medicine," The Wall Street Journal, August 9, 2007.] The GAO published a report that found from 1997–mid-2002, 10% of public companies restated their financials due to accounting irregularities and these restatements cost investors 18% of stock value from 60 days before to 60 days after the restatement. [GAO Report to the Chairman, Committee on Banking, Housing, and Urban Affairs, U.S. Senate "FINANCIAL STATEMENT RESTATEMENTS: Trends, Market Impacts, Regulatory Responses, and Remaining Challenges." GAO–03–138, October 2002.] The reforms in the Act improved internal controls and financial reporting.

Professor Paredes, in "Lessons Learned: A Brief Retrospective on Sarbanes-Oxley" (April 23, 2007) published as a slip opinion in the Washington University Law Review, you stated that "lawmakers need to undertake thorough and rigorous cost-benefit analyses when making law." When performing such an analysis, would you include and how would you calculate the following types of benefits that these and others resulting from the Act?

A. Improved investor confidence.

B. Greater corporate accountability.

C. More reliable financial reporting.

D. Improved auditor oversight.

E. Improved board governance and performance.

F. Influence on foreign countries to improve their securities regulation.

G. Improved internal financial controls which when fully effective reduce the number of accounting restatements.

A.5. The Sarbanes-Oxley Act of 2002 (SOX) is an historic piece of legislation. It helped restore investor confidence, improve internal controls over financial reporting, and spur more active board oversight. The question appropriately references these and other benefits flowing from SOX.

For any cost-benefit analysis (CBA) to be effective, it must account for both benefits and costs. Focusing on the costs without giving due credit to the benefits inappropriately skews the analysis and vice versa. The general goal of CBA is to try to maximize the net benefit of whatever is being considered, say a piece of legislation or a proposed regulation. A careful analysis might reveal opportunities for greater benefits, opportunities to mitigate costs, preferable alternatives, and the like. Unfortunately, not all benefits and costs are readily quantifiable. Accordingly, CBA also should involve a more qualitative analysis that endeavors to capture the nature of certain benefits and costs, recognizing that hard numbers simply may not be available. Since CBA is forward-looking and anticipatory, it is inherently uncertain, even when the benefits and costs seemingly are quantifiable. There is always a range of possible outcomes. This uncertainty, rooted in imperfect information, is what makes CBA challenging. Still, so long as its limitations are appreciated, CBA remains a useful analytical tool.

Focusing on the benefit-side of SOX, I would include the benefits mentioned in the question as central to any CBA, although such benefits are difficult to reliably quantify generally, let alone when it comes to isolating and calculating the impact attributable to a

particular variable, such as the adoption of SOX or particular provisions of SOX. That said, the available empirical literature may have shed light on the analysis. From a more qualitative perspective, these benefits are central to investor protection, capital market integrity, the well-functioning of U.S. securities markets, and capital formation. Investors need to be confident in the integrity of securities markets; financial and other disclosures need to be reliable; corporate actors need to be accountable; and corporate governance needs to be effective. A qualitative analysis would look to assess the nature of the impact of SOX in these and other respects. This could include, for example, assessing the incentive effects of particular provisions and of SOX as a whole and the impact on organizational dynamics and investor perceptions. Such an analysis also may benefit from a consideration of the available empirical literature. In addition, whatever the limitations are of CBA, well-conceived empirical studies may capture the actual impact of legislation such as SOX after the fact, which can help inform future lawmaking.

Q.6. *Options Backdating:* Professor Paredes, you have been quoted in the press about options backdating as saying "We are talking about what is, in the grand scheme of things, a relatively minor restatement of earnings for a practice that has already ceased."

This quote raises concerns. Full and fair disclosure and accurate financial reporting are vital to investor confidence and the integrity of the markets. Companies that improperly backdated options, inflated their earnings, and deceived investors violated core financial reporting and disclosure laws.

The improper backdating practices led to over one-hundred Enforcement investigations and continue to result in SEC sanctions, criminal actions, and private suits. For example, in April 2008 the SEC sanctioned Broadcom Communications for overstating its income by $2.2 billion over five years. On June 2, 2008, The Wall Street Journal reported that "Brocade Communications Systems Inc. agreed to pay $160 million to settle a securities class-action lawsuit related to backdating of stock options, in the largest such settlement to date" in an article that noted that the former CEO "was sentenced to 21 months in federal prison in January."

Do you feel that individuals and firms that engaged in improper options backdating have committed a serious violation of the securities laws and should be sanctioned appropriately? If confirmed, would you monitor the incidence of improper options backdating until it reaches levels that are not a problem? For example, we understand that the SEC has found during 2007 that over 1000 stock options grants were reported more than 100 days late.

A.6. The federal securities laws are premised on a philosophy of disclosure. Disclosure is effective when it is complete, accurate, and timely. Improper options backdating is problematic in that it leads to incorrect financial statements when the option grants are accounted for inaccurately and may also render certain qualitative (or narrative) disclosures inaccurate. Any widespread improper activity may erode investor confidence more generally. Options backdating in violation of the federal securities laws is a serious matter that should be sanctioned appropriately. If confirmed, I look forward to

working with others at the SEC to monitor and address options backdating and will take steps to be kept apprised of relevant developments. This includes learning more about any late filings reporting option grants, which filings, as a result of the Sarbanes-Oxley Act, now have to be filed more quickly.

Q.7. *Adequacy of the SEC Budget:* A key factor in maintaining investor confidence is having a Federal securities regulator that is fully funded. Do you feel that the President's proposed SEC budget for FY 2009 at $913 million is adequate to effectively perform its functions, including ramping up the regulation of credit rating agencies, investigating conduct related to the sub-prime crisis, reviewing corporate disclosures, overseeing rules for new markets and other important activities? If you are confirmed and, as a Commissioner, find that more resources are needed, will you support an agency request for additional funding?

A.7. The SEC is responsible for administering and enforcing the federal securities law. As the question suggests, the SEC has a number of specific responsibilities, and additional priorities have emerged in the aftermath of the recent credit market turmoil. It is key that the SEC have adequate resources. I do not presently have the perspective or information needed to ascertain what the appropriate budget is for the SEC. If I am fortunate enough to be confirmed, as a Commissioner, I will gain the type of insight needed to better evaluate the SEC's budget needs; and if, in my judgment as a Commissioner, I believe that the SEC needs more resources, I will support an agency request for additional funding.

Q.8. *International Convergence of Financial Reporting Standards:* The SEC is currently considering allowing U.S. companies to file financial statements using the International Financial Reporting Standards, which would give them a choice between GAAP and IFRS. Such a change at this time raises serious questions.

A. While the FASB and IASB have undertaken efforts at convergence and made important progress, do you feel there are at present still significant differences between GAAP and IFRS?

B. Would investors, particularly retail investors, be able to make accurate comparisons for purposes of making investment decisions between U.S. companies reporting material financial information in GAAP and in IFRS at this time?

C. If given a choice between GAAP and IFRS, do you feel that there are circumstances under which a public company could choose one standard above the other to enhance the representation of its finances to investors? If so, do you feel that such a choice is consistent with the Commission's investor protection mission?

D. Do you feel that adequate capacity exists today in accounting firms to provide auditing services for all companies that might select IFRS, if given the choice, and do you feel such a change would have an impact on the cost of audit fees to public companies, particularly small businesses?

A.8. There is much to recommend having a single set of accounting standards given the increasing globalization of capital markets. A priority in considering whether to allow U.S. companies to use IFRS when filing financial statements is to ensure that the U.S. continues to have high-quality accounting standards. I have not

had the opportunity to study carefully the particular differences between GAAP and IFRS, although I understand that there are significant differences and that efforts at convergence are ongoing. I look forward to learning more about these differences and their practical impact on financial reporting and U.S. securities markets if I am confirmed. Appreciating the differences between GAAP and IFRS is important in considering how to navigate the road toward allowing U.S. companies to use IFRS. For example, it is worth considering whether U.S. companies, if given a choice between GAAP and IFRS, will choose between GAAP and IFRS based on which enables the company to report stronger financial results and what this means for investors. This eventuality might be addressed by requiring companies making the switch to IFRS to do so irrevocably and to show financial results from earlier years as if IFRS had been used. Further, if given a choice, different companies in an industry may report using different accounting standards. This could compromise comparability. On the other hand, comparability might be enhanced if U.S. companies, by choosing to use IFRS, brought their financial statements in line with those of foreign competitors that use IFRS. It is important to understand the challenges investors may face understanding IFRS-based financial statements, let alone comparing them to GAAP-based financial statements, and to consider investor education strategies, particularly for retail investors.

Additionally, it is important that the auditing profession have enough individuals with the requisite expertise if there is a switch from GAAP to IFRS, and it is important to assess how the audit function might adapt to a change to IFRS and at what cost to issuers. If confirmed, I look forward to learning more about the capacity of the auditing profession to audit IFRS-based financial statements and what steps the profession, as well as business schools, plan to take in light of the potential move toward IFRS in the U.S.

Each of the concerns at the core of subparts A–D of the question merits careful evaluation. Indeed, as I understand it, the SEC's 2007 Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards solicited comments that would assist in any such evaluation. If I am fortunate enough to be confirmed, I look forward to working with the Chairman, the other Commissioners, and the staff on these complex matters in considering how best to proceed. In short, this means not only assessing the substance of IFRS as compared to GAAP, but also carefully considering the practical challenges of any transition from GAAP to IFRS and how such challenges might be mitigated.

Q.9. *Opt-In for Proxy Materials:* A recent SEC new rule requires investors to make individual requests, or opt-in to obtain paper copies of proxy materials from companies in which they own stock. Reportedly, this rule has significantly reduced the number of individual shareholders who vote. The Wall Street Journal in late April reported that of "80 companies that have switched to the electronic model, dubbed e-proxy . . . on average, just 4.6% of individual shareholders voted on company matters using e-proxy, a sharp decline from the 19.2% who voted in the year-earlier period, when the

companies sent out traditional paper ballots, according to Broadridge Financial Solutions Inc., which processes proxy votes."

Do you feel the Commission should monitor the impact of this rule and determine whether the opt-in to receive a paper proxy is having an unintended or undue negative impact on shareholder voting participation?

A.9. In general, it is important for securities regulation to adapt to new developments, including technological developments. Technological advances provide a host of new opportunities. But in taking advantage of these opportunities, one must account for potential costs, some of which may not be fully appreciated until after some change is implemented. In terms of e-proxy in particular, the SEC should monitor the consequences of the new rule in an effort to evaluate the rule's actual impact; such monitoring is an important step in identifying adverse consequences and what steps might be appropriate for mitigating them. I understand that staff in the Division of Corporation Finance and the Office of Economic Analysis are doing so, including being in contact with service providers and other groups, such as the Society of Corporate Secretaries and Governance Professionals, that are part of or uniquely interested in the shareholder voting process. Any consideration of rule changes that may be appropriate should factor in the extent to which any observed negative consequences may subside over time if investors become more accustomed to e-proxy and companies learn to make the transition more effectively.

Q.10. *Short Sales in Shareholder Votes:* Some have raised a concern that institutions which hold investors' stock in "street name," such as brokers and banks, may not be able to accurately account for shares that are sold "short" in corporate elections and this could cause problems in producing a reliable shareholder vote count in a close, contested election. Would you assess this concern and seek to take any appropriate action?

A.10. The "mechanics" of shareholder voting have received increased attention recently. As the question indicates, some have raised concern about the implications of shorting for voting. For example, it has been said that a broker could loan such a number of shares that the broker is not entitled to vote enough shares to comply with instructions it receives from clients on how to vote. Some have discussed this in terms of the potential for "overvoting." I agree that it is important that a shareholder vote count be reliable in a close, contested election. If confirmed, I look forward to working with the Chairman, the other Commissioners, and the staff to evaluate the concern that has been expressed and to undertake appropriate action needed to help ensure reliable voting.

Q.11. *SEC–CFTC Memorandum of Understanding:* In March 2008, the SEC and CFTC signed a Memorandum of Understanding (MOU) to enhance coordination and facilitate review of new derivative products. SEC Chairman Christopher Cox and Acting CFTC Chairman Walt Lukken jointly stated portfolio margining is an issue that should be addressed under the MOU.

Do you support addressing the customer protection issues presented by cross-margining futures and securities in customer portfolio margin accounts in the MOU process? If so, do you feel ana-

lyzing and potentially resolving this should be an important priority among the issues to be considered under the MOU?

A.11. Cooperation and coordination among regulators can improve the oversight of our financial markets. Speaking generally, regulatory cooperation and coordination may help modernize the U.S. financial regulatory structure and enable it to anticipate and respond to developments more effectively and efficiently. This includes cooperation and coordination between the SEC and CFTC, particularly in light of ongoing financial innovation and the blurring of regulatory lines and interests.

Cross-margining futures and securities is an important issue to address and one that I look forward to having the opportunity to consider further if I am fortunate enough to be confirmed. In terms of "process," while MOUs can be a constructive means of cooperation and coordination between the SEC and CFTC, I do not presently have a firm view on whether the MOU or some other approach is the optimal means of cooperation and coordination between the agencies when it comes to addressing such cross-margining. But I do believe in principle that efforts at cooperation and coordination are important and, if confirmed, welcome the chance to consider how best to achieve a productive collaborative process.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM TROY A. PAREDES

Q.1. Please explain if you believe the adoption of IFRS by U.S. companies meets the requirements of Sarbanes-Oxley for such companies to use professional accounting standards established by an independent standard setting body?

A.1. If confirmed, I look forward to having the opportunity to study carefully the range of issues that must be addressed in deciding how to proceed when it comes to the prospect of allowing U.S. issuers to use IFRS. An overarching objective is to ensure that the U.S. has high-quality accounting standards. In assessing a transition to IFRS, whether the international accounting standards setter (namely, the IASB) meets the Sarbanes-Oxley Act requirements is an important consideration. I understand that in its Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards the SEC discussed and solicited public comment on the governance and operation of the IASB. I agree that these matters need to be resolved, and I look forward to participating in the ongoing assessment of these issues if I am confirmed.

Q.2. Financial services firms have become much more complex, and the markets have likewise become more complex. We have many non-bank entities engaging in banking activities and other players active in the markets, such as hedge funds. Many of these newer players remain unregulated, or are only lightly regulated, leaving some gaps in oversight throughout the financial system.

What should the SEC be doing to better review risks in a more complex and global financial system? How can the SEC have a better handle on emerging risks because of this complexity?

A.2. Questions of systemic risk and risk management are very complex. Systemic risk is often conceptualized in terms of externalities, which can be challenging to address. Concerns about systemic risk and risk management have magnified in light of the recent credit market turmoil and events at Bear Stearns. I understand that the Banking Committee scheduled hearings on risk management and its implications for systemic risk.

These issues deserve careful study, as the financial system has become more global and more complex. There are benefits to be gained from the introduction of new products and an evolving mix of financial market participants; but there are risks, particularly given the degree of interconnectedness. If confirmed, I look forward to learning more and am committed to working with the Chairman, my fellow Commissioners, and the staff to assess opportunities for the SEC to better serve its role in the identification and management of risk. Possibilities might include changes to the Consolidated Supervised Entity program or coordinated efforts with other members of the President's Working Group on Financial Markets. I understand that the SEC already has become more active following the recent credit market turmoil, but it is important to continue considering what else might be done, including how best to address any gaps in the regulatory structure.

Q.3. What is your perspective on the Treasury's "Blueprint For A Modernized Financial Regulatory Structure" reform as it relates to the SEC?

A.3. As financial markets continue to develop and evolve, they present new opportunities and new challenges. For example, new financial products and market participants in an increasingly global marketplace may add liquidity and provide a new set of investment options. On the other hand, systemic risk may become more worrisome. Accordingly, efforts to modernize the financial regulatory structure deserve close study. The Treasury Department's "Blueprint for a Modernized Financial Regulatory Structure" is an important starting point for discussion. If a reconfiguration of the financial regulatory structure ultimately is undertaken, it is important to do so in a deliberate, considered fashion given the complexity of the undertaking. Any modernization effort must consider, among other things, how best to achieve the SEC's core goals of investor protection, well-functioning securities markets, and capital formation. Insofar as the SEC is concerned, the Blueprint suggests merging the SEC and CFTC and creating a new "business conduct regulator." Merging the SEC and CFTC has been debated before; the proposed business conduct regulator is a new idea, as far I can tell. If confirmed, I will have the opportunity to learn more in my capacity as a Commissioner and look forward to giving careful scrutiny to the Blueprint and alternatives to it that emerge with the goal of doing my part to help ensure that we have the optimal regulatory structure for our financial markets.

Q.4. What is your viewpoint on a non-binding shareowner's right to vote on a company's executive compensation program?

A.4. State corporate law generally allocates authority to run an enterprise to a corporation's board of directors and, in effect, its management team. However, this allocation of authority presupposes

that directors and officers will be held to account. This includes a fundamental role for shareholders in corporate governance through the franchise. (In addition to exercising the right to vote, shareholders also may express their views about the business and how it is being managed through other channels. One new prospect for increased shareholder participation is the electronic shareholder forum.) Put differently, the effort has been to strike a balance whereby the board and management team have the room needed to run the business while ensuring that they are appropriately accountable to shareholders so that the directors and officers discharge their duties in the best interests of the corporation and its shareholders.

The balance is never perfectly struck in practice; thus, it is important to assess carefully ideas for improving the balance, such as by giving shareholders a stronger voice in the area of executive pay. This includes assessing proposals for a shareholder advisory vote or so-called shareholder "say on pay." (Presently, shareholders have the ability to weigh in on executive pay, at least in certain respects, through the shareholder proposal process.) Designing an optimal compensation arrangement is complicated, yet it is very important. Among other things, compensation arrangements can influence top managers' incentives when running the business and perceptions about executive pay may challenge investor confidence.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CARPER FROM TROY A. PAREDES

Q.1. There is evidence that the U.S. has experienced some erosion in its leadership position in capital markets. Unless reversed, this may hurt Main Street as well as Wall Street. When companies choose to do IPOs outside the United States, they are locating not only investment banking deals, but also jobs, outside our country. A portion of this problem may be attributable to the securities litigation risk of being an American public company.

Our colleague, Senator Schumer, together with Mayor Bloomberg, issued a report on this problem in 2007. It was preceded by work done by Professor Scott of Harvard Law School and his colleagues at the Committee on Capital Markets Regulation. The Schumer-Bloomberg and the CCMR reports called for the SEC to take action.

Last August, a group of prominent academics from across the ideological spectrum wrote Chairman Cox with their concerns about securities class action lawsuits and the implications of such suits for U.S. capital markets and investor protection. This letter expressed concern about the compensatory and deterrence rationales for these lawsuits, as well as the burdens the existing system places on small investors.

The conclusion of these experts is that litigation is effective at driving business and jobs out of the U.S., but is ineffective at deterring actual fraudulent conduct because "settlements almost never come out of the pockets of the managers who allegedly executed the fraud."

Chairman Cox has promised to convene an SEC roundtable to study these and other issues related to the existing securities class

action system. However, little is happening at the SEC, at least as far as we can tell. Do you share the concerns raised by this group of prominent scholars?

In addition, do you support the idea of convening such a roundtable, as proposed by Chairman Cox? If so, will you work with Chairman Cox to schedule it expeditiously?

A.1. Studies have suggested that the leadership position of U.S. capital markets may have eroded, at least to a degree. One reason for this may be that the economies and financial markets of other countries have continued to develop, better positioning such countries to compete against the U.S. It also has been suggested that securities litigation risk may contribute to an erosion of U.S. competitiveness. On the other hand, vigorous but fair enforcement of the federal securities laws can advance transparency and the integrity of U.S. capital markets, thus promoting U.S. capital market competitiveness. I agree with those who believe that it is worth undertaking a careful consideration of the U.S. securities class action system to ensure that the system is effective and efficient. Accordingly, I support efforts such as convening a roundtable to study this issue and, if confirmed, look forward to working with the Chairman and others to do so.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TESTER FROM TROY A. PAREDES

Q.1. Last Wednesday, May 28, 2008, *The Wall Street Journal* ran a front page story entitled, "SEC Will Scour Bear Trading Data" stating that the SEC has an ongoing investigation into "whether there was insider trading or market manipulation of Bear Stearns, people familiar with the matter say."

Without asking for you to comment on the accuracy of the story, as I understand the SEC—nor its nominees should comment on an ongoing investigation—can you tell me whether the SEC should look into the possibility of insider trading and/or market manipulation as it relates to the Bear Stearns situation?

Also, do you believe that the SEC has all of the tools necessary to investigate the possibility of impropriety in a case like Bear Stearns and to a lesser extent Lehman Brothers?

From your perspectives, are the Insider Trading Sanctions Act of 1984, Insider Trading and Securities Fraud Enforcement Act of 1988 and The Securities Exchange Act of 1934 sufficient?

A.1. The SEC has longstanding authority to enforce the federal securities laws against those who engage in illegal insider trading and market manipulation; and Congress has seen fit to enhance the SEC's authority in the past. I believe the SEC should—and does—take seriously allegations of illegal insider trading and market manipulation, as such illegal behavior can result in investor losses and compromise the integrity of the marketplace. This would include the Bear Stearns situation. Of course, it is important that any enforcement decision be based on the facts as they come to light. I have confidence in the ability of the SEC staff to investigate potential illegal conduct. However, there may be room for improvement. If I am fortunate enough to be confirmed, I look forward to learning more about the precise tools the SEC brings to bear when

investigating possible illicit behavior and what additional resources or authorities may be warranted to assist the SEC in fulfilling its responsibility to enforce the federal securities laws.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM TROY A. PAREDES

Q.1. Secretary Paulson's blueprint for a modernized financial regulatory structure, along with other studies, recommends both regulatory and legislative changes to modernize the SEC's oversight of the securities market. That means addressing the increasing global nature of the financial marketplace, speeding up the rule approval process, and updating and harmonizing existing statutes governing brokers and investment advisors to reflect current market conditions and client needs. The SEC is currently working on a broad array of issues including mutual recognition, principal trading relief, and short selling. What are the two or three issues you believe the SEC needs to resolve this year to enhance the competitiveness of our capital markets?

A.1. An efficient and effective regulatory structure that can respond to new challenges and take advantage of new opportunities is vital to ensuring the competitiveness of U.S. capital markets and that the U.S. continues to be the global leader in finance. A strong financial system promotes the interests of investors, companies, employees, and communities, as well as other stakeholders. The Treasury Department's "Blueprint for a Modernized Financial Regulatory Structure" is a constructive starting point for discussion. If confirmed, I look forward to the opportunity to participate in the ongoing consideration of how to improve the U.S. financial regulatory structure, and I look forward to working with others, including members of the Banking Committee, to ensure that the U.S. financial system remains strong and resilient when challenged.

As the question suggests, there are a number of areas that deserve careful attention. Among these, let me highlight two. First, the SEC should continue to consider the options for adopting international financial reporting standards (IFRS) for U.S. issuers and, in so doing, assess a roadmap for proceeding. That said, it is important not to rush, but to give this complex issue due deliberation to ensure that there are high-quality accounting standards and that any transition to IFRS is manageable. Second, so-called "gatekeepers" play a central role in U.S. capital markets. Accordingly, it is important that the SEC move expeditiously, but prudently, to reassess the role of credit rating agencies in the securities law system and to improve the regulatory regime governing credit rating agencies themselves. To this end, the SEC has already embarked on an important new rating agency rulemaking in the aftermath of the recent credit market turmoil.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM ELISSE B. WALTER

Q.1. *Regulation of Investment Banks:* The current credit crisis and its impact on the markets, including the failure of Bear Stearns, has raised issues regarding the effectiveness of the Commission's

regulation of investment banks, as well as other market participants. If confirmed, will you carefully review the Commission's regulatory oversight of the investment banks and support adding regulations and adding staff resources if necessary to protect investors and promote the stability of the markets? If so, what steps do you feel the Commission should take?

A.1. If confirmed, I will carefully review the Commission's regulatory oversight of investment banks and other market participants and would support adding regulations and staff if necessary to protect investors and promote market stability. The Commission should vigorously oversee investment banks under the Consolidated Supervised Entities program. In particular, the Commission should evaluate the risk management and financial stability of investment banks and take the steps necessary to address the systemic issues raised by the events of recent months.

Q.2. *Investment Advisors:* The RAND Study on "Investor and Industry Perspectives on Investment Advisers and Broker-Dealers" reported that there is widespread confusion among investors about key differences between investment advisers and broker-dealers in their duties (advisers have a fiduciary duty), their titles and their services.

What would you do as a Commissioner to reduce or eliminate this confusion for the protection of investors? For example, what actions would you support so that investors better understand the differences pursuant to which investment advisors owe them a fiduciary duty while broker-dealer registered representatives observe a standard of suitability?

A.2. The current regulatory divide between the regulation of broker-dealers and the regulation of investment advisers does not serve the investing public well. Public investors should not bear the burden of understanding the current differences in regulatory standards. This is an area where, in my view, disclosure may not be sufficient. The Commission should implement or propose the implementation of changes in the regulatory standards so that the application of regulation will be driven by what an investment professional does, not the label that applies to his or her profession.

Q.3. *Cooperation with State Securities Regulators:* State securities regulators are vital to the protection of investors. They have made important contributions identifying and prosecuting misleading and fraudulent stock analyst recommendations, leading to the Global Settlement; late trading and market timing involving mutual funds, leading to enforcement actions and regulatory reforms; and in responding to retail investor concerns. Would you encourage strong cooperation by the Commission with State securities regulators?

A.3. I endorse and would encourage strong cooperation by the Commission with State securities regulators.

Q.4. *Mutual Recognition:* The Commission is considering whether to implement mutual recognition, in which citizens in the U.S. could purchase or trade securities directly with foreign broker-dealers or on foreign exchanges and be regulated for many purposes by the foreign regulator instead of the SEC. The Commission an-

nounced that it has begun discussions with Australia, and such discussions are intended to enhance regulatory cooperation and investor access to foreign capital markets, and is making a schedule for a process intended to open discussions with Canada.

When considering a mutual recognition framework that would allow U.S. citizens to directly invest in foreign markets and be solicited by foreign brokers, what factors do you feel the SEC should take into account? For example, do you feel that the Commission should find comparability not only of laws but also of a foreign regime's enforcement and inspection resources, independence from the government, respect for the rule of law, culture of fair dealing, tradition of investor protection, impartial regulation over market participants, or other factors?

A.4. There is a wide array of steps that can be taken to make it easier and less expensive for U.S. investors to invest in foreign securities and those steps have varying impact. It is critical that any steps taken not undercut the protections afforded to investors. The impact of any steps to be taken under the rubric of mutual recognition depends on the standards applied in determining comparability, as well as the scope and the particulars of the proposal. For example, the Commission should carefully consider the range of investors impacted and the extent to which enforcement and interpretation affect comparability. In addition, there are steps other than mutual recognition that should be considered. I look forward to learning more about the specifics of the Commission's current steps toward mutual recognition.

Q.5. *Adequacy of the SEC Budget:* A key factor in maintaining investor confidence is having a Federal securities regulator that is fully funded. Do you feel that the President's proposed SEC budget for FY 2009 at $913 million is adequate to effectively perform its functions, including ramping up the regulation of credit rating agencies, investigating conduct related to the sub-prime crisis, reviewing corporate disclosures, overseeing rules for new markets and other important activities? If you are confirmed and, as a Commissioner, find that more resources are needed, will you support an agency request for additional funding?

A.5. I do not yet have an opinion as to the adequacy of the Commission's budget. However, if I am confirmed and find that more resources are needed, I will support an agency request for additional funding.

Q.6. *International Convergence of Financial Reporting Standards:* The SEC is currently considering allowing U.S. companies to file financial statements using the International Financial Reporting Standards, which would give them a choice between GAAP and IFRS. Such a change at this time raises serious questions.

Q.6.A. While the FASB and IASB have undertaken efforts at convergence and made important progress, do you feel there are at present still significant differences between GAAP and IFRS?

A.6.A. There are still differences between GAAP and IFRS. If confirmed, I will delve into this issue to reach a conclusion as to the significance of the differences and the import of those differences for Commission action.

Q.6.B. Would investors, particularly retail investors, be able to make accurate comparisons for purposes of making investment decisions between U.S. companies reporting material financial information in GAAP and in IFRS at this time?

A.6.B. It is difficult for retail investors to compare financial statements prepared under differing accounting standards. In determining whether to move forward with IFRS for U.S. companies, the Commission should consider whether disclosure can help to solve this problem.

Q.6.C. If given a choice between GAAP and IFRS, do you feel that there are circumstances under which a public company could choose one standard above the other to enhance the representation of its finances to investors? If so, do you feel that such a choice is consistent with the Commission's investor protection mission?

A.6.C. Giving companies a choice between GAAP and IFRS does present the possibility that a company would choose one standard over another to enhance the representation of its financial condition. However, the choice should be offered only if both sets of standards can fairly represent the financial position of an entity. If companies were permitted to choose between the two sets of accounting standards, the Commission should consider a requirement that the companies present several years of past financial statements using the new standard to ensure comparability and mitigate this problem.

Q.6.D. Do you feel that adequate capacity exists today in accounting firms to provide auditing services for all companies that might select IFRS, if given the choice, and do you feel such a change would have an impact on the cost of audit fees to public companies, particularly small businesses?

A.6.D. I am concerned about the capacity of accounting firms today to provide auditing services for all companies that might select IFRS. For that reason, the Commission, if it chooses to move forward with IFRS for U.S. companies, should assure that the program is implemented in a fashion that does not strain resources and unduly burden U.S. companies.

Q.7. *Opt-In for Proxy Materials:* A recent SEC new rule requires investors to make individual requests, or opt-in to obtain paper copies of proxy materials from companies in which they own stock. Reportedly, this rule has significantly reduced the number of individual shareholders who vote. The Wall Street Journal in late April reported that of "80 companies that have switched to the electronic model, dubbed e-proxy . . . on average, just 4.6% of individual shareholders voted on company matters using e-proxy, a sharp decline from the 19.2% who voted in the year-earlier period, when the companies sent out traditional paper ballots, according to Broadridge Financial Solutions Inc., which processes proxy votes."

Do you feel the Commission should monitor the impact of this rule and determine whether the opt-in to receive a paper proxy is having an unintended or undue negative impact on shareholder voting participation?

A.7. It is important to facilitate shareholders' exercise of their right to vote. Technological advances should be used to benefit share-

holders. The Commission should monitor the impact of the e-proxy rule and determine whether any change is warranted in light of experience under the rule.

Q.8. *Short Sales in Shareholder Votes:* Some have raised a concern that institutions which hold investors' stock in "street name," such as brokers and banks, may not be able to accurately account for shares that are sold "short" in corporate elections and this could cause problems in producing a reliable shareholder vote count in a close, contested election. Would you assess this concern and seek to take any appropriate action?

A.8. It is important that shareholder vote counts be reliable, particularly in close, contested elections. The impact of activity in street name stock on corporate elections and the accuracy of tallies should be evaluated and appropriate action should be taken to address any problem.

Q.9. *SEC–CFTC Memorandum of Understanding:* In March 2008, the SEC and CFTC signed a Memorandum of Understanding (MOU) to enhance coordination and facilitate review of new derivative products. SEC Chairman Christopher Cox and Acting CFTC Chairman Walt Lukken jointly stated portfolio margining is an issue that should be addressed under the MOU.

Do you support addressing the customer protection issues presented by cross-margining futures and securities in customer portfolio margin accounts in the MOU process? If so, do you feel analyzing and potentially resolving this should be an important priority among the issues to be considered under the MOU?

A.9. It is important to address the customer protection issues raised by cross-margining futures and securities products in customer portfolio margin accounts. I do not, however, currently have a view as to whether the MOU process is the most appropriate manner in which to address those issues.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM ELISSE B. WALTER

Q.1. Please explain if you believe the adoption of IFRS by U.S. companies meets the requirements of Sarbanes Oxley for such companies to use professional accounting standards established by an independent standard setting body?

A.1. I look forward to addressing the important and complex questions presented by the evolution of IFRS and the potential adoption of IFRS by U.S. companies, if I am confirmed. Among other questions, the funding, governance, accountability and practicality of operations of the standard setting body are significant issues. The legal question whether IFRS are professional accounting standards established by an independent standard setting body is one of the questions that I would examine closely.

Q.2. Financial services firms have become much more complex, and the markets have likewise become more complex. We have many non-bank entities engaging in banking activities and other players active in the markets, such as hedge funds. Many of these newer

players remain unregulated, or are only lightly regulated, leaving some gaps in oversight throughout the financial system.

What should the SEC be doing to better review risks in a more complex and global financial system? How can the SEC have a better handle on emerging risks because of this complexity?

A.2. The differing regulatory systems applicable to players in the financial system—and particularly the differing information about financial market participants available to regulators—present great challenges for the SEC and its fellow regulators. It is critical that the Commission exercise fully and vigorously the authority it has over many capital markets participants. It is equally critical that the SEC work closely with its fellow regulators—who have access to information about other market participants—sharing information and analysis to develop as full a picture of emerging risks as possible.

Q.3. What is your perspective on the Treasury's "Blueprint For A Modernized Financial Regulatory Structure "reform as it relates to the SEC?

A.3. I believe that the Treasury Blueprint raises important issues to be addressed by Congress and financial regulators. It is a good starting point for discussion. The issues raised with respect to the SEC, such as potential merger with the CFTC, deserve careful attention. I believe strongly that any change in regulatory structure must preserve the important roles that the SEC plays in protecting investors and maintaining fairness in the securities markets.

Q.4. What is your viewpoint on a non-binding shareowner's right to vote on a company's executive compensation program?

A.4. I believe that there are non-binding shareholder resolutions concerning executive compensation that, at the present time and under current rules, should be included in the company's proxy materials and presented to the shareholders for a vote.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CARPER FROM ELISSE B. WALTER

Q.1. There is evidence that the U.S. has experienced some erosion in its leadership position in capital markets. Unless reversed, this may hurt Main Street as well as Wall Street. When companies choose to do IPOs outside the United States, they are locating not only investment banking deals, but also jobs, outside our country. A portion of this problem may be attributable to the securities litigation risk of being an American public company.

Our colleague, Senator Schumer, together with Mayor Bloomberg, issued a report on this problem in 2007. It was preceded by work done by Professor Scott of Harvard Law School and his colleagues at the Committee on Capital Markets Regulation. The Schumer-Bloomberg and the CCMR reports called for the SEC to take action.

Last August, a group of prominent academics from across the ideological spectrum wrote Chairman Cox with their concerns about securities class action lawsuits and the implications of such suits for U.S. capital markets and investor protection. This letter expressed concern about the compensatory and deterrence ration-

ales for these lawsuits, as well as the burdens the existing system places on small investors.

The conclusion of these experts is that litigation is effective at driving business and jobs out of the U.S., but is ineffective at deterring actual fraudulent conduct because "settlements almost never come out of the pockets of the managers who allegedly executed the fraud."

Chairman Cox has promised to convene an SEC roundtable to study these and other issues related to the existing securities class action system. However, little is happening at the SEC, at least as far as we can tell. Do you share the concerns raised by this group of prominent scholars?

In addition, do you support the idea of convening such a roundtable, as proposed by Chairman Cox? If so, will you work with Chairman Cox to schedule it expeditiously?

A.1. It is important both that the U.S. retains a leadership position in the capital markets and that there are effective remedies for investors who have been victims of violations of the U.S. securities laws. The impact of securities litigation on our capital markets is a hotly debated issue and, if confirmed, I would welcome the opportunity to obtain further information and analysis from academics, practitioners and others. I would be happy to work with Chairman Cox on a roundtable and on any other appropriate steps.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TESTER FROM ELISSE B. WALTER

Last Wednesday, May 28, 2008, the Wall Street Journal ran a front page story entitled, 'SEC Will Scour Bear Trading Data' stating that the SEC has an ongoing investigation into "whether there was insider trading or market manipulation of Bear Stearns, people familiar with the matter say."

Q.1. Without asking for you to comment on the accuracy of the story, as I understand the SEC—nor its nominees should comment on an ongoing investigation—can you tell me whether the SEC should look into the possibility of insider trading and/or market manipulation as it relates to the Bear Stearns situation?

A.1. I believe that the SEC should look into the possibility of violations of the securities laws with respect to Bear Stearns.

Q.2. Also, do you believe that the SEC has all of the tools necessary to investigate the possibility of impropriety in a case like Bear Stearns and to a lesser extent Lehman Brothers?

A.2. To the best of my knowledge, the SEC does have the tools necessary to investigate the possibility of impropriety in such a case. If confirmed, I will analyze possible cases of impropriety closely to determine whether the Commission has sufficient tools to address violations of the securities laws and recommend that the Commission seek additional authority if needed.

Q.3. From your perspectives, are the Insider Trading Sanctions Act of 1984, Insider Trading and Securities Fraud Enforcement Act of 1988 and The Securities Exchange Act of 1934 sufficient?

A.3. I currently believe that the Commission has adequate tools to address insider trading and market manipulation but will review this issue if confirmed.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM ELISSE B. WALTER

Q.1. Secretary Paulson's blueprint for a modernized financial regulatory structure, along with other studies, recommends both regulatory and legislative changes to modernize the SEC's oversight of the securities market. That means addressing the increasing global nature of the financial marketplace, speeding up the rule approval process, and updating and harmonizing existing statutes governing brokers and investment advisors to reflect current market conditions and client needs. The SEC is currently working on a broad array of issues including mutual recognition, principal trading relief, and short selling. What are the two or three issues you believe the SEC needs to resolve this year to enhance the competitiveness of our capital markets?

A.1. The competitiveness of our capital markets is a critical issue for our nation and for the SEC. It requires that the Commission consider and resolve or participate in the resolution of a number of complex questions, some of which may require legislation or international agreements and others that can be addressed through Commission rulemaking or other action. The Commission should address these questions in a timely manner, assuring that it takes the proper steps to buttress our competitiveness while also maintaining the high level of investor protection that has been a hallmark of U.S. markets. Given the evolution of the marketplace over the last decade and the events of the last year, I am confident that the SEC, working with other regulators, will be taking prompt action to determine the optimal way in which to assure that the goals of financial service regulation are achieved.

The Commission should move forward in the near future on several matters, such as the elimination of inefficiencies in the self-regulatory organization rulemaking process. In addition, the Commission should develop a plan to address the issues raised by the increasing convergence of the businesses of broker-dealers and investment advisers. If confirmed, I look forward to working on each of these issues.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR DODD FROM DONALD B. MARRON

Q.1. Dr. Marron, the Pew Center conducted a recent survey on Americans' views on not only the economy as a whole, but on their personal well-being. The Washington Post characterized the Pew Centers findings as—and I quote: "Offering the gloomiest assessment of economic well-being in close to half a century, a new survey has found that most Americans say they have not made progress over the past five years as their incomes have stagnated and they have increasingly borrowed money to finance their lifestyles."

Dr. Marron, what economic policies over the past five years do you think led to this failure?

A.1. Our economy enjoyed a period of strong growth from the middle of 2003 through the third quarter of 2007, but then slowed substantially in the fourth quarter as weakness in the housing sector and turmoil in the credit markets spread to the broader economy. Together with recent increases in energy prices, the economic slowdown has created substantial challenges for many families and has weakened assessments of economic well-being.

It is inevitable that the macroeconomy will experience slowdowns from time to time. It is also the case, however, that policy actions could have softened the housing, credit, and energy challenges that are now creating economic concerns for many families.

A key aspect of recent challenges in the housing market is that in the past several years some homeowners entered into mortgages that they did not understand or could not afford. Such problems could have been reduced in the past, and would be reduced in the future, if (a) borrowers received better and more timely disclosure of mortgage terms before closing, (b) mortgage brokers met some minimum qualification standards before they could advise prospective borrowers, and (c) borrowers were qualified for adjustable rate mortgages based on the fully-indexed rate, not just an initial "teaser" rate. Together these policies would have reduced the number of borrowers who ended up in inappropriate mortgages and, as a result, have run into difficulties making their mortgage payments.

Failures by the credit rating agencies stand out among the contributors to the credit market turmoil we have experienced over the past year. In retrospect, the ratings on many complex, structured financial instruments, including mortgage-backed securities, were often too optimistic. Moreover, investors often did not appreciate that a structured security with a particular rating, e.g., AAA, might pose different risks than another security, e.g., a corporate or municipal bond, with the same rating. Strengthening the credit rating process and reducing the potential for conflicts of interest could lessen the potential for a recurrence of these problems in the future.

Rising gasoline prices have been another challenge, eating into family incomes substantially and undermining consumer confidence. As we discussed at the hearing, these increases have primarily been driven by a combination of strong worldwide demand for oil, coupled with limited expansion in supply. In recent years, Congress and the Administration have taken some steps that may soften gasoline price increases—e.g., encouraging alternative transportation fuels and increasing efficiency standards—but more could be done (e.g., expanding domestic petroleum supply).

Finally, it is important to recognize policy successes. Congress and the Administration both deserve credit for the rapid, bipartisan agreement on a fiscal stimulus package early this year. That package should help soften some of the economic challenges now facing American families.

Q.2. Dr. Marron, you mentioned in response to a question from Senator Shelby that over time there will be changes in cars and fuel efficiency due to the high price of oil. We have also seen a

surge in transit ridership recently, with record levels of ridership, which at times are straining the existing capacity of some transit systems. Do you think that transit use and demand for transit is rising due to soaring gas prices? If transit demand remains elevated due to higher gas prices, would this also justify and require increased investment in mass transit to meet the increased demand?

A.2. Yes, I believe that the use of mass transit has increased because of rising gasoline prices. I have not yet seen any definitive econometric studies of the issue, but recent media accounts indicate substantial increases in ridership on some systems. It would be surprising if those increases weren't due, in significant measure, to rising gasoline prices. Mass transit is thus providing an important benefit—softening the blow of higher gasoline prices—to Americans who have been able to make that switch; more Americans have that option today due to support from the Administration and the Congress for new transit investment as authorized in SAFETEA–LU.

Given the recent increase in ridership, it makes sense to continually assess the needs of our transit system. The Administration has proposed more than $1.6 billion for new transit projects for fiscal year 2009. Whether the recent demand increase will require increased investment levels under the next surface authorization will depend on several factors.

First, there will be differences across systems. Some mass transit systems may have been operating below their capacity or may already have expansion plans underway; those systems may be able to accommodate increased demand without increased investment. Other systems, however, may be pushed above their current or planned capacity, in which case new investment could be considered.

Second, a key issue is whether the increased transit demand will persist long enough to warrant long-term investments. If gasoline prices were to fall in the future, for example, the recent growth in demand for transit might reverse. If gasoline prices climb even higher, however, growth in transit demand would likely be even greater.

Finally, some transit system managers may respond to the recent growth in demand by taking steps to reduce usage, such as encouraging employers to stagger employee work hours (thus reducing peak demand). Such steps could moderate pressure on transit system capacity. Transit system planners should balance the impacts of such changes against the costs of any investments to expand capacity.

Q.3. Dr. Marron, at the hearing you indicated that the real-time incoming economic data are not as accurate as is needed to conduct optimal economic policy. Do you believe that there are opportunities to collect better data that would result in better policy decisions? Would the relatively small additional cost to collect this information be worth the potentially large benefits associated with better policy making? As one of the President's economists, will you serve as a voice in the Administration in support of collecting better economic data?

A.3. Yes, I will absolutely be a voice in favor of better economic data; I think that is one of the key roles for any member of the Council of Economic Advisers. I see two basic strategies for improving economic data, both of which I believe should be pursued.

The first strategy is to make more effective use of the data that we already collect. One example would be allowing the Bureau of Economic Analysis (BEA), the Bureau of Labor Statistics (BLS), and the Census Bureau to link their business data (while maintaining confidentiality). Such linking would improve the accuracy and reliability of economic statistics and could also reduce the burdens placed on survey respondents. With Administration support, the Congress took an important step toward facilitating such linkage in 2002 with the passage of the Confidential Information Protection and Statistical Efficiency Act (CIPSEA), which allowed for limited data sharing among BEA, BLS, and the Census Bureau. Full implementation of CIPSEA would require, however, changes to the Internal Revenue Code to authorize BLS to use business tax data which are used currently in the Census Bureau's business list, in the same manner as the other statistical agencies.

The second strategy is to collect more data. One example would be collecting more timely data on the services sector. Today, the United States conducts a complete survey of the services sector—which comprises 55% of economic activity—only once every five years. We collect some services data more frequently (we have quarterly data for service industries that account for 17% of GDP and annual data for a broader group of services that account for 30% of GDP), but for a full 25% of GDP, data are collected only once every five years. The lack of timely data on such a large portion of the economy can make it difficult to identify trends—and changes in trends—that may be important to both policymakers and the private sector. Expanding surveys to cover the entire services sector on both a quarterly and an annual basis would require additional resources, but I believe that the benefits of improved insight into our economy would justify those costs. In addition, there is a need to expand coverage of price statistics in the services sector. There are significant gaps in our coverage of domestic services such as business, educational and medical services, and currently there is virtually no coverage of exported and imported services.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

BOB DOLE
THE ATLANTIC BUILDING
950 F STREET, NW, 10TH FLOOR
WASHINGTON, D.C. 20004

May 13, 2008

Dear Chris,

I understand you plan to meet later this week with Michael Fryzel, the Presidential nominee for Chairman of the National Credit Union Administration (NCUA).

With the ongoing crises in the mortgage lending and real estate markets, more and more credit unions will be facing harder times ahead. In addition to his impressive credentials in the credit union industry, which you are aware of, Mr. Fryzel would bring a capable, reasoned, and no-nonsense approach as Chair of the NCUA.

I hope you can schedule a hearing in the near future to consider Mr. Fryzel's nomination.

Chris, thanks very much for your consideration.

God Bless America,

BOB DOLE

Senator Christopher Dodd
448 Russell Senate Office Building
Washington, D.C. 20510

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June 10, 2008

Hon. Christopher Dodd
Chairman
U.S. Senate Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Re: U.S. SEC Commissioner Nominations

Dear Chairman Dodd:

We are writing today on behalf of the 5,200 members of the Security Traders Association (STA) to express the Association's strong support of President Bush's nominations of: Luis Aguilar of McKenna, Long & Aldridge LLP; Troy Paredes of Washington University School of Law; and Elisse Walter of FINRA as SEC Commissioners. We hope their nominations secure quick approval.

For those of us engaged daily in the equity trading that fuels the U.S. economy, the years ahead will continue to pose challenges involving numerous issues that will directly impact investors. The equity securities industry continues to be challenged by regulatory, technological, competitive and overall economic forces that require considered thought from the SEC. This is critical in maintaining the ongoing health and vitality of our industry.

STA supports a balance of regulation and competition as the key to sustaining U.S. competitiveness in an increasingly global trading environment. U.S. investors need a Commission with a breadth and depth of experience, expertise, and insight, and with an ability to work with industry participants to assure that the U.S. markets retain their rightful place as the envy of the world.

We believe that the nominees will bring these qualities of experience, expertise, and insight that the Commission needs and that investors deserve.

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