Statement of the Shadow Financial Regulatory Committee on
A Financial Agenda for the New Congress
December 4, 2006

With the change of leadership in the incoming Congress, the Shadow Financial Regulatory Committee believes it would be useful to review and reiterate some financial agenda items that the Committee has considered at this and past meetings.

1. Section 404 of the Sarbanes-Oxley Act

In Statement No. 219 (May 16, 2005) on Evaluating Section 404 of the Sarbanes-Oxley Act concerning Internal Controls, we recommended a re-evaluation of Section 404, which requires public companies to assess, and have independent public accountants attest to, the effectiveness of internal controls. The Interim Report of the Committee on Capital Markets Regulation, issued on November 30, 2006, also criticizes the cost imposed on shareholders of Section 404. These costs are entirely too high for the benefits that might result, especially for small companies. The fees of auditing firms are high, in significant part due to the work they must do to avoid the liability they face from having to attest to the adequacy and effectiveness of a company’s internal controls. The SEC is now considering ways to reduce this cost to registrants, an effort that we applaud.

2. Government Sponsored Enterprises (GSEs)

On a number of occasions the Committee has considered public policy issues concerning Fannie Mae, Freddie Mac, and the Federal Home Loan Bank system (the GSEs). Our Statement No. 216 of February 14, 2005 endorsed S. 190, legislation then before the Senate that would regulate the GSEs. Contrary to the assertions of the GSEs, legislation that would permit the new GSE regulator to reduce the size of the GSEs’ portfolios would have no significant
effect on mortgage interest rates or the availability of mortgages, but would reduce the potential
systemic risk GSEs pose to the U.S. economy. We hope that the new Congress will, at a minimum,
conduct a review of the problems created by the GSEs’ size and dominance. This review is
especially timely in view of the corporate governance issues reflected by the numerous regulatory,
accounting and accountability issues raised in the past few years by the restatements to their
financial statements required by their supervisory regulatory agency.

3. A Uniform National Policy on Privacy of Financial Information

In Statement No. 185 of December 9, 2002, the Committee recommended to the then
incoming Congress that legislation be enacted to create a uniform national policy on privacy of
financial information. We noted that states continued to enact such legislation. This process has
continued since 2002, creating an increasingly chaotic set of inconsistent and sometimes conflicting
measures, making it difficult and costly for financial services companies with national operations to
operate efficiently. These costs raise consumer prices. We urge the new Congress to remedy this
situation by preempting state laws on sharing financial information.

4. An Optional Federal Charter for Insurance Companies

The Committee first recommended the adoption of legislation creating an optional federal
charter on May 7, 2001 (Statement No. 170) for insurance companies. The present system requires
insurance companies to get the approval of their products, and in many cases their rates, in each
state in which they do business, an unnecessarily costly and burdensome process that deprives
consumers of the advantages of a single national insurance market. Dual chartering has worked well
for banks. We recognize that this is a complex issue for which extensive hearings probably will be
necessary. It is important, therefore, that the new Congress start the process of considering this
legislation early in the session.

5. Industrial Loan Company Charters for Non-financial Firms

In Statement No. 224 (December 5, 2005), the Committee considered Wal-Mart’s
application for an industrial loan company acquisition in Utah. In line with many past statements
(Nos. 115, 118, 138, 142, 155, and 194), we expressed the view that the time had come to eliminate
the longstanding barriers against combinations of banks and commercial firms in order to encourage
new entry, competition, and beneficial takeovers of poorly run institutions in the financial services
industry. The FDIC has placed a six-month moratorium, which ends in late-January 2007, on Wal­
Mart’s application. This delay was due, we believe, to opposition in some Congressional circles, not
so much because of a reasoned preference for continued separation of banking and commerce, but
rather because of the prominence of Wal-Mart in issues concerning labor, the minimum wage and
other issues not related to the financial services industry. Some bankers’ desire to avoid competition
from Wal-Mart may also have played a role.

As long as the Wal-Mart matter remains unresolved, we fear that important reforms of our
financial system will not occur. Consequently, the FDIC should not extend the moratorium beyond
its current terminal date and should approve Wal-Mart’s application for deposit insurance. We note
that several national retailers already own and operate industrial loan companies, so that there is
little reasoned basis for allowing controversies over Wal-Mart’s employee relations and other
unrelated issues to block banking reforms that would benefit consumers.