



Americans for Financial Reform
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Ben Bernanke, Chairman
Board of Governors of the Federal Reserve System

John Walsh, Acting Comptroller
Office of the Comptroller of the Currency

Sheila Bair, Chairman
Federal Deposit Insurance Corporation

John Bowman, Acting Director
Office of Thrift Supervision

Dear Federal Regulators of the Financial Institutions of the United States:

Americans for Financial Reform (AFR) strongly disagrees with the recent letter from members of the New York Congressional delegation calling for a blanket exemption from U.S. derivatives regulations for foreign subsidiaries of U.S. banks when dealing in foreign jurisdictions. By prioritizing arguments about global competitiveness above concerns about the safety and soundness of U.S. financial institutions, it encourages a return to the regulatory race to the bottom that so recently devastated our financial markets.

AFR is an unprecedented coalition of over 250 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, religious and business groups as well as prominent economists

As the letter itself points out, the Dodd-Frank Act explicitly instructs regulators to impose margin and other financial stability requirements in all cases where there is a “direct and significant” connection to U.S. economic activity. The activities of foreign subsidiaries of U.S. banks certainly meet this test, as losses in a foreign subsidiary could threaten the financial stability of the U.S. parent company and by extension the stability of the U.S. financial system. Exempting foreign subsidiaries of U.S. banks from U.S. derivatives regulations could lead to a repetition of risky, unmarginated and unregulated derivatives dealing by U.S. banks. The fact that this dealing would take place in foreign “havens” from regulation would not avert the potential consequences to the U.S. banking system in the event of serious losses.

The new Dodd-Frank regulations already permit banks to forego margin in almost all cases when dealing with end users hedging commercial risk. Thus, the exemption called for in this letter would apply to affiliates of U.S. banks dealing with foreign financial institutions and foreign

speculators. It is no doubt true that in some cases such entities would prefer not to back their speculative derivatives exposures with collateral. However, it is entirely appropriate that prudential regulators would wish to safeguard U.S. bank holding companies from exposure to such risks, including through their foreign affiliates.

The letter correctly highlights the importance of coordination and harmonization of world derivatives regimes. Regulators are currently working on such harmonization. The EMIR process in Europe, the G-20 communique on financial regulation, and the various efforts in key Asian markets are all proceeding in the same general direction – toward central clearing, some form of exchange trading, and margin requirements. The blanket exemption proposed in this letter would actually undermine this process of harmonization by creating a powerful incentive for a country to set itself up as a haven from international regulation, where subsidiaries of U.S. banks could locate and remain free from prudential regulation. Geographical exemptions from regulation fuel such “race to the bottom” outcomes and weaken incentives to coordinate around a sound regulatory regime. They also draw business away from well-regulated financial centers such as the United States and toward foreign locations willing to permit lax regulation.

The U.S. financial sector has gained its international reputation due to our global leadership in creating stable and transparent markets. Indeed, it was over 150 years ago that the U.S. pioneered the derivatives clearinghouse. This was a major positive innovation in establishing robust and valuable marketplaces for commodities as well as key financial markets. The US economy will benefit from having transparent, sound and reliable capital markets, and global industry will participate in our capital markets to the extent that they are transparent, sound and reliable. Although permitting regulatory loopholes may create short-term profits, in the long run the greatest threat to the U.S. competitive edge is a repetition of the deregulation that led to the disastrous financial crisis of 2008.

Sincerely,

Americans for Financial Reform

cc:

Senator Kristen Gillibrand
Senator Charles Schumer
Representative Gary Ackerman
Representative Yvette D. Clarke
Representative Joseph Crowley
Representative Eliot Engel
Representative Chris Gibson
Representative Michael Grimm
Representative Richard Hanna
Representative Nan Hayworth
Representative Steve Israel
Representative Peter King

Representative Carolyn Maloney
Representative Carolyn McCarthy
Representative Gregory Meeks
Representative Tom Reed
Representative Ed Towns
Representative Anthony Weiner

Following are the partners of Americans for Financial Reform.

All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.

- A New Way Forward
- AARP
- AFL-CIO
- AFSCME
- Alliance For Justice
- Americans for Democratic Action, Inc
- American Income Life Insurance
- Americans United for Change
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Media and Democracy
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO Mobile
- CTW Investment Group
- Demos
- Economic Affairs Bureau/Dollars & Sense
- Economic Policy Institute
- Essential Action
- Greenlining Institute
- Good Business International
- HNMA Funding Company

- Home Actions
- Housing Counseling Services
- Information Press
- Institute for Global Communications
- Institute for Policy Studies: Global Economy Project
- International Brotherhood of Teamsters
- Institute of Women's Policy Research
- Krull & Company
- Laborers' International Union of North America
- Lake Research Partners
- Lawyers' Committee for Civil Rights Under Law
- Move On
- NASCAT
- National Association of Consumer Advocates
- National Association of Neighborhoods
- National Community Reinvestment Coalition
- National Consumer Law Center (on behalf of its low-income clients)
- National Consumers League
- National Council of La Raza
- National Fair Housing Alliance
- National Federation of Community Development Credit Unions
- National Housing Trust
- National Housing Trust Community Development Fund
- National NeighborWorks Association
- National People's Action
- National Council of Women's Organizations
- Next Step
- OMB Watch
- OpenTheGovernment.org
- Opportunity Finance Network
- Partners for the Common Good
- PICO
- Progress Now Action
- Progressive States Network
- Poverty and Race Research Action Council
- Public Citizen
- Sargent Shriver Center on Poverty Law
- SEIU
- State Voices
- Taxpayer's for Common Sense
- The Association for Housing and Neighborhood Development
- The Fuel Savers Club
- The Leadership Conference on Civil and Human Rights
- The Seminal
- TICAS
- U.S. Public Interest Research Group
- United Food and Commercial Workers
- United States Student Association

- USAction
- Veris Wealth Partners
- Western States Center
- We the People Now
- Woodstock Institute
- World Privacy Forum
- UNET
- Union Plus
- Unitarian Universalist for a Just Economic Community

Partial list of State and Local Signers

- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans For Responsible Lending
- Association for Neighborhood and Housing Development NY
- Audubon Partnership for Economic Development LDC, New York NY
- BAC Funding Consortium Inc., Miami FL
- Beech Capital Venture Corporation, Philadelphia PA
- California PIRG
- California Reinvestment Coalition
- Century Housing Corporation, Culver City CA
- CHANGER NY
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)
- Chicago Community Loan Fund, Chicago IL
- Chicago Community Ventures, Chicago IL
- Chicago Consumer Coalition
- Citizen Potawatomi CDC, Shawnee OK
- Colorado PIRG
- Coalition on Homeless Housing in Ohio
- Community Capital Fund, Bridgeport CT
- Community Capital of Maryland, Baltimore MD
- Community Development Financial Institution of the Tohono O'odham Nation, Sells AZ
- Community Redevelopment Loan and Investment Fund, Atlanta GA
- Community Reinvestment Association of North Carolina
- Community Resource Group, Fayetteville A
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (NYC)
- Cooperative Fund of New England, Wilmington NC
- Corporacion de Desarrollo Economico de Ceiba, Ceiba PR
- Delta Foundation, Inc., Greenville MS

- Economic Opportunity Fund (EOF), Philadelphia PA
- Empowering and Strengthening Ohio's People (ESOP), Cleveland OH
- Empire Justice Center NY
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing
- Fitness and Praise Youth Development, Inc., Baton Rouge LA
- Florida Consumer Action Network
- Florida PIRG
- Funding Partners for Housing Solutions, Ft. Collins CO
- Georgia PIRG
- Grow Iowa Foundation, Greenfield IA
- Homewise, Inc., Santa Fe NM
- Idaho Nevada CDFI, Pocatello ID
- Idaho Chapter, National Association of Social Workers
- Illinois PIRG
- Impact Capital, Seattle WA
- Indiana PIRG
- Iowa PIRG
- Iowa Citizens for Community Improvement
- JobStart Chautauqua, Inc., Mayville NY
- La Casa Federal Credit Union, Newark NJ
- Low Income Investment Fund, San Francisco CA
- Long Island Housing Services NY
- MaineStream Finance, Bangor ME
- Maryland PIRG
- Massachusetts Consumers' Coalition
- MASSPIRG
- Massachusetts Fair Housing Center
- Michigan PIRG
- Midland Community Development Corporation, Midland TX
- Midwest Minnesota Community Development Corporation, Detroit Lakes MN
- Mile High Community Loan Fund, Denver CO
- Missouri PIRG
- Mortgage Recovery Service Center of L.A.
- Montana Community Development Corporation, Missoula MT
- Montana PIRG
- Neighborhood Economic Development Advocacy Project
- New Hampshire PIRG
- New Jersey Community Capital, Trenton NJ
- New Jersey Citizen Action
- New Jersey PIRG
- New Mexico PIRG
- New York PIRG
- New York City Aids Housing Network
- NOAH Community Development Fund, Inc., Boston MA
- Nonprofit Finance Fund, New York NY
- Nonprofits Assistance Fund, Minneapolis M

- North Carolina PIRG
- Northside Community Development Fund, Pittsburgh PA
- Ohio Capital Corporation for Housing, Columbus OH
- Ohio PIRG
- OligarchyUSA
- Oregon State PIRG
- Our Oregon
- PennPIRG
- Piedmont Housing Alliance, Charlottesville VA
- Michigan PIRG
- Rocky Mountain Peace and Justice Center, CO
- Rhode Island PIRG
- Rural Community Assistance Corporation, West Sacramento CA
- Rural Organizing Project OR
- San Francisco Municipal Transportation Authority
- Seattle Economic Development Fund
- Community Capital Development
- TexPIRG
- The Fair Housing Council of Central New York
- The Loan Fund, Albuquerque NM
- Third Reconstruction Institute NC
- Vermont PIRG
- Village Capital Corporation, Cleveland OH
- Virginia Citizens Consumer Council
- Virginia Poverty Law Center
- War on Poverty - Florida
- WashPIRG
- Westchester Residential Opportunities Inc.
- Wigamig Owners Loan Fund, Inc., Lac du Flambeau WI
- WISPIRG

