

# ALABAMA SECURITIES COMMISSION

770 WASHINGTON AVE, SUITE 570  
MAIL: POST OFFICE BOX 304700  
MONTGOMERY, ALABAMA 36130-4700  
TELEPHONE (334) 242-2984 or 1-800-222-1253  
FAX (334) 242-0240  
E-MAIL [asc@asc.alabama.gov](mailto:asc@asc.alabama.gov)

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Joseph P. Borg  
Director

Dear News Media Professionals:

As the Obama Administration and Congress modernize the nation's financial services regulatory architecture, one of the central design questions is how to monitor and regulate excessive risk in the marketplace.

The current economic crisis clearly demonstrates the need for a regulatory mechanism to better protect the wider economy from questionable business practices of large, interconnected corporations and financial products that carry unacceptable levels of risk. When risk is allowed to go unchecked, devastating losses cascade throughout our entire financial system, as we saw with credit default swaps.

Citizens throughout Alabama have felt the painful consequences of systemic risk. Millions of hard-earned dollars have vanished from retirement accounts, layoffs are increasing and growing numbers of financially overwhelmed homeowners are facing foreclosure. Managing systemic risk more effectively is essential to preventing a future crisis on this scale.

In the attached 570-word opinion article, I explain why policymakers should consider a broad approach to systemic risk regulation by creating a council of state and federal regulators to train all available eyes on the marketplace to identify and respond to at-risk institutions at the earliest sign of distress.

I look forward to hearing from you.

Sincerely,

[signed]

Joseph P. Borg

Enclosure

**Risky Business:  
U.S. Needs Council of State, Federal Regulators to Rein in Risk**

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The current economic crisis clearly demonstrates the need for a regulatory mechanism to better protect the wider economy from questionable business practices of large, interconnected corporations and financial products that carry unacceptable levels of risk. When risk is allowed to go unchecked, devastating losses cascade throughout our entire financial system, as we saw with credit default swaps.

Main Street Americans have felt the painful consequences of systemic risk. One by one, venerable Wall Street firms crumbled and others merged in order to survive. Millions of hard-earned dollars vanished from retirement accounts, layoffs increased and growing numbers of financially overwhelmed homeowners faced foreclosure. Managing systemic risk more effectively is essential to preventing a future crisis on this scale.

Congress has an opportunity to provide an effective and efficient solution by tapping the existing network of state and federal regulators to monitor and address the accumulation of excessive risk in our financial markets. The state and federal regulators that oversee the financial services arena are responsible for investor protection and business solvency, and they have access to all the relevant information on risk in the financial system. What's missing is a formalized channel for regulatory cooperation and communication.

The key to preventing further system-wide failures is a Systemic Risk Council, headed by an independent chair and made up of representatives from all federal and state regulators in securities, banking and insurance. This all-inclusive approach recently was presented to the House and Senate committees responsible for overseeing financial services, in a joint letter from the North American Securities Administrators Association, the Conference of State Bank Supervisors and the National Association of Insurance Commissioners.

The Council should be authorized to collect and evaluate data from all financial sectors to assess current levels of systemic risk and analyze new financial products or business practices that could increase risk levels. When the Council identifies a problem, it should be empowered to issue recommendations to the regulators with primary authority over the market sector in question.

As Alabama's securities regulator, I endorse such a holistic approach. It's fast and efficient because the essential components are already in place—the regulatory agencies that currently oversee all of our financial markets. It also minimizes the possibility of regulatory capture or philosophical bias that might arise if a single existing federal agency, such as the Federal Reserve, were tasked with overseeing systemic risk. Put another way, the Council will be fair and objective, with the best interests of investors and the integrity of our markets at heart.

State regulators are essential to the success of the Council model of systemic risk regulation. With our unique position on the frontlines of investor protection, we provide ground-level detection by gathering a huge volume of information through examinations of industry participants and complaints from investors. When that information reveals risks and abuses, we take appropriate actions, ranging from referrals to fellow regulators to enforcement actions that stop illegal conduct and remedy past harms. Again and again, state regulators have been the first to identify the risky products and business practices that contribute to unacceptable levels of systemic risk.

A comprehensive Systemic Risk Council of state and federal regulators will bring lawmakers closer to their much-needed goal of rebuilding market integrity and restoring investor confidence.

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For more information contact Dan Lord, Education and Public Affairs Manager, 334-353-4858; Email: [dan.lord@asc.alabama.gov](mailto:dan.lord@asc.alabama.gov).