

Alliance For Economic Stability
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November 16, 2009

The Honorable Christopher J. Dodd
Chairman
Banking, Housing and Urban
Affairs Committee

United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20515

The Honorable Richard C. Shelby
Ranking Member
Banking, Housing and Urban
Affairs Committee

United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20515

Re: November 10, 2009 Discussion Draft of the Financial Reform Bill

Dear Chairman Dodd, Ranking Member Shelby, and Members of the Committee:

The Alliance for Economic Stability (“AES”), an organization dedicated to advocating taxpayers’ interest in financial regulation, appreciates your continued efforts aimed at improving the efficiency of the nation’s financial system. I write to express the support of AES for the Discussion Draft of the Financial Reform Bill (“Discussion Draft”) and specifically “Subtitle F – Improvement to the Management of the Securities and Exchange Commission,” which mandates the Securities and Exchange Commission (“SEC”) to report to Congress on its procedures for examining national securities associations registered under section 15A of the Securities Exchange Act of 1934. Section F also mandates an assessment by the Comptroller General of the United States of the SEC’s report under Subtitle F and of the adequacy and effectiveness of the SEC’s own controls and procedures.

This letter focuses specifically on Subtitle F’s Section 964 titled “Report on Oversight of National Securities Associations.” This section mandates that the Comptroller report on the SEC’s oversight of securities organizations specifically including their governance, conflicts of interest and effectiveness.

We urge the Committee to consider the data contained in AES’ report titled “Securities Regulatory Reform: Addressing FINRA’s Inherent Conflict and Moral Hazard” in making amendments to the Discussion Draft. The report relies and refers to studies that illustrate FINRA’s deficiencies and adverse influence on the SEC. AES’s report draws on FINRA’s price-fixing scandal, and later failures to detect the Madoff and Stanford schemes, as well as FINRA’s oversight failures of its registered investment bankers and brokers that created the sub-prime crisis that led to the collapse of Bear Stearns, Lehman Brothers, Merrill Lynch and AIG.

Given FINRA's unique role as a for-profit company that acts like a government agency that has recently become a monopoly in our financial system, and given that FINRA's regulatory failures were a direct and significant contributor to the economic crisis, we would urge the Committee to refer to FINRA specifically in the Discussion Draft along with the general references to registered entities or national securities associations.

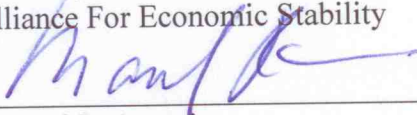
The AES FINRA report contains documentation and investigative information should provide the Committee with the basis to legislate specific changes to augment Subtitle F's reporting requirements for FINRA specifically, including a move to the SECO plan, or having the SEC as the only enforcement agency in the securities market. The SEC would become the sole rulemaker, examiner and enforcer for the industry while FINRA will remain an administrator and a powerful trade association. Such a change eliminates of FINRA's inherent conflicts-of-interest that has repeatedly allowed FINRA members to engage in economically destructive activities, while FINRA takes no accountability and the public is left to pay the cost of FINRA's failures.

The AES investigative report reveal FINRA's inherent flaws, which is useful to construct solutions that do not involve abolishing the concept of self-regulation entirely or expanding the duties of the SEC to cover all the regulatory responsibilities currently performed by FINRA.

FINRA's revenue exceeds the SEC's budget. FINRA is allowed to charge regulatory fees but has no constraints on how those fees are used for non-regulatory activities, including lobbying and questionable compensation. It is not lost on Americans that the SEC's Chairperson is the Presidential administration's wealthiest member and that she obtained her wealth exclusively through regulatory fees that were paid by the same FINRA members that she supposedly regulated.

We support the Discussion Draft and the provisions contained in Subtitle F but urge the Committee to include further provisions that eliminate the inherent conflicts and constitutional deficiencies detailed in AES' FINRA report and the expert opinions contained therein.

Sincerely,
Alliance For Economic Stability



Manuel P. Asensio

Enclosure