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ICI President Recommends a Stronger SEC and an Effective ‘Systemic Risk Council’

Washington, DC, July 17, 2009 - Investment Company Institute President and CEO Paul Schott Stevens, intestimony before the U.S. House Financial Services Committee, applauded Congress’ and the Obama Administration’s continued financial regulatory reform efforts, and offered ICI’s suggestions for strengthening the Securities and Exchange Commission (SEC), closing regulatory gaps, and fashioning an effective approach to systemic risk regulation that will better protect investors and the financial system generally.

“It is imperative that our financial regulatory system works well to protect investors and to foster competitive and efficient capital markets. Like other stakeholders, we have been thinking for much of the last year about how to revamp our current system so that our nation emerges from this crisis with stronger, well-regulated financial institutions operating within a fair, efficient, and transparent marketplace,” said Stevens. “The outcome of these reform efforts will have a direct and lasting impact on the future of our financial system.”

As Congress looks to improve capital markets regulation, Stevens urged lawmakers to join the Obama Administration in preserving the SEC’s role as the regulatory standard setter for funds and their service providers.

Throughout the financial crisis, “the regulatory structure that governs funds has proven remarkably resilient,” Stevens said. “As a result of New Deal reforms that grew out of our nation’s last major financial crisis, mutual fund investors enjoy significant protections under the Investment Company Act of 1940 and other securities laws.” The disciplines applied in core areas of fund regulation—such as daily mark-to-market valuation, tight restrictions on leveraging, clear and prominent risk disclosure, independent custody, oversight by independent directors, and prohibitions on affiliated transactions—have served fund investors well, Stevens said, and “recent experience suggests that policymakers should consider extending some of these same disciplines to other marketplace participants.”

Stevens also endorsed the Administration’s goal of strengthening the SEC’s role, particularly to close regulatory gaps. Stevens testified that the SEC should have clear authority to oversee hedge fund advisers, to increase transparency and reduce counterparty risk of over-the-counter derivatives, and to ensure that investors have timely access to relevant and reliable information about municipal securities offerings.

Like the Administration and many in Congress, Stevens strongly supports the concept of addressing systemic risks to the financial system. Stevens continues to advocate the establishment of a “Systemic Risk Council,” similar to the National Security Council. This council would be supported by an independent staff to coordinate and direct the government’s response to identified risks. With the Secretary of the Treasury, the Federal Reserve Chairman, and the heads of other banking and capital market regulators as members, the proposed council would bring advantages of flexibility and the ability to draw on the expertise of all the regulators and could be established and functioning in short order.

For more information on ICI testimony and proposals on financial service regulatory reform, visit the ICI’sresource page.