

Subject: SEC meeting this afternoon on CSE Proposal

Attachments: SEC meeting

The SEC just concluded its deliberations on and adoption of the rule for net capital for consolidated supervised entities (CSEs). While we have seen no language as yet, based on the staff briefing at today's meeting and the questions asked by Commissioners and staff responses thereto, it appears the final rule will address in a mostly adequate fashion all the issues we raised with the SEC. As you know, in addition to the formal letter ABASA filed with the Commission, we met with Commissioners Glassman, Atkins & Campos and their staff over the last few weeks to drive home our points. The outcome as described below, is what we predicted in light of those meetings. (I've also attached John Dugan's notes on the meeting - as he also was listening in.)

The general outlines of the final rule - as it addressed the issues we raised in our letter (again, based on listening to the meeting, without seeing any language) - are:

- The special rules & treatment for those B/Ds that have a "principal regulator" will pertain to all bank holding cos. that are regulated by the Fed. While this point was a bit fuzzy - as the briefing referred to financial holding cos. that have elected to be such under the BHCA - the concluding staff comment was that "thus any bank holding co. subject to Fed supervision would qualify."

- Would be no examination of such holding companies **or any of their affiliates**, other than their B/Ds.

- Would rely to greatest extent possible on already existing reports with respect to such holding companies.

However, was stated that the SEC staff agreed with the Fed staff that the SEC would go directly to the Fed-supervised financial holding companies for such reports and information, rather than getting it from the Fed (or through the holding company's B/D - another suggestion made by ABASA).

- Our concerns Re: maximum confidential treatment of the information - specifically the b8 protection under FOIA - was specifically raised by Comm. Glassman. Staff responded that the rule would provide maximum protection both for trade secrets and for exam/supervisory information and that the final rule would contain specific language designed to ensure such protections. As you all know, we specifically asked in our letter that the final rule be explicit on the FOIA b8 protection if the final rule did not provide for the information to be accessed directly from the Fed or through the B/D. Comm. Glassman then emphasized again how "very important" it was to ensure the confidential treatment of that information.

Finally, the overall tenor was to congratulate the staff for working so well with other regulators, particularly the Fed and for not subjecting cos. to duplicative and overlapping requirements and oversight. To that point, at the meeting's conclusion, the staff made the point that if there were concerns with a particular company's risk, etc., the SEC would require additional capital in lieu of subjecting the company to conflicting models or capital formulae.

I thank all of you who were involved in helping us formulate ABASA's response to this proposal and in the follow up discussions. I also think all the communications with SEC staff, Commissioners and Fed staff paid off.

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