

***Alliance For American Economic Stability***  
747 Third Avenue, 25<sup>th</sup> Floor  
New York, New York 10017  
(212) 702-8804

November 4, 2009

The Honorable Barney Frank  
Chairman  
Financial Services Committee

The Honorable Spencer Bachus  
Ranking Member  
Financial Services Committee

The Honorable Paul E. Kanjorski  
Chairman  
Capital Markets, Insurance and  
Government Sponsored Enterprises  
Subcommittee

The Honorable Scott Garrett  
Ranking Member  
Capital Markets, Insurance and  
Government Sponsored Enterprises  
Subcommittee

U.S. House of Representatives  
Washington, D.C. 20515

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**Re: October 1, 2009 Discussion Draft of the Investor Protection Act (to be reported as H.R. 3817)**

Dear Chairmen Frank and Kanjorski, Ranking Members Bachus and Garrett, and Members of the Committees:

The Alliance for American Economic Stability (“AAES”), an organization dedicated to advocating tax-payers’ interest in financial regulation, appreciates your continued efforts aimed at improving the efficiency of the nation’s capital formation system. I write to express the support of AAES for the Discussion Draft of the Investor Protection Act (“Discussion Draft”) and to urge you to maintain Section 304 language in the Discussion Draft that calls for an independent examination of both the Securities and Exchange Commission (“SEC”) and Self-Regulatory Organizations (“SROs”).

**Section 304. Commission Organizational Study and Reform.**

Section 304 of the Discussion Draft mandates that “the SEC shall hire an independent consultant...to examine the...need for comprehensive reform of...self-regulatory organizations.” The October 26, 2009 amendment to the Discussion Draft offered by Mr. Frank and Mr. Kanjorski proposes to strike the words “self-regulatory organizations” in the preceding language and inserts “as well as the SEC’s relationship with the reliance on self-regulatory organizations.”

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This offered amendment would eliminate the mandate for direct examination of the Financial Industry Regulatory Authority, Inc.<sup>1</sup> ("FINRA"), the SRO that played a lead role in causing the global financial crisis, but has thus far evaded scrutiny by the Administration and Congress.

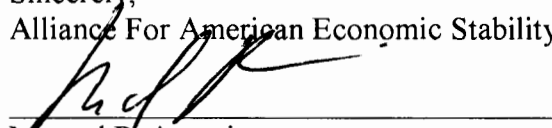
Enclosed here is an AAES report that examines the conflicts and moral hazard issues inherent in FINRA's structure that will allow future crises to occur unless Congress intercedes. Section 1 of the AAES report addresses FINRA's September 2009 Special Review Committee report to the SEC on its own failures in Madoff and Stanford. Without the SRO independent examination Congress will not have the information to reform FINRA.

FINRA had direct oversight responsibility of the securities firms engaged in abusive sales practices in the sub-prime securitization and OTC sub-prime derivatives markets. These firms also had undetected capital deficiencies and engaged in unfair conduct in warehousing the faulty mortgages and dealings with rating agencies. FINRA's failure to perform its direct oversight duty led to the spectacular and costly collapse of three of its largest members, including by far the largest bankruptcy in U.S. history, and American International Group, Inc., an even more costly failure.

Section 3 of the AAES report examines the public record of past FINRA regulatory failures (under the same leadership in place today), namely, FINRA's industry-wide OTC price-fixing scandal in the mid-1990s. This well-documented scandal serves to illustrate how FINRA's regulatory deficiencies continue to pose an inherent systematic risk, despite intervention by the Department of Justice.

We support the Sec. 304 language in the Discussion Draft and believe that an independent examination of both the SEC and SROs needs to be mandated by law.

Sincerely,  
Alliance For American Economic Stability



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Manuel B. Asensio

Enclosure

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<sup>1</sup> FINRA is a private, for-profit corporation, whose revenues exceed the SEC's budgetary resources that acts as the nation's largest securities regulator but is controlled by broker-dealers.