S. HRG. 109–253

NOMINATIONS OF: CHRISTOPHER COX ROEL C. CAMPOS, ANNETTE L. NAZARETH MARTIN J. GRUENBERG, JOHN C. DUGAN AND JOHN M. REICH

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF:

CHRISTOPHER COX, OF CALIFORNIA, TO BE CHAIRMAN OF THE U.S. SECURITIES AND EXCHANGE COMMISSION

ROEL C. CAMPOS, OF TEXAS, TO BE A MEMBER OF THE U.S. SECURITIES AND EXCHANGE COMMISSION

ANNETTE L. NAZARETH, OF THE DISTRICT OF COLUMBIA, TO BE A MEMBER OF THE U.S. SECURITIES AND COMMISSION

MARTIN J. GRUENBERG, OF MARYLAND, TO BE A MEMBER AND VICE CHAIRMAN OF THE FEDERAL DEPOSIT INSURANCE CORPORATION

JOHN C. DUGAN, OF MARYLAND, TO BE COMPTROLLER OF THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

JOHN M. REICH, OF VIRGINIA, TO BE DIRECTOR OF THE OFFICE OF THRIFT SUPERVISION

JULY 26, 2005

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TUESDAY, JULY 26, 2005

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:03 a.m., in room SD–538, Dirksen Senate Office Building, Senator Richard C. Shelby (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The hearing will come to order.

This morning, we will hear from the President's nominees for the Securities and Exchange Commission, Congressman Christopher Cox, Commissioner Roel Campos, and Annette Nazareth. I appreciate the willingness of the nominees to appear before the Committee today.

Congressman Cox has been nominated to serve as the Chairman of the Securities and Exchange Commission. Since being elected to the House of Representatives in 1988, Congressman Cox has estab-

lished an impressive record as a legislator and leader on securities regulation. He currently serves as Chairman of the Committee on Homeland Security in the House of Representatives and was also a Member of the Energy and Commerce Committee, which at the time had jurisdiction over securities law, and the Financial Services Committee for 7 years. Prior to his election, Congressman Cox served as a senior counsel in the Reagan administration and was an attorney in private practice specializing in corporate finance and securities. Congressman Cox graduated from the University of Southern California and received his law degree and MBA from Harvard University. Congressman Cox brings a wealth of experience to this position, and I believe that the SEC and the securities markets will benefit from his leadership. Congressman, I congratulate you on your nomination and look forward to seeing you again many times before this Committee and probably in the not too distant future.

I would like to also welcome Commissioner Campos back to the Committee for his second nomination hearing. He is no stranger to this Committee. Commissioner Campos was first confirmed as the SEC Commissioner in the summer of 2002. During his tenure at the SEC, Commissioner Campos has led efforts to promote convergence with respect to international securities regulations and has worked to streamline the SEC's administrative proceedings process. Prior to joining the Commission, Commissioner Campos was one of the two principal owners of El Dorado Communications and served as an executive with the radio broadcasting company. Commissioner Campos began his career as an officer in the U.S. Air Force and has also spent significant time as a Federal prosecutor and as a lawyer in private practice, focusing on corporate law and litigation. Commissioner Campos graduated from the Air Force Academy and earned his law degree from Harvard Law School and his MBA from UCLA.

I also welcome Ms. Nazareth back to the Committee. She has testified before this Committee on other occasions regarding issues pending before the SEC. Since 1999, she has served as the Director of the Division of Market Regulation at the Securities and Exchange Commission. She has previously served as Senior Counsel to Chairman Arthur Levitt and Interim Director of the Division of Investment Management. Prior to joining the SEC, she was a Managing Director of Salomon Smith Barney and a Senior Vice President of Lehman Brothers, Inc. She graduated from Brown University and earned her law degree from Columbia University.

I thank each of the nominees for their willingness to serve, and I look forward to your testimony here today.

Senator Sarbanes.

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Well, thank you, Mr. Chairman. I know we are going to confront a difficult situation this morning. I think there are votes scheduled.

Chairman SHELBY. Five, five votes.

Senator SARBANES. Five votes.

Chairman SHELBY. Five back to back votes. We are going to give them a break.

Senator SARBANES. We will have to work around that.

I want to welcome the nominees before us, Congressman Cox, Commissioner Campos and Ms. Nazareth, and I want to express my appreciation to the Chairman for moving promptly to schedule this hearing once all of the nominees had been sent here to the Senate for us to consider for their confirmation.

Mr. Chairman, I am going to shorten my statement considerably, but I do want to make some comments about the work of the Commission and its importance to our capital markets and the millions of Americans who rely on the integrity of those markets. The Commission itself has defined its primary mission in succinct and forthright terms: "To protect investors and maintain the integrity of the securities markets." And the Commission has noted that, "As more and more first-time investors turn to the markets to help secure their future, pay for homes, and send their children to college, these goals are more compelling than ever."

Now, more than one out of every two U.S. households is invested directly or indirectly in the markets. The U.S. markets play a critical role in the world capital markets. And it is the integrity, the transparency and the efficiency of our capital markets that have made them the envy of the world.

In order to carry out its mission, the SEC must provide vigorous oversight of the markets, and vigorous enforcement of our securities laws. The Chairman, of course, is in a sense functions as the chief administrative officer of a rather large organization. We are going to put that Harvard Business School education of Congressman Cox's to the test here, and the Commission has a strategic plan which adheres to the highest standards of integrity, fairness, accountability, teamwork, and excellence.

We have passed through a difficult period recently in the securities markets. *The Wall Street Journal* said, "The scope and scale of the corporate transgressions of the late 1990's exceeded anything the U.S. has witnessed since the years preceding the Great Depression." These have involved problems of accounting, disclosure, governance, Enron, WorldCom, and other major public companies; the issuance by 10 major financial institutions of misleading and fraudulent stock analysts' reports, which led to the Global Settlement; systemic problems of the functioning of the stock exchanges, which has led to strong sanctions and reform of exchange regulation; and mutual fund scandals involving late trading and market timing which has also led to extensive regulatory reform and enforcement actions.

I think the SEC has emerged stronger from this period with a stronger regulatory framework, a reinvigorated enforcement function, and with the expanded budget resources with which it can carry out its responsibilities. In addition, the SEC has introduced risk-assessment procedures, to anticipate problems before they cause harm, and it has taken steps to raise the morale of the staff and reduce the staff turnover that had seriously undermined the Commission's ability to carry out its responsibilities.

My own view is that at this time, we need effective leadership at the Commission to maintain the momentum which Chairman Donaldson and his fellow Commissioners established. The challenges ahead are many. The effective implementation and oversight

Commission actions, registration of hedge fund advisers, the administration of Regulation NMS and FASB is moving on the expensing of stock options. There are other initiatives pending at the Commission: Proposals to give shareholders limited access to the proxy solicitation process, the question of the credit rating agencies, completion of mutual fund reform and evaluation of the self-regulatory organizations.

Mr. Chairman, I look forward to this hearing. We have a number of questions to put to the nominees. The Commission will be facing a formidable agenda and the resolution of that agenda in a positive, constructive, and satisfactory manner is fundamental to the effective workings of our economy and the protection of our investor citizens.

Thank you very much.

Chairman SHELBY. Senator Dole.

STATEMENT OF SENATOR ELIZABETH DOLE

Senator DOLE. Yes, thank you, Chairman Shelby.

Today, the Committee has the privilege of considering an outstanding nominee to be the next Chairman of the Securities and Exchange Commission. Congressman Chris Cox has a stellar reputation as a leader on many important issues for consumers and the securities industry, and he has a long and impressive list of accomplishments from his nearly two decades in the Congress. He is known for his intellect. He is known to be innovative, diligent, and extremely hardworking—qualities that will certainly serve him well as head of the SEC.

I am also certain that one of Congressman Cox's greatest accomplishments was convincing Rebecca to marry him, and I want to take this opportunity to recognize her. You see, Rebecca Cox played an invaluable role, for which I am deeply appreciative, at the Department of Transportation when I served as Secretary there; whether it was the new National Airport or the renovation of Union Station, the sale of Conrail or safety belts and air bags, Rebecca was right there working so very hard. Chris is indeed blessed with such an intelligent, talented, and devoted wife. And welcome to Charles, Kathryn, and Kevin. They have many reasons to be very proud of their parents, and I continue to wish them all my very best.

We are all aware of the considerable challenges that await the next Chairman of the SEC. In light of the single-vote margins on a number of high profile, controversial decisions recently made by the Commission, Congressman Cox is uniquely qualified for this position. He has a strong reputation as a consensus builder, even on the most sensitive of issues. The responsibilities of the next SEC Chairman will be great, and I am certain that Chris Cox is the right man for the job.

I also want to extend a warm welcome to Commissioner Campos and Ms. Nazareth. It is my hope that this Committee will consider these nominations with due speed and be ready to approve them this week.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Dodd.

STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Well, Mr. Chairman, I will ask unanimous consent that some opening comments be included in the record.

Chairman SHELBY. Without objection, so ordered.

Senator DODD. I would just like to underscore the comments made by Senator Sarbanes. We have three of our colleagues here to introduce these witnesses, and I know the clock is going to be running, so I will move along and make sure they get an opportunity to make their presentations before the votes start.

I just would note, there is a new SEC building going up, Mr. Chairman, as you know, only a few blocks from here. In fact, I gather the staff is moving in as we speak. And I guess the symbolism here about getting closer to this epicenter of politics is something that in my meeting with Chris Cox I cautioned about.

I think it is so important that the Commissioners of the SEC not become embroiled in the day-to-day machinations of Washington politics. I suppose the symbolism of Union Station, where literally millions of people every day transgress here back and forth from the transit systems there, those average investors that Senator Sarbanes talked about is the critical issue.

And I also would not want to let pass the moment to say thank you to Bill Donaldson and to Harvey Goldschmid for the tremendous job they have done as Commissioners. We welcome all three of you and look forward to working with you.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Thank you, Mr. Chairman, and I want to express my appreciation for your holding this hearing so that we can hear from the three nominees to the Securities and Exchange Commission, particularly Congressman Cox, Mr. Campos, and Ms. Nazareth.

I am not that familiar with Mr. Campos and Ms. Nazareth, but I have had the opportunity to serve with Congressman Cox in the House and more than just served with him, I actually worked with him on a number of issues. I would certainly second many of the comments that were made by my colleague from North Carolina and I am glad to see him before this Committee. I am especially pleased that he has been selected to serve as Chairman. I am very hopeful that things will go well under his leadership at the SEC.

He brings capability and a lot of leadership qualities that are needed during these trying times, and I think that his 17 years' experience in the House of Representatives will serve him very well.

I feel that the prime role of the Commission is to help facilitate a free market system that promotes security and safety in our Nation's financial markets. Recent scandals and possible future terrorist attacks on our financial industry are attempts to break down America's faith and trust in investing in our future. At a time when retirement security is a major focus, the SEC should assist in instilling confidence in our financial investment decisions as best it can.

So, I look forward to hearing your ideas, and thank you, Mr. Chairman.

Chairman SHELBY. Senator Carper, do you have an opening statement?

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Not a statement, just to say to all of our guests, welcome here this morning. I am withholding my opinion on Mr. Cox until I have heard from Senator Boxer and Senator Feinstein. We will see what they have to say. And I will decide where to go with my old colleague, Mr. Cox.

Mr. Campos, we appreciate your service, and Ms. Nazareth, if you are half as good as I have heard, you are a real addition to the SEC.

Thank you very much.

Chairman SHELBY. Senator Enzi.

STATEMENT OF SENATOR MICHAEL B. ENZI

Senator ENZI. Mr. Chairman, I want to thank you for holding this hearing on these nominees and look to their speedy confirmation.

I would particularly comment that I have been working with Mr. Cox since I got to the Congress. He was the foremost expert on export administration, and I got to work with him on that for years, but my greatest adventures have been working on some small business issues with him, and he has a fond heart for small business, and I think that he is actually the right person at the right time for the right job, and I look forward to his confirmation. I ask for my full statement to be included in the record.

Chairman SHELBY. Thank you. Without objection, it will be ordered.

Senator Stevens, we will call on you; then, Senator Feinstein, Senator Boxer, and then Senator Schumer, our colleague, for any introductions you want.

STATEMENT OF TED STEVENS
A U.S. SENATOR FROM THE STATE OF ALASKA

Senator STEVENS. Mr. Chairman and Members of the Committee, in view of the upcoming vote, I think I would just ask you to put my statement in the record.

Chairman SHELBY. Without objection, it is so ordered.

Senator STEVENS. I will say that Senator Dole has preceded me and made the comments I would have made about Rebecca Gernhardt Cox and her children. I am sure that the Senators here will remember that she was part of the Senate staff and really was a very distinguished member of my office when I was the Whip for many years.

But Senator Dodd, you will remember that you cosponsored with Chris Cox the 1995 legislation to protect investors from fraudulent lawsuits. I think that Congressman Cox, as a graduate of Harvard Law School, a former Editor of the Harvard Law Review, is, as many of you said, the right man for the right job at the right time. I am delighted to have the opportunity to be here to tell you that I urge you to bring out his name as quickly as possible so we can confirm him and the rest of these other members, and they can get about their business.

Thank you very much.

Chairman SHELBY. Thank you, Senator Stevens.

Senator Feinstein.

STATEMENT OF DIANNE FEINSTEIN
A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator FEINSTEIN. Thanks very much, Mr. Chairman, Ranking Member Sarbanes, and Members of the Committee.

In response to Senator Carper's comment, I would like to make this comment in return: I think the fact that both Senator Boxer and I, two Democrats from Chris Cox's home State, are here today is in itself testimony to the credentials that he brings to this office.

I think I will not speak on behalf of my colleague. She will speak for herself. But I think both of us believe that the Securities and Exchange Commission is an extraordinary Commission and that Representative Cox has the qualifications and the experience necessary to manage regulation and enforcement and to improve investor confidence in the Nation's securities markets. One of the things that I did not know about him was the fact that he is really academically very smart.

[Laughter.]

Yes, right. Not only, of course, does he come from California, as was pointed out, but he also attended the University of Southern California. What was not pointed out was that he graduated magna cum laude in just 3 years with a bachelor's degree in political science and English. He went on to Harvard Business School and Harvard Law School and graduated with honors in 1977.

At Harvard, as was said, he was Editor of the Harvard Law Review, and he followed that by clerking for the Hon. Herbert Choi, our Nation's first Asian-American Federal judge. He then began his career as a private sector securities attorney at a California-based international law firm, well-known, Latham and Watkins. After 2 years, he was invited to become a lecturer at Harvard Business School on business administration.

In 1986, he entered public service as a Senior Associate Counsel to President Reagan. Against a whole host of competitors, he then won the seat of California's 48th District in Orange County, a district he has well represented for 17 years. And he recently became the first Chairman of the House Committee on Homeland Security.

Now in the wake of corporate major accounting scandals, his nomination comes at an important time for the Securities and Exchange Commission. More recently, through the Sarbanes-Oxley Act and other enforcement actions, the Securities and Exchange Commission has strengthened investor protections and restored faith in corporate America by tightening regulation and increasing enforcement. The next Chairman will have the difficult task of managing these recent changes in the industry that will require even more scrutiny.

In closing, let me say that Representative Cox accomplished a major background in academia, in business, in law as well as his experience working in Government. This well equips him to provide the leadership that is necessary for these new days in the SEC. I want to just conclude by quoting Representative Cox's statement during the Sarbanes-Oxley hearings. "Fraud and unfair dealing are

the enemies of the free enterprise system. We have tough laws on the books to deal with all matters of crime, including corporate crime. But just as bacteria mutate to avoid the latest antibiotics, those who cook the books are constantly changing the recipes, and we have to keep our laws and our remedies up-to-date." We look to him to do just that.

Thank you very much, Mr. Chairman

Chairman SHELBY. Senator Boxer.

STATEMENT OF BARBARA BOXER
A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator BOXER. Thank you, and it is a pleasure to be here with my colleague, Senator Feinstein, and with my colleague, Chris Cox and the other Members, and I see Chuck Schumer has joined us.

Because of the press of the clock, I would ask unanimous consent that my full statement be placed in the record.

Chairman SHELBY. Without objection, so ordered.

Senator BOXER. And what I will try to do is just say what has not been said before, so we can just get all the facts on the table.

I agree that Chris Cox has represented his district with great distinction, and I was fortunate enough to work with Chris while I was in the House. I had the privilege of chairing the Government Operations Subcommittee on Government Activities and Transportation at the same time that Chris was Ranking Member, and as you know, Senators Shelby and Sarbanes, the importance of these relationships cannot be overstated.

And we did address very difficult problems. We held a lot of oversight hearings, including one on the bombing of Pan Am Flight 103. And throughout that particular session of Congress, we maintained a very strong and collegial relationship. We worked very well together, and we found the common ground. We did not agree on everything, but we found the common ground, and we moved forward.

And in the years since, I have gone on to the Senate, I have continued to work with Chris on a number of issues. For example, we fought for the interests of children when we co-authored the Child Support Enforcement Act, and we have been working together with Senator Feinstein and others to assure a more equitable distribution of homeland security grants—an issue that I am sure we all have different views depending on the size of our States.

Now, I have found Congressman Cox easy to work with, a pleasure to work with. And, you know, we do not agree on some very basic issues, and we are very open about that. But we have in the past definitely set aside those differences to make progress for the people. And now, the rest of my statement will be very brief, and I want to address it to you and my Democratic colleagues.

As you review this important nomination to the post of Chairman of the SEC, I ask that you keep in mind that this position impacts the financial security and well-being of every person in the country. Chris and I have talked about this. More Americans invest in the stock market either directly or through vehicles like their pension or retirement funds than ever before.

In a former life, many years ago, I was a stock broker. And I knew what happened when the stock market crashed after the as-

sassination of JFK all those many years ago. I will never forget the looks on the faces of the clients that I was trying to help at that time. They count on us. They will count on Chris. So, I think what is very important in the wake of Enron, WorldCom, and the Adelphia scandals is that we make sure that Congressman Cox takes his considerable talents, and he puts them to work on behalf of the people of this country—not the special interests but the people of this country.

Now, he and I have talked about that, and he has told me with great, I think, emotion that he will, in fact, do that. And since Senator Feinstein had a really important quote, I will also quote Chris when he spoke in favor of the Sarbanes-Oxley Act: "Fraud and unfair dealings are the enemies of the free enterprise system. And as we see from the turmoil in our markets, our country is paying a very high price because those in power have broken faith with their employees and their investors."

So, I am looking forward to learning from today's hearings how Congressman Cox, as head of the SEC, would achieve three goals by using his considerable talents, and keeping that, I think, strong statement right in the front of his mind that he is, in this position along with our other good colleagues, going to protect the interests of the people of this country.

Thank you very much.

Chairman SHELBY. Thank you, Senator Boxer.

Senator Schumer.

STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman. It is a pleasure to be here sitting before my colleagues on this side of the table, and I want to welcome——

Chairman SHELBY. We ask you questions now.

[Laughter.]

Senator SCHUMER. You know, when you sit down here, you see how high up you guys are, and you are down here, and it is a different experience altogether. I think I like it better on that side.

But in any case, I want to thank you for holding this hearing, and by the way, Mr. Chairman, the bipartisan group we have here is an example of how you and Senator Sarbanes have always attempted to run this Committee, and I think it is one of the reasons we have had a great record of success as you have been Chairman and as well when Senator Sarbanes was Chairman.

I am here to introduce, of course, Annette Nazareth, but I wanted to say a few words to welcome first Chris Cox to the hearing. I used to joke that Chairman Donaldson visited us so often that he became an honorary Member of the Committee. My guess is you will be in the same position, and we look forward to your many visits here. And let me say, frankly, that I am in support of your nomination. And the reason is this. I have always described myself as both pro-business and pro-regulation, and I do not think the two conflict, as the statements that Senator Feinstein and Senator Boxer mentioned.

Strong, good businesses and particularly financial businesses have to be sure that there is good regulation so the public trusts them. And I do not think there is a conflict. Everyone knew when

you were nominated that you were pro-business, but I think an examination of your record and certainly our discussions indicate that you are pro-regulation as well, and I was heartened to see that you had stated publicly what you had told me privately, that there is not going to be a big rollback of all of the things that have been done; the Sarbanes-Oxley bill, which has done so much good, and many of the other things that Chairman Donaldson did. So, I really look forward to your being Chairman of the Commission, and I think we are going to have a very good time at that.

I want to thank Commissioner Campos for being here. Your record speaks for yourself, sir. You have done a great job on the Commission, and that is why I think your renomination is going to go through without a hitch.

And it is my job here to introduce Annette Nazareth to my colleagues here on the Senate Banking Committee. Before introducing her, I would like to introduce and welcome her husband, Roger Ferguson, who has also sat on this side of this table. Roger Ferguson is a great public servant. He is now the Vice Chairman of the Federal Reserve Board, and I know, Roger, you are proud to be here to support your wife, another amazing public servant in the financial world. Thank you for being here, and I want to welcome your daughter, Caroline. The last time I saw Caroline, we just bumped into each other in Yellowstone Park, it was. We were on separate family vacations and just happened to see each other, and I know your son is away, but he wanted to be here today, too.

Mr. Chairman, I take great pride in submitting the name of Annette Nazareth to be a nominee for the Securities and Exchange Commission. I have had the pleasure of working closely with Annette in her role as Director of Market Regulation for the past several years, and if I was allowed only three words to describe her today, I would say she is thoughtful, pragmatic, and balanced. She understands the need for business innovation with a strong regulatory framework to protect U.S. investors.

In short, she is probably much like the description I gave to Chris Cox. She is both pro-business and pro-regulation. They might have different emphases, but the two will work well together.

Annette Nazareth led the Market Regulation Division since 1999, supervising and regulating the U.S. securities market by establishing priorities and guiding the resolution of a number of securities market and broker-dealer issues, including equity market structure issues, internalization and fragmentation concerns, market data issues, intermarket links, and options market issues.

And let me just say, as we know on this Committee, with new technology, these were very, very difficult times. To keep our markets preeminent—as a New Yorker, I obviously care about that—bring in the new technology but keep the openness and depth and liquidity of our markets that we have come to prize. And the strong and yet subtle hand of Annette Nazareth was behind all of this, and I think one of the reasons that our markets can anticipate the 21st century with great success, and I think no one doubts that they will continue to lead the world, is because of the work that she did while working for the Commission.

And now, as a Commissioner, I think she can do even more. She is known on Wall Street and in Washington as being open-minded

and fair. She is always willing to discuss issues in an in-depth manner, and frankly, we have had a few differences, and she has done as well with those as with the ones where we have agreed.

I think her diverse background will be invaluable to the Commission, and I would ask unanimous consent my entire statement be read into the record.

Chairman SHELBY. Without objection, your statement will be made part of the record

Senator SCHUMER. Oh, one other thing, Mr. Chairman. Our colleague, Jack Reed, had wished to be here. Annette was raised in Rhode Island, attended Brown, and then had her career in New York, and he could not be here today but wanted to——

Chairman SHELBY. Any statement he would have will be made part of the record.

Senator SCHUMER. Thanks.

Chairman SHELBY. Senator Bunning, do you have any comments?

STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. I just have an opening statement, and I will give it to the record.

Chairman SHELBY. Without objection, so ordered.

Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman. I would submit an opening statement for the record and welcome the nominees.

Chairman SHELBY. Without objection, it is so ordered.

Congressman Cox, do you have any family? They have been introduced. Do you want to introduce them again before we call on you? And then, I will call on you? And then, we will call on the others, and then, we will start. I know Rebecca is here.

Representative COX. Mr. Chairman, I am very pleased that I am joined, and I appreciate the Committee's willingness to let my family be here, by my wife, Rebecca. Seated immediately to her right is my son, Kevin, who is 6 years old; my son, Charles, who is 12; and my daughter Katie, who is 11. They are a source of continuing support, inspiration, encouragement, and advice.

[Laughter.]

Chairman SHELBY. Mr. Campos, Commissioner Campos, do you have any family or any comments you want to make about somebody here?

Mr. CAMPOS. Yes, I do, Senator. Thank you very much for offering that. I would like to introduce my wife and life partner, Minnie. She is a practicing physician and my son, Daniel, who is a sophomore at a local school. And that is all I have with me today.

[Laughter.]

There are a lot more in Texas and California, but they could not be here.

Chairman SHELBY. Ms. Nazareth, do you want to acknowledge your husband again? Go ahead.

Ms. NAZARETH. I certainly always like to acknowledge my husband.

Chairman SHELBY. He is no stranger to this Committee.

Ms. NAZARETH. I know that, but I will take the opportunity to acknowledge my husband, Roger Ferguson, who is also my life partner and my inspiration as a public servant and my daughter, Caroline Ferguson, who is 10, and like, I guess, the Cox children, is a very honest and wise adviser. And our son, Roger III, is unable to be here today. He is at camp, but he is 14 years old.

Chairman SHELBY. Would all three of you stand and raise your right hand and be sworn?

[Witnesses sworn.]

Chairman SHELBY. All of your written testimony will be made part of the record. Our votes have been delayed a few minutes, so we will start with you, Congressman Cox, any comments you want to make with regard to your nomination.

STATEMENT OF CHRISTOPHER COX
A U.S. REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA AND
CHAIRMAN-DESIGNATE
U.S. SECURITIES AND EXCHANGE COMMISSION

Representative COX. Mr. Chairman, Senator Sarbanes, and Members of the Committee, it is a pleasure to appear before you today. I am deeply honored that President Bush has nominated me for the very important task of ensuring the integrity and efficiency of the Nation's capital markets. I want particularly to thank Senator Boxer, Senator Feinstein, and Senator Stevens for their very generous comments and introductions. It has been a pleasure to have had the opportunity to work with them over a period of very many years. And likewise, thank you, Mr. Chairman, Senator Sarbanes, and each of the Members of this Committee, for the time and the advice that you have given me during the course of this confirmation process.

It is a special honor to be nominated to follow in the footsteps of Bill Donaldson. His advice and guidance over the past 2 months have been invaluable as well. He has served the Securities and Exchange Commission, and our country, with honor and distinction. Today, I am very pleased to be sharing this hearing with Commissioner Roel Campos and Commissioner-designate Annette Nazareth, both of whom have played such important and distinguished roles at the Commission.

With your permission, Mr. Chairman, I would like to just briefly describe some of the priorities that I would address as Chairman if confirmed by this Committee.

I want to begin by noting that this Congress—and in particular this Committee—plays the defining role in charting the course and the overall mission of the Securities and Exchange Commission. As you noted, Mr. Chairman, through my years of service on the Energy and Commerce Committee and the Financial Services Committee, I have had the privilege of working with Members of this Committee and the staff of this Committee to give the SEC the tools that it needs to ensure the integrity of America's capital markets. Our most recent accomplishment was the historic Sarbanes-Oxley Act, which was absolutely necessary to bolster confidence in the integrity of our markets. Sarbanes-Oxley is now a pillar of our securities regulatory charter.

Mr. Chairman, this is only a brief statement. But I think it is important, in these opening comments, to describe some of the priorities that, if I am confirmed, would be the focus of my service as Chairman of the Securities and Exchange Commission.

First, my top priority will be the vigorous enforcement of our securities laws. The Commission must be vigilant on behalf of investors, and stalwart against fraud and unfair dealing. This Committee and the Congress have given the Commission the legal tools that it needs to protect investors and the health of our financial markets. If confirmed, I will carry out that mandate, through the aggressive use of the tools that Congress has provided.

Second, I will cultivate respect for the rule of law in our capital markets. There is no better means to this end than continuity, clarity, and consistency in the Commission's rulemaking and enforcement.

Third, I will strongly support the Commission's ongoing work to ensure that the rules governing our financial markets keep pace with advancing technology. The rapid globalization of securities markets, and the amazing development of the Internet as a medium for commerce and information have occurred at the same time that the number of Americans who are directly invested in securities has reached record levels. These developments offer both investors and issuers extraordinary new opportunities, but they also bring unprecedented risks. As a result, the work of the SEC is now more important than ever.

Fourth and finally, I will work to ensure the continuity of critical operations in the financial sector in the event of another terrorist attack. As the Chairman of the Homeland Security Committee, I know how much work has already been done in this area, but as the tragic events of this July in London have shown, the threat of terrorism has not abated, and the September 11 attacks on Wall Street have put us on fair notice.

If I am confirmed as Chairman, the SEC will continue to play a key role in the President's Working Group on Financial Markets, and the SEC will continue to work closely with the Department of the Treasury, the Justice Department, the intelligence community, State and local law enforcement, and our partners around the world to see to it that the American men and women whose savings and jobs depend on the security of our capital markets are as safe and as protected as they can be.

Chairman Shelby, Senator Sarbanes, and Members, I am grateful for the opportunity to serve as Chairman of what Senator Sarbanes has rightly called the crown jewel of Federal regulatory agencies. From my early days as a securities practitioner to my most recent years in Congress, I have been consistently impressed by the high caliber of professionals at the Securities and Exchange Commission. For 70 years, the SEC has set the standard of regulatory excellence for the Federal Government and for governments around the world. It will be an honor, if confirmed, to join this exceptional team.

In closing, may I say that it has been an equally profound honor to work for nearly two decades with each of you as colleagues in this Congress, and if you confirm me, it will, of course, mark the end of that extraordinary experience. But I welcome the oppor-

tunity to continue to work with each of you for the protection of investors and the efficiency of our financial markets.

Mr. Chairman, I would be happy to answer any questions you may have.

Chairman SHELBY. Thank you.

Mr. Campos.

STATEMENT OF ROEL C. CAMPOS
MEMBER-DESIGNATE
U.S. SECURITIES AND EXCHANGE COMMISSION

Mr. CAMPOS. Thank you very much, Mr. Chairman.

I again am very appreciative of being here for the second time, and I greatly value and appreciate the opportunity I have had to work with this particular Committee and various Members at various times regarding the issues with securities regulation over the last 3 years.

Mr. Chairman, almost exactly 3 years ago, I had the privilege of coming before this Committee for confirmation hearings as today to be a member of the Securities and Exchange Commission. At that time, I shared with this Committee that my life's journey had begun in a humble household of Mexican-American parents in the southernmost part of Texas. I explained that my father served in World War II, was wounded in action in Germany, and worked many jobs during his working life to support my mother and five children.

Three years ago, my father, a retiree, and millions of other Americans were dismayed and outraged as they learned of one corporate fraud after another. These words have become household names: Enron, Adelphia, Tyco, and WorldCom. In response to the concerns of investors and retirees like my father, who wondered whether their investments were safe and whether they should have confidence in the American markets, Congress guided by this Committee led by then-Chairman Sarbanes, did the Nation a historic service by passing the Sarbanes-Oxley Act of 2002.

In the 3 years of my service, the Commission has fulfilled Congress' mandate, met the deadlines, and implemented, through often complicated rulemakings, the requirements of Sarbanes-Oxley. Unfortunately, in those 3 years, many other threats to investor confidence and the stability of the markets have erupted. Securities analysts were discovered to be recommending companies that they believed were "dogs," in their own words, to promote banking business. A disturbing number of mutual fund executives were found to be placing self interest above fiduciary duties and were found to have allowed market timing and late trading privileges to large customers at the expense of fund investors. Significant trading violations were found to have occurred on the floors of our major exchanges. Full and accurate financial disclosures by listed companies continued to be a problem, and many schemes were revealed that were inflating financial numbers.

With these challenges, the SEC found itself in the busiest and most crucial time since its creation, when Congress first dealt with massive fraud and flight from the markets following the Great Depression. In the 3 years of my service, the Agency has conducted over 200 rulemakings, interpretations, proposals, and the like. In

that time frame, the Agency has brought nearly 2,000 enforcement proceedings. In fiscal year 2003, over $1.1 billion and in fiscal year 2004 over $1.21 billion in disgorgement and penalties were assessed to help restore investor losses from securities fraud.

I continue to believe that in America, the vast majority of businesspersons, broker-dealers, investment advisers, and professionals are honest and scrupulous. However, my days as a Federal prosecutor and businessman teach me that a significant few will succumb to temptation and thereby cheat. It is true that no amount of regulation will ever totally prevent fraud. However, wise regulation and proper sanctions will deter and reduce the odds of success and reduce the damage that occurs before the discovery of fraud in the marketplace. The challenge of all regulation is to protect fully investors and their capital without unduly burdening the conduct of business. The sad fact is that a few cheaters can cause capital to stampede to the sidelines, cause huge reputation damage to an industry, and diminish the liquidity of our markets.

During the past 3 years, I believe that the SEC has contributed mightily with Congress in helping restore much of the lost confidence of investors in our markets. There is still a long way to go. Most of the rules involving Sarbanes-Oxley have been in effect less than 2 years, and their positive impact is just beginning to be evident. While nothing in life is perfect, I believe that the SEC has implemented Sarbanes-Oxley and other rules in a very moderate and practical matter, allowing honest business and the regulated financial community to flourish and has protected investors. I believe that an important key to the future is that the Agency continue to listen to industry and, where appropriate, smooth out the "rough edges" of regulation. However, wise and fundamental principles, such as those in Sarbanes-Oxley and those that seek greater transparency and the elimination of conflicts must never be compromised.

Recently, I have supported and been privileged to be active in the Agency's effort to understand and apply industry suggestions in the areas of hedge fund adviser registration, the application of Section 404, involving the attestation of internal controls of public companies, and the constant improvement of our examination process. The SEC's enforcement program must continue to be vigorous and act in real time to protect investors' capital and minimize losses. Where egregious violations of securities laws occur, strong sanctions must be imposed to create deterrence and provide appropriate punishment. On the other hand, where possible, the Agency must continue to reduce and eliminate antiquated rules, such as with the Securities Act Reform, which will simplify and greatly reduce the cost of raising capital in America.

If the Senate grants me this huge honor of confirming me a second time as a Member of this Commission, I vow to continue to bring all of my energies to work diligently with my fellow Commissioners and Chairman to continue to accomplish the noble mission that Congress has given this Agency: to protect investors, as Senator Sarbanes said, and to maintain the integrity of the markets.

Thank you for your kind attention.

Chairman SHELBY. Thank you.

Ms. Nazareth.

STATEMENT OF ANNETTE L. NAZARETH
MEMBER-DESIGNATE
U.S. SECURITIES AND EXCHANGE COMMISSION

Ms. NAZARETH. Thank you, Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee.

I am deeply honored to appear before this Committee today, and I am deeply grateful to President Bush for nominating me to serve on the Securities and Exchange Commission.

I am a passionate believer in the United States capital markets and the benefits to our Nation and its citizens that come from a well functioning, appropriately regulated financial system.

I have spent all of my professional life working in, for, and with the financial services sector. My career has been primarily based in the securities industry, where for 12 years, I worked in various investment banks and commercial bank affiliates. I have hands on experience helping businesses navigate the legal and regulatory requirements that industry faces. I have also gained an appreciation of the issues and challenges facing the securities markets and those who participate in them, whether they are brokerage firms, professional traders, or retail investors. I believe that this firsthand experience helps me identify sensible and pragmatic selections to issues. I am keenly aware of the cost of regulation and the importance of balancing these costs with the benefits that regulation seeks to achieve. Most recently, I have served as Director of the Division of Market Regulation at the SEC, and I have had the opportunity to work closely with Members of this Committee and the House Financial Services Committee on a multitude of securities related issues. I have also represented the Commission as a member of the Financial Stability Forum, which is comprised of central banks, finance ministry officials, and other regulatory authorities. The Financial Stability Forum has the mandate to assess vulnerabilities affecting the global financial system and identify actions to address those vulnerabilities.

Finally, I must share with you the reverence that I have for the Commission and its Chairman. As William O. Douglas so aptly put it, we are the investors' advocate. In the United States, we have the deepest and most liquid securities markets in the world. We also have the highest level of retail investor participation in the world. We are indeed an ownership society, and this is due in no small part to the confidence that investors rightly place in our markets. Integrity and transparency are the hallmarks of our financial system. I believe that working together in a thoughtful manner, we can continue to maintain this preeminence and meet new challenges. I look forward to working with Chairman Cox, and I would hope to help forge consensus on many of the issues that the Commission will face. I would be honored if you would permit me to be a Commissioner of the Securities and Exchange Commission.

Thank you.

Chairman SHELBY. Thank you.

I will ask each one of you this question, and I will ask you to respond to this question. Some of us on the Committee remain troubled by the recent trend of split votes at the SEC. The SEC's quick reconsideration of the independent chairman requirement for mutual funds following the recent DC Circuit ruling adds addi-

tional hesitation. I think some Members of the Committee are concerned that the lack of consensus on fundamental policy changes to some extent perhaps undermines the SEC's credibility and established an unfortunate precedent.

Are any of you troubled by the lack of consensus on major regulation here, and what does this mean for the SEC going forward. I know you cannot always agree on everything; that is common sense, but Commissioner Cox?

Representative COX. Thank you very much, Mr. Chairman.

Let me begin by noting that as a Chairman in the House of Representatives—I have been given the gavel three times—and in each case, all of the legislation and all of the official reports produced by the Committees that I have chaired have been unanimous and bipartisan.

I have been a Member of a number of Committees in Congress, and I know that unanimity and bipartisanship is not always possible, because people genuinely disagree. By statute, as you know, no more than three Members of the Securities and Exchange Commission can be of one political party. So by design, Congress has ensured that there be different points of view represented on the Commission.

I will undertake, Mr. Chairman, if you confirm me as Chairman of the Securities and Exchange Commission, to do my level best to seek the common ground, build bipartisanship and, in fact, strip partisanship of any kind from all of the deliberations and decisions of the Securities and Exchange Commission, because I agree with the premise of your question that wherever possible, unanimity of purpose, of rulemaking, speaking with one voice strengthens the Commission and strengthens its role in the capital markets.

Chairman SHELBY. Commissioner Campos, of course, you have been on the Commission.

Mr. CAMPOS. I have been part of those split decisions.

Chairman SHELBY. Sure.

Mr. CAMPOS. I do believe, as Congressman Cox has indicated, that it is desirable to try to reach consensus in all of the work that is attendant to that, all of the background work and discussions and understanding the views of the different Commissioners and the staff should be taken into account.

However, in life, I think we all know, difficult decisions and honest brokers and honest and reasonable minds will differ, and I think that with the numbers of tough issues that the Commission has had to deal with, it is not terribly surprising that there have been split decisions.

And I, for one, do not believe it takes away from the credibility of the Commission so long as the Commission has done its utmost to reach consensus and to get there, and I believe that our process must continue to be very open, in which all of our deliberations are out there for the public; the various considerations that went into each particular Commissioner's decision when the final vote is out there and available.

And when that happens, I believe that the public, the professionals, and Congress can see that the process was appropriate and was proper, and there was nothing illegitimate about it. After all, the Supreme Court splits 5–4 very regularly, and no one says that

their particular decisions are illegitimate because they have a split decision.

Chairman SHELBY. Ms. Nazareth.

Ms. NAZARETH. I agree with much of what has been said. Obviously, consensus is highly preferable, and I think as in many situations, there are a number of ways to skin a cat, a number of means to achieve the desired goals, and it should certainly be our strong preference to find a path that we can all agree on for the maximum number of issues.

Chairman SHELBY. Congressman Cox, several months ago, the SEC issued guidance on stock option expensing and provided issuers with additional time to comply with the new FASB rule. I support FASB's rule and the SEC's efforts to provide issuers with technical guidance on valuation. In light of your prior position on this issue, what assurances can you give this Committee that you will continue to support the SEC's efforts in this area?

Representative COX. Mr. Chairman, both the FASB deliberations and the SEC guidance have essentially concluded at this point. That process is going forward. Issuers are expected in the next fiscal year to comply with this rule. In my view, as a result, these questions have been asked, answered, and deliberated upon. What is most important going forward is that we have clarity.

This has been an issue of some discussion legislatively. That is highly unusual. In my view, the independence of FASB is of vital importance, as is the independence of the Securities and Exchange Commission. The interests of Congress are different than the interests of the FASB and of the SEC, and Congress, of course, is concerned with big picture questions of the economy and so on.

All of those issues, to my way of thinking, have been addressed. The process has gone forward, and if you confirm me as Chairman of the Securities and Exchange Commission, I will ensure that the Securities and Exchange Commission builds upon the record already established and that the rule is implemented as the markets expect.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

First of all, let me say I strongly associate myself with the Chairman's, the question he has just asked with respect to the issue of expensing of stock options, and I appreciate your response, which obviously reflects, I think, an appropriate sensitivity to the necessity of having independence in the standardsetters. That is how FASB was established, and that is the precedent we have tried to stick to, although on occasion, it is difficult.

I will just tell you this story, which underscores what you said. When the Committee did Sarbanes-Oxley, there were Members who wanted to include in it statutorily a provision that stock options should be expensed. I opposed that amendment not on the substance but because it was my view that FASB had been set up to make this decision, and therefore, it should be left to FASB to decide.

A number of my colleagues agreed with that in opposing that amendment. They said no, we do not want to pass this amendment. This is a decision for FASB. Subsequently, after considerable study, hearings, proposed rules, modified rules, and so forth, FASB put

out that the options should be expensed, which, of course, is the treatment that is taking place in Europe, for example, in the EU and has been advocated by many observers for many years.

Some of these colleagues who earlier had said well, no, no, this should be left to FASB at that point decided no, no, now, we have to interfere with FASB's independent judgment and try to enact legislation. Fortunately, that did not take place, but it does underscore the question of the role of FASB and how the SEC relates to that role.

Now, the SEC has, as it were, a supervisory role, but it seems to me it traditionally and in my view should continue to recognize FASB's preeminent role as the standardsetter and the necessity of taking those standards, those very complex accounting issues out of the political context and putting them more into a context in which careful analysis and expert decisionmaking takes place.

Is it fair to say you perceive the relationship the same? I ask that, actually, of all three of the nominees. Do you see the relationship that way?

Representative COX. Senator Sarbanes, the answer to that question is "yes." I know that this issue is of great importance to you, and I have had the opportunity to discuss it previously before this hearing. I do not think that there is any question but that the Securities and Exchange Commission's role in supervising the FASB is designed to ensure such general and important, "big picture" things as the protection of investors, ensure the integrity of the process, and ensure that all of the issues are taken into account.

But in terms of accounting expertise and technical questions, the judgment of the FASB is to be respected. That is what it is there for. I also agree with your sense that standardsetting on accounting matters in the Congress is unwise. The very rare occasions where bills have been introduced have been, in my view, legislative efforts to make sure that issues are taken into account as much as there have been very serious efforts to actually write the standards in the Congress, which I think would be a mistake.

Chairman SHELBY. Mr. Campos.

Mr. CAMPOS. Senator, I strongly believe in the principle of independent standardsetters, which the FASB situation symbolizes. The SEC has a very specific statutory role to oversee the FASB, and we have to handle that very carefully, where we do not take away their autonomy and their independent judgments.

But it is important for us at times to make sure that the process seems open and that business interests are heard but that the independence, above all, is protected. And I think keeping politics and political bodies away from standardsetting is a very wise course, and that is being followed all over the world, I might add.

Senator SARBANES. Ms. Nazareth.

Ms. NAZARETH. I agree with you very much, Senator Sarbanes. I support the independent role of FASB, and I think it is vitally important that we defer to their expertise on standardsetting.

Senator SARBANES. The same issue arises, to some extent, with respect to the Public Company Accounting Oversight Board, and I have been struck by the ability of the SEC and Chairman McDonough of the PCAOB to work out that relationship in a very, I think, positive and constructive way. And once again, I would ask

how sensitive each one of you is to the necessity of preserving the appropriate role for the PCAOB as it carries out the functions it has been charged with under the recently enacted legislation.

Why do we not just go right across again real quickly?

Representative COX. Thank you, Senator Sarbanes. The Sarbanes-Oxley Act vests the Securities and Exchange Commission with responsibility for oversight of the PCAOB and creates this very important body. Its Chairman, Bill McDonough, in my view, has done an outstanding job. I have recently met with him and look very much forward to working with him in a collaborative and cooperative way. I think that is the appropriate way for the SEC and the PCAOB to work going forward.

Mr. CAMPOS. Senator Sarbanes, I agree as well, and we have been learning as we go but being very respectful of, I think, the PCAOB and its leadership, certainly, under Chairman McDonough. And I foresee that continuing, and we will discharge our oversight but in a way that obviously allows the PCAOB to promote its autonomy and its standardsetting.

Ms. NAZARETH. In my current role, I have not had too many dealings with the PCAOB. But I certainly have a lot of experience dealing with self regulatory organizations, which is really what the PCAOB is akin to for the accounting industry, and I strongly support the role that they provide.

Chairman SHELBY. Senator Carper, do you have—do you want to briefly——

Senator CARPER. Yes, I will make it real short.

Mr. Campos, when we look back at this series of 3–2 votes that we are talking about, we are going to have a new swing vote here, I think, in all likelihood, and this is a question I guess as much for Mr. Cox as it is for you, maybe more for Mr. Cox than it is for you, but how would the SEC be different if you had been sitting in the Chairman's seat, Congressman Cox, for the last 2 years than where you have been sitting as these 3–2 votes came along on these key issues?

Representative COX. Senator, I do not know. It is an excellent question. It is one I have certainly given a lot of thought to, but Mr. Campos and Ms. Nazareth have actually been part of these deliberations.

I have no reason to think that Chairman Donaldson and each of the Commissioners did not give their level best to try to achieve consensus and tackled some very, very difficult issues that, in my view, needed tackling because of the circumstances. So, I cannot say that things would have turned out differently had I been at the Commission. I do not know.

What I can say is going forward, I agree with the statements made earlier by Ms. Nazareth and Mr. Campos in response to earlier questions. I will give my level best to working collegially with the other Commissioners and seeking common ground and seeking consensus if it is possible to achieve. If consensus means that each of the Commissioners must compromise their important principles or do something that in their view would injure investors and investor protections in America, then, you cannot very well expect them to change their votes.

Senator CARPER. I am going to interrupt you. I do not mean to be rude, but we have a vote underway, and you know how that works.

Representative COX. Yes, I hope you understand——

Senator CARPER. You have had a chance to talk with Chairman Donaldson, and I expect you have a good relationship with him. What are some areas where—I know there are a lot of areas where you agree with them. What might be some areas where you think you might disagree?

Representative COX. I have not known Chairman Donaldson before President Bush nominated me for this position, but I have gotten to know him over the past 2 months. I have found his guidance to be extraordinarily helpful, and in my view, he has been a very standup guy in some very tough times.

I think that jumping into the breach, as he did, when markets were lacking in confidence, when investors were reeling from all of the news and the financial dislocation of these huge scandals reflects great credit upon him but most importantly, he brought great credit to not only the SEC but also to the enterprise of building confidence in our markets.

And so, I look at his record as one of great achievement, and I would hope to build on that and extend it if I am confirmed as Chairman of the SEC.

Senator CARPER. A question I am going to ask each of the witnesses to answer for the record, if you would, not at this moment, but we have all heard assertions of problems with the so-called Section 404 rules of Sarbanes-Oxley, and as you know, that Section is designed to require the SEC to develop and adopt rules that require companies to report to the management of the companies' internal controls of their financial reporting. And some of us have heard, I am sure we have all heard from time-to-time, that these reporting requirements are cumbersome and that the audits are expensive, at least the initial ones are.

I would just like to ask each of our nominees to comment on this issue and to give us a sense of whether you think there is a problem or not and what the steps are you think should be taken as we go forward so that we can have robust, vibrant markets and also strong investor protections.

Chairman SHELBY. For the record.

Senator CARPER. On a lighter note, ask one last question of the Chairman, because at Southern California University, were you a member of a fraternity?

Representative COX. Yes, I think it is the same well-known organization of which you, Senator, are a member.

Senator CARPER. Keeping in mind that Congressman Cox——

Chairman SHELBY. Is that a——

Senator CARPER. No, it is not. Congressman Cox's wife and his children are sitting behind him, if your fraternity brothers were sitting here right before us today to speak on your behalf, maybe we could get them to answer for the record what they, too, would say.

[Laughter.]

So that is a question for another day.

[Laughter.]

Chairman SHELBY. Thank you, Senator.

We are having our first vote. Our time is up. We have four more consecutive votes. We are going to recess, I will say, for about 45 or 50 minutes, give you a chance for a long coffee break. We will be back.

We are in recess.

Senator SARBANES. Mr. Chairman.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Since we have to respond to the vote, and that shows you how we lead our lives here, both in the Senate and in the House, of course, I just am curious whether Charlie, Kathryn, and Kevin, Congressman Cox's children, are aware that if he is the Chairman of the Commission, he can set the times the Commission meets.

[Laughter.]

And therefore, if there is a Little League game or something of that sort, the Chairman should be able to make provision for it. I just want to note that for the record.

[Laughter.]

Chairman SHELBY. If any of you want to take a break for your children for the rest of the day, we are in recess.

[Recess.]

Chairman SHELBY. The hearing will finally come back to order. We are sorry. One hour became two.

Congressman Cox, several press accounts have described your involvement in a lawsuit arising from your time when you were in the private practice of law. I think the outcome, if I recall, of that lawsuit was in your favor. But would you just for the record clarify your role in that litigation, how it was resolved, and so forth?

Representative COX. Thank you, Senator. I appreciate the opportunity to discuss this matter.

Chairman SHELBY. Sure.

Representative COX. Ten years ago, when I had already been a Member of Congress for 10 years, I was added to a class action lawsuit in California State court. The purported basis of including me as a defendant was work that I and my law firm did for a man who 10 years thereafter was exposed as a criminal.

I did preliminary work on a small SEC-registered public offering. However, that public offering was not the basis for the criminal indictment and ultimate guilty plea and conviction of this individual.

Chairman SHELBY. You had been in the Congress 10 years, had you not?

Representative COX. That is correct.

Chairman SHELBY. Okay.

Representative COX. But I also did not work at the law firm at the time that the one small limited partnership offering, which was not the subject of the fraud indictment, took place. And for those reasons, the Court dismissed all of the counts against me.

Chairman SHELBY. Well, basically it was terminated in your favor; is that the bottom line?

Representative COX. Yes, I had the entirety of the complaint dismissed against me. And there was no settlement of the claim, either. I prevailed in court.

Chairman SHELBY. Thank you.

Commissioner Campos, I have been particularly interested in the ongoing convergence efforts by our international counterparts with respect to financial reporting and corporate governance. Senator Sarbanes and I have followed this. We have traveled and met with a lot of the regulators, as you well know.

During your tenure at the Commission, you have played a significant role in promoting this process. Would you take a few minutes and highlight some of the important accomplishments and remaining challenges relating to the convergence process? In other words, where are we and where do we need to go? What are the impediments?

Mr. CAMPOS. Senator, thank you for bringing that up. It is a very important process in that several things are in play here. We believe at the Agency that the U.S. markets should welcome outside capital when it seeks to come into the U.S. markets, and so, there is an ongoing dialogue about how, consistent with protecting investors, we can also attract and keep foreign companies coming to the United States, enlisting in our markets.

The convergence process is very interesting in that what I have seen in my representation of the Agency is that other jurisdictions in Europe and in Asia are coming toward the principles of Sarbanes-Oxley, the principles that we use in the United States, and the convergence is occurring at a high level.

What this means is that over time, there will not be the ability for companies to essentially play one jurisdiction off the other and seek the lowest denominator of regulation, which is not a good thing. And so, in other words, there will not be what we call a regulatory arbitrage, because the other regulators in the world see the importance of having markets that are safe, that protect capital, and that the rule of law applies.

Those jurisdictions that do not protect capital are not going to be attracting companies and investments over time, so we have all of this working together in the world of globalization to converge standards. One of those things that is ongoing right now is the idea of the reporting standards being IFRS, International Financial Reporting Standards, which are based on international accounting standards.

Europe will require their companies to use IFRS this next year. At some point in the near future, we at the Agency and through our chief accountant are interested in reaching the point where it will no longer be necessary for those companies that use IFRS to reconcile to U.S. GAAP. That will promote transatlantic commerce and industry.

But we want to make very sure that occurs when the convergence is sufficient, and an investor here in the United States, then, could look at a company that is based on U.S. GAAP, whose financials are based on U.S. GAAP and look at a company in Europe whose financials are based on IFRS and have comparability and understand where they want to make their investment. But those are the things that are going on in that area.

Chairman SHELBY. Thank you.

Ms. Nazareth, with the adoption of Regulation NMS and the recently announced transactions involving the NYSE and Nasdaq, our national equity markets are at a crossroads. After the mergers

are finalized, there will essentially be two dominant players in the equities markets controlling most of the liquidity.

How do you think the changing regulatory environments and the announced transactions would impact investors and broader markets? What does it mean for the self-regulatory function here?

Ms. NAZARETH. You raise an excellent question about the self-regulatory function. As you know, our current self-regulatory structure has been in place almost since the inception of our markets.

Chairman SHELBY. That is right.

Ms. NAZARETH. Indeed, the structure precedes the Securities and Exchange Commission itself, and it certainly is an opportune time, an important time, to analyze, whether it is the most effective structure, particularly in light of the changes that are occurring today in our markets.

And we are at the relatively early stages at the Commission of analyzing those issues, and I look forward to considering those issues with my fellow Commissioners. The Commission today has outstanding two different proposals. One is a proposal to enhance the governance and transparency of our SRO operations, and that is a pending rule proposal the Commission will need to consider, and another is a concept release that raises broader questions about self-regulatory structure, and again, it is a very important issue for our markets. The integrity of the markets is absolutely key, and I look forward to analyzing those issues with others.

Chairman SHELBY. Congressman Cox, in light of the Global Settlement, mutual fund investigation, and recent investigations into accounting and the insurance industry, many people have questioned the appropriate role of our State attorneys general in the area of securities regulations, in other words, the State role.

It seems that State attorneys general often initially discover financial wrongdoing. Would you comment on the appropriate role, from your perspective, of the State and Federal regulators in securities regulation and enforcement?

Representative COX. Thank you, Senator.

Of course, the blue sky regimes of our 50 States antedate the Securities and Exchange Commission. There is a substantial and vital role played by the blue sky laws, the antifraud laws, and the investor protection laws of the 50 States, our territories, and jurisdictions.

The enforcement and the regulatory regimes of the State and Federal jurisdictions should be complementary. One hopes that the work is in no way jealous or competitive; that there are no turf competitions, but rather, there is a constructive effort to work together. In important respects, there are different spheres and responsibilities, but in other respects, they are overlapping, so it is also important to ensure that there is not a waste of resources or doubling up or tripling up on the same thing to the neglect of other priorities.

Chairman SHELBY. Okay.

Senator Sarbanes, do you have any other questions?

Senator SARBANES. Yes; thank you very much, Mr. Chairman.

The SEC has considerable power, both formal and informal, over our corporate governance system, and investors depend on that system to make sure that companies are run in the interests of their

investors and that the public is given full, fair, accurate disclosure about their companies. I want to ask each of you whether investors can count on you to maintain the rights investors enjoy today, including the rights to communicate with fellow investors, to bring proposals before annual meetings, and to withhold votes from directors who are not performing up to their expectations.

I see you all have rearranged yourself at the table.

[Laughter.]

It shows the imprint of——

Chairman SHELBY. They are already working together.

Representative COX. Senator Sarbanes, I will be pleased to answer your question first, and of course, the considerable expertise of Ms. Nazareth and Mr. Campos is something that I can benefit from as well.

Shareholders are owners, and the rights of owners and the rights of investors have to be protected in our system if our markets are going to work.

Senator SARBANES. I have heard Chairman Shelby say that often, that it is the shareholders who own the company.

Chairman SHELBY. I thought the shareholders did own the company.

Senator SARBANES. They do in fact.

Chairman SHELBY. I think we may get Senator Sarbanes to stipulate that.

[Laughter.]

Representative COX. Protecting shareholder rights as owners is, I think, a derivative way of protecting the liquidity of the markets, enhancing the value of share ownership, and so, of course, I would strongly support enforcement and protection of all of the rights of shareholders that they presently have, and I would also be more than willing to look at ways of using, for example, new technology to expand the opportunities that shareholders have to learn about and benefit from information about and participate in using such information about the company.

Chairman SHELBY. Mr. Campos.

Mr. CAMPOS. Senator, I certainly support protecting the existing rights of shareholders, and the SEC, of course, has the Federal mandate, the Federal laws, and we have been studying, as you all know, the proxy system as to whether the proxies should allow shareholders with certain percentages the right to put a minority slate on their slates. And we studied that issue very hard and unfortunately did not come to a consensus on it or even a majority on it, and it was not brought to a vote.

And I think it is an area that is going to need fresh looking and is important to protect the rights of shareholders. The value of stock does depend on it. And I think there are other entities besides institutional investors, who do most of the lobbying for this, who will be interested in this area as well.

Capital is forming together in pools and funds, and they are interested in making improvements to performance, also to governance. So, I believe we will be looking at these issues quite a bit over the next short period of time, and I support maintaining those. We have to be careful with the States. Delaware is a jealous

regulator, as well they should be, but I think we can do all that very well.

Senator SARBANES. Ms. Nazareth.

Ms. NAZARETH. I agree. I certainly support protecting the rights of shareholders and welcome the opportunity to continue to review these issues. We must ensure that we do achieve the proper balance between shareholders rights—ensuring that the corporate governance improvements that have been achieved largely through Sarbanes-Oxley and other initiatives are effective by virtue of shareholders being able to voice their——

Senator SARBANES. Well, now, I realize it is a complicated issue, and the Commission was not able to reach a consensus, but it does seem to me the issue of how shareholders can impact on the board of directors, particularly if there is a substantial dissident group, is an important issue.

And Congressman Cox, do you think that is an issue worth exploring and for the Commission to examine?

Representative COX. Yes, indeed, Senator. I am well aware that this issue has been under study by the professional staff of the Securities and Exchange Commission and the subject of deliberations by the Commission itself over a period of time and that at least thusfar, the Commission has been unable to forward a proposal that is acceptable to a majority.

Nonetheless, these issues are fundamental, and there is no reason that we cannot constantly improve opportunities that shareholders have to participate through better disclosure and I believe by taking advantage of technologies which are making the distribution of, in and communication among large numbers of people much less expensive.

Senator SARBANES. I am interested in, as the New York Stock Exchange moves toward becoming a for-profit institution, what are your respective views on separating the regulatory function from the business of the stock market itself, along the lines of the NASD and the Nasdaq split?

Representative COX. Senator, again, I should begin by deferring to the considerable expertise of the two individuals seated at my right and left. Ms. Nazareth, in particular, has spent a great deal of time and study on this in her current capacity, and Mr. Campos, as a Commissioner, has worked very carefully with the rest of the Commission to forward new rules by which these issues are going to be addressed in the future.

In the event that we have for profit entities operating markets, it is vitally important that the regulation of those markets remain arms length. Assuring that that is so is going to be one of the abiding interests of the Securities and Exchange Commission if you approve me as Chairman.

Senator SARBANES. Mr. Campos.

Mr. CAMPOS. Senator, that is a very important issue, and certainly, we have not had a great experience in terms of some of the enforcement and some of the regulations in our particular markets. The proposal right now, as you know, from the NYSE, for one, would have a parent company, and they would have some separation, but they would ultimately report to that parent company.

And I have raised this issue with the NYSE and with our staff as to whether we should not have a complete separation. For one thing, it would certainly help the optics, and we have a lot to be able to do to satisfy the public that regulation is strong, and regulation will not be influenced by the profit motive and the commercial motive.

And I am going to look at that issue as a very serious issue and one in which, you know, we need to look at the input from all the players to make sure that we get it right. But as a fundamental matter, the separation is a question that needs to be answered as to why not.

Ms. NAZARETH. I know this is a topic of great interest to you, Senator, and it is something that I have spent a lot of time thinking about. Having said that, I am still not quite sure that I have the silver bullet on this issue. I think that it is absolutely an appropriate time to consider whether the current model is the optimal model for self regulation, particularly as the markets are moving more toward for-profit exchanges and away from the mutual model that they previously operated under.

As you know, in the concept release that the Commission issued, there were a number of alternative models that were discussed, each of which has benefits and costs associated with them, and I do think that we will have to spend a good deal more time analyzing the issue to determine what the optimal model would be, and if as a Commission we determine that the model should be changed, the Commission, may have to come to Congress and ask for legislation to effect those changes.

Senator SARBANES. Of course, the other model, NASD and Nasdaq, is different, but that does raise right off the bat a question as the stock exchange moves toward a for-profit mentality, and I do think it is an issue that the Commission needs to examine very carefully.

The Chairman is the one who comes to Congress or goes to the Executive to try to get the budget for the Agency. And I am interested in how you, Congressman Cox, perceive the adequacy of the current funding for the SEC, what more you think is needed and what, if, as yet, you have any views on this, what needs to be done internally to improve recruiting, improve retention, and boost the morale of the employees at the SEC, if you have had any chance to form some views on that, and I guess they would all be interested in hearing——

[Laughter.]

—how strong a champion you intend to be on budget questions.

Representative COX. Senator, I know that this issue is important to you, because you and I have discussed it. I have a good deal of familiarity with the overall budget picture at the Securities and Exchange Commission as a Member of the Congress. What I am not prepared, as you might imagine, to do today is to present you with a budget request, since I appear before you as a nominee, but if confirmed as Chairman, I assure you that I will fight for all of the resources that the SEC needs in order to discharge its mission, and you have heard me say here today and on other occasions that I am enormously impressed with the professional caliber of the

men and women who work at the Securities and Exchange Commission and that I would be very honored to join that team.

Ensuring that such professionals can be recruited on a continuing basis and want to stay at the SEC and make their career there is one of the important jobs of the Chairman, and obviously, issues such as pay parity play into that. That is not the only reason, of course, that people are in public service and work at the SEC. These are in the main people who are public servants with public spirit animating them more than anything else.

But at the same time, there are very strong competitive pressures for the Federal Government, as we have recognized when we created, in Sarbanes-Oxley, the PCAOB. And so, fighting for both the people, the men and women who work at the SEC and the overall needs of the Commission in order for it to discharge its enforcement and regulatory responsibilities will be a top priority for me as Chairman.

Senator SARBANES. Let me just elaborate on the phrase you used, pay parity. Pay and benefits parity; and what happened is, of course, the SEC first in the pay area and then perhaps even more importantly in the benefits area did not have parity with the other regulatory agencies. We know they are not going to have parity with the private sector given the way our system works, but they did not even have it with the other agencies and were losing people to the other financial regulatory agencies, and they moved pretty well on that. I am not certain yet whether all of the benefit package has been worked out on a parity basis, and you would hope that the Commission would address that in the near future.

But we received correspondence from a number of groups raising the issue of executive compensation. What changes, if any, do you believe are warranted to the current disclosure rules for executive pay?

Representative COX. Senator, the touchstone of disclosure when it comes to executive compensation should be transparency, clarity. This has to be understandable to investors. Executive compensation is a moving target. There are compensation experts, a lot of different ways to track and retain people, just as we were discussing in the context of the SEC, and rules have to keep up with that.

More importantly, once there is compliance with the disclosure rules, it has to be presented in a format that people can appreciate and understand so that if things are out of line, they can do something about it. I do believe that market pressures on compensation that is out of line can be very effective and powerful, but only if that information is there, clearly, understandably presented in the first place.

Senator SARBANES. I gather that the Chairman asked you a question on this subject before I was able to get back to hearing, but it has gotten so much press coverage that I think I should address it to you again, and that involves the lawsuit when you were in private practice at Latham and Watkins that accused you and the firm and two former colleagues of misleading regulators and investors with respect to filings at the California Department of Corporations. This involved the First Pension Corporation back in the

mid-1980's, who I think was a client of your firm. Could you recount for us that situation and how it was resolved?

Representative COX. Indeed, Senator, and as I just described a moment ago, it was 10 years ago when I had been a Member of Congress already for 10 years that I was added as a defendant in a large securities class action in State court in California.

The basis for adding me as a defendant is work that I and the law firm did on behalf of a client who, 10 years later, was exposed as a criminal. The law firm's work on behalf of this client and the work that I was involved with concerned a single SEC registered public offering. That public offering was not the basis for this individual's indictment, guilty plea, and fraud conviction.

Furthermore, I did not work at the law firm at the time that the one offering that they handled actually took place. I had left a year and a half before that. And as a result, the Court dismissed all of the claims against me in that lawsuit.

Senator SARBANES. We have received a letter from the Council of Institutional Investors, which I think each of you have received, dated July 21, setting out a number of their concerns, and given what has happened on us in terms of these constant interruptions, I have touched on some of them. I am not going to be able to touch on all of them.

I want to ask a process question, though, of each of you, and that is what is your attitude in terms of engaging in a continuous dialogue or interchange with such organizations as the Council of Institutional Investors, which, after all, represents well over 100 public, corporate, and union pension funds and, you know, well over 100 money managers and investment and securities professionals.

I want to get some sense of how open and accessible and transparent you think the Chairman and the Members of the Commission should be in listening to people and engaging in a dialogue, and of course, they are not the only such group or organization that exists.

I will take Mr. Cox and then go to the others.

Representative COX. Senator, with respect to stakeholders such as the Council of Institutional Investors and many others, I look forward to the opportunity to hearing, formally and informally, their views, suggestions, opinions, concerns, and comments. It has been a little bit unnatural for me, as a Member of Congress, simultaneously a nominee of the President preparing to appear before your Committee, to essentially be monklike and out of touch for well-known procedural reasons—with people who otherwise I would be communicating with routinely, including, I might add, the press.

I understand the reasons for these rules and these constraints, but to the maximum extent possible, both the Chairman and the other Commissioners, it seems to me, should operate in the light of day as transparently as possible. The Sunshine Act, which applies to the Commission, has this purpose in mind.

At the same time, I want to add that I am well aware of concerns that have been raised in the past about inappropriate meetings, and as a result, I would take great care to follow, at all times, the ethical guidance of the professional staff and the General Counsel at the Securities and Exchange Commission concerning with whom

and under what circumstances it is possible for the Chairman to meet.

Senator SARBANES. Mr. Campos.

Mr. CAMPOS. Senator, I agree with you that Commissioners should make themselves available I believe to as wide a group of interests as possible. With the CII in particular, I recently met with Anne Yerger, and, you know, before her, Sara Teslik, who used to lead that particular organization, and I make it a point to, if they have not come to see me, I generally call them: The SIA, the STA, and the various industry groups. I want to know their issues and what it is they are lobbying the Agency for, and I think that is appropriate.

Obviously, there are things ethically, investigations, ongoing things that are verboten, but we have procedures to make sure that we keep everybody out of trouble, and in those areas, usually, our counsel attends. And in listening to the issues, we learn what the industry is worried about, what investors are worried about, and how our rules may be made better, and that is important to do.

Ms. NAZARETH. I think the Commissioners and the Commission staff has had a long history of an open door policy with interested groups, and I think that the input that we receive is invaluable in being able to do our jobs effectively. So, I would certainly be in favor of continuing that process.

Senator SARBANES. Mr. Cox, I wanted to see how you square your statement today about being an investor's advocate and the importance of that in terms of the Chairman of the Commission with all of these comments that greeted your nomination, suggesting just the contrary, and I have, you know, pages of them here. I mean, everyone knew what you thought, I guess, or seemed to think they knew, seemed to think what you thought and wasted no time in placing on your nomination a certain interpretation that there was going to be a marked diminution in regulation; the pendulum is swinging back, quotes the U.S. Chamber of Commerce Chair. I will not state her name just for the sake of gentleness here and similar quotes of that sort.

Now, were they all anticipating something we need to know? Are they reading the tea leaves improperly? Or I go back to the admonition, you know, that the Commission from the beginning has had its charge to be the investors' advocate, so how do we reconcile those two things?

Representative COX. Senator, I appreciate the opportunity not only to answer this question but actually to speak to some of these things.

Senator SARBANES. Even had some of your colleagues in the House who figured out everything you were going to do. I noticed that.

Representative COX. I actually appreciate the support of so many of my colleagues in the House, in particular the Ranking Members on the Committees that I have chaired and chaired as recently as yesterday and the support that they have offered to this nomination. I think at least to that extent, there is not much question that I will bring not only a bipartisan spirit but I also hope a nonpartisan spirit to this enterprise.

I think that the reason that there has been so much surmise is that, unlike Ms. Nazareth and unlike Mr. Campos, I have not been on the Commission or working in the securities industry, and so, there is a lot of inference and extrapolation and interpolation on the basis of things that might or might not even be relevant in my view.

There has been, I think, stated opposition by some groups to legislation that I was a moving force behind in 1995, and I view that legislation today, as I did then, and as Senator Stevens described it in his introduction of me, as a vital part of an overall regime of shareholder protection. It is just as important to protect shareholders from shakedowns by extortionate lawsuits as it is to protect them from other kinds of fraud. But there are different views about that, as you know.

At the same time, I think that some people's guesses of what I might do as Chairman which I have read in the newspaper are just wrong, particularly to the extent that they have a view that somehow I would be in any way lax when it comes to enforcement or that I would in any way not pursue appropriate regulation, because I have a deregulatory mentality or that I am for free enterprise to such a degree that I would want to miss an opportunity to use the tools that Congress has provided to the SEC to accomplish the mission of building integrity and confidence in the markets.

Those will be my aims, and I look forward to that opportunity should you grant it to me.

Senator SARBANES. In comments on the House floor, when the House dealt with the conference report on the Sarbanes-Oxley Act, you stated, "As we raise the legal standard here today, we should bear in mind our obligations to do still more to raise ethical standards so that the best and the brightest will continue to want to join the accounting profession so that our most experienced citizens possessed of good just are willing to undertake the significant oversight responsibilities on corporate boards of directors."

Bill Donaldson, in his speech at the National Press Club, spoke about the necessity for corporate management, as he put it, to just do the right thing and that this message would then be passed right down the line to all of the people who work for the company. He says it needs to be put right into the DNA of the company. And I was struck by your reference in that comment about the obligation to raise ethical standards, because that, of course, goes beyond legal standards. Legal standards do not usually catch up to the ethical standards.

How important a part do you see that, if you were to be confirmed as Chairman of the Commission in terms of carrying out your responsibilities?

Representative COX. A big part, Senator. I was impressed with, and in strong agreement with, remarks made earlier by Mr. Campos.

It is true that no amount of regulation will stop all fraud. I mean, people that are intent on lying and cheating their fellow citizens will presumably still find reason to undertake it from time to time, but there is a great deal, first, through the formal regulation of the SEC that the Government can do to deter and certainly to

punish this kind of behavior and thus to increase investor confidence in the markets.

But it is also possible for public figures to constantly talk about the importance of ethics and solid values, treating employees, customers, and all other stakeholders properly. That is the American way. And so, the Securities and Exchange Commission has that leadership role to play as well.

I think that business schools have found this to be the case, and they are trying to put it into the early training now of potential managers and companies and managers in the financial services industry, and certainly, this is not something that the Government should abjure; rather, this should be our bread and butter. We constantly talk about this. Both are necessary. Both the law, the regulation, the enforcement, and the constant appeal to what is right and what is good so that we do not have more Enrons.

And with regard to Enron, I saw in hearings in the Financial Services Committee and in the Energy and Commerce Committee, that there were constantly areas where people would punctiliously follow a rule and claim to have gotten away with something, but they were missing the big picture, which is that it was wrong.

And so, Senator, I could not agree more strongly with the premise behind your question.

Senator SARBANES. Good. Thank you very much.

Thank you, Mr. Chairman.

Chairman SHELBY. I want to thank all of you for your appearance here today, and I apologize again for something we could not stop, and that is the interruption of the hearing. We will have a Committee hearing Thursday. I am sure we will have a quorum then. We will try to move all three of you out, and hopefully, we can get you to work as soon as possible. Thank you for your appearance.

The hearing is in recess until 2:30.

[Whereupon, at 1:42 p.m., the hearing stood in recess until 2:31 p.m.]

Chairman SHELBY. The hearing will come to order.

This afternoon, the Committee is considering the nominees for three very important positions at the bank and thrift regulatory agencies. The nominees are John Dugan, to be Comptroller of the Currency; John Reich, to be Director of the Office of Thrift Supervision; and Martin Gruenberg to be a Member and Vice Chairman of the Federal Deposit Insurance Corporation.

The Comptroller of the Currency, the Director of the Office of Thrift Supervision and the Vice Chairman of the Federal Deposit Insurance Corporation all play very important roles in overseeing the safe and sound operation of our banking system and ensuring that the institutions within their jurisdiction maintain compliance with money laundering, consumer protection, and a whole host of other important laws. Each of these individuals will also have an important role to play in protecting the integrity of the Bank Insurance Fund and the Savings Association Insurance Fund.

Additionally, these positions are responsible for a diverse group of institutions which have a broad range and size and all of whom operate in a global marketplace where the pace of change grows faster everyday.

In light of these considerable challenges, I commend the President for nominating these three highly qualified individuals for these positions. Each has a longstanding record of distinguished service in the financial services sector. Each, I might also add, served in staff positions in one form or another right here in the Senate. Mr. Dugan and Mr. Gruenberg worked directly for this Committee. Mr. Reich worked for Senator Mack, a very important former Member of this Committee.

I would also like to take a moment to specifically recognize the contributions of Marty Gruenberg. Marty has worked here for my colleague, Senator Sarbanes, for nearly 20 years. He has been part of the consideration of every major piece of legislation that has come before the Committee during my tenure in the Senate. His loyalty, dedication, and able service are to be commended. And Marty, I offer you all my best regards and hope to move your nomination along with the others as soon as possible.

I look forward to hearing from the witnesses, and do any of you have some family you would like to recognize at this time? Do you want to start with you, Marty?

Mr. GRUENBERG. Thank you, Mr. Chairman. My wife, Donna, is here, and my son, Paul.

Chairman SHELBY. Okay.

Mr. GRUENBERG. And also, my cousin, Matthew Gruenberg, and my cousin, Arnold Schwarzbard, and his wife, Marilinda.

Chairman SHELBY. Mr. Dugan, do you have any members that you want to recognize?

Mr. DUGAN. I sure do. My wife, Beth, is here, and my son, Jack, and my mother, Frances Dugan, who, by the way, is a 55-year resident of the State of Maryland. I know Senator Sarbanes is not here, but I wanted to make sure——

[Laughter.]

—I got that in. My brother, Chris, is here, and my cousin, John Michael, is here as well.

Chairman SHELBY. Great.

Mr. Reich.

Mr. REICH. My family is watching on the Internet from a cabin in the Smoky Mountains.

Chairman SHELBY. Pretty smart.

[Laughter.]

Mr. REICH. On vacation this week.

Chairman SHELBY. When are you going to join them?

Mr. REICH. I will be rejoining them this evening.

Chairman SHELBY. Rejoining them. That is good.

At this time, would all of you stand and raise your right hand and be sworn?

[Witnesses sworn.]

Chairman SHELBY. Marty, we will start with you. Your written testimony, all of yours, will be made a part of the hearing record, and if you will sum up briefly what you want to say, we will try to move the Committee.

STATEMENT OF MARTIN J. GRUENBERG
MEMBER AND VICE CHAIRMAN-DESIGNATE
FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. GRUENBERG. Thank you, Mr. Chairman.

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee, it is my great honor to appear before the Committee today as the nominee to be a Member and Vice Chairman of the Board of Directors of the Federal Deposit Insurance Corporation.

I would like to begin by thanking President Bush for nominating me and Senate Democratic Leader Harry Reid for recommending me for this position. I would also like to thank Chairman Shelby for scheduling this hearing so expeditiously, and Senator Sarbanes for his guidance and unfailing support. I would also like to thank the staff of the Banking Committee for their friendship and for the very high professional standard they set under the exceptional leadership of the Committee Staff Director, Kathy Casey and the Democratic Staff Director, Steve Harris.

I have been a member of the staff of the Senate Committee on Banking, Housing, and Urban Affairs since 1987. I have served as both Staff Director of the Subcommittee on International Finance and Monetary Policy and Senior Democratic Counsel. In those capacities, as Chairman Shelby pointed out, I have had the opportunity to work on all of the major financial services legislation enacted by the Banking Committee during that period. In the course of working on those pieces of legislation, I have had the chance to interact with the leadership and staff of the Federal financial services regulatory agencies, administrations of both political parties, the financial services industry groups, and the consumer and community advocacy organizations. That experience has given me a valuable perspective on the safety and soundness, national security, and consumer protection issues confronting the FDIC. It has also given me a familiarity with the FDIC as an institution, an appreciation of its relationship with the other financial services regulators, and an understanding of the industry and consumer groups with which it works. I believe I would come well prepared to make a constructive contribution to the work of the FDIC.

The FDIC was established by Congress in 1933 in response to the banking crisis brought on by the Depression. The purpose was to restore confidence in the banking system and provide protection to depositors.

The FDIC has been remarkably effective in maintaining public confidence in our banking system, even during difficult economic times. As one who worked on the staff of the Banking Committee during the savings and loan crisis in the 1980's, I am acutely aware of the critical role the FDIC plays in preserving the safety and soundness of our banking system, and of the enormous costs that can be imposed on taxpayers and our economy when unsafe and unsound practices take place. Protection of depositors and the preservation of the safety and soundness of our banking system is clearly the central mission for which the FDIC was created.

I was also working on the staff of the Banking Committee on September 11, 2001, and during the following weeks when this Committee drafted and enacted the antimoney laundering title of

the USA PATRIOT Act. It is clear that Federal financial regulators today have a responsibility not envisioned when our Federal regulatory agencies were created—to prevent the use of our financial system to finance acts of terror. It is a responsibility equal to or even exceeding the responsibility to preserve the safety and soundness of our financial system, and one to which I will give my full attention if confirmed by the Senate.

Finally, I come from an immigrant family. My parents came to the United States in 1951 after having survived the Holocaust in Europe. I keenly appreciate the economic opportunities this country makes possible for its citizens, as well as the challenge to taking advantage of those opportunities for those who are outside of the financial mainstream. Several studies have indicated that as many as 10 million American families do not have an account with a federally insured financial institution. The FDIC, as well as the other Federal bank regulatory agencies, have an important role to play in expanding access to the financial mainstream to all Americans, and ensuring that all Americans are treated fairly in our increasingly complex financial system. That is another area to which I would hope to devote attention if confirmed by the Senate.

Mr. Chairman, let me conclude by thanking you and Senator Sarbanes again for the privilege of working on the extraordinary staff of this Committee, where I have spent most of my professional life. It has been a remarkably satisfying and rewarding experience. I believe that it has prepared me well to carry out the responsibilities of FDIC Board Member and Vice Chairman if confirmed by the Senate.

Thank you, and I look forward to answering any questions.

Chairman SHELBY. Thank you. Mr. Dugan.

STATEMENT OF JOHN C. DUGAN
COMPTROLLER-DESIGNATE
OFFICE OF THE COMPTROLLER OF THE CURRENCY

Mr. DUGAN. Mr. Chairman, Senator Sarbanes, Senator Crapo, and Members of the Committee, thank you for the opportunity to appear before you today. I am honored that President Bush has nominated me to serve as Comptroller of the Currency, and I am grateful to Treasury Secretary Snow for his confidence and support. As a former staff member, I am especially proud to be here before this Committee and in this room. I have spent many hours here with able colleagues and good friends on some of the most important issues confronting the banking industry over the last 20 years.

I have already mentioned my family. I did want to add that my daughter is out of town. She would be very unhappy if I did not mention her today. She is at camp, but she is with me in spirit.

Chairman SHELBY. Maybe she is watching on TV.

Mr. DUGAN. That is exactly right.

Chairman SHELBY. You might want to call her name.

[Laughter.]

Mr. DUGAN. Claire.

[Laughter.]

The Comptroller of the Currency supervises about 1,900 national banks and about 50 Federal branches and agencies of foreign banks in the United States, comprising more than half of the assets of the

commercial banking system. The Comptroller also serves as a Director of the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, the Basel Committee on Banking Supervision, and the Neighborhood Reinvestment Corporation. In these roles, the Comptroller addresses a broad range of issues that are fundamentally important to the banking system, and, if confirmed for this post, I would look forward to working on them with this Committee and with Congress as a whole.

For the last 20 years, my career in both the Government and private practice has focused primarily on banking issues. As Minority General Counsel for this Committee during the late 1980's, which was a very active period, as you remember, I worked extensively on legislative and regulatory proposals involving bank powers, bank failures, safety and soundness supervision, and consumer protection, among many others. As Assistant Secretary and Deputy Assistant Secretary of Treasury during the Administration of the first President Bush, that work expanded into financial modernization, interstate banking and branching, deposit insurance reform, regulatory burden relief, oversight of OCC regulations and legislative proposals, and many other related issues. During my 12 years of private law practice at Covington and Burling, I have continued to work and advise on a wide range of banking matters, including the Gramm-Leach-Bliley Act, financial privacy and amendments to the Fair Credit Reporting Act, financial derivatives regulation, enforcement matters, and national bank powers generally.

At many points in my career, I have worked closely with many of the officials and staff of the OCC. I believe that I have developed a strong understanding of the key challenges that confront the Agency. I have also had frequent contact with officials and staff at the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Securities and Exchange Commission, the Treasury Department, the National Economic Council, and the Office of Management and Budget. These are virtually all the Executive Branch agencies that have a significant impact on regulatory and policy issues affecting banks. Given our unique, some would say peculiar, banking system with its many overlapping functions, I believe the Comptroller must have a fundamental understanding of how different regulators approach their jobs and work best together, and I believe my experience has helped provide that understanding.

In sum, I believe that my experience and education are a strong foundation for this position. If confirmed by the Senate, I would be honored to serve as the 29th Comptroller of the Currency. I would be pleased to answer any questions you may have.

Chairman SHELBY. Thank you.

Mr. Reich.

STATEMENT OF JOHN M. REICH
DIRECTOR-DESIGNATE, OFFICE OF THRIFT SUPERVISION

Mr. REICH. Thank you very much, Mr. Chairman. I want to thank you for scheduling this hearing. I know that time is limited before the August recess. Chairman Shelby, Ranking Member Sarbanes, Senator Crapo, I am honored by the President's nomination and the support of the Secretary of the Treasury to be the Director

of the Office of Thrift Supervision. I am privileged to be sitting at this table with these gentlemen.

In the almost four and a half years that I have served as a member of the FDIC Board of Directors, we have witnessed significant change in the economy and the banking industry. In fact, Mr. Chairman and Senator Sarbanes, you may recall that I was about to testify at this very table on September 11, 2001, on the failure of Superior Bank when the events of that day stopped the hearing and triggered a number of challenges and changes to our country's financial system that no one could have foreseen.

My nearly 25 years of experience as a community banker before I came to Washington to work with my good friend, former Senator Connie Mack, have given me a perspective that recognizes the vital role banks and thrifts, and their customers play in the economic success of their communities. Before my life in Washington, I was active for many years in a variety of community service organizations, and the effect of all of these private, nonprofit and public service experiences causes me to evaluate issues in a manner that balances the issues of financial institutions, consumers, and our economy.

Under the leadership of Chairman Donald Powell, the FDIC has been, and is, at the forefront of many of the issues facing the financial industry today. We have brought together leading thinkers on such key issues as corporate transparency, financial institutions disclosure, and risk management and, of course, our work on deposit insurance reform. We have launched a major financial literacy effort called Money Smart, with the stated goal of establishing partnerships with 1,000 organizations and institutions, in all 50 States, to distribute 100,000 copies of Money Smart in three languages and expose a million consumers to our financial literacy program over the next few years.

In addition, I have been privileged to lead a major interagency effort to reduce unnecessary regulatory burden and to tap the tremendous potential of technology to streamline bank supervision, while not sacrificing our primary goals of ensuring safety and soundness and consumer compliance with the banking system.

While the FDIC has been aggressively moving forward on these developing issues, we have not neglected our primary mission of protecting depositors in the event of bank failures. In fact, I believe that the lessons that I learned in the failure of a large savings bank provide me with a unique credential to serve as the Director of the Office of Thrift Supervision.

Following the resignation of former FDIC Chairman Donna Tanoue in July 2001, I was serving as the Acting Chairman of the FDIC when Superior Bank, FSB, failed on July 27, 2001. It was not just the size of the failure, more than $2 billion in assets, that was instructive. As this Committee knows from its oversight, this failure raised a number of issues, ranging from subprime lending, residuals and accounting opinions, to regulator cooperation and access, and management liability which challenged the leadership and staff of the FDIC to modify established methods of handling bank failures and to create some innovative new approaches.

This experience, along with other experiences gained during the nearly 4 and a half years that I have served on the board, 3 years

as Vice Chairman, combined with my duties chairing all of the standing committees of the FDIC Board should help to enable me to effectively serve as the Director of the OTS.

Mr. Chairman, as the primary Federal regulator of all savings associations and savings and loan holding companies, the OTS oversees a vital segment of the American economy. As of mid-May 2005, there were 886 savings associations with approximately $1.4 trillion in assets. As of the end of 2004, there were 492 savings and loan holding company structures with consolidated assets of approximately $6.9 trillion. Savings associations originated over $600 billion in single-family mortgages last year, or approximately one out of every four mortgages made in the United States. The industry serviced $1.3 trillion in loans for others. Savings associations operate over 9,000 branches throughout the United States and employed 217,000 people as of the end of 2004.

Mr. Chairman, if I am confirmed, my main goals as Director of OTS would be to assure the continued safety and soundness of the industry, faithful adherence to consumer protection laws and the most efficient operation of OTS as an organization.

I am honored that the President nominated me to this important position. I look forward to the challenges that lie ahead. I look forward to working with this Committee, and I wish to thank you again for holding the hearing.

I will be happy to address any questions.

Chairman SHELBY. Thank you.

Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

I am pleased to welcome our three nominees before us this afternoon. They are all well known to the Committee, either having served on the Committee staff or on the staff of the Committee. All are extremely well qualified for the positions for which they are being considered.

John Dugan was, of course, the Republican Counsel and then General Counsel of the Banking Committee and served with great distinction, including the period when we were addressing, among other issues, the savings and loan crisis. Subsequently, he went to the Treasury, where he served first as Deputy Assistant Secretary for Financial Institutions Policy and later Assistant Secretary for Domestic Finance at the Treasury. And since leaving Treasury, he has had a very distinguished career at Covington & Burling, where he is currently a partner. He has appeared here many times before the Committee in his public capacity representing the Treasury and in his private capacity representing a variety of clients.

John Reich worked in the Senate for over 10 years, from 1989 to 2000. Four of those years, he was Chief of Staff to Senator Connie Mack, a very distinguished Member of this Committee. He came to this work from 23 years in the banking industry, including President and Chief Executive Officer of the National Bank of Sarasota, and since January of 2001, Mr. Reich has served as Vice Chairman of the Board of Directors of the Federal Deposit Insurance Corporation.

Marty Gruenberg, who has been nominated to serve as a member and Vice Chairman of the Federal Deposit Insurance Corporation, has been a member of the Committee's staff since 1987, after work-

ing for several years on banking issues in the House. I must say, Mr. Chairman, it is an odd feeling to see him at the witness table there when we have worked so closely together for nearly two decades. I am accustomed to turning around and getting his counsel.

Marty has been involved in virtually every issue that the Committee has dealt with in those years. Indeed, he has played a major role in every banking bill that has been enacted into law since 1987, and I could go through the list, but for the sake of time, I will ask that they be included in the record, but every major bill on banking that has come out of this Committee, he has been part of that process.

His experience and expertise are hardly limited to matters involving financial services. His work is equally impressive in other areas of the Committee's jurisdiction, notably monetary policy, export, and foreign trade promotion, export controls and defense production.

It is not only his background and experience that make Marty Gruenberg so well qualified to serve at the FDIC. On the strength of having worked closely with him for nearly 20 years, I personally know him to be superbly qualified by virtue of his intellectual capacity, and his personal integrity and character. Of course, we shall all miss him greatly, but I know Marty to be a dedicated public servant who, in his new position, will work to the same high standards that he has always brought to his responsibilities at the Committee.

Mr. Chairman, I very much appreciate your holding this hearing, and I hope we can move these nominees expeditiously.

Chairman SHELBY. Senator Crapo, do you have an opening statement?

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. No, I just have a question or two when we have a chance.

Chairman SHELBY. Senator Dodd, do you have an opening statement?

Senator DODD. Well, very briefly; I do not have a prepared statement, Mr. Chairman, but let me first of all congratulate our three nominees. John Dugan, of course, we have known for many, many years here; worked together on this Committee a long time, so we congratulate you, John, on your nomination.

Mr. DUGAN. Thank you, Senator.

Senator DODD. And Marty, this is a bittersweet moment for those of us who have worked with you up here for so long. I was teasing this morning and turning around to our friends right behind Senator Sarbanes, and I said where is Marty this morning? He should be here to help us with these questions. And they said you are out preparing for your grueling grilling this afternoon, not that I expect a grilling.

And on a personal note, I just got off the phone with my wife on the phone, and Jackie worked with Marty for almost 20 years on this Committee and other matters as well and wanted me to express——

Chairman SHELBY. And she worked on this side of the aisle.

Senator DODD. She did. She worked on that side of the aisle.

[Laughter.]

Converts make the best Catholics.

[Laughter.]

Not that she has converted yet. We are working on it. But Marty, she wishes you well, and I do, as well. We are going to miss you terribly up here, and we wish you the same kind of success that John has had, going off and doing good things. And so, we thank you. Thank you for accepting this position. I have great confidence you are going to bring great expertise, stability, and dignity to the FDIC as well and John at the Comptroller of the Currency. Mr. Reich, we wish you our best wishes, too, in all of this.

So congratulations to you. We look forward to working with you for many years to come as well, but we will miss you up here. You have done a great job for this Committee. You have served all of us tremendously well, and this Committee's success over the years is a tribute not only to the Chairman and the Ranking Member but also to the people who sit behind us up here, who help us prepare every single day. You do not get to make the statements; your names do not necessarily appear in the press, but to the extent we are successful up here in getting the job done, on most occasions, I think all of us would say it is because of the quality of the people who sit behind us.

And Marty, you have been behind us for years up here, and to the extent that we have done good things, in no small measure, it has been because of your contribution. So thank you immensely for that.

Mr. GRUENBERG. Thank you, Senator.

Chairman SHELBY. I think we would all associate ourselves with the remarks of Senator Dodd in that—regarding the staff and what you contribute.

Mr. Dugan, the OCC's Quality Management Division has finally released its long awaited review of the Office of the Comptroller of the Currency's Bank Secrecy Act and the antimoney laundering supervision that went with it. The review is highly critical of OCC's performance, a conclusion that came as no surprise to a lot of us here familiar with the Riggs and the Arab Bank cases.

I know you are not over there yet, but outline for the Committee briefly the concrete steps that you would intend to make to rectify the shortcomings at OCC's supervision of the Bank Secrecy Act. We think that is very important.

Mr. DUGAN. That is very important, Mr. Chairman. I do not think you can look at the history of what has happened here without acknowledging, as the Agency has, that there have been real lapses in the Bank Secrecy Act area. As you have said, I have not had the benefit of access to the information that is nonpublic. Of course, I have been dutifully reading up on all the public information. And so, I think the first task is to determine what the situation is.

I was both concerned and somewhat encouraged by the report that came out last week. It was quite critical. But at the same time, it did acknowledge that there had been improvements made and that the Agency was at least moving in the right direction. The report laid out a number of concrete steps to continue in the right direction, particularly in the area of large bank supervision, which

seemed to require the most attention. Those are the areas that I most certainly will focus on.

I want to emphasize that I think this is a quite difficult area because like some of the other problems that this Committee has dealt with, it is easy to go too far and to do things that have counterproductive consequences. We have seen some of those issues in the case of money transmitters and of defensive suspicious activity report filings. It reminds me a little bit of the credit crunch issue that we dealt with many years ago where there were quite lax lending standards at one point, and then standards were tightened to the point where people were very much worried about whether banks were performing their job. Striking that right balance of cleaning up and improving Bank Secrecy Act supervision but doing it in a way that calibrates the measures taken, I think, is quite important. That will be my number one priority.

Chairman SHELBY. Mr. Dugan, as troubling as the Riggs case is to those of us on the Committee concerned about money laundering and terror financing issues, the Arab Bank case seems to be more troubling. At least with Riggs, there was a history of admonishments with respect to that institution's repeated failures to comply with the Bank Secrecy Act.

But in the case of the New York branch of the Arab Bank, we do not even have that. We have an institution that had repeatedly received the highest grades, only to precipitously become the recipient of a consent order that effectively shut it down. Equally troubling is the fact that most of what became known about Arab Bank's New York branch was due to civil suits against the bank and the publication on the Internet of documents seized by the Israeli Army when it raided West Bank branches of the bank, not by the supervisor's regulators.

I understand none of this happened on your watch, and I would not expect it to happen on your watch, you know? But I further understand that this remains a pending enforcement matter that is also under criminal investigation by the Justice Department. Could you provide the Committee, if you could, your assessment of the severity of the Arab Bank case and assure us that a meaningful review of that case will occur on your watch if you are confirmed, which you will be? And what are the implications of this case for one of the largest banks in the Arab world? How important is this?

Mr. DUGAN. Mr. Chairman, I would like to, but I am not sure I can answer the first part of your question because——

Chairman SHELBY. No, no, you cannot get into everything.

Mr. DUGAN. There is quite a lot of confidential information in this ongoing matter.

Chairman SHELBY. We understand that.

Mr. DUGAN. I only have what is in the public record.

I can commit, however, to the second part of your question, to assess the situation to learn why it occurred, and to try to figure out the best way possible to correct it so it does not happen again.

Chairman SHELBY. Mr. Dugan, there are a number of recent stories in the press concerning the OCC's supervision of Wells Fargo. And for the record, I want to state again, you have not been in the OCC yet.

Mr. DUGAN. Right.

Chairman SHELBY. A number of disturbing accusations have been levied against the OCC, including preferential treatment of big bank CEO's, slow follow up on cited bank program weaknesses, even the loss of the examiner's in charge computer.

Very rarely is the public privy to a national banking regulator's recommendations on the selection of an enforcement action against a bank with antimoney laundering and Bank Secrecy Act deficiencies. Two sets of questions come to my mind: What lessons can you take away or would you take away from this disclosure of the Comptroller's regulatory review process, and of that process itself, does anything need to be changed, in your opinion, or would you wait until you get over there and see what is really going on?

Mr. DUGAN. Mr. Chairman, really, the latter. The enforcement process is always one that invovles discretion. I do not know the facts in this instance. There is an ongoing investigation by the IG. I would like to be in a position to tell you more. I certainly will follow up and assess this very carefully.

Chairman SHELBY. We believe you will.

Mr. DUGAN. But, at this point, I just do not know enough to comment on it.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

Mr. Reich, I wanted to ask a couple of questions. The total assets in the thrift industry at the end of March of this year stood at $1.3 trillion. It is my understanding that the largest thrift has over $300 billion in assets. And the OTS is funded by assessments on the thrifts it regulates. Some have raised the question of the ability of the regulator that is so dependent upon one institution's assessments to be completely objective in carrying out its responsibilities. What is your take on that?

Mr. REICH. For one, I have every intention of being objective, Senator Sarbanes, but I am very concerned about the point that you raise. I think there is every reason to be concerned about the method of funding, in my opinion, for both the OCC and the Office of Thrift Supervision. I think it is a subject that needs attention, needs to be addressed, and a resolution found for a different method of funding.

I have been willing, as a member of the Board of the FDIC, to engage in conversation about creative funding possibilities, and I look forward to the possibility of engaging in that dialogue with my colleagues on the Board of the FDIC and the other Federal regulators.

Senator SARBANES. The prior Director of the OTS embarked on a reduction in force to significantly reduce the number of personnel in the field offices of the OTS. There is considerable concern because a very large percentage of the OTS examination staff is approaching retirement age in the next few years. Furthermore, since its creation over 15 years ago, the OTS has been consistently reducing the number of its employees and has taken several internal administrative reorganizations. This has placed significant stress on the OTS staff who have remained, as each employee has taken on more areas of responsibility and faces an uncertain future in the organization.

Of course, many of these employees have a significant amount of expertise and institutional history important to the mission of the Agency. What is your view on these questions of staff morale at the OTS, and how do we get more stability at the Agency?

Mr. REICH. I think what the OTS has gone through over the last few years is not unlike what the FDIC has also experienced. Ten years ago, the FDIC was the primary supervisor of almost 9,000 State-chartered banks. Today, the FDIC is the primary supervisor of about 5,000 State-chartered banks. And, over the years, as that reduction in the number of institutions that they supervise has taken place, it has, I think, caused the members of the Board of the FDIC to feel a fiduciary responsibility to be financially responsible in managing our resources, and as the industry has downsized, both the FDIC and the Office of Thrift Supervision have downsized along with it. I am concerned about staff morale in any organization, and I will do the best I can to address the issues which staff is concerned about.

Senator SARBANES. I hope you well. I think you have a staff problem over there, and I am encouraged by your indication of your intention to address it.

Mr. Dugan, I want to ask you about preemption. We talked about it when we met. The OCC's action in preempting the application of State laws to national banks and their State-chartered operating subsidiaries as well has drawn a tremendous amount of criticism. The National Governors Association, all 50 State attorneys general, the National Conference of State Bank Supervisors, and there is a perception that we are fundamentally altering the Federal-State enforcement relationship.

And it is a departure from where we were before. I mean, there was some tension on occasion, but essentially, a relationship had been worked out, and State governments were able to, you know, seek to protect their citizens from abusive lending practices and other areas of consumer protection. Many of us here feel that it is really contrary to previous governing practice.

In the Riegel-Neal Act, we stated that host State laws regarding community reinvestment, consumer protection, and fair lending apply to national banks unless those laws discriminate against the national bank or are preempted, and we are quite concerned about what appears to be a wholesale carve-out from State law for national banks and for their operating subsidiaries. What is your view on this question?

Mr. DUGAN. Senator, as we discussed in your office, I do not personally believe it is a wholesale departure. I know that the OCC has received a great deal of criticism, in part because many of the practices that had been going on were codified in a very visible regulation.

But to me, the issue gets down to this: What did Congress intend when it established a national banking system with a Federal charter subject to a uniform set of laws? If you look at the cases, and there have been over 50 cases over 100 years, many of them in the Supreme Court and some of them decided quite recently, the clear consensus rule is that if a State law interferes with or significantly regulates a banking activity of a national bank, it is preempted.

That is the general rule. There are exceptions, and Congress can change that rule, but that is the premise that national banks have been operating under for a very long time. In the last 10 years or so since the Riegle-Neal Act, in particular, with a great deal of consolidation in the industry and much more in the way of interstate banking and branching, nationally chartered institutions operating in many different States have bumped into more and more State laws. Once that situation started engendering more and more requests for preemption opinions, the OCC codified their practice in their regulation. It was not too dissimilar from what the OTS had done a number of years back.

It prompted a great deal of criticism, and I understand that. I think more can be done to share information with the States on a timely basis, but I think the basic rule about State laws being preempted if they interfere with a national bank power is what the law is.

Senator SARBANES. The Barnett Bank standard we think is a higher threshold for preemption than the one that the OCC is using now. That is the problem.

Mr. DUGAN. Senator, I do not think that the OCC has tried in any way to say that the Barnett standard is not the right standard. I think there is a difference of opinion on what that standard means in practice. There are various words in that case. People have focused on the "prevent or significantly interfere" language as one formulation, but there are citations to a number of other cases and standards in that very same paragraph where the Court talks about that particular test. I think the question is, in the end, whether a State law creates the Constitutional conflict where it obstructs the basic purpose that Congress had in mind in setting up the national banking system.

Senator SARBANES. Are you prepared to meet with the State banking and enforcement officials in order to enter into an intense dialogue with them on this issue?

Mr. DUGAN. I would be happy to meet with the State officials to discuss this issue at great length.

Senator SARBANES. All right; let me ask one final question.

I wanted to follow up on the Chairman's questions about the Bank Secrecy Act. Assuming you are confirmed and take office in the very near future, what do you think is a reasonable period of time for you to have to address these problems at the OCC that were identified by the study with respect to improvements in how it does business? When would it be reasonable for the Committee——

[Laughter.]

—to bring you back in for an oversight hearing in terms of what has been done about enforcement of the Bank Secrecy Act at the OCC?

Mr. DUGAN. That, of course, is in the Committee's discretion. It is a little bit hard for me to say without actually having gotten over there. I will say a couple of things. Regarding the part of the report that focused on the lack of adequate policy guidance, I think a tremendous step was made on June 30 when the agencies collectively released quite detailed policy guidance on what is expected in this area. At the other end of the spectrum, the report's focus on hiring

and maintaining the right staff, particularly for large bank supervision, is going to take some time to address. But I would be happy to come back to the Committee to give you an assessment of where things stand before the end of the year, if that makes sense.

Senator SARBANES. It is my understanding that the four largest dealers of the $37 trillion interest rate swaps market account for over 40 percent of the supply in that market, and the concentration of the dealers is even greater in the interest rate options market. What priority do you think the OCC should put on monitoring and supervising the national banks that are the most significant dealers in the over-the-counter derivatives market, and do you believe the agency has all the resources it needs to adequately monitor and supervise the derivative dealer community?

Mr. DUGAN. Senator, I think the kinds of risks that you are talking about in the derivatives market are not just interest rate risk but credit risk, as well, which is why the market has ended up in the larger banks. I think supervision in this area has been a tremendous focus of the OCC and the other bank regulators, but particularly for the OCC in the wake of the derivatives issues that this Committee focused on, quite rightly, in the 1990's and in the wake of a number of other significant issues that arose at that time.

My sense is that the Agency does have the resources and does focus quite a bit of effort in the derivatives area. I think part of the whole Basel process is trying to reinforce that and to capture some of the risks that have not been as well captured in the past. But that will be an area of concern when I get there, if and when confirmed.

Chairman SHELBY. In the near future, the banking regulators, as all of you know, are supposed to issue a final rule that is intended to implement the changes contained in the Basel II proposal. We intend to hold a hearing on the progress of the Basel II proposal in September when we get back.

I recognize that more testing of these new standards is scheduled and that there may still be changes made to the rules. That said, I am not yet fully confident that the so-called "right standards" have been proposed. What are you going to do after you are confirmed to make sure that prior to the finalization of the new rules we have developed the best rules to make it work? Because there are still some outstanding questions there.

Mr. Gruenberg, we will start with you.

Mr. GRUENBERG. Mr. Chairman, I think there is good reason to proceed cautiously with the implementation of the Basel agreement. The most recent quantitative impact study that was released indicated that on the banks that would participate, half of them would have a 26 percent or more reduction of capital. In fact, one of those institutions would have a 50 percent reduction of capital.

Chairman SHELBY. Is that a concern for you?

Mr. GRUENBERG. Yes, it is a serious concern, Senator. And I think there was a great effort to bring this agreement about, and there was a lot of investment of effort in it, but I think until we are truly satisfied about is consequences for the banking system, it is very important for the regulatory agencies to move very cautiously and frankly be in no rush to bring it to a conclusion until they are quite confident about its impact.

Chairman SHELBY. But as a new member, will be, of a very important banking regulatory agency that is charged with safety and soundness, this should, in your background here, be a double concern for you.

Mr. GRUENBERG. Very much so, Senator, and the FDIC, to its credit, I think, under Chairman Powell has been very forceful——

Chairman SHELBY. Outspoken right here at the Committee.

—among the regulatory agencies on this issue, both on the overall reduction of capital and also preserving the minimum capital requirement, and that would certainly be a very significant priority for me if confirmed by the Senate.

Chairman SHELBY. Senator Sarbanes, when he was Chairman, even before he was Chairman of the Committee, he has always voiced a strong feeling that the capitalization, the strong banks, whether they are large or small, are the ones that stick around and do not visit you and visit the taxpayers.

Mr. Dugan, do you have any comments on this? This will be right in your lap, too. I want to comment that Comptroller Hawke, right here at this table, he has some concerns, as you probably know, about Basel II, the implementation, what it would do and so forth.

Mr. DUGAN. Yes, Mr. Chairman. I agree largely with everything Marty just said. This is a situation where there has yet to be a proposed rule, and I think it is very important to have the full notice and comment process to take comments from a lot of different sources about this before we move forward to any kind of final rule. There has to be a better understanding of the quantitative effects on capital, and I do not think anybody who has read about the results from the QIS–4 study would not be concerned about it. I think we have to proceed with conservatism as we move forward for that very reason.

I will say I do think it is important to try to move away from the existing Basel standard and try to move down a path to something that is more risk-sensitive. I support the Basel process, but for the reasons I have outlined, I think we have to be very careful in what we do.

Chairman SHELBY. Mr. Reich.

Mr. REICH. I am supportive of the Basel process, too, but I think that it is too complicated. The results are disappointing and of concern. I have listened to former Comptroller Hawke for 2 or 3 years talk about how complex it was and how complex it was going to be to implement. I am concerned about its implementation, and I think that it should be deferred until we are confident that it is pretty accurate.

Further, I am concerned about any change that would have a material reduction in bank capital.

Chairman SHELBY. Thank you.

Mr. Reich, as you may be aware, this Committee was very critical over the several years of the failure of the regulatory agencies to properly examine for Bank Secrecy Act deficiencies with the same zeal with which safety and soundness exams have been conducted. Can you give the Committee your assurance that under your directorship, after you are confirmed, that the Office of Thrift Supervision would treat BSA compliance with the level of diligence this Committee and the Congress expects?

Mr. REICH. Yes, Mr. Chairman, I commit to do that. As Mr. Dugan indicated, the Federal banking agencies joined together on June 30 to issue joint guidance to all of our Federal banking examiners. We should all be on the same page in our examination processes. All examiners will each be receiving identical information about the processes that they are to follow. We have set a schedule of joint examiner training for our agencies and joint banker education of the new guidelines as of June 30, and I will do all that I can to see that OTS implements these guidelines and places a high priority on the BSA examination process.

Chairman SHELBY. I want to direct this to all three of you. Over the last year or so, there have been numerous incidents involving the unauthorized disclosure of sensitive personal financial information. In some but not all of these situations, financial institutions have been involved. The Committee held a hearing earlier this year to review the framework of GLB and the new ID theft provision recently added to FCRA.

Could you comment on what additional measures you feel may be necessary to complement the banking agencies' guidance on breach of notification? Mr. Dugan, do you want to start, Marty? Go ahead, Mr. Dugan.

Mr. GRUENBERG. Sure.

Mr. DUGAN. Mr. Chairman, I would say that financial institutions already have a structure in place. I do think it should be kept separate. I do not think this is an area where they should be treated like other institutions. There are different concerns; they hold information; they hold, in some cases, quite sensitive information.

Chairman SHELBY. But they should protect that information, should they not?

Mr. DUGAN. Sure, absolutely, and that is why, the Gramm-Leach-Bliley Act—and you and Senator Sarbanes were both great proponents of this—imposed standards for maintaining security and imposing safeguards for customer information, and why the bank regulators have issued guidance on security breaches.

Whether that needs to be tweaked somewhat to take account of some more particular issues that have come up with some of the types of information is, I think, worthy of consideration by the Committee. It could be done either directly through legislation or some combination of legislation and having the regulators reexamine their existing authority and take measures with the authority they already have.

Chairman SHELBY. Marty. Excuse me; Mr. Gruenberg.

Mr. GRUENBERG. Mr. Chairman, it is clear that there is a very serious problem here that is not being fully addressed. We established in the Gramm-Leach-Bliley Act the obligation on financial institutions to protect non-public personally identifiable information, and with the number of problems we have had with a variety of institutions, it would appear that either the guidance being provided is not sufficient, or the compliance is not sufficient.

I would not presume at this point to say which, but I think there is a very serious concern, and I also think there is a very serious issue as relates to the nonbank institutions that are trusted with a lot of personal information of people, and that seems to me great

attention needs to be paid to that area as well, and it may require additional legislation to address some of the concerns here.

Chairman SHELBY. In light of the participation of nonfinancial institutions in the payment system, what else might be necessary to address the protection of financial information as it moves through the entirety of the payment system? Mr. Dugan, do you have any comments on that? In other words, we have nonfinancial institutions involved in the payment system.

Mr. DUGAN. Mr. Chairman, the Gramm-Leach-Bliley Act, applies technically to something called nonpublic personal information, which is basically customer information of the banks.

Chairman SHELBY. Right.

Mr. DUGAN. But in some cases, the institutions handle personally identifiable information of noncustomers. I think making sure that information is protected, because it has some of the same kind of sensitivity issues as some of the other information they handle, is something that would be worth the Committee looking at.

Chairman SHELBY. Mr. Reich, do you have any comment?

Mr. REICH. There is a joint working group of all of our Federal banking agencies addressing identity security, and hopefully, we will be coming out with substantive guidance that will address these issues. At the FDIC, we have been working with our IT examiners to help banks address the problem on two fronts, dealing with it in the aftermath when breaches do take place and then trying to help them set up systems and processes to prevent it from happening to begin with, which is what the joint working group is addressing.

Chairman SHELBY. Mr. Dugan, what balance can we bring between enforcement and latitude? For example, the recently released internal review states that OCC's initial supervisory actions have not always been severe enough to ensure timely correction of BSA/MAML program deficiencies, and the subsequent follow-up actions have not always been timely or effective.

Is it possible to have criteria that would provide sufficient guidance for examiners and higher level decisionmakers within the Office of the Comptroller of the Currency to determine when stricter supervisory actions are warranted that would not eliminate whatever level of discretion is needed for the system to function properly? You know, there is a balance there. Both Riggs and the Arab Bank involved high risk accounts, and in the case of the latter, the Arab Bank, a bank serving in a very high risk region through which funds were flowing to the West Bank.

Should these types of banks be supervised differently from banks with lower inherent levels of risk? In other words, is that a judgment call, or what? How would you handle it?

Mr. DUGAN. Mr. Chairman, I think the Agency has to be committed to devoting more resources to institutions that are perceived as riskier in particular areas, and I think that has been at least the stated philosophy of the Agency for a long period of time.

There are quite a number of tools that the bank regulators have at their disposal from examiner criticism and informal enforcement actions all the way through very formal enforcement actions, even removal and prohibition, civil money penalties, and the like. There is a spectrum of remedies and there are well-articulated procedures

that are supposed to be adhered to to try to get balance into the process.

There will always be discretion in the enforcement process. I think the important thing is to make sure that the process is the right kind of process, so that different views are being aired. I know what the processes are. Obviously, there have been some lapses, and looking at that is one of the very areas that I plan to devote a considerable amount of time to if and when I get to the Agency.

Chairman SHELBY. Senator Sarbanes, do you have anything other questions?

Senator SARBANES. Mr. Chairman, I would like to have formally included in the record a letter that we received from the National Bankers Association supporting the nomination of John Reich to be the Director of the OTS.

Chairman SHELBY. Without objection, so ordered.

Senator SARBANES. In the course of which, they say that they have worked with him in his current capacity at the FDIC. During his tenure with that agency, Mr. Reich and the FDIC Chairman, Donald Powell, have shown recognition for the unique status of women and minority-owned banks, and they go on to say that the NBA in the past has expressed some disappointment in the inaction of the OTS in its regulatory oversight of such matters but that they are optimistic that under the new leadership of Mr. Reich, the OTS will administer meaningful policies and regulations that strengthen the capacity and foster the number of minority-owned banks, and they are looking forward to working with Mr. Reich and the other nominees at this hearing to develop a Government-wide, coordinated banking policy that protects the diversity of the Nation's financial system.

Chairman SHELBY. It will be made part of the record without objection.

Senator SARBANES. And I commend that objective to our two nominees as well.

Thank you very much.

Chairman SHELBY. Anything else?

Senator SARBANES. No.

Chairman SHELBY. Gentlemen, I thank you for your appearance here today. We believe that you are all well-qualified for your positions, and we are going to try to move your nominations Thursday.

Thank you. The hearing is adjourned.

[Whereupon, at 3:29 p.m., the hearing was adjourned.]

[Prepared statements, biographical sketches of the nominees, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR JIM BUNNING

Thank you, Mr. Chairman, for holding this hearing today, and I would like to thank all of our nominees for coming before us today.

I would especially like to thank my good friend, Chris Cox, for coming before us today and agreeing to be the President's nominee for the Chairman ofthe Securities and Exchange Commission.

Its no secret that I have disagreed with some of the decisions the SEC has made under the last Chairman. Though I appreciate his service and think he should be commend for righting the SEC's ship, I believe he made of number of policy mistakes. It seemed that he was ignoring his commissioners on a number of major issues. Also I think he was not open to advice from this Committee. I believe Chris Cox will listen to all of his commissioners and take the advice of Congress.

There are many major issues facing the SEC. In particular, I am concerned about the independent chairman rule that was overturned by a Federal court, then rammed through again by the former Chairman and Regulation B, whose implementation has been delayed until September. I believe with Chris Cox's leadership, we can come up with a solution that everyone can live with.

I have known Chris for a long time. He has served his country well as a White House Counsel to President Reagan, as a U.S. Representative and I believe he will serve his Nation well as Chairman of the SEC. I urge all of my colleagues to support the nomination of Chris Cox as Chairman of the Securities and Exchange Commission.

PREPARED STATEMENT OF SENATOR DEBBIE STABENOW

Thank you, Chairman Shelby. Welcome Congressman Cox, Ms. Nazareth, and Commissioner Campos.

These are busy times for the SEC and I want to commend the ongoing efforts of the SEC and specifically Chairman Donaldson. Whether in handling the melt down of Enron or the mutual fund industry scandals, the SEC is restoring public trust in the markets—and I believe we should vigorously continue down that road. The job that the Commission performs is absolutely vital to maintaining a robust and vibrant economy, and providing working men and women the piece of mind they need to become investors in the American Dream. So, hearings such as this are important.

I appreciated the time that Congressman Cox set aside to come by my office last month. I left that meeting feeling that as Chairman he would not seek wholesale change in the approach that the current Commission is taking with regard to oversight of our financial markets. Also, that he would work with the other commission as a whole to generate a consensus on the difficult issues that the SEC will face in the future. I look forward to hearing more about how he and the other nominees will approach their roles as SEC Commissioners.

That being said, I would like to renew my concerns with the SEC's proposed Regulation B, implementing Title II of the Gramm-Leach-Bliley Act. As the witnesses testify today, I will listen especially close to comments on Regulation B, the so-called "Pushout" rule.

I am worried that too little is being done to revise the rule in order to have it comport with Congress' intent that certain traditional bank activities—such as trust and custodial activities may continue to be conducted in the bank rather than being "pushed out" into an SEC registered broker/dealer affiliate.

The small and medium-sized banks in my home State of Michigan are very concerned about the costs and consequences of having to implement a regulation that they feel runs counter to the intentions of the Gramm-Leach-Bliley Act.

Between now and the end of September, I look forward to working with the Commission on providing a common sense approach to the issue of securities activities inside our small and medium-sized commercial banks.

Also, I am interested in hearing the witnesses comment on how we can better secure our financial markets and make them fair for the common investor. As we continue moving toward a future where more and more households are invested in the market, we must do all we can to ensure that the average investor—the investor who does not have access to levers of power on Wall Street—can invest without fear that the mutual fund they are investing in, or the brokerage house that they hired, are covertly working against them by gaming the system.

We saw the vivid results of this type of malfeasance in 2003 and I am glad to see that the SEC is making a concerted effort to address many of these problems. If we are to help our constituents secure their retirement future and encourage the

American public to save, then we must give them the piece of mind that the playing field is level and they are not at a disadvantage when putting their money into the market.

I look forward to the testimony.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF TED STEVENS

A U.S. SENATOR FROM THE STATE OF ALASKA

JULY 26, 2005

I am pleased to join the Senators from California in recommending Chris Cox as the next Chairman of the Securities and Exchange Commission.

Chris graduated from Harvard Law School where he was editor of the Law Review and also received an MBA. Chris has represented Orange County in Congress for 17 years. A bipartisan consensus builder, every bill and report from the three Congressional Committees he has chaired during his House career was unanimous and bipartisan—No exceptions.

His 1995 legislation to protect investors from fraudulent lawsuits, and from extortion by unethical lawyers, was approved in both the House and the Senate with overwhelming support. Its principal co-author in the Senate was Chris Dodd.

This landmark legislation, which passed with a bipartisan majority in both the House and the Senate, imposed new responsibilities on accountants to discover fraud, and put an end to the ethical abuse of professional plaintiffs in class actions. Now, court-appointed representatives in securities class actions are seeing to it that more of the recoveries go to shareholders, who were harmed instead of their lawyers.

Through a long and distinguished public career over two decades in the White House and in Congress, Chris Cox has shown that he is independent, tough-minded, fair, and bipartisan. He is committed to enforcing the rules of the marketplace for the benefit of every investor, and to upholding the integrity of our capital markets.

While this Committee will review Chris' qualifications carefully, he has already gone through an even tougher confirmation process. He had to convince his wife, my good friend and one of the smartest lawyers I know, Becky Gernhardt, to marry him. Many of you know Becky from her public service in the Assistant Majority Leader's Office, the Reagan White House, and of course, the Base Closure Commission.

I urge this Committee to act quickly on this nomination and to report it to the full Senate for consideration.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Cox (Last) Christopher (First) (Other)

Position to which nominated: Chairman, Securities and Exchange Commission

Date of nomination: June 2, 2005

Date of birth: 16 October 1952 (Day) (Month) (Year) **Place of birth:** St. Paul, MN

Marital Status: married **Full name of spouse:** Rebecca Gernhardt Cox

Name and ages of children:

Charles Christopher Cox, 12
Kathryn Carter Cox, 11
Kevin Martin Cox, 6

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Harvard Law School	9/73-6/77	J.D.	June 1977
Harvard Business School	9/74-6/77	M.B.A.	June 1977
Univ. of Southern California	9/70-6/73	B.A.	June 1973

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

During 17 years in Congress, I have received many awards for public service. In addition, I have received many honorary memberships, the most significant of which are listed in response to the next question. The following awards relate, in whole or in part, to my activities prior to election to Congress in 1988:

- Order of Gediminas (highest honor by Republic of Lithuania to a non-citizen), for support of freedom in the Baltics
- USC Distinguished Alumnus Award
- Hames Alumni Honors Award, St. Thomas Academy

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Chapman University	Trustee	1993-present
National Endowment for Democracy	Director	2003-present
Pacific Club	Member	1997-present
Mount Vernon Country Club	Member	2000-present

Sons of the American Legion Newport Harbor Squadron #291	Member	1997-present
UCI Brain Imaging Center	Advisory Board	1997-present
Center for Security Policy	Advisory Board	1990-present
Childhelp USA	Advisory Board	1989-present
Laguna Canyon Foundation	Adv. Council Member	1994-present
Orange County Bar Foundation	Community Advisor	2001-present
Orange County YMCA	Advisory Board	1993-present
Serving People in Need	Advisory Board	1999-present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

11/88 - Present	Member of Congress U.S. House of Representatives Washington, DC
02/88 - 11/88	Congressional Candidate, 40th District, California
02/86 - 2/88	Senior Associate Counsel to the President The White House Washington, DC
02/83 - 02/86 10/78 - 08/82	Partner (1985-1986); Associate (1978-82; 1983-1985) Latham & Watkins Los Angeles and Newport Beach, CA
08/82 - 01/83	Lecturer on Business Administration Harvard Business School Boston, MA
10/77 - 10/78	Law Clerk U.S. Court of Appeals, Ninth Circuit San Francisco, CA and Honolulu, HI
06/77 - 09/77	Summer Associate Gibson, Dunn & Crutcher Los Angeles, CA
06/76 - 09/76	Summer Associate Latham & Watkins Los Angeles, CA
06/75 - 09/75	Summer Associate Duryea, Randolph, Malcolm & Daly Newport Beach, CA
06/74 - 09/74	Summer Associate Kadison, Pfaelzer, Woodard, Quinn & Rossi Los Angeles, CA
06/73 - 09/73	Draftsman/Mathematician DuPont Aerospace, Inc. Torrance, CA

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

11/88 - Present	Member of Congress U.S. House of Representatives Washington, DC
02/94 - 01/95	Bipartisan Commission on Entitlement and Tax Reform (appointed by President Clinton)
09/00 - 04/01	Executive/Legislative Study Group on Enhancing Multilateral Export Controls (Co-Chairman) (established by Defense Authorization Act of 1999)
02/86 - 02/88	Senior Associate Counsel to the President The White House Washington, DC
10/77 - 10/78	Law Clerk U.S. Court of Appeals, Ninth Circuit Honolulu, HI

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

See attached list. (Attachment 1)

Political Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Christopher Cox Congressional Committee, Director

Republican Party of Orange County, Ex Officio Member

Congressional Leadership Fund, Honorary Chairman

National Republican Congressional Committee, Executive Committee Member, 1993-1995

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

In the past eight years, I have made the following personal political contributions of $500 or more:

Amount	Date	Recipient
$ 680	08-28-02	Chuck Devore for City Council
1,000	12-06-00	Zimmer 2000 (U.S. House, NJ-12)
500	10-21-99	Pat Dewine for City Council

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See attached sheet. (Attachment 2)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

See response to Question #5.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None. (For the entirety of the past 10 years I have been a U.S. Representative.)

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

I intend to liquidate all investments in individual stocks upon confirmation. In addition, I will recuse myself from matters before the Commission concerning my wife's employer, Continental Airlines, Inc.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

Murray v. Belka and First Pension Cases were consolidated class actions in Orange County Superior Court brought by investors against VestCorp Securities and related business entities, after VestCorp's principal was convicted of fraud. Several law firms and accounting firms, including my former law firm Latham & Watkins, as well as individual lawyers, were named as defendants on the theory that they should have discovered the fraud, or alternatively, that they participated in it. I was added as a defendant in 1995. The sole public offering in which Latham represented VestCorp, a limited partnership that sold less than $5 million in interests, was not the subject of the fraud conviction. That limited partnership offering was commenced nearly two years after I left the firm in early 1986. The fraud by VestCorp's principal was not discovered until nearly 10 years after that, in 1994. I had worked on draft prospectuses for the limited partnership, and the due diligence for the proposed offering had not yet been conducted prior to my leaving the firm. After these facts were established by discovery, I was voluntarily dismissed as a defendant with no settlement payment in March 1998. In addition, both the plaintiffs and their attorney, as an individual, signed a release agreeing never to sue me again in any connection arising out of these facts. In turn, I agreed to waive my right to sue for abuse of process and related claims.

In 1994 I was a defendant in a civil suit arising out of a traffic accident. The matter was handled by my auto insurance carrier, GEICO. The result was voluntary dismissal of the suit. GEICO has purged its records and cannot provide the caption of the case, which was filed in the Superior Court of Orange County, California.

Werner Erhard & Assoc. v. Congressman Christopher Cox, filed in Orange County Superior Court in 1988, was a civil suit for defamation brought against me and other defendants in 1988 by the brother of an opposing candidate in the 1988 congressional election. The suit charged that by republishing an article from Los Angeles magazine, my

campaign mailer defamed the EST organization and its founder, Werner Erhard (the opposing candidate's brother and employer). Following protracted discovery the case was dismissed with prejudice in 1992; I and the plaintiff executed a mutual release of claims. No settlement monies were paid.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

Attachment 2

STATEMENT OF QUALIFICATIONS
Christopher Cox

During my nearly two decades in Congress, I have served as a senior member of every House committee with legislative and oversight jurisdiction over the Securities and Exchange Commission, securities law, and accounting standards.

As a senior member of the Financial Services Committee and Energy and Commerce Committee, I have played a role in passage of the major securities laws enacted in the last two decades. I served as a member of the House-Senate Conference Committee on the Sarbanes-Oxley Act of 2002, Gramm-Leach-Bliley Act of 1999, Securities Litigation Uniform Standards Act of 1998, and Private Securities Litigation Reform Act of 1995.

I was elected by my House colleagues to our Elected Leadership in six successive Congresses. As Chairman of the House Policy Committee, I worked actively to forge legislative consensus on a wide range of domestic policy, foreign policy, and national security issues. For the last three years, I have served as Chairman of the Homeland Security Committee—from its inception to its current status as a permanent standing committee in the House. In this capacity, I have worked hard to ensure that bipartisanship and collegiality become the hallmark for the work of this new committee, and to produce consensus solutions based on sound policy.

Prior to my service in Congress, I worked as a White House counsel on a variety of matters including the creation of the Brady Commission following the 1987 stock market crash. I was a securities practitioner in private practice for eight years, and served as partner in charge of the Corporate Department for Latham & Watkins' Orange County office until 1986. In 1982-83, I was a Lecturer on Business Administration at Harvard Business School, where I had earned a Masters in Business Administration degree five years earlier. I earned my law degree at Harvard Law School, where I served as an Editor of the Law Review.

Published Writings
of Christopher Cox

Attachment 1

	Date	Type	Publisher	Title	Coauthors
1	4/28/2005	Article	Daily Pilot	Hoping for an end to the death tax	
2	4/8/2005	Article	Daily Pilot	In Rome to celebrate a vibrant life	
3	1/19/2005	Article	The Hill	Planning the year ahead in Congress	
4	2005	Book Chapter	William Morrow	Why I Am a Reagan Conservative	
5	12/12/2004	Article	Orange County Register	The 9/11 reform bill: Pro position	
6	12/6/2004	Article	Orange County Business Journal	Bursting a Boondoggle	
7	9/28/2004	Article	Wall Street Journal	The Marriage Amendment is a Terrible Idea	
8	9/10/2004	Article	Current (Newport Beach)	Moving forward after the hard lessons of 9/11	
9	8/20/2004	Article	Current (Newport Beach)	Intelligence reform and the 9/11 Commission	
10	7/23/2004	Article	Asian Wall Street Journal	Change is Now Inevitable	
11	7/22/2004	Article	Kansas City Star	No plan to postpone the election	
12	7/22/2004	Article	Wall Street Journal	Change is Now Inevitable	
13	7/12/2004	Article	Orange County Business Journal	Tech's Role in Homeland Security	
14	7/12/2004	Article	Washington Times	Intercepting Bioterrorism	
15	6/26/2004	Article	Financial Times (London)	Tax equity is good medicine for private health	
16	6/9/2004	Article	Orange County Register	Inspirational and unforgettable: Ronald Reagan thought it was part of his job to keep his staff cheerful	
17	6/8/2004	Article	Wall Street Journal	Does Putin's Russia Belong in the G-8?	
18	6/8/2004	Article	Wall Street Journal Europe	Seven Democracies and Russia	
19	5/19/2004	Article	The Hill	Faster, Smarter First Responder Funding	
20	3/16/2004	Article	Wall Street Journal	A Spanish Surrender	
21	2/25/2004	Article	The Hill	Level the Health Playing Field with Full Deductibility	
22	2/6/2004	Article	Human Events	Pursue a Veto Strategy	
23	9/11/2003	Article	Human Events	Flashback: Preparing for the Next War	
24	9/10/2003	Article	Washington Times	Intelligence for First Responders	
25	5/22/2003	Article	Current (Newport Beach)	Thanking Our Troops This Memorial Day	
26	5/15/2003	Article	Leisure World News	Axing the Double Tax Benefits Seniors	

Published Writings
of Christopher Cox

27	3/27/2003	Article	Tustin News	Chris Cox on Defending America	
28	3/20/2003	Article	Newport Light	Defending America	
29	3/1/2003	Article	American Enterprise	Why I'll vote for the dividend tax cut	
30	2/6/2003	Article	Newport Light	Space Shuttle Columbia: A Personal View	
31	1/5/2003	Article	Los Angeles Times, Orange County Edition	To Solve the State Deficit, Encourage Economic Growth	
32	2003	Chapter	Heritage Foundation	Chapter in book, "Who Rules the Net?": Establishing Global Internet Freedom: Tear Down This Firewall!	
33	12/19/2002	Article	Wall Street Journal	Settle the Score	
34	10/28/2002	Article	Human Events	End Clinton's Aid to North Korea; Bush Should Kill Predecessor's Imprudent Policy Toward Pyongyang	
35	10/25/2002	Article	National Review	Open-Web Policy	Sen. Jon Kyl, Rep. Tom Lantos
36	10/9/2002	Article	The Hill	Senate Must Act on House's Strong Record	
37	8/6/2002	Article	Cincinnati Post	Lawyers Seek to Undo Reform	
38	8/2/2002	Article	Scripps Howard News Service	Holding Back the Lawyers	
39	8/1/2002	Article	National Review Online	Protecting Shareholders	
40	7/23/2002	Article	Washington Times	Crack Down on Castro: Congress Must Vote to Reinforce Trade Embargo, Protect Freedom	Rep. Lincoln Diaz-Balart
41	1/15/2002	Article	Wall Street Journal	Lower the Debt Ceiling	
42	10/15/2001	Article	Forbes	War and the Law: Liberties Needn't Be a Casualty of Conflict if We Respect Constitutional Guarantees	
43	4/25/2001	Article	The Hill	The Death Tax, Ethics, and Entrepreneurship	
44	10/27/2000	Article	Human Events	Gore's Secret Iran-Russia Deal	
45	8/6/2000	Article	Los Angeles Times, Orange County Edition	Winning Oval Office, Keeping Congress Are Key; Orange County and the Nation Would Benefit From a Unified Legislative and Executive Branch	
46	7/17/2000	Article	Orange County Business Journal	Why cut capital gains taxes? Here's why	
47	7/16/2000	Article	Milwaukee Journal Sentinel	When the Tax Man Visits One Last Time; Death Tax Hurts Those Who Worked Hard for Security	
48	5/22/2000	Article	Roll Call	We Need an Annual Review of Human Rights Policies	
49	3/27/2000	Article	Roll Call	Should a moratorium be placed on Internet sales taxes?	
50	3/24/2000	Article	Orange County Register	Our Oil Option; Congress Has Weapons to Strike Back Against Petroleum-Rich Nations	

Published Writings
of Christopher Cox

51	3/5/2000	Article	Los Angeles Times, Orange County Edition	Saving Social Security Requires Reform, Not Accounting Tricks; Clinton's Approach Does Nothing. We Need Personal Retirement Plans and Stewardship of Today's Surpluses	
52	2/8/2000	Article	The Hill	The Internet Tax Freedom Act: Now That We Know It Works, Let's Make It Permanent	
53	11/25/1999	Article	Human Events	Financing North Korea's Nuclear Nightmare	
54	10/31/1999	Article	Los Angeles Times, Orange County Edition	Internet Tax Freedom Act Proves a Successful Start-Up; A Year After Its Inception, the Web is Bigger and Better Than Ever, and Sales Tax Revenue is Climbing	
55	9/26/1999	Article	Orange County Register	The Manifold Impact of Chinese Espionage	Rep. Norm Dicks
56	9/13/1999	Article	Insight on the News	China's Real Threat	
57	6/9/1999	Article	Asian Wall Street Journal	Export Controls will limit the Damage Done from China's Spies	Rep. Norm Dicks
58	6/8/1999	Article	Wall Street Journal	Export Controls Will Limit Damage From China's Spies	Rep. Norm Dicks
59	6/6/1999	Article	Cincinnati Enquirer	China must begin with truth—Tiananmen Square	
60	6/4/1999	Article	Los Angeles Times	A Boost for Democracy in China; Cox Report: A Proposal to Curb Sales or Theft of U.S. Military Technology Would Limit Power of Communists	Wei Jingsheng
61	6/4/1999	Article	San Diego Union-Tribune	The Promise of Tiananmen Square	Rep. Nancy Pelosi
62	5/31/1999	Article	Washington Post	China's Nuclear Data Theft	
63	5/30/1999	Article	San Diego Union-Tribune	Assessing the Damage: China Bought or Stole Years of Research	
64	4/6/1999	Article	Ventura County Star	Trade Liberalization Critical for Future Relations; American Technology Can Help Bring Freedom to the Chinese	
65	3/28/1999	Article	San Jose Mercury News	China: Export of technology would be liberating force	
66	2/21/1999	Article	Los Angeles Times, Orange County Edition	Social Security Investments Must Be Made By Workers Themselves; A Treasury Plan to Invest in Indexed Stocks Would Harm Small Businesses	
67	2/1/1999	Article	Orange County Business Journal	A Bad Investment	
68	12/10/1998	Article	Charleston Post and Courier	Social Security Fix Can't Wait	
69	12/9/1998	Article	Orange County Register	Social Security Reform: Just Do It	
70	12/7/1998	Article	Roll Call	The 106th Congress: The House Leadership's View; Let's Bridge the Gulf on Four Issues	

Attachment 1

Published Writings
of Christopher Cox

71	8/17/1998	Article	Orange County Business Journal	On Fast Track, It's the GOP Backing Clinton	
72	3/22/1998	Article	Los Angeles Times, Orange County Edition	Whatever Happens, Private Airport is Matter of Public Trust; Selling El Toro Land is the Best Thing for Residents, Business and the Health of the County's Economy	
73	11/3/1997	Article	Orange County Register	We Can Develop a 'Firm' Friendship with China	
74	11/1/1997	Article	American Enterprise	One reform that could change everything in D.C.	
75	10/29/1997	Article	Washington Post	China and Nuclear Trafficking	Rep. Ed Markey, Rep. Ben Gilman
76	7/28/1997	Article	Roll Call	The Federal Communications Commission Should Not Be Allowed to Regulate the Internet	
77	7/18/1997	Article	Human Events	Wei Jingsheng Exposes Horrors of Beijing's Brutal Tyranny	
78	7/17/1997	Article	Policy Review	Reagan Betrayed: Are Conservatives Fumbling His Legacy?	
79	7/11/1997	Article	Human Events	Here's a Bold Agenda for Promoting Freedom in China	
80	7/7/1997	Article	Orange County Business Journal	Keeping Government Off the Web	
81	6/1/1997	Article	Orange County Business Journal	The Promise of the Internet and How Taxes and Regulation Can Kill It	
82	4/8/1997	Article	Washington Times	Wrong side of freedom's divide	
83	4/2/1997	Article	Orange County Register	Stability and Anxiety: Advancing Freedom and a Decaying Communism Collide on the Great Divides of Northern Asia	
84	3/16/1997	Article	Orlando Sentinel and Weekly Standard	Lawyers' Group Courts	
85	2/27/1997	Article	Wall Street Journal	Global Leadership, Not Global Boondoggles	Rep. Jerry Solomon
86	2/24/1997	Article	The Weekly Standard	Land of the Un-Free	
87	2/4/1997	Article	Washington Times	Freedom in Europe for All	
88	1/19/1997	Article	Los Angeles Times, Orange County Edition	When It Comes to Key Issues, Ours Is Not a Nation Divided; The Parties Are Expected to Cooperate on an Impressive List of Legislation, Much to the Country's Benefit	
89	8/18/1996	Article	Reason Magazine	Can Washington Change?	
90	7/12/1996	Article	Human Events	Immigrants Without English Face High Barrier to American Dream	
91	6/29/1996	Article	Roll Call	Taiwan Should Be Rewarded for Pro-Democratic, Pro-Freedom Policies With Admission to the WTO	
92	6/5/1996	Article	Orange County Register	Mandated Wages Are a Sure Way to Kill Jobs	
93	Mar-96	Article	Harvard Journal of Law and Public Policy	Hope for the Tort System: Congressional Proposals for Reform	

Published Writings
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94	1/15/1996	Article	Orange County Register	Clinton Borrows Against the Constitution	
95	1/12/1996	Article	Houston Chronicle	Clinton End-running Constitution on Borrowing	
96	1/12/1996	Article	St. Louis Post-Dispatch	Constitutional Debt Crisis	
97	1/11/1996	Article	New York Times	Less Than Full Faith	
98	1996	Book	Hudson Institute	A foreword to "The Innovation Age: A New Perspective on the Telecom Revolution"	
99	11/13/1995	Article	Insight on the News	Is Public Hostility Toward Lawyers and the Legal System Justified?	
100	10/23/1995	Article	Roll Call	Surf's Up: The FCC Should Stay Out of It. Otherwise, Agency Will Become 'Federal Computer Commission'	
101	8/6/1995	Article	New York Times	Book Review: Behind 'The Fountainhead', The Letters of Ayn Rand	
102	7/7/1995	Article	Human Events	First Step in Tax Reform: Repeal the 16th Amendment	
103	6/20/1995	Article	Los Angeles Times	End the Tyranny of the Income Tax; The 16th Amendment is the Most Invasive Intrusion by the Government Into Citizens' Lives	
104	6/2/1995	Article	Wall Street Journal	The Process is the Problem	
105	5/10/1995	Article	Investor's Business Daily	Fixing the Budget Mess	
106	3/6/1995	Article	Washington Times	Taming Torts or Tilting Justice? Litigious Excesses	
107	2/28/1995	Article	Los Angeles Daily Journal	Who Wins When the Loser Pays?	
108	12/26/1994	Article	Los Angeles Times	Bulletin: The Sky Isn't Falling; The Economy is Sound, Revenue is Flowing in, and There's No Need for a Bailout; The East Coast Media Can Stop Gloating	
109	11/14/1994	Article	Orange County Business Journal	Relief for litigation-weary companies	
110	8/14/1994	Article	Los Angeles Times, Orange County Edition	Initiative Can't Guarantee Airport, But It's Sure to Cost a Lot; Before Sealing a Deal With Irvine Co., Why Not See What El Toro's Worth on the Open Market?	
111	7/14/1994	Article	Leisure World News	Congressman Outlines Reasons for Opposing Clinton Health Plan	
112	7/3/1994	Article	Los Angeles Times, Orange County Edition	Congress and the People Should See the Final Bill Before a Vote; We Don't Let Doctors Operate Blindfolded.	
113	Spring 1994	Article	Government Waste Watch	Budget Process Reform	
114	3/28/1994	Article	Orange County Register, Human Events, Washington Times	The Orange Grove	
115	3/1/1994	Article	Orange County Register	Davis-Bacon Wages Boost Rebuilding Costs	

116	2/28/1994	Article	Orange County Business Journal	Healthcare reform, sensibly	
117	2/7/1994	Article	Roll Call	Don't Let Clinton Take His Health Plan Off Budget	
116	2/6/1994	Article	Orange County Register	A Financial Catastrophe That Can Never Be Taken Away; Rhetorical Flourishes Won't Pay for Clinton's LBJ-Style Entitlement Plan	
119	12/31/1993	Article	Human Events	Clinton's Health Plan's Costs Must Be 'On Budget'	
120	12/13/1993	Article	Orange County Register	Clinton Schemes to Hide Health-Care Costs	
121	10/31/1993	Article	Los Angeles Times	Give Smokey the Bear Sharper Teeth	
122	9/24/1993	Article	Daily Pilot	Terminally Ill: Using his own criteria, President Clinton's health-care plan is nearly dead on arrival	
123	9/24/1993	Article	Orange County Register	Health Care Reform: Clinton Introduces Voodoo Medicine	
124	9/3/1993	Article	Orange County Register	Taxpayers' Bills Inflated by Helium Reserves	
125	4/12/1993	Article	St. Louis Post-Dispatch	Budget First, Spend Later	
126	3/28/1993	Article	Los Angeles Times, Orange County Edition	Considering Real Cost of Shuttering El Toro Marine Station; Orange County Residents Should Support Clinton's Proposal Only If It Benefits Taxpayers and National Security	
127	3/25/1993	Article	Houston Chronicle	Lock the Doors on Congressional Budget Exits	
128	8/18/1992	Article	New York Times and Buffalo News	Congress Is the Problem	Michael Horowitz
129	7/1/1992	Article	Wall Street Journal	The Sad Career of the Reagan Justices	
130	4/11/1992	Article	Human Events	The Right Way to Assist Russia	Jack Wheeler
131	3/15/1992	Article	Los Angeles Times, Orange County Edition	Free Trade: An Orange County Opportunity; Mexico's Growth Offers Us a Chance to Reinvigorate the American Economy	
132	12/14/1991	Article	Human Events	How Congress Adopted Transportation Boondoggle	
133	11/29/1991	Article	Los Angeles Times, Orange County Edition	Public to Pay Price For Unread Legislation; Congress Passed the Transportation Bill Without Proper Discussion.	
134	8/29/1991	Article	Los Angeles Times, Orange County Edition	Yeltsin Beat Odds	
135	7/2/1991	Article	Los Angeles Times, Orange County Edition	Decisions on Tustin Base Must Be Sound; It Will Pay to Read the Fine Print in This Particular Deal. Making the Property Private Is Not as Simple as It Might Seem	
136	6/9/1991	Article	Orange County Register	Banking reform seen as needed, likely to be enacted very soon	
137	4/3/1991	Article	Los Angeles Times, Orange County Edition	U.S. Must Get Busy on Kuwaiti Reconstruction	
138	10/29/1990	Article	Los Angeles Times	A Range of Voices Argues that California Does Have a Choice	

139	Sep-90	Article	Policy Review	Capitol Offenders: Budget Reform to Stop Congress from Breaking the Law	
140	8/15/1990	Article	Newsday	The U.S. Kept Hussein on the Gravy Train	
141	8/13/1990	Article	Los Angeles Times	175 Votes for the 'Butcher of Baghdad'; The Debate on Cutting Export Credits for Iraq Was a Textbook Case of Crass Politics Overriding Moral Purpose	
142	3/24/1990	Article	Human Events	Why U.S. Must Recognize Lithuania	
143	2/23/1990	Article	Orange County Register	An Icy Chill Hardens the Cold War; Moscow Bars U.S. Congressmen From Observing Lithuanian Voting	
144	2/15/1990	Article	Daily Pilot	Offshore drilling isn't answer	
145	2/2/1990	Article	Orange County Register	The Annual Fiacso; It's Time for Responsible Budgeting	
146	1/25/1990	Article	Daily Pilot	Mayor Barry behind bars would serve as role model	
147	1/11/1990	Article	Daily Pilot	Gorby's Lithuania Trip Notable	
148	12/29/1989	Article	Wall Street Journal	Book Review: Machiavellian Underbelly of Executive Power	
149	12/20/1989	Article	Daily Pilot	Canal treaty authorizes attack	
150	12/9/1989	Article	Human Events	Congress Shamelessly Pulls Curtain on 1989 Farce	
151	11/30/1989	Article	Daily Pilot	Uncle Sam's highway help needed	
152	11/26/1989	Article	Orange County Register and Human Events	The Con Game We Call Congress; In the Still of the Night, Members Raised Pay, Raided the Treasury	
153	11/16/1989	Article	Daily Pilot	Our country helps build new Poland	
154	11/9/1989	Article	Daily Pilot	Rid the hemisphere of Ortega	
155	10/26/1989	Article	Daily Pilot	Soviet newsmen find Glasnost a fiction	
156	10/19/1989	Article	Daily Pilot	Cox came to stock market's rescue	
157	10/13/1989	Article	Wall Street Journal	Toward More Crippling Lawsuits	
158	10/12/1989	Article	Daily Pilot	Soviet religious persecution lingers	
159	10/5/1989	Article	Daily Pilot	Democrats cradle federal day care	
160	9/28/1989	Article	Daily Pilot	Lawyers benefit most from disabled bill	
161	9/21/1989	Article	Daily Pilot	Congressional power surge harmful	
162	9/18/1989	Article	Daily Pilot	It's up to us to finish fight for Paul Gann	
163	9/7/1989	Article	Daily Pilot	Book on executive power gets 4 stars	
164	8/31/1989	Article	Daily Pilot	Reagan's Advice Proves to be Golden	
165	8/17/1989	Article	Daily Pilot	Fellow freshman congressman's passing draws classmates closer	
166	8/13/1989	Article	Orange County Register	The Bailout Bill... That Nobody Read	
167	8/10/1989	Article	Daily Pilot	Let's Hope Someone Read S&L Bill Before it Was Signed	
168	8/3/1989	Article	Daily Pilot	Pepper's likely successor escaped Cuba	
169	7/27/1989	Article	Daily Pilot	IRS probe focuses on Orange County	
170	7/22/1989	Article	Human Events	'Letting Poland Live' Means Letting Freedom Reign	

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171	7/20/1989	Article	Daily Pilot	Rostenkowski Thumbs His Nose at Will of People to Cut Tax	
172	7/13/1989	Article	Daily Pilot	Recent Judgments Make No Sense	
173	7/7/1989	Article	Daily Pilot	The writing is on the wall: Poles want democracy now	
174	Jul-89	Article	Conservative Digest	Tame the Budget Beast	
175	6/30/1989	Article	Daily Pilot	Flag burning issue has a good side	
176	6/23/1989	Article	Daily Pilot	Economic Opportunity Act Paves Way to a Better Future	
177	6/16/1989	Article	Daily Pilot	BIA helps bring 1000 points of light to county's homeless	
178	6/8/1989	Article	Daily Pilot	Congress Keeping Dream of Home Ownership Alive	
179	6/2/1989	Article	Daily Pilot	Resignations Won't Wash Away Corruption	
180	5/27/1989	Article	Human Events	Noriega Regime Threatens Security of Panama Canal	Gary Mendoza
181	5/25/1989	Article	Daily Pilot	It's time for the U.S. to get rid of Panama's Gen. Noriega	
182	5/18/1989	Article	Daily Pilot	Congress Making an End Run on the Free Enterprise System	
183	5/11/1989	Article	Daily Pilot	Ollie North: Polls Show Nation's Feelings	
184	5/4/1989	Article	Daily Pilot	Common Sense, 300 Votes Hopefully Can Kill Section 89	
185	4/27/1989	Article	Daily Pilot	Congress Comes Up Short	
186	4/24/1989	Article	Orange County Business Journal	Cost of new offshore tracts in O.C. exceeds benefit	
187	4/21/1989	Article	Daily Pilot	On Speedometer of Corruption	
188	4/18/1989	Article	Orange County Register	The Federal Budget-- On a Single Page	
189	4/13/1989	Article	Daily Pilot	Feds Urged to Push Funds for Santa Ana River Flood Control	
190	3/30/1989	Article	Daily Pilot	Election of Gingrich Expected to Reinvigorate Two-Party System	
191	3/27/1989	Article	Daily Pilot	Watching El Salvador's Elections Proves Democracy's Importance	
192	3/16/1989	Article	Daily Pilot	Discovery Proves High Quality of County's People, Business	
193	3/9/1989	Article	Daily Pilot	Confirmation Process Taking a Beating Along With Tower	
194	3/7/1989	Article	Daily Pilot	Capitol Idea Provides a Boost to Drive for Polish Democracy	
195	3/1/1989	Article	Daily Pilot	Political Realignment Swinging Toward GOP Control of House	
196	2/23/1989	Article	Daily Pilot	Wright's Attack on Free Trade Derailed	
197	2/21/1989	Article	Daily Pilot	Afghanistan Shows Success of Bipartisanship Foreign Policy	
198	2/16/1989	Article	Daily Pilot	Californians turn up heat to keep union fees out of politics	
199	2/14/1989	Article	Daily Pilot	Capital Gains Tax Should be Cut	
200	2/9/1989	Article	Daily Pilot	Rep. Dannemeyer Credited with Killing Pay Hike Measure	
201	2/7/1989	Article	Daily Pilot	ADA's Policy Positions Help 'Liberal' Become a Dirty Word	
202	2/2/1989	Article	Daily Pilot	Increasing Gasoline Tax to Cut Deficit Would Do Much Damage	
203	1/31/1989	Article	Daily Pilot	Poland's Solidarity finds friends in Orange County	
204	1/26/1989	Article	Daily Pilot	Congress should improve its image before raising pay	
205	1/19/1989	Article	Daily Pilot	Washington Puts on the Ritz for 200th Inauguration Day	
206	1/17/1989	Article	Daily Pilot	Lining up Competent Staff Essential to Serving District	

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207	1/12/1989	Article	Daily Pilot	Congress can use a raise, but method is not sincere	
208	1/10/1989	Article	Daily Pilot	County's Regional Interests in Congress a Little Stronger	
209	1/6/1989	Article	Daily Pilot	Wednesday's Joint Session of Congress was historic event	
210	1/4/1989	Article	Daily Pilot	A One-year Political Journey ends with the oath of Office	
211	12/29/1988	Article	Daily Pilot	Badly Broken congressional budget process needs fixing	
212	12/28/1988	Article	Daily Pilot	Much to do about some used office furniture	
213	12/22/1988	Article	Daily Pilot	New Congressmen receive as much mail as Santa Claus	
214	12/15/1988	Article	Daily Pilot	Office space for freshmen depends on luck of the draw	
215	12/12/1988	Article	Daily Pilot	Speculation grows as Inauguration date nears	
216	12/8/1988	Article	Daily Pilot	GOP Freshmen, Veterans See Framework of Reagan Legacy	
217	12/5/1988	Article	Daily Pilot	Politicking Continues After the Elections	
218	8/31/1987	Article	Wall Street Journal	Book Review: Inside Scoop on World's Biggest Newspaper	
219	1/22/1987	Article	Wall Street Journal	Censored: Letters from Palm Beach	
220	Jun-76	Article	Harvard Law Review	Comment: Marshel v. AFW Fabric Corp. and Green v. Santa Fe Industries, Inc. (2nd Cir. 1976)	
221	Mar-76	Article	Harvard Law Review	Comment: Beaudreau v. Superior Court (Cal.1975)	

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Campos** (Last) **Roel** (First) **Clark** (Other)

Position to which nominated: **SEC Commissioner**

Date of nomination:

Date of birth: **31** (Day) **01** (Month) **1949** (Year) **Place of birth:** **Harlingen, Texas**

Marital Status: Married **Full name of spouse:** Minerva Villarreal Campos

Name and ages of children: David Roel Campos 19 yrs. old

Daniel Martin Campos 15 yrs. old

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Harvard Law School	09/76 – 06/79	J.D.	06/79
UCLA Graduate School of Business	07/71 – 03/72	M.S. Business	03/72
USAF Academy	06/67 – 06/71	B.S.	06/71

Honors and Awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Department of Justice's Director's Award for Superior Performance (02/23/90)

Chicago United "2004 Bridge Advocate Award" Diversity in Corporate Governance

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
DANDAV Ltd., (personal Family limited partnership)	General Partner and Limited Partner	01/01 – Present

Roel Campos Consulting & Investing, Inc. (Personal Subchapter S company for holding Passive investments)	President and CEO	04/02 – Present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

8/02 – Present	U.S. Securities and Exchange Commission Commissioner 450 Fifth Street N.W. Washington, DC 20549
11/95 - 8/02	El Dorado Communications, Inc. Founding Partner and General Counsel 1980 Post Oak Blvd., Suite 1500 Houston, Texas 77056
10/92 – 11/95	Richman, Lawrence, Mann & Greene Attorney and Partner 9601 Wilshire Blvd., Penthouse Beverly Hills, Ca 90210
10/89 – 10/92	Rudin & Appel Attorney & Partner 9601 Wilshire Blvd., Suite 800 Beverley Hills, Ca 90210
04/85 – 10/89	U.S. Attorney's Office Assistant U.S. Attorney U.S. Court House 312 N. Spring St. Los Angeles, Ca 90024
07/84 – 04/85	Crowe & Day Associate Attorney 1888 Century Park East Los Angeles, Ca 90067
07/82 – 07/84	Cohen & Ziskin Associate Attorney 2029 Century Park East, Suite 1500 Los Angeles, Ca 90067

07/79 - 07/82	Jones, Day, Reavis & Pogue Associate Attorney 2029 Century Park East, Suite 3600 Los Angeles, Ca 90067
09/76 – 06/79	Law Student Harvard Law School 1525 Massachusetts Cambridge Ma 02138
06/71 – 09/76	Officer U.S. Air Force Boeing AFPRO, Boeing Plant, Marginal Way Seattle, Wa AND Hanscom Field, Massachusetts
06/67 – 06/71	U.S. Air Force Academy Cadet U.S. Air Force Academy Colorado Springs, Co 80840

Government Experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

2002 – present	Commissioner, U.S. Securities and Exchange Commission, Washington, D.C.
1985 – 1989	Assistant U.S. Attorney , U.S. Attorney's Office, Central District of California, Los Angeles, CA
1971 – 1976	Officer – U.S. Air Force
1967 – 1971	Cadet – U.S. Air Force Academy

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Roel C. Campos, Securities Regulators Must Not Abandon Corporate Penalties, Fin. Times, Eur. ed. Apr.13, 2005, at 13.

Roel C. Campos, The SEC's Shareholder Access Proposal: It Still Has a Pulse, The Corporate Governance Advisor, Mar./Apr. 2005.

Roel C. Campos, Securities Act Reform – De' ja' Vu All Over Again, in Emerging

Trends in Securities Law, 1-80 (2003-04 ed.).

Roel C. Campos, Securities Act Reform – How Should We Proceed After the Events of 2002, in Emerging Trends in Securities Law, 1-42 (2002-03 ed.).

Roel C. Campos, Let Issuers Pay for Analysts' Research, Fin. Times, Nov. 20, 2002, at 20.

Political Affiliations and Activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Member of Democratic Party

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

Regina Montoya Coggins For Congress	$1,000	12/30/99
David Lillehaug for Senate Committee	$1,000	12/30/99
Gore/Libeberman General Election Legal And Accounting Compliance /fund	$1,000	06/30/99
Gore 2000 Inc	$1,000	06/30/99
McCain 2000 Inc.	$1,000	12/31/99
Dedicated Americans For the Senate And House PAC	$3,000	11/1/04
A Lot of People Supporting Tom Daschle	$2,000	9/29/04
Salazar For Senate	$1,000	9/24/04

Qualifications: State fully your qualifications to serve in the position to which you have been named.

See Attachment 1.

Future Employment Relationships: 1. Indicate whether you will sever all connections with your present employer, business

firm, association or organization if you are confirmed by the Senate.

Yes, prior to beginning as a Commissioner in 2002, I severed all connections with my former employer El Dorado Communications, Inc. I will still hold stock in El Dorado Communications, Inc.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential Conflicts of Interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve
potential conflicts of interest with the position to which you have been nominated.

See Form 278 and Ethics Agreement attached hereto.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

   None

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

   I will recuse myself from any maters involving such potential conflicts of interest. Also see Form 278 and Ethics Agreement attached hereto.

Civil, Criminal and Investigatory Actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

   None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

   None.

The undersigned certifies that the information contained herein is true and correct.

Signed: Rosa Campos Date: 7/22/05

ATTACHMENT 1

QUALIFICATIONS

I have served as a Commissioner of the United States Securities and Exchange Commission for the past three years. I have been part of the Commission that implemented the requirements of the famed Sarbanes Oxley Act. As such, I have become one of the leading experts on the requirements of Sarbanes Oxley. I have become familiar with all aspects of current federal securities regulation.

Further, I have come to know the workings of the unique agency that is the SEC. I understand and appreciate the mission to protect investors and to protect the integrity of our national markets. I also have come to know and work well with the professional staff at the Agency. I believe that there is a deep mutual respect between me and the staff and that there exists a great ability to work well with each other.

I have also become known as an expert on international securities regulation and I frequently represent the Agency in international forums, such as the International Organization of Securities Commissions (IOSCO). Separately, with my federal prosecutorial experience, I have provided valuable service and insight to the SEC's enforcement program. I successfully headed a task force to reform the Agency's administrative process, resulting in an elimination of appellate backlogs of many years. As a result of my efforts and through my team, the Agency now has a process with the Administrative Judges in that almost all cases are resolved in less that nine months, an astounding accomplishment that replaced the former situation of cases taking an average of over two years to process cases to decisions.

During my term as a Commissioner I have written two articles on Securities Act reform and written several editorials pertaining to securities regulation.

I have also received an award from a civic organization in Chicago, Chicago United, for my efforts to promote diversity on corporate boards.

In conclusion, I believe that I bring valuable continuity to the position. I have developed great familiarity with the workings of the SEC and I have developed substantial expertise in the area of securities regulation. With my three years experience as a Commissioner, I continue to apply the perspective of a former federal prosecutor to the many SEC enforcement matters. I also bring the additional perspective of a former businessman and entrepreneur in understanding the pressures on the business community and the effect of regulation.

I believe I am well prepared to continue serving the American investor and protecting the markets.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Nazareth** (Last) **Annette** (First) **L.** (Other)

Position to which nominated: **Commissioner, Securities and Exchange Commission**

Date of nomination:

Date of birth: **01** (Day) **27** (Month) **56** (Year) **Place of birth:** **Providence, RI**

Marital Status: Married **Full name of spouse:** **Roger Walton Ferguson, Jr.**

Name and ages of children: **Roger Walton Ferguson III, 14 years old**
Caroline Lawson Ferguson, 10 years old

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Columbia University School of Law	**8/78-5/81**	**J.D.**	**5/81**
Brown University	**9/74-6/78**	**A.B. (Magna cum laude)**	**6/78**
Cumberland High School	**9/70-6/74**	**Diploma**	**6/74**

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or chievement.

1974 – Valedictorian, Cumberland High School
1978 – Phi Beta Kappa, Brown University
1980 – Harlan Fiske Stone Scholar, Columbia University School of Law
1980-1981 – Book Review Editor, Columbia Journal of Transnational Law, Columbia University School of Law
2000 – SEC Law and Policy Award
2000 – SEC Capital Markets Award
2001 – President's Award, Securities Industry Association
2001 – Wall Street Letter's Elan Award for Contribution to Regulatory Issues

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
St. John's Episcopal Church	**None**	**1989-1998**
St. Patrick's Episcopal Church	**None**	**1998-2004**
Christ Church	**None**	**2004-present**
New York Museum of Natural History	**None**	**1992-1998**
New York Zoological Society	**None**	**1992-1998**
Museum of Modern Art	**None**	**1991-1998**
New York Botanical Gardens	**None**	**1997-1998**
Norwalk Maritime Aquarium	**None**	**1993-1998**
New York Science Museum	**None**	**1994-1998**
Greenburg Nature Center	**None**	**1993-1998**
Badger Sports Club, Inc.	**None**	**1995-1998**
DC Children's Museum	**None**	**1998-2001**
Friends of the National Zoo	**None**	**1999-2001**
Kennedy Center	**None**	**2002-2004**
The National Gallery of Art	**None**	**2004**
The Bond Market Association	**None**	**1994-1998**
Securities Industry Association	**None**	**1994-1998**

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

Securities and Exchange Commission, Washington, DC
March 1999 to present, Director, Division of Market Regulation
September 1998 to March 1999, Senior Counsel to Chairman Arthur Levitt
Interim Director, Division of Investment Management

April 1997 to August 1998, Managing Director, Salomon Smith Barney, New York, NY

May 1994 to April 1997, Senior Vice President, Legal Division, Lehman Brothers, New York, NY

1991 to April 1994, General Counsel, Mabon Securities Corp. (successor business to Mabon, Nugent & Co.), New York, NY

December 1986 to 1991, General Counsel and General Partner, Mabon, Nugent & Co.. New York, NY

October 1981 to November 1986, Attorney, Davis Polk & Wardwell, New York, NY

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Securities and Exchange Commission, Washington, DC
March 1999 to present, Director, Division of Market Regulation
September 1998 to March 1999, Senior Counsel to Chairman Arthur Levitt
Interim Director, Division of Investment Management

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Testimonies:

4/12/05, before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Committee on Banking and Financial Services, re Credit Rating Agencies

6/17/04, before the Senate Committee on Banking, Housing, and Urban Affairs re Transparency in the Fixed Income Markets

5/22/04, before the House Banking and Financial Services Committee re Certain Pending Proposals by the European Commission

4/2/03, before the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, Committee on Banking and Financial Services, re Credit Rating Agencies

12/11/02, before the Senate Permanent Subcommittee on Investigations, Committee on Governmental Affairs, re Transparent Financial Reporting for Structured Finance Transactions

1/29/02, before the Senate Committee on Banking, Housing, and Urban Affairs re the Financial Aspects of the War on Terrorism and the Implementation of the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001

7/19/00, before the House Banking and Financial Services Committee re the Commodity Futures Modernization Act of 2000

6/14/00, before the House Subcommittee on Risk Management, Research and Specialty Crops, Committee on Agriculture, re the Commodity Futures Modernization Act of 2000

4/11/00, before the House Committee on Banking and Financial Services re the Netting of Financial Contracts, Hedge Fund Disclosure, and Over-The-Counter Derivatives Transactions

2/15/00, before the House Subcommittee on Risk Management, Research and Specialty Crops, Committee on Agriculture, re the Report to Congress on Over-The-Counter Derivatives Markets and the Commodity Exchange Act by the President's Working Group on Financial Markets

2/10/00, before the Senate Committee on Agriculture, Nutrition, and Forestry re the Report to Congress on Over-The-Counter Derivatives Markets and the Commodity Exchange Act by the President's Working Group on Financial Markets

7/21/99, before the House Subcommittee on Financial Institutions and Consumer Credit, Committee on Banking and Financial Services, re Financial Privacy
6/30/99, before the House Subcommittee on Finance and Hazardous Materials, Committee on Commerce, re H.R. 1858, the "Consumer and Investor Access to Information Act of 1999"
5/18/99, before the House Subcommittee on Risk Management, Research and Specialty Crops, Committee on Agriculture, re Reauthorization of the Commodity Futures Trading Commission
5/6/99, before the House Committee on Banking and Financial Services re the Report of the President's Working Group on Financial Markets on Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management

Published speeches may be found at the SEC website at www.sec.gov.

Political Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Registered member of the Democratic Party

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See Attachment A

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   I am being nominated to serve as a Commissioner of the Securities and Exchange Commission, my current employer.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   I have no current plans to resume employment with any of my previous employers.

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

No

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

In my capacity as an SEC official, I have testified before Congress on several securities related issues.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

N/A

Civil, criminal and investigatory actions:

1. Give the full derails of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

From 1987 to 1993, I was a general partner of Mabon, Nugent & Co., a New York limited partnership that was a registered broker-dealer conducting full service securities brokerage services. During my tenure at Mabon, Nugent & Co., the partnership was involved in several civil litigations in the ordinary course of its securities brokerage business. To the best of my knowledge, I was not named individually in any of the lawsuits. The litigations primarily involved securities litigations and Mabon's role as an underwriter or selling group member, as well as routine litigations involving employee and partnership matters. There are no outstanding litigations from that period and no litigations currently pending.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

ATTACHMENT A

My background as a securities lawyer in private practice, the brokerage industry and a regulatory agency qualify me for this position.

I have served in senior positions at the Securities and Exchange Commission since September 1998. I was Senior Counsel to Chairman Arthur Levitt and Interim Director of the Division of Investment Management until March 1999, at which time I was named Director of the Division of Market Regulation. In the Division of Market Regulation, I have been the senior executive responsible for supervising and regulating the U.S. securities markets, primarily through the regulation of brokers and dealers, securities exchanges, clearing agencies, transfer agents and securities information processors. I have been primarily responsible for establishing priorities and guiding the resolution of a number of securities market and broker-dealer issues. These include equity market structure issues, such as access fees and intermarket linkages, and options market issues, such as options linkage issues and market data capacity. During my tenure, a number of significant rulemakings have been adopted by the Commission, including execution quality disclosure rules, Regulation SHO, Regulation NMS and rules concerning consolidated supervised entities ("CSEs").

As the Director of the Division of Market Regulation, I have represented the Commission on the Financial Stability Forum, which is comprised of central banks, finance ministry officials and other regulatory authorities. The Financial Stability Forum has the mandate to assess vulnerabilities affecting the global financial system and identify actions to address those vulnerabilities.

Prior to coming to the Commission, I worked for twelve years in senior capacities as a lawyer in the securities industry. These positions provided me with direct experience concerning the issues and challenges facing the securities markets and those who participate in them.

I began my legal career at Davis Polk & Wardwell in 1981, where I concentrated on corporate and securities law issues.

I received an A.B. in economics and history (magna cum laude and Phi Beta Kappa) from Brown University in 1978 and a J.D. from Columbia University School of Law in 1981.

This professional experience is directly relevant to the work of the Securities and Exchange Commission and evidence of my preparation to meet the challenges of the position of Commissioner.

SOURCES OF INCOME LAST 3YEARS

1. List sources and amounts of all income received during the last 3 years, including all salaries, fees, dividends, interest, gifts, rents, royalties, patents, honoraria, and other items exceeding $500 or more. (if you prefer to do so, copies of U.S. income tax returns for these years may be substituted here, but their submission is not required.)

	Year: 2002	Year: 2003	Year: 2004
Salary	**See attached Tax Return**	**See attached Tax Return**	**See attached Tax Return**
Fees, royalties			
Dividends			
Interest			
Gifts			
Rents			
Other-exceeding $500			
Total			

(Add schedule itemizing each individual source of income which exceeds $500. If you are an attorney, accountant, or other professional, attach schedule listing all clients and customers whose billings exceeded three quarters of one percent of your gross billings during each of the last 3 years.)

2. List sources, amounts and dates of all anticipated receipts from deferred income arrangements, stock options, uncompleted contracts and other future benefits which you expect to derive from previous business relationships, professional services and firm memberships or from former employers, clients, and customers.

None

The undersigned certifies that the information contained herein is true and correct.

Signed: Annette L. Hayworth Date: July 15, 2005

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Gruenberg** (Last) **Martin** (First) **James** (Other)

Position to which nominated: **Member/Vice Chairperson – Federal Deposit Insurance Corporation**

Date of nomination: **July 22, 2005**

Date of birth: 01 (Day) 04 (Month) 53 (Year) **Place of birth: New York, New York**

Marital Status: Married **Full name of spouse: Donna Marie LaTorre**

Name and ages of children: Paul Gruenberg 9

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Case Western Reserve Law School	8/76 to 5/79	J.D.	5/79
Princeton University	9/71 to 5/75	A.B.	4/76
Horace Mann School	9/65 to 6/71	Diploma	6/71

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

N/A

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Adas Israel Congregation	Member	1994 - present
U.S. Holocaust Museum	Member	1991 - present
Princeton Club of Washington, D.C.	Board Member	1990 – present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

Title Employer Location Dates

Senior Democratic Counsel, Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C. 1995-Present

Counsel, Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C. 1993-94

Staff Director, Subcommittee on International Finance and Monetary Policy, Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C. 1987-1992

Legislative Assistant, Senator Paul S. Sarbanes, U.S. Senate, Washington, D.C. 1986

Professional Staff Member, Subcommittee on Economic Stabilization, Committee on Banking, Finance, and Urban Affairs, U.S. House of Representatives, Washington, D.C. 1984-86

Legislative Assistant, Representative Sander M. Levin, U.S. House of Representatives, Washington, D.C. 1983-1984

Legislative Assistant, Representative Jonathan B. Bingham, U.S. House of Representatives, Washington, D.C. 1979-1982

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Senior Democratic Counsel, Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C. 1995-Present

Counsel, Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C. 1993-94

Staff Director, Subcommittee on International Finance and Monetary Policy, Committee on Banking, Housing, and Urban Affairs, United States Senate, Washington, D.C. 1987-1992

Legislative Assistant, Senator Paul S. Sarbanes, U.S. Senate, Washington, D.C. 1986

Professional Staff Member, Subcommittee on Economic Stabilization, Committee on Banking, Finance, and Urban Affairs, U.S. House of Representatives, Washington, D.C. 1984-86

Legislative Assistant, Representative Sander M. Levin, U.S. House of Representatives, Washington, D.C. 1983-1984

Legislative Assistant, Representative Jonathan B. Bingham, U.S. House of Representatives, Washington, D.C. 1979-1982

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

N/A

Political Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Member, Democratic Party

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

N/A

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

I have been a member of the staff of the Committee on Banking, Housing, and Urban Affairs since 1987. During that period I have had the opportunity to work on all of the major financial services legislation enacted by the Banking Committee including the Competitive Equality Banking Act of 1987, the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the Federal Deposit Insurance Corporation Improvement Act of 1991, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, the Depository Insurance Funds Act of 1996, the Credit Union Membership Access Act of 1998, the Gramm-Leach-Bliley Act, the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, and the Sarbanes-Oxley Act of 2002.

In the course of working on those pieces of legislation, I have interacted with staff of all of the federal financial services regulatory agencies, administrations of both political parties, all of the financial services industry groups, and all of the consumer advocacy organizations. That experience has given me a broad perspective on the safety and soundness, national security, and consumer protection issues confronting the FDIC. It has also given me a familiarity with the FDIC as an institution, an appreciation of its relationships with the other financial services regulators, and an understanding of the industry and consumer groups with which it must deal. I believe I would come well prepared to make a constructive contribution to the work of the FDIC.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

N/A.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

N/A

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

N/A

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

N/A

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

N/A

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

N/A

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

N/A.

Responses of John C. Dugan to
Questionnaire for Presidential Nominees
Committee on Banking, Housing, and Urban Affairs
United States Senate

Name: John Cunningham Dugan

Position to Which Nominated: Comptroller of the Currency

Date of Nomination: February 28, 2005

Date of Birth: 6/3/55 **Place of Birth:** Washington, D.C.

Name and Ages of Children: Claire Marie Dugan, 15; John Thomas Dugan, 8.

Education: Institution	Dates Attended	Degrees Received	Dates of Degrees
Harvard Law School	9/78 to 6/81	J.D.	6/4/81
University of Michigan	9/73 to 4/77	B.A.	4/30/77
Thomas Wootton High School	9/70 to 6/73	Diploma	6/73

Honors and Awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

- **Treasury Medal,** U.S. Treasury Department (1993), for work on various policy initiatives, including financial modernization and regulation of Government-sponsored enterprises.

- **Distinguished Service Award,** U.S. Treasury Department (1991), for work in developing banking reform recommendations and legislative initiative.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office Held (if any)	Dates
• Minbanc Foundation	Director	June 2000 to present
• D.C. Bar Association	Member	1981 to present
(section of corporations, finance and securities law)	Member	1993 to present

• Federal Bar Association (section of financial institutions and the economy)	Member	1993 to present
(Executive Council of Banking Law Committee)	Member	2003 to present
• American Bar Association (Section on Business Law, Banking Law Committee)	Member	1993 to present
• Exchequer Club (financial services speakers' club)	Member	1993 to present
	Vice-Chancellor	1996-97
	Chancellor	1997-98
• Lawyers Committee for the Shakespeare Theater	Member	App. 1995 to present
• Chevy Chase Club	Member	May 2001 to present

Employment Record: List below all positions held since college, including the title or description of job, name of employment, location of work and dates of inclusive employment.

Title	Employer	Location	Dates

- Partner (3/95 to present) and Of Counsel; Covington & Burling; 1201 Pennsylvania Avenue, NW, Washington, DC, 2004; 3/93 to present
- Assistant Secretary for Domestic Finance; U.S. Treasury Department; 15th and Pennsylvania Ave., NW, Washington, DC, 20220; 6/92 to 1/93
- Deputy Assistant Secretary for Financial Institutions Policy; U.S. Treasury Department; 15th and Pennsylvania Ave., NW, Washington, DC, 20220; 5/89 to 6/92
- Republican General Counsel (1/87 to 5/89) and Counsel; U.S. Senate Committee on Banking, Housing, and Urban Affairs; DSOB 538; Washington, DC 20510; 12/85 to 5/89
- Associate, Miller & Chevalier, Chartered; 655 Fifteenth Street, NW, Washington, DC, 20005; 9/81 to 11/85
- Summer Associate; Paul, Weiss, Rifkind, Wharton & Garrison; 1285 Avenue of the Americas, New York, NY, 10009; 6/80 to 8/80
- Research Assistant to Prof. Robert Clarke; Harvard Law School; Cambridge, MA, 02138; 10/79 to 4/80

- Summer Associate; Miller & Chevalier, Chartered; 655 Fifteenth Street, NW, Washington, DC, 20005; 6/79 to 8/79
- Waiter; Dudley P's; 21st & M St., NW, Washington, DC, 20036; 2/78 to 4/78
- Waiter, Rocky Raccoon Saloon; 1243 20th St., NW, Washington, DC, 20036; 9/77 to 1/78

Government Experience: List any experience in or direct association with Federal, State or local governments, including any advisory, consultative, honorary or other part time service or positions.

- Assistant Secretary for Domestic Finance; U.S. Treasury Department; 15th and Pennsylvania Ave., NW, Washington, DC, 20220; 6/92 to 1/93
- Deputy Assistant Secretary for Financial Institutions Policy; U.S. Treasury Department; 15th and Pennsylvania Ave., NW, Washington, DC, 20220; 5/89 to 6/92
- Republican General Counsel (1/87 to 5/89) and Counsel; U.S. Senate Committee on Banking, Housing, and Urban Affairs; DSOB 538; Washington, DC 20510; 12/85 to 5/89

Published Writings: List the titles, publishers, and dates of books, articles, reports or other published materials you have written.

- "Forms of Entry, Operation, Expansion and Supervision of Foreign Banks in the United States," *Regulation of Foreign Banks* (2004) (co-author)
- "Privacy and E-Commerce in the United States," *E-Commerce Law and Business* (2003) (co-author)
- "Financial Modernization: The Gramm-Leach-Bliley Act, Summary," *American Bankers Association* (1999) (Lead author)
- "*Barnett Bank* Opens New Opportunities for Banks," *International Financial Law Review* (1996) (co-author)
- "Derivatives: Netting, Insolvency, and End Users," *The Banking Law Journal* (1995)

Political Affiliations and Activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

- Member, Republican Party
- Member, Lawyers for Dole, 1995-96 (work on vice-presidential selection team)

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates and names of recipients.

Recipient	Amount	Date
Republican National Committee	$1000	10/14/04
American Success PAC	$500	6/30/04
Bush-Cheney '04	$2000	1/12/04
Volunteer PAC	$500	5/29/03
Leadership PAC 2004	$500	1/23/03
Senator Charles Grassley	$500	8/23/02
Leadership PAC 2004	$1000	1/18/01
Republican National Committee	$500	10/27/00
Bush-Cheney for President	$500	8/15/00
George W. Bush for President	$500	6/30/99
Dole for President	$1000	6/8/95

Qualifications: State fully your qualifications to serve in the position to which you have been named.

I am qualified to serve as Comptroller of the Currency because of my extensive experience with the policy, regulatory, supervisory, and legislative issues that must be addressed in this position. For the last 20 years, my career has focused primarily on banking issues, many of which have involved national banks. As Republican General Counsel and counsel for this Committee during the late 1980s -- which was a very active period -- I worked extensively on legislative and regulatory proposals involving bank powers, bank failures, capital adequacy, safety and soundness supervision, agency authority, and deposit insurance, among others. As Assistant Secretary and Deputy Assistant Secretary of Treasury from 1989-92, that work expanded into financial modernization, interstate banking and branching, bank securities activities, agency consolidation, regulatory burden relief, consumer banking, "credit crunch" relief, oversight of OCC regulations and legislative proposals, Basle capital regulation, and many other related issues. And during my 12 years in private practice, I have continued to work on a wide range of

banking matters, including the Gramm-Leach-Bliley Act, financial privacy and amendments to the Fair Credit Reporting Act, financial derivatives regulation, "push-out" legislation and regulation, antitying, enforcement matters, and national bank powers generally.

At many points in my career, I have worked closely with officials and staff of the OCC. I believe I have developed a strong understanding of the key challenges that confront the agency. I have also had frequent contact with officials and staff at the Federal Reserve, Federal Deposit Insurance Corporation, Office of Thrift Supervision, Securities and Exchange Commission, Treasury Department, National Economic Council, and Office of Management and Budget, which are virtually all the Executive branch agencies that have a significant impact on regulatory and policy issues affecting banks. Given our unique banking system with its many overlapping functions, I believe the Comptroller must have a fundamental understanding of how different regulators approach their jobs and work best together, and I believe my experience has helped provide that understanding.

In sum, I believe that my experience and education are a strong foundation for this position. If confirmed by the Senate, I would be honored to serve as Comptroller of the Currency.

Future Employment Relationships:

1. Indicate whether you will sever all connections with your present employer, business, firm, association or organization if you are confirmed by the Senate.

Yes, I will sever all such connections if confirmed.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No, I have no such plans.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential Conflicts of Interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

If confirmed, the deferred compensation I would receive from my law firm is described in the answer to the last question of this questionnaire. Any potential conflicts of interest, including any such potential conflicts of interest arising from my deferred compensation arrangement, have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

2. List any investments, obligations, liabilities or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

I have engaged in lobbying activities (as defined under the Lobbying Disclosure Act of 1995) over the last 10 years with respect to the following legislation and executive branch actions:

- Changes to the Fair Credit Reporting Act, especially provisions affecting financial privacy; and implementing regulations;
- Financial and internet privacy legislation, including Title V of the Gramm-Leach-Bliley Act, and implementing regulations, and proposals on financial privacy notices;
- Financial modernization legislation, culminating in the Gramm-Leach-Bliley Act, especially with respect to securities, merchant banking, and thrift activities, and implementing regulations;
- Legislation and regulations affecting housing Government-sponsored enterprises (Freddie

Mac and Fannie Mae);

- Regulatory burden relief legislation;
- Amendments to the Commodity Exchange Act affecting financial derivatives, and implementing regulations;
- Legislation affecting attorney malpractice insurance;
- Legislative hearings on allegations of broker-dealer misconduct;
- Legislative hearings on Holocaust-related claims involving art;
- Internet gambling legislation;
- Federal escheat legislation;
- Mutual funds legislation;
- Regulations proposed or issued by the federal banking agencies on a variety of issues not included above, including with respect to overseas activities of U.S. banks, capital, antitying, interaffiliate transactions, and new activities.
- Regulations issued by the Securities and Exchange Commission on consolidated supervised entities and securities activities of banks.

5. Explain how you will resolve any conflicts of interest that may be disclosed by your responses to the items above.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

Civil, Criminal and Investigatory Actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

I have never been a defendant or the subject of any such inquiry or investigation.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

I have never been the subject of any such proceeding, inquiry, or investigation.

Confidential Financial Statement:

NET WORTH

Provide a complete, current financial net worth statement which itemizes in detail all assets

Responses of John Michael Reich to
Questionnaire for Presidential Nominees
Committee on Banking, Housing, and Urban Affairs
United States Senate

Name: John Michael Reich

Position to Which Nominated: Director, Office of Thrift Supervision

Date of Nomination: April 26, 2005

Date of Birth: October 7, 1939 **Place of Birth:** Mattoon, Illinois

Marital Status: Married **Full Name of Spouse:** Patricia Joy Reich

Name and Ages of Children:

Steven Kent Reich, Sarasota, FL, age 39
Scott Edward Reich, Sarasota, FL, age 37
Michael William Reich, Tampa, FL, age 35
Lindsey Joy Reich, Alexandria, VA, age 15

Education:	Date Attended	Degree	Date of Degree
Southern Illinois University Carbondale, Illinois	1957-1961	BS/Accounting	June, 1961
University of South Florida Tampa, Florida	8/1987-7/1989	MBA	Aug. 10, 1993*

*(Completed 3 courses at George Mason University, Fairfax, VA in 1991 and 1992, and transferred credits to University of South Florida; then awarded MBA degree on 8/10/1993)

Honors and Awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

None.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office Held (if any)	Dates
Lee Memorial Hospital, Fort Myers, FL	Chairman of Board	1974-1975
Sarasota Family YMCA, Sarasota, FL	Chairman of Board	1982-1984
Rotary Club of Sarasota Bay, Sarasota, FL		1978-1988
National Presbyterian Church, Washington, DC	VP, Board of Trustees	1999-2001
National Presbyterian Church, Washington, DC	Elder	2004-present
Masonic Lodge, 32 degree Mason, KCCH, Tampa, FL		1964-present

Employment Record: List below all positions held since college, including the title or description of job, name of employment, location of work and dates of inclusive employment.

Title	Employer	Location	Dates

(See resume attached)

Government Experience: List any experience in or direct association with Federal, State or local governments, including any advisory, consultative, honorary or other part time service or positions.

Current member and Vice Chairman of FDIC Board of Directors (2001-present)
Former Member and Vice Chairman of Neighborhood Reinvestment Corp. (2001-2003)
From 1961 to 1964, I served as an Internal Revenue Agent immediately after college graduation.
From 1962 to 1968, I served in the U.S. Army Reserves, honorably discharged in 1968.

Published Writings: List the titles, publishers, and dates of books, articles, reports or other published materials you have written.

See attached copy of an op-ed entitled *The Lessons of Superior* which appeared in the *American Banker* in August, 2001.

Political Affiliations and Activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None, other than serving as a staff member – Deputy Chief of Staff and Chief of Staff for former U.S. Senator Connie Mack from July, 1989 through January 3, 2001.

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates and names of recipients.

Recipient	Amount	Date
Congressman Connie Mack IV (son of the former Senator)	$ 500.	April, 2004

Qualifications: State fully your qualifications to serve in the position to which you have been named.

I am currently serving as Vice Chairman of the FDIC, and have been a member of the Board of the FDIC since January, 2001. I currently serve as chairman of two Board committees – the Audit Committee, and the Supervisory Appeals Review Committee. In the past I have chaired two other Board committees - the Assessment Appeals Committee, and the Case Review Committee, which considers enforcement actions against banks and bankers.

For the past 2 years, I have been leading an interagency effort to review all existing Federal bank regulations and make recommendations as necessary to Congress to eliminate those that are outdated, unduly burdensome on the industry, and no longer necessary. This effort continues, but to date we have held 9 outreach meetings across the country with bankers, and 3 with consumer groups.

I have 23 years of experience in the banking industry, including the following:

1 Served as Controller of unit bank institution
2 Organized, chartered, and opened new bank as its CEO and President
3 Served as Treasurer & CFO and founding member of Board of a multi-bank holding company.
4 Served 10 years as President/CEO of $450 million, 19 office bank
5 Community activist – hospital board president, YMCA Board president, Treasurer of Boy Scouts, youth baseball coach, numerous other community service activities
6. I served nearly 12 years in the United States Senate as Deputy Chief of Staff and Chief of Staff to U.S. Senator Connie Mack (retired) from 1989 to 2001.

Future Employment Relationships:

1. Indicate whether you will sever all connections with your present employer, business, firm, association or organization if you are confirmed by the Senate.

   This is not applicable to my current circumstances. If confirmed, I will move from my position as Vice Chairman of the FDIC to the Director of the Office of Thrift Supervision, and will remain as a member of the Board of Directors of the FDIC.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   No. I expect to retire when I depart the Office of Thrift Supervision.

3. Has anybody made you a commitment to a job after you leave government?

   No.

4. Do you expect to serve the full term for which you have been appointed?

   Yes.

Potential Conflicts of Interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

   None.

2. List any investments, obligations, liabilities or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

   None.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

   None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

   None.

5. Explain how you will resolve any conflicts of interest that may be disclosed by your responses to the items above.

   Not applicable – there are no conflicts.

Civil, Criminal and Investigatory Actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

   In May, 1994, I was a defendant in a civil action – a personal injury lawsuit, filed in Court of Common Pleas, Clark County, Ohio, Case #94-CV-0220. It was a minor auto accident with no physical damage to vehicles. Plaintiff, Sheila M. Ryan, claimed soft tissue damage to neck and back. Insuror, Allstate, settled out of court.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

   None.

Confidential Financial Statement:

JOHN M. REICH

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Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, DC 20429
(O) 202-898-3888 e-mail: jreich@fdic.gov

Home:
7013 Dreams Way Court
Alexandria, Virginia 22315
(H) 703-971-6542 e-mail: johnmreich@cox.net

Professional Experience

Federal Deposit Insurance Corporation — **1/16/2001 to Present**

Vice Chairman of the Board of Directors

(Recommended by the Republican Senate in 2000 and appointed by President Clinton to the Board effective 1/16/2001; appointed Vice Chairman of the Board by President G.W. Bush effective 11/15/2002) Policy setting position for bank regulatory agency. Chair all Board Committees, including Audit Committee, Case Review Committee, Supervisory Appeals Committee, Assessment Appeals Committee. Currently head Interagency effort to reduce regulatory burden on banking industry. Active in corporate outreach program speaking to various industry constituencies.

United States Senate:

Chief of Staff to U.S. Senator Connie Mack — **1997 to 1/03/2001**

Deputy Chief of Staff — **1989 to 1997**

Directed and oversaw all offices and committee activity including legislative, press, scheduling, constituent service, and other administrative functions, including 6 offices in the State of Florida; oversaw management of Joint Economic Committee and Senate Republican Conference, of which Senator Connie Mack served as Chairman.

C & S National Bank of Florida & Subsidiaries, & Predecessors, including Landmark Banking Corporation and Southwest Florida Banks, Inc., as follows: — **1967 to 1987**

National Bank of Sarasota — **1977 to 1987**

President & Chief Executive Officer

Named CEO of a community bank with assets of $75 million, 3 offices, 90 employees and directed its growth to $450 million institution with 19 offices, 320 employees. Successfully managed profitability, deposit & loan growth, branch expansion, asset & liability management, all operations. Kept losses and classified assets below industry averages. Achieved ROA between 1.10% and 1.50%. Maintained low delinquency rates and c/o's under 0.50%.

First Commercial Bank, Fort Myers, Florida — **1975 to 1977**

President & Chief Executive Officer

Planned and organized new state-chartered subsidiary bank; obtained regulatory approvals from Federal Reserve and FDIC; directed pre-opening process; selected staff; managed bank to $20 million profitable institution targeting commercial business owners and professionals.

Southwest Florida Banks, Inc., Fort Myers, Florida — **1972 to 1975**

Vice President, Sec-Treas., & Chief Financial Officer

One of original organizers and charter member of Board of Directors. Obtained regulatory approvals from Federal Reserve and SEC for creation of company; developed and implemented accounting and financial reporting system for subsidiary banks; assisted in negotiating bank acquisitions and mergers; managed investment portfolio; responsible for financial presentations to Board of Directors, shareholders, and financial analysts.

JOHN M. REICH

Professional Experience (continued)

First National Bank in Fort Myers, Florida Senior Vice President & Controller	1967 to 1972
Busey First National Bank, Urbana, Illinois Cashier and Operations Officer	1964 to 1967

Education and Professional Development

B.S. Degree in Accounting, Southern Illinois University
Master of Business Administration, University of South Florida
Graduate, School of Banking of the South, Louisiana State University
Loan Portfolio Management, Ohio State University
Commercial Bank Management Program, Columbia University
Seminar for Senior Bank Officers, Harvard University

Community Activities

Chairman, Board of Trustees, Lee Memorial Hospital, Fort Myers, Fl., *650 bed hospital, 1974*
Chairman, Board of Directors, Sarasota Family YMCA, 1984-85
Board Member, Southwest Florida Symphony Orchestra, Sarasota, Fl., 1981-1983
Board Member, L.I.F.E. Drug Program, Sarasota, Fl., 1982-1984
Board Member, Sarasota Little League and Babe Ruth Baseball Association, 1979-1985
Coach, Sarasota Babe Ruth Baseball Team, 1978-1985
Board Member and Treasurer, Southwest Florida Boy Scouts of America, 1973-1974
Rotary Club of Sarasota Bay
32nd Degree Mason
Elder, National Presbyterian Church, Washington, DC, 2004-present

Personal

Married, 4 children; U.S. citizen; Birthplace: Mattoon, Illinois
Hobbies: tennis, snowskiing, reading, piano, genealogy, photography

(This article appeared in an issue of the American Banker newspaper in August, 2001).
OP-ED: The Lessons of Superior *by John M. Reich, Member, FDIC Board*

It was like *déjà vu* all over again.

Late last month, the Federal Deposit Insurance Corporation entered the offices of Superior Bank, FSB, a Chicago-area thrift, and took over as conservator. This failure could well be one of the most expensive closings since the banking crisis of the late 1980s and early 1990s. As such, Superior's failure is already attracting appropriate scrutiny from the Congress and the regulatory community with everyone asking: What lessons can we learn to prevent this from happening again?

This is a good question and we would not be doing our job if we were not asking it. But the troubling fact is that the lessons of Superior's failure are not new ones. Instead, there seems to be a trend developing.

Since 1998, the FDIC has lost more than a billion dollars to failures that all share a disturbingly similar profile with Superior. Without question, these institutions all suffered from inadequate management. Any assignment of 'blame' must begin and end there. But it is also entirely appropriate in these circumstances for those of us in the regulatory community to take hard look at our own policies and determine what we can do to going forward to detect these problems earlier and help prevent future losses.

Three costly failures – First National Bank of Keystone, BestBank, and Pacific Thrift and Loan – occurred since 1998. While fraud was clearly an issue in the cases of Keystone and BestBank, it can be fairly said that these failures resulted from a volatile mix of poor management and internal controls, faulty accounting opinions, and portfolios heavy on subprime lending. In the case of Keystone, Superior and PT&L, these factors were combined with the excessive retention of volatile assets resulting from securitizations.

Trapped in this vortex, these apparently healthy banks failed with alarming suddenness, leaving the landscape littered with questions about how the failures happened, who is responsible, and where we should go from here.

The answers to these questions should not be news to anyone. The FDIC has been making the case for years that these factors were figuring more and more prominently in troubled institutions and were increasing the risk to the deposit insurance funds. We have also outlined several policy proposals we believe would help prevent this scenario from repeating itself.

But the lengthy rulemaking process, a fragmented regulatory structure, an otherwise booming banking sector, and industry inattention prevented a comprehensive, expeditious approach to addressing these concerns. Now, perhaps, it is appropriate to describe again each of these areas of concern and make the case for industry and regulatory attention.

Poor management and subprime lending. These two factors joined hands to spell doom for Superior and the other costly failures we're discussing here. It is important to stress that subprime lending is simply the extension of credit to borrowers with less-than-perfect credit histories. There is nothing inherently harmful in this activity, and most subprime lenders are well capitalized and well managed. This sort of banking benefits society and provides healthy profits for many financial institutions. But, without question, it is a risky line of business. When

accompanied by poor management, inadequate record-keeping, and loose internal controls, it can result in a very costly failure with the FDIC picking up the tab.

About two percent of insured institutions have significant subprime portfolios. Yet, they represent about 20 percent of the institutions on our 'problem bank' list. We testified on Capitol Hill after the Keystone failure about the need for subprime lenders to hold capital commensurate with the risk. Earlier this year -- despite complaints from the industry -- we instructed our field examiners to scrutinize the risk management and capital levels of subprime lenders.

We should explore ways to do more. Non-bank subprime lenders are far better capitalized than their FDIC-insured cousins. In 1998, the common equity capital ratio for non-bank subprime lenders was 22.5 percent, as compared to 10.3 percent in banks conducting those activities. This disparity occurs because market pressures force the non-bank lenders to hold more reserves in order to attract outside investment. Is there any reason banking regulators cannot do the same? The potential for regulatory arbitrage concerns me. I want to make sure the FDIC's product remains oriented toward providing deposit insurance and depositor confidence. I do not want FDIC insurance becoming a shortcut to avoiding market discipline on risky activities.

Residuals and accounting opinions. As was the case with management and subprime lending, volatile assets and accounting valuations are linked. And without question they figured prominently in the demise of Superior and other recent costly failures.

A residual is that portion of the loan risk and revenue stream retained in the institution after the remainder of the loan has been securitized and sold off. These assets are highly volatile and it is difficult to precisely determine their value.

It is no surprise, then, that this uncertainty yields optimistic assumptions about future cash flows. Thanks to the magic of gain-on-sale accounting, these inflated estimates of future revenue are booked as assets right away. And it is often the case that these assumptions are validated by reputable accounting firms, giving the numbers a heft they may not deserve. But here is the rub: if the assumptions change the value can plummet, and the institution's equity capital can be severely impaired.

This is precisely what happened in the costly failures of the late 1990s. In response, the banking regulators issued supervisory guidance encouraging bank management to limit the amount of residuals kept on the books as equity capital. We further stated the valuations must be supported by verifiable documentation of the residuals' fair market value utilizing reasonable, conservative assumptions.

Now comes Superior, caught in the residual trap, and fitting the profile of Keystone and PT&L. This latest failure makes clear that we can and must do more to limit institutions' exposure to these volatile assets. Just last year, the bank regulators released for comment a proposal requiring dollar-for-dollar capital against residuals and limiting institutions' residuals exposure to 25 percent of tier-one capital. This would go a long way toward limiting the overall exposure of institutions to residuals and protecting the FDIC from sudden, costly failures.

This proposal is still in the rulemaking process; the subject matter is complicated and we want to make sure we do not approve anything that could adversely impact well managed institutions or

harm the securitization market. But we should work quickly to iron out the details and implement this plan to protect financial institutions and the FDIC from this sort of exposure.

I am also concerned about situations where an accounting change-of-heart can – in one fell swoop – render an apparently healthy bank insolvent. We have issued notices and advisories on the importance of good accounting, but – four failures and at least a billion dollars later – it appears we can and should do more.

Interagency cooperation and FDIC access. Finally, banking regulators should make sure the FDIC has full access to all banks and thrifts. This is needed to assess the degree of risk to the deposit insurance funds and to make preparations for handling the institution if it should fail. Our inability, on occasion, to get into troubled institutions has kept us out of the loop – but still on the hook financially – at critical junctures. This was the case in the Keystone situation and it happened again with Superior. This is not about second-guessing the primary regulator. It is about two heads being better than one in situations where a bank's condition is deteriorating and the FDIC's insurance funds are on the line.

In this case, reform begins at home. The FDIC Board's own complicated procedures prevent quick access to banks and thrifts when the primary regulator denies our participation. One of my goals on the Board of the FDIC is to establish a better mechanism for regulatory cooperation when dealing with troubled institutions.

So there are several important lessons we should learn from the failure of Superior Bank, and a number of things we can do to help prevent a similar failure from happening in the future. The unfortunate fact is we should have learned these lessons last time. And the two times before that.

Maybe now we can find the will to avoid another one of these costly episodes of *déjà vu* all over again.

RESPONSE TO A WRITTEN QUESTION OF SENATOR CARPER FROM CHRISTOPHER COX

Q.1. We have all heard assertions about the problems with the rules under Section 404 of Sarbanes-Oxley. As you know, that Section requires the SEC to develop and adopt rules that require companies to report on the management of companies' internal controls over their financial reporting. As some of us have heard, these reporting requirements are cumbersome and the audits are expensive, at least the initial ones. I would just like to ask each of our nominees to comment on this issue, to give us a sense of whether you think there is a problem or not, and what steps should be taken as we go forward so that we can have robust, vibrant markets and also strong investor protections.

A.1. I strongly believe it is possible to have both robust, vibrant markets free of unduly cumbersome and expensive regulatory requirements, and strong investor protections. I continue to strongly support the Sarbanes-Oxley Act, and was proud to serve on the House-Senate Conference Committee that wrote the law. I believe it was then, and remains now, an important and necessary response to the high-profile scandals that shook corporate America and to the subsequent crisis in investor confidence. In particular, the internal control reporting provisions of the Sarbanes-Oxley Act have the potential to provide significant long-term improvements in financial reporting. But it is important to both investors and public companies that the Commission "get it right." As we go forward, the Commission and the PCAOB must offer increasingly clear, refined, and useable guidance in order to achieve the twin objectives of robust markets and strong investor protections.

RESPONSE TO A WRITTEN QUESTION OF SENATOR CARPER FROM ROEL C. CAMPOS

Q.1. We have all heard assertions of the problems with the so-called Section 404 rules of Sarbanes-Oxley, and as you know, that Section is designed to require the SEC to develop and adopt rules that require companies to report to the management of the companies' internal controls of their financial reporting. And some of us have heard, I am sure we have all heard from time-to-time, that these reporting requirements are cumbersome and that the audits are expensive, at least the initial ones are.

I would just like to ask each of our nominees to comment on this issue and to give us a sense of whether you think there is a problem or not and what the steps are you think should be taken as we go forward so that we can have robust, vibrant market and also strong investor protections.

A.1. Given the need for U.S. investors to have confidence in the internal controls of companies in which they invest and to see that an independent auditor has attested to those internal controls, Section 404 may be compromised if an important segment of issuers is not subject to the same disclosure standards as apply to the majority of issuers. This was a fundamental piece of the Sarbanes-Oxley Act and to give the foreign issuers or small issuers an out may not be in the best interest of investors. Yet, both of these classes of issuers must be analyzed separately. Section 404 of Sar-

banes-Oxley specifically focuses on mitigating the risk of improper conduct in the areas of accounting and financial reporting by ensuring that companies' internal controls over accounting and financial reporting are strong enough to create a safety net. Section 404's mechanism for doing this is to require an audit of internal controls in conjunction with the audit of financials and an attestation by corporate management and independent auditors on the effectiveness of internal controls.

The first season of the internal control audits is coming to a close and we are seeing that 404 was an important tool in mitigating risk. While many have complained about the costs of compliance with 404, I believe that, in time, renewed investor confidence in companies' reports will pay off. One must also remember that many of the most significant costs are one-time costs that likely will not be repeated in subsequent years. As former Chairman Donaldson stated in a Congressional Hearing before the House Finance Services Committee, "the time, energy, and expense that companies are now investing in their internal controls, will earn a handsome return in the years to come."

With respect to foreign issuers, I believe it is unlikely that we will see an exodus of foreign issuers from the U.S. markets. There are many reasons why we expect a continuing and strong presence of foreign issuers in the United States. Nowhere in the world can foreign issuers raise as much capital as quickly as they can in the United States. In addition, the Commission historically has lightened the foreign issuers' disclosure burdens. Foreign issuers' financial statements can be prepared in accordance with home country accounting standards, provided the registration statement discusses and any material variations from U.S. GAAP. Foreign issuers also have certain options not to disclose certain categories of information that are mandatory for all U.S. issuers, such as breaking down revenues and earnings by lines of business and pension obligations. Foreign issuers have much lower burdens of disclosure regarding management compensation and related party transactions than customarily apply to U.S. issuers by virtue of Items 402–404 of Reg. S–K. Plus, further accommodations to foreign issuers were made when the SEC amended Form 20–F so that it more closely mirrors the disclosure standards established by IOSCO.

With respect to small issuers, the need for confidence, comfort, and comparability is no less but the analysis differs because of the particular barriers faced by new and small issuers. I am eagerly awaiting any recommendations of the Smaller Public Company Advisory Committee tasked with examining this issue. I also understand the Commission on Fraudulent Financial Reporting, at the staff's suggestion, is working to provide additional guidance for smaller companies. Any changes to Section 404, whether for small or foreign issuers, must follow a careful risk analysis before the Commission can conclude that such accommodations will still afford investors the necessary protections and maintain their confidence in the markets.

RESPONSE TO A WRITTEN QUESTION OF SENATOR CARPER FROM ANNETTE L. NAZARETH

Q.1. We have all heard assertions of the problems with the so-called Section 404 rules of Sarbanes-Oxley, and as you know, that Section is designed to require the SEC to develop and adopt rules that require companies to report to the management of the companies' internal controls of their financial reporting. And some of us have heard, I am sure we have all heard from time-to-time, that these reporting requirements are cumbersome and that the audits are expensive, at least the initial ones are.

I would just like to ask each of our nominees to comment on this issue and to give us a sense of whether you think there is a problem or not and what the steps are you think should be taken as we go forward so that we can have robust, vibrant market and also strong investor protections.

A.1. I believe Section 404 of the Sarbanes-Oxley Act is fundamentally sound and an important tool for improving the accountability of issuers. That having been said, I am also sensitive to the costs issuers have incurred in the first year of implementation. Earlier this year, the Commission and PCAOB board members hosted a roundtable on implementation of the internal control reporting provisions under Section 404. During this dialogue, the Commission learned about the benefits issuers experienced, including improved focus on internal controls and the prospect of improvements in investor confidence, transparency, and financial statement quality. The Commission also explored the reasons for the significant costs to issuers of implementation, some of which were one-time, and others of which were based on interpretive concerns, such as auditors undertaking a very conservative scope of testing or duplicative testing by management and auditors. The staff has since issued interpretive guidance to focus management and auditors on implementing a risk-based approach to the rules. It is our hope such an approach will reduce the time and expense of compliance with Section 404. I also understand the Smaller Public Company Advisory Committee is studying possible improvements regarding implementation for small businesses and may make recommendations. I will encourage the Commission staff to continue to request feedback on progress, monitor costs, and consider further opportunities for improved implementation. I will also support identifying and developing best practices in this area.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BUNNING FROM CHRISTOPHER COX

Q.1. As you know, the SEC has proposed a new Regulation B to Section II of the Gramm-Leach-Bliley Act. The Fed, along with the FDIC, the OTS, and the OCC wrote a very strong letter to the SEC opposing their proposed regulation. The SEC has delayed the implementation of the rule, but it is due for review in September. Will you consider the opinions of the banking regulators while reviewing Regulation B?

A.1. Yes. As you might imagine, given our service together in 1999 as Members of the House-Senate Conference Committee that wrote the Gramm-Leach-Bliley Act, I well appreciate your abiding inter-

est in the question of how best to ensure functional regulation of securities activities conducted by banks. I will work diligently to gain a full understanding of the issues surrounding the Commission's proposed Regulation B, including listening carefully to the opinions of banking regulators, those in the banking industry, investors, and other stakeholders.

Q.2. As you know, the Independent Chairman rule proposed by the SEC was overturned by a Federal court. It was then revoted out by the SEC. This proposed rule was very controversial and was fought by Commissioners Glassman and Atkins as well as many Members of this Committee. Will you be reviewing the Independent Chairman rule if confirmed?

A.2. Because the Commission's mutual fund governance rule is again before the court, it is likely that the Commission will receive additional, and legally binding, guidance. I will review the issues surrounding the rule in detail, and in particular will abide by the decision of the court in both letter and spirit.

Q.3. As you may know, the TVA has agreed to voluntarily register with the SEC. The TVA has over $25 billion in publicly traded bonds, many of which are held by seniors in the Tennessee Valley. I would ask you to watch over this process carefully and make sure these bondholders have the safety and security that other investors have enjoyed for a long time. Would you do that as Chairman?

A.3. Yes. I will ensure that the Commission carefully reviews the TVA's filings to ensure its disclosure to the public and to bondholders is full and transparent.

Since its creation in 1933, the Tennessee Valley Authority has been considered an agency and instrumentality of the United States, but the debt TVA issues is only an obligation of TVA and is not guaranteed by the United States. Last year, the Congress enacted a law requiring TVA to file with the SEC annual, quarterly, and current reports with the Commission beginning with its fiscal 2006 annual report.

While the law does not require TVA to register its securities with the SEC, the SEC's Division of Corporate Finance will be responsible for reviewing TVA's filings for compliance with the disclosure requirements of the securities laws and regulations. I can assure you that I will indeed watch over this process with great care to ensure full and fair disclosure as required by the securities laws.

RESPONSE TO A WRITTEN QUESTION OF SENATOR BUNNING FROM ANNETTE L. NAZARETH

Q.1. You have testified before this Committee before on the Nasdaq exchange application. As you know, this application has yet to be approved or rejected. Can you tell me why it has taken so long to come to a decision?

Do you think 4 1/2 years is too long to wait?

A.1. The Commission should always endeavor to respond to matters, including exchange applications, as expeditiously as possible. Nasdaq's application to register as a national securities exchange has been pending with the Commission for several years. A number of difficult policy issues were raised by the application, many of which required significant effort by Nasdaq to resolve. For exam-

ple, Nasdaq currently lacks price priority rules that all of the other exchanges have. The lack of price priority rules raises profound market structure issues that could have implications for all of our registered exchanges and, ultimately, investors. In an effort to move its application forward, Nasdaq and NASD recently agreed upon a new structure, which would separate Nasdaq's internalization business into an entity under the regulatory control of NASD. Also, Nasdaq has proposed to modify its rules so trades executed on its proposed exchange would be pursuant to price/time priority rules. The Commission has published both of these proposals for public comment. Nasdaq will amend its Form 1 application for registration as a national securities exchange to reflect this new structure. I expect the amended Form 1 to be published for public comment shortly after its filing by Nasdaq with the Commission.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CORZINE FROM CHRISTOPHER COX

Q.1. The recent attacks in London are a horrible reminder that the threat of terrorism is still with us nearly 4 years after the attacks of September 11, 2001, and is likely to remain for some time. As you know, given your background as Chairman of the House Homeland Security Committee, ensuring the stability of our economy and the continuity of markets and business operations is an essential component of our homeland security strategy. The SEC, along with other financial regulators, plays a vital role in this mission. In the wake of September 11, one of the lessons we learned was the importance of reinforcing the telecommunications infrastructure that supports our financial markets. But the cost building in redundancies and backup capabilities can be high. Nearly everyone agrees that the Federal Government must play some role in bearing a share of the cost. Do you think we have done enough relative to ensuring continuity in the event of a terrorist attack, and what further actions would you recommend? For example, would you recommend that the President exercise his authority under the Defense Production Act, which allows him to order economic activity for national security purposes, such as the manufacture of more bullets during a time of shortage, now that it includes critical infrastructure?

A.1. Since September 11, 2001, much has been done to ensure continuity in the event of a terrorist attack, but much more remains to be done. Ensuring the continuity of critical operations in the financial sector in the event of another terrorist attack will remain a top priority for the Securities and Exchange Commission. The threat of terrorism, including terrorism directed against the financial sector, has not abated. I will work closely with the other Commissioners, Commission staff, other Federal and State agencies, law enforcement, self-regulatory organizations, and private sector stakeholders to see to it that market resiliency safeguards are implemented effectively and completely. With respect to the Defense Production Act, I would concur with the premise of your question that, despite its enactment over a half century ago in very different circumstances, this Act is highly relevant to the war on terrorism in the 21st century. Already, the law has enabled the Homeland Security Department to expedite the production of communications

systems for airports. To the extent that the President and Congress wish to extend the use of this authority to the Nation's financial markets and associated infrastructure, the SEC will energetically cooperate and offer its expertise.

Q.2. In light of the New York Stock Exchange's proposed merger with Archipelago—which will necessitate a number of structural changes to the NYSE's regulatory structure—do you agree that this would be an opportune time to go a step further and adopt a new approach to the regulation of broker-dealers through consolidation? It is my understanding that the securities industry supports combining the functional regulation of broker-dealers, which is currently duplicated by both the NASD and the New York Stock Exchange, into a "hybrid" SRO, while allowing each marketplace to regulate its own trading activities and set its own listing standards? In a related area, SRO's impose market data fees to fund self-regulation. Do you think it is appropriate public policy for market data to generate revenues for SRO's to subsidize their regulatory obligations or to fund competitive business activities?

A.2. The suggestion that broker-dealer regulation currently conducted by both the NASD and the NYSE be combined in a "hybrid" SRO is one that should be evaluated in the context of an ongoing appraisal of the role that self-regulatory organizations play in our securities markets as standard-setters for listed companies, operators of trading markets, and front-line regulators of securities firms. An abiding goal of the SEC must be to see to it that SRO's, which can face conflicts of interest when they operate a market, remain unbiased when at the same time they fulfill their responsibility to regulate their members who trade in that market.

The Commission's proposed minimum governance standards and greater transparency of SRO regulatory programs are intended as a first step to address such competitive and regulatory concerns. I will carefully evaluate the Commission's proposals on these matters, together with the comments received by the Commission, before reaching conclusions on how the Commission should proceed.

With regard to your further question, market data fees have played an important role in funding the regulatory obligations of the SRO's. In Regulation NMS, the Commission amended the formulas in the Market Data Plans that allocate revenues from consolidated data to the various SRO's. The amendments were designed to promote the wide availability of market data and to allocate revenues to SRO's that produce the most useful data to investors. I agree with the implication in your question that the use of market data fees to subsidize competitive business activities may raise serious public policy concerns that merit the continuing attention of the Commission.

Q.3. In a recent GAO report entitled "Environmental Disclosure: SEC Should Explore Ways to Improve Tracking and Transparency of Information" that I, along with other Senators, commissioned, one of the GAO's recommendations was that the Chairman of the SEC work with the Administrator of the EPA "to explore opportunities to take better advantage of EPA data that may be relevant to environmental disclosure and examine ways to improve its usefulness." Knowing your interest in ensuring the transparency of

financial reports, what steps will you take as SEC Chairman to implement this and other GAO recommendations to ensure and even improve proper enforcement of environmental reporting requirements, such as those under SEC Regulation S–K, requiring companies to report all material financial and nonfinancial information related to their environmental activities, liabilities, trends, and uncertainties?

A.3. I will follow the GAO recommendations with a view to ensuring and improving the full and fair disclosure of material information. Specifically, with regard to environmental disclosure, I will work to improve compliance with current requirements mandating that public companies disclose material information relating to environmental litigation, remediation, regulatory compliance, and other environmental issues. In addition to enforcing compliance with these disclosure rules through its disclosure review program, the Commission will, under my leadership, build upon the open and cordial relationship that has existed between the SEC and the Environmental Protection Agency for some time. It is my understanding that, in response to this GAO recommendation, the staff of the SEC and the EPA has already met to discuss how they can more effectively share information.

The GAO included two other recommendations in its report; I understand that each of these recommendations has already been implemented.

July 25, 2005

The Honorable Richard C. Shelby
Chairman, Banking Committee
United States Senate
110 Hart Building
Washington, DC

RE: **Letter of Support for the nomination of John Reich, Director of the OTS**

Dear Senator Shelby:

This letter supports the nomination of John Reich for the position of Director of Office of Thrift Supervision (OTS). The National Bankers Association (NBA) has worked with Mr. Reich in his current capacity as Vice-Chairman of the Federal Deposit Insurance Corporation (FDIC). During his tenure with that agency, Mr. Reich and the FDIC Chairman Donald Powell have shown recognition of the unique status of women and minority -owned banks. We have worked to strengthen CRA, increase deposit insurance and address the special needs of minority owned banks.

In the past, the NBA expressed some disappointment in the inaction of the OTS in its regulatory oversight of matters involving minority financial institutions including, OneUnited in Boston, Carver Federal Savings in New York, and Independence Federal Savings in Washington, DC. The OTS inaction in some cases threatened the safety and soundness of minority institutions.

The NBA is optimistic that under the new leadership of Mr. Reich, the OTS will administer meaningful policies and regulations that strengthen the capacity and foster the number of minority owned banks. We look forward to working with Mr. Reich and the other nominees participating in your committee hearings this week to develop a government-wide coordinated banking policy that protects the diversity of the nation's financial system.

Sincerely,

Norma Alexander Hart
President

Cc: Senator Paul Sarbanes
Ranking Member

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