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(MONTGOMERY, ALABAMA (December 11, 2008) Joseph P. Borg, Alabama Securities Commission (ASC) Director highlighted the need for improved oversight through better risk assessment and interagency communication at NASAA's Financial Services Regulatory Reform Roundtable press conference and webcast in Washington D.C. today.

The North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico. The Alabama Securities Commission is an active member of NASAA, ASC Director Borg was elected and served as President for NASAA twice and presently holds the positions of Ombudsman, Chair of the International Committee, and member of the Board of Directors.

This event was moderated by NASAA President and Colorado Securities Commissioner Fred Joseph, the roundtable highlighted NASAA's five core principles of regulatory reform and offered specific recommendations for building a collaborative, efficient, comprehensive and strong system of financial services regulation. Participants include: Denise Voigt Crawford, Texas Securities Commissioner and NASAA President-elect; Tanya Solov, Illinois Securities Department Director; Melanie Senter Lubin, Maryland Securities Commissioner; Joseph P. Borg, Alabama Securities Commission Director; and James Ropp, Delaware Securities Commissioner.

Summary of Joseph P. Borg's remarks at NASAA's Financial Services Regulatory Reform Roundtable:

If the current goal of Congress, the incoming administration, federal and state regulators, and industry participants is to create an effective and efficient financial services regulatory system then we must improve our existing tools and undertake to design and create new techniques and systems to detect and monitor risk in the financial markets. The vacuum, or "gap", in financial regulation which led to the current crisis -- the lack of understanding and lack of regulation of products created from the consolidation and creative expansion in the financial services sector ----that gap must be closed. From the current financial crisis, we have discovered that an enormous amount of capital is traded through esoteric investment instruments on opaque financial markets that are essentially unregulated. This situation requires that our system become more comprehensive and transparent so that all sectors of the financial markets, instruments, and participants----from derivatives to hedge funds—are subject to effective information analysis and regulation---- in order to manage "risk" in all financial markets.

Historically, our existing complimentary structure of state, federal, and industry regulation of the financial markets has generally worked well—but now suffers from inefficiencies and lack of empirical coordination and requires horizontal inter-agency coordination unfettered by turf or 'race to media' battles or protectionism of the particular agencies' financial sector.

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The solution however, may not be, as some have proposed, centralization of interagency coordination at the highest levels of government, but instead clearer inter- and intra-agency guidance. The goal must be truly horizontal interagency planning performed virtually simultaneously.

We must replace the current ad-hoc, personality-dependent form of information sharing among agencies by establishing and enforcing minimum standards of information sharing at the appropriate agency level. The goal is to protect the sources and methods from which the information derives while still mandating robust information exchange.

For years we have used task force-type initiatives, and working groups designed to facilitate financial sector interagency coordination, but they were generally ad hoc, limited in authority, narrow in scope, and, candidly, ---viewed somewhat suspiciously by most governmental entities, including financial services regulators on both the federal and state levels. As a result, these agencies have had difficulty breaking down barriers in sharing timely and valuable information, difficulty in coordinating and cooperating on forward-looking analyses of certain instruments – such as structured products – which in turn has allowed for gaps in the monitoring and detection of systemic market risk.

Regulators historically have been siloed and, insulated and compartmentalized as they are, were either unable or unwilling to break these barriers to share the information and analysis in their respective possession ---- that information which may have led to an early recognition and resolution of our current financial crisis by creating the ability to see what was 'around the curve'.

***One of the challenges then, is* the lack of government-wide standards for information sharing among federal and state agencies. This problem is exacerbated by the lack of a communications architecture linking those agencies. True horizontal interagency coordination requires equally true horizontal interagency information exchange at all levels.**

Integrating the elements of national and state power by leveraging each agency's core competencies requires knowing which agency does what best and requiring a more than mere voluntary sharing of selective information. This requires an attitude of *mission accomplishment, not pride of ownership, and must become the benchmark for any initiative*.

To facilitate an increase in communication and cooperation perhaps consideration should be given to the establishment of a council of experts to monitor financial activity in all sectors and to recommend corrective action where necessary. The challenge will be to ensure that this new body is effective, independent, and limited in its power. Envision this council as an independent, consultative body, comprised of regulators ---both state and federal, academics, and others with expertise in securities, banking, and insurance.

The council's functions would be (1) to monitor financial activity by collecting and analyzing data; (2) to identify accumulation of risk or the emergence of new products not subject to adequate regulation; and (3) to make recommendations to the appropriate regulators so that corrective action could be taken if necessary.

The council would have no regulatory authority other than carefully defined powers to collect data from industry participants and existing regulators. This new "financial product commission", free from partisan influence and capture, could examine the totality of the data and pass that information on to the various regulatory agencies who are charged with the ultimate policy making decisions in relation to the data.

This proposed council, in conjunction with other groups such as the Presidents Working Group on Financial Markets could be utilized, among other purposes, to improve risk understanding and accounting. Risks can only be effectively managed if systemic risk is defined and measured explicitly. Current GAAP accounting methods are backward-looking by definition and not particularly suited for providing risk transparency. Yet accounting measures are the primary inputs to corporate decisions and regulatory requirements.

By utilizing cross sector financial expertise, a new branch of accounting may result--- risk accounting--- with a formal definition of systemic risk, ---one that captures the linkages and the vulnerabilities of the entire financial system, not just those of the banking system. By increasing non-bank transparency and disclosure--- including hedge funds, private partnerships, sovereign wealth funds and other – what has been termed--- "shadow banking operations" and capturing data such as assets under management, leverage, portfolio holdings, credit counterparties and lists of investors—all vital data necessary for integration in our financial system analysis.

In Conclusion,

Effective public policy making requires coordination and cooperation among various agencies both state and federal. Entities such as the President's Working Group on Financial Markets should be expanded to include representatives from State agencies that regulate banking, insurance and securities. It is hardly possible to imagine policy-relevant financial information derived from a single or a limited source in today's complex, and inter-dependent economy. Who would have thought a few years ago that main street marketing of loans on homes to ordinary everyday citizens could contribute to create a worldwide credit crisis---

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