

Progressive Chief Financial Officer Plenary Call: April 1, 2009

Overview

The Center for State Innovation (CSI) convened a call for state CFOS to follow up on the Chief Financial Officers Roundtable hosted by CSI in February. The call offered an update on, and discussion of, federal efforts to reform regulation of the financial sector, introduced CFOs and staff to White House liaison Michael Blake, Deputy Associate Director in the Office of Intergovernmental Affairs (full contact info below) and discussed next steps for cooperation.

Regulation of the Financial Market

Damon Silvers, Vice-Chair of the TARP Oversight Committee, offered some thoughts about the regulatory reform of the financial sector. According to Silvers, the Treasury Department currently wants to institute stronger regulations for sectors of the market that escape substantive scrutiny like hedge funds and the shadow capital market. Secretary Geithner has expressed a desire to create a systemic risk regulator with resolution authority over large financial entities, but it remains unclear which agency will fill this role and what type of jurisdiction it will have.

Silvers noted that the Obama Administration is beginning to fill key positions in regulatory agencies. He mentioned specifically Mary Shapiro who is now Chair of the SEC and Michael Barr who will be appointed to be Assistant Secretary of Treasury for Financial Service. Silvers believes this signals the Administration's desire to insert consumer protection advocates in prominent positions within the regulatory structure.

The Congressional agenda for reform is similar across the House and Senate. Both Barney Frank of the House Financial Services Committee and Chris Dodd of the Senate Committee on Banking, Housing and Urban Affairs want to pass legislation that addresses systemic risk and governs mergers of financial entities. Chairman Frank, however, believes that the merger legislation will be controversial and therefore intends to split the legislation to ensure passage of the systemic risk portion, while Senator Dodd believes that there is only enough political will to pass one bill and so intends to pass all regulatory reform in one package.

State representatives expressed a number of concerns with the process. Foremost among these questions was a concern that the current discussions about systemic risk overemphasize the economic health of large financial institutions at the expense of the health of smaller institutions and the system as a whole. State CFOs are concerned that the failure of smaller institutions within a state could snowball into a systemic failure. While CFOs have raised this issue with regulatory offices in Washington, their impression was that these agencies do not believe that creating a collateral pool to back up public assets was a priority.

Silvers suggested that the Federal Government has been preoccupied with dealing with sick financial institutions and it has been difficult for policy makers to understand the full scope of the issue. To this point they haven't had the time to focus on market structures. CFOs could be heard on this issue if they wished to be, but that they should first talk to FDIC about the full scope of the crisis and FDIC's role in a solution so that they know the lay of the land. Nevertheless, Silvers admitted that there is a danger that

the new regulatory system would focus on the safety and soundness of large financial institutions at the expense of state pension funds.

The group also discussed sending a previously-circulated letter to Speaker Pelosi and Majority Leader Reid in support of the TARP Oversight Committee recommendations on regulatory reform. States suggested a number of changes and additions to the letter, and the group agreed to consider a new draft of the letter within the next week to be forwarded both to Congressional leaders and to the Administration via Mr. Blake. Silvers agreed that the contents of the letter were still relevant to the debate, and that state CFO support would be welcome.

Introduction to White House Liaison

The call also introduced participating CFOs to Michael Blake who is White House liaison to State Treasurers. Mr. Blake extended an invitation to state CFOs to participate in discussions involving ARRA implementation and regulation of the financial market. CSI agreed to both distribute Mr. Blake's contact information and set up a longer introductory call for CFOs in the near future.

Next Steps

CSI agreed to follow up with state CFOs on a number of further requests:

1. Disseminate contact information for White House Liaison Michael Blake, and set up a call with Blake to answer CFO questions and take CFO comments. Full contact information for Mr. Blake is as follows:

Michael A. Blake
Deputy Associate Director
Office of Intergovernmental Affairs
202-503-5649 cell
202-456-4772 office
mblake@who.eop.gov

CSI will be in touch regarding scheduling a follow-up call with Mr. Blake.

2. Develop, in conjunction with state CFO offices, letter(s) of support for the TARP Oversight Committee recommendations on regulatory reform. A version is attached which attempts to address some of the concerns expressed.
3. Schedule a call as soon as possible (likely early next week) in which California can outline its proposal for federally insured short-term borrowing.
4. Schedule future follow up briefings/calls on:
 - a. Briefing with FDIC to discuss the federal government's response to systemic risk, and the potential for a collateral pool to back up public assets.
 - b. Ratings Agency Reform
 - c. Progress of New Jersey RFI on investment in infrastructure development

- d. Pension fund investment in TARP and TALF
- e. State CFO interaction with the American Recovery and Reinvestment Act
- f. Federal infrastructure bank proposal