MEMORANDUM

To: Public Comment Files on Dodd-Frank Act Implementation

Title IV, Regulation of Advisers to Hedge Funds and Others: Systemic Risk Reporting; Exemptions for Certain Advisers; Family Office Exclusion

Title VI, Improvements to Regulation of Bank and Savings Associations Holding Companies and Depository Institutions: Prohibitions on Proprietary Trading and Certain Relationships with Hedge Funds and Private Equity Funds

Title VII, Wall Street Transparency and Accountability: Definitions; Mandatory Clearing of Security-Based Swaps, End User Exception and Security-Based Swap Clearing Agencies

Title IX, Investor Protection and Improvements to the Regulation of Securities: Study – Fiduciary Duty

Public Comment File on Work Plan for Global Accounting Standards

Public Comment File on Concept Release on Equity Market Structure

From: Jennifer B. McHugh

Re: Meeting with the Financial Services Roundtable (the "Roundtable")

On October 1, 2010, Chairman Mary L. Schapiro met with members of the Financial Services Roundtable, where she provided an overview of the SEC's Dodd Frank Act implementation efforts, including those related to new SEC responsibilities with respect to private fund advisers; the SEC's study on the obligations of broker-dealers and investment advisers; the SEC's upcoming swaps-based rulemaking; and the implementation of the prohibitions on financial firms of proprietary trading and certain relationships with hedge funds and private equity funds. Chairman Schapiro encouraged the Roundtable members to submit comment letters on these Dodd-Frank implementation projects through the SEC's public comment process. In addition, Chairman Schapiro reiterated her focus on addressing market structure issues. In response to a question, Chairman Schapiro discussed the role of FASB and international accounting convergence standards. Chairman Schapiro's talking points are attached.

Chairman Schapiro was joined by SEC Chief of Staff Didem Nisanci and Senior Advisor to the Chairman Jennifer McHugh.

The following members of the Roundtable were present [list provided by the Roundtable]:

Richard K. Davis, U.S. Bancorp
James E. Rohr, PNC Financial Services Group, Inc.
Christopher M. Condron, AXA Financial, Inc.
James M. Wells, III, SunTrust Banks, Inc.
George Borst, Toyota Financial Services
Robert P. Kelly, The Bank of New York Mellon Corporation
Ellen Alemany, RBS America
Walter A. Bell, Swiss Re America Holding Corporation
William H. Cary, GE Capital
Ellen Costello, Harris Bankcorp, Inc.
Russell Goldsmith, City National Corporation
Michael J. Heid, Wells Fargo Home Mortgage
Kelly S. King, BB&T Corporation
Ronald P. O'Hanley, Fidelity Investments
Thomas J. McInerney, ING Insurance Americas
Aubrey B. Patterson, BancorpSouth, Inc.
Robert W. Selander, MasterCard Worldwide
J. Michael Shepherd, BancWest Corporation
Harris H. Simmons, Zions Corporation
James C. Smith, Webster Bank, N.A.
Norman R. Sorensen, Principal Financial Group
Masaaki Tanaka, UnionBanCal Corporation
Frederick H. Waddell, Northern Trust Corporation
Thomas R. Watjen, Unum
Thomas J. Wilson, Allstate Corporation
Robert Wolf, UBS
Richard J. Bielen, Protective Life Corporation
Jeffrey N. Brown, Webster Bank, N.A.
Richard S. Dziadzio, AXA Financial, Inc.
Stefan Gavell, State Street Corporation
Richard C. Hartnack, U.S. Bancorp
Pamela A. Joseph, U.S. Bancorp
Maura A, Markus, BancWest Corporation
Richard B. Payne, Jr., U.S. Bancorp
Gerald P. Plush, Webster Bank, N.A.
Don Neal, Leading Authorities
Jim Clifton, Gallup
Jim Sivon, Barnett, Sivon & Natter, P.C.
Greg Wilson, GP Wilson Consulting

Talking Points
Financial Service Roundtable
Mary L. Schapiro
Chairman, U.S. Securities and Exchange Commission
Washington, DC
October 1, 2010

Introduction

- Since becoming Chairman, my focus has been on finding ways to reform the way we do things at the SEC – to make it a better, sharper, more responsive agency.
  - We've brought in new leadership, streamlined our procedures, engaged in an active rulemaking program, and begun to break down silos so that there's greater coordination among our divisions.
- But we've also been hard at work in two critical areas that are of particular importance right now:
  - Helping to shape and now to implement the Dodd-Frank Act;
  - And, working on ways to improve the resiliency and fairness of our markets – the need for which was highlighted on May 6th when the market suddenly dropped.
- So I thought I'd spend some time touching upon those areas.

A More Effective SEC

- One of my most important jobs as Chairman has been to raise the agency's performance across the board -- creating a more agile structure, building a more effective team and becoming more technically sophisticated.
- We began by bringing in a team of new dynamic leaders who shared my commitment to collaboration across organizational lines.
- We restructured to better reflect the challenges we face
  - Just as we restructured and re-energized our Enforcement program last year, we are now in the midst of a similar reform of the Examination program. The results

have been a greater ability to move quickly, more experienced people on the front lines, better use of limited resources and personnel.

    - In addition, we created a new Division of Risk Strategy and Financial Innovation, to keep up with the latest products and trading strategies.

- We're improving the quality of an already talented and dedicated team.

    - In an agency that historically has been dominated by lawyers, we have focused on hiring economists, portfolio managers, traders and other industry professionals.

    - We're upgrading technology to improve data management and we're building a new database for tips and complaints.

    - We're investing in IT that allows us to track terabytes of data we gather every month far more efficiently.

- And, we also continue to advance a rulemaking agenda that – while considering the needs of all stakeholders in the financial markets – focuses first on investor protection and fair markets for all investors. We've adopted or proposed more than a dozen rules ranging from creating a uniform audit trail and imposing new custody controls – to improving target date funds and corporate filings.

- Together, these internal reforms and investor-focused rulemakings have significantly strengthened our ability to protect investors, encourage capital formation, and support the growth of the American economy.

<u>Dodd Frank</u>

- Of course, we have also been quite active of late with the Dodd-Frank Act. That Act requires us to do more than 100 rulemakings, establish 5 new offices, and conduct 20 studies.

- I wanted to highlight a few areas of Dodd-Frank implementation that are particularly significant and I expect, of interest to you.

IA/BD Study and Potential Follow-On Rulemaking

- One area of particular interest relates to the standards of conduct applicable to broker-dealers and investment advisers.

    - The SEC is charged with doing a study on the varying obligations of broker-dealers and investment advisers.

    - In addition, the Act gives us rulemaking authority to establish a uniform fiduciary standard of care for broker-dealers and investment advisers following the study.

- Already we received over 3,000 public comments on this issue, including one from the Roundtable.

    - As pointed out in the Roundtable's letter, one of the challenges presented in this debate is how to impose a meaningful uniform fiduciary standard of conduct on broker-dealers and investment advisers, within the varying business models of these financial professionals. In addition, we need to keep in mind that the ultimate goal is to enhance retail investor experiences, not deprive them of choice.

    - Finally, as your letter points out, a fiduciary standard means nothing without regular examination and effective enforcement.

Private Fund Adviser Registration

- Another significant area of responsibility for the SEC under the Act involves our oversight of private fund managers – hedge funds – beginning in July 2011.

- The mandated registration and systemic risk reporting by private fund managers represents a strong signal from Congress that enhanced oversight of the activities of private fund managers is necessary to enhanced market stability.

- We also will be issuing rules to gather data from private fund managers for systemic risk and investor protection purposes. The statute provides a fairly detailed list of required information.

- We have been working closely with the FSA to coordinate our information and data demands to lessen the burden on funds when reporting becomes effective.

- Finally, we will be proposing shortly, definitions for Venture Capital Funds and family Offices, which are exempted from registration.

OTC Derivatives

- And a third focus of the Act involves OTC derivatives. Over the next twelve months:

  - We will continue working with the CFTC to effectuate the mandatory clearing and trading requirements, outline the governance and ownership options for securities based swap clearing agencies, delineate how Swap Execution Facilities will operate in order to satisfy the "multiple to multiple" requirements of the Act and establish definitions and regulatory regimes for swap dealers and Major Swap Participants.

  - And we will be working with other regulators to establish capital and margin requirements, and "real-time" public reporting.

- And we are working to ensure that all swaps users benefit from the emergence of a swaps market structure that brings the benefits that result from a centrally cleared market.

  - We are exploring ways to encourage robust competition, broad access, liquidity, and increased transparency.

- Your comments will be particularly critical as we develop rules to implement swaps market changes.

  - The Roundtable itself has already submitted comments on the definitions that will become part of this emerging regulatory regime.

- Another area of early focus is the implementation of the Volcker Rule. The Financial Stability Oversight Council has 4 more months in which to finalize its study and make recommendations to the regulators. At the SEC, we are very focused on how to define market making and underwriting activities which are permitted under the rule so long as they do not exceed the "expected near term demands of customers or counterparties". Similarly, certain hedging activities are permitted and we will need to define those.

- I think some of the most important issues here relate to the fact that these permissible activities in fact, become non-permissible, if they would result in a material conflict of interest between the bank and its customers or counterparties.

Market Structure

- In the very near term, the staffs of the SEC and CFTC will issue their report outlining what happened on May 6th.
    - It required an extraordinary amount of data analysis, in-depth interviews with 40 market participants and synching up data among dozens of trading venues.

- The devastating impact of May 6 really required that we take immediate steps to address the symptoms even before we clearly understood what the disease was.
    - We quickly worked with the exchanges to develop a pilot program of circuit breakers for S&P 500 and Russell 1000 stocks and many ETFs — circuit breakers that provide a trading pause if prices move by 10 percent or more within a five-minute period. This allows time for market participants to regroup and assess the value of a stock.
    - And we approved Exchange rules that give objective criteria on when trades will be broken as a result of aberrant prices.

- The events of May 6 highlight the need for the review of our market structure that we launched nearly a year ago. It's a review intended to ensure that our markets are as fair and efficient as possible.

- Going forward we're looking at:
    - The pros and cons of imposing market maker obligations on high frequency traders;
    - Elimination of Stub Quotes;
    - The impacts of the strategy of submitting large volumes of orders only to later cancel them, sometimes called quote stuffing;
    - A limit up/limit down procedure that would directly prevent trades outside specified parameters; and
    - Data integrity and latency issues.

- The structure of today's markets undoubtedly offers many advantages. And, we should not attempt to turn the clock back to the days of trading crowds on exchange floors. But we must carefully consider whether our market structure rules have kept pace with the new trading realities.

Conclusion

- So I think it is clear that we have a good deal of work on our plate, but I think we’re up for the job.

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