

April 2, 2009

The Honorable Nancy Pelosi  
Speaker of the House  
US House of Representatives  
H-232, US Capitol  
Washington, DC 20515

The Honorable Harry M. Reid  
Senate Majority Leader  
United States Senate  
522 Hart Senate Office Bldg  
Washington, DC 20510

Dear Speaker Pelosi and Majority Leader Reid:

As the Treasurers and CFO's of states that account for nearly half of the US economy, we feel that it is vitally important to both our states and the national economy to address the root causes of our current economic crisis by fixing the current financial regulatory system, which everyone concedes failed to effectively manage risk, require sufficient transparency, and ensure fair dealings in the run-up to the recent market collapse.

We thank you for your leadership on the issue of regulation of the financial markets, and in particular for setting up the TARP Congressional Oversight Panel. And we now urge you to adopt the recommendations of that panel as set forth in the Special Report on Regulatory Reform, Modernizing the American Financial Regulatory System: Recommendations for Improving Oversight, Protecting Consumers, and Ensuring Stability, released January 2009.

Those recommendations include, in brief: (1) identifying and regulating financial institutions that pose systemic risk; (2) limiting excessive leverage in American financial institutions; (3) modernizing regulatory supervision of the "shadow financial system," which includes the derivatives and mortgage-backed securities markets that were at the root of the current economic crisis; (4) creating a new system for federal and state regulation of mortgages and other consumer credit products; (5) creating an executive pay structure that discourages excessive risk-taking; (6) reforming the current credit rating system, including the failure of ratings agencies to account for the extremely low default rate of municipal bond issuers; (7) working with US foreign partners to establish a global financial regulatory floor; and (8) starting now on contingency planning for the next financial crisis so that we are not caught unprepared again.

As you know, the United States now faces its worst financial crisis since the Great Depression. It is critical that the lessons of that crisis be studied and acted upon to restore a proper balance between free markets and the regulatory framework necessary to ensure the operation of those markets to protect the economy, honest market participants, and the public. We believe that the recommendations contained in the Special Report on Regulatory Reform set out a framework for doing so.

Sincerely,

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