COMMITTEE ON CAPITAL MARKETS REGULATION
March 13, 2007 Update

The Committee was organized to study issues bearing on the competitiveness of U.S. capital markets in a rapidly globalizing financial services marketplace and to recommend actions to restore our capital markets competitiveness.

The Committee's Interim Report, delivered last November 30, focuses on U.S. public equity markets. During the next two years, the Committee will continue to explore issues affecting other aspects of the competitiveness of U.S. capital markets, focusing on funds and derivatives markets. It will also extend its research on shareholder rights by looking at experience with majority voting.

Our principal objectives in completing and issuing the Interim Report promptly were to call attention to the nature and severity of the competitive challenges and obstacles facing U.S. Capital Markets and our national economy, and to spur a timely public policy dialogue on how best to confront them.

We believe we have achieved both of these initial objectives. During the three months since the Report was issued, it has attracted extensive media coverage. Over 200 print articles have appeared, and several members of the Committee have been interviewed on CNBC and Bloomberg TV. More than half of the these print articles were in major national and international media including *The Wall Street Journal, New York Times, Washington Post, Financial Times, Bloomberg, Dow Jones, Reuters and AP* wires, and such powerful regional media as the *Los Angeles Times, Chicago Tribune, Boston Globe*, etc. as well as the major financial magazines such as *BusinessWeek, The Economist, Fortune and Forbes*. They have generally acknowledged the Committee's independence. Some have challenged our competitive analysis, while others have questioned our recommendations, but overall the press has been accurate and supportive.

On January 22, at a City Hall news conference, Mayor Bloomberg and Senator Schumer announced the McKinsey report entitled *Sustaining New York's and the US' Global Financial Services Leadership.* This report contains extensive data confirming New York's declining dominance as a capital market. London now has as many jobs in financial services as New York. New York is still the deepest and most liquid market with the best availability of professional workers. However, senior executives surveyed by McKinsey indicate that the U.S. is at a disadvantage with London because of a less attractive regulatory environment, a less fair and predictable legal environment, and government and regulators who are not as responsive to business needs. Governor Eliot Spitzer agreed with the McKinsey report recommendations, noting the need to alleviate the burden and cost of regulatory compliance and the long term negative impact of regulation on jobs and the regional economy.

On January 31, President Bush came to Wall Street and while stating the need for the Sarbanes-Oxley legislation ("SOX"), called for changing the Section 404 implementation process and burdens on business Section 404 imposes. He also urged Directors, especially board members of Compensation Committees, to be more rigorous in determining executive compensation.

In January, Congressmen Frank and Kanjorski indicated that they planned to hold hearings on competitiveness in capital markets and on the costs and burden of Section 404 of Sarbanes-Oxley. Senator Dodd, Chairman of the Senate Banking Committee, has also indicated his intent to hold hearings on the issues raised by the Committee.

In December of 2006, the SEC issued a public proposal to ease the requirements for foreign firms to delist and deregister securities and thus avoid U.S. regulation. The SEC proposal would impose the same delisting requirements on foreign companies considering listing their shares on U.S. markets in the future as it would on firms already listed and traded here. On February 9, 2007, the Committee filed a letter expressing its view, as stated in the Interim Report, that a lower standard should apply to companies listing here in the future, i.e. adequate notice of the option to deregister at the time of a new listing should sufficiently protect U.S. investors. The letter noted that the SEC proposal in current form was overly burdensome and would discourage foreign listings here at a time when the U.S.'s share of global IPOs has fallen to 7.2% from 48% in the late 1990s.

On February 26, 2007, the Committee submitted comments to the SEC and to the PCAOB supporting various proposals to reduce the cost of the implementation of SOX 404 while maintaining its benefits. Specifically, the Committee's comments emphasized the importance of having a consistent and quantitative benchmark for materiality for both internal controls and financial reporting, 5% of pre-tax net income. Other specific recommendations addressed distinguishing between lower risk areas and higher risk areas, deferring application of Section 404 to small companies, exempting foreign firms which demonstrate that they are subject to equivalent home-country internal controls regulation, and collecting better and more complete information on the costs and benefits of Section 404.

These three Committee letters in their entirety can be found on the press page of the Committee's web site: http://www.capmktsreg.org/press.html

Treasury Secretary Henry Paulson has announced a conference on U.S. Capital Markets Competitiveness on March 13 in Washington. Four members of the Committee will participate in this invitation-only event. On March 14, the Chamber of Commerce will host the 1st Annual Capital Markets Summit to address the findings of its Commission on the Regulation of U.S. Capital Markets in the 21st Century. Congressman Frank and Senator Dodd will speak at the meeting. Hal Scott, Director of the Committee on Capital Markets Regulation, will moderate one session and Committee member Robert Pozen will facilitate another.

In summary, since November 30, 2006, in addition to a great deal of media attention and public discussion of the Capital Markets competitiveness issues, various government agencies, including the SEC and PCAOB, Treasury Department, chairmen of

Congressional Committees all have stepped up to address the competitiveness issues that were outlined in the Interim Report..

Thus, the Committee's Interim Report has helped shape a public policy dialogue of long term importance to our markets and our economy. Turning that dialogue into concrete proposals and specific change is the next challenge. The months ahead will provide some signal about whether the nation's regulators and legislators will make changes to enhance U.S. markets and economic competitiveness by striking a better balance between the cost and benefits of regulation than now applies.