

SIFMA Compliance and Legal Division General Luncheon, Tuesday, February 19, 2008

Remarks of Robert L. D. Colby, Deputy Director Division of Trading and Markets

Following the standard SEC disclaimer Mr. Colby provided his views on a number of topics.

1. *Change in Division's Name.* Mr. Colby explained that the change in the division's name from "Division of Market Regulation" to "Division of Trading and Markets" was intended to better capture the more complex mission and mandate of the division, including policy development, oversight of CSEs, review of exchanges and ATSS, new oversight and examination of credit rating agencies, etc.
2. *Sub-Prime and Credit Market Issues.* Mr. Colby discussed sub-prime issues and the events leading up to the turmoil in the credit markets and the economy generally, including decline in lending and underwriting standards, reliance on ratings without full disclosure/understanding of the of the standards and assumptions used by rating agencies; conflicts where rating agencies where both advising on structure and rating the transactions; valuation problems as the collateralized obligations became illiquid; reputational and liquidity risks for sponsors of the conduit issuance vehicles.
 - a. Mr. Colby noted that there were a variety of suggestions on how to "fix" these problems, including, greater transparency, obligations to disclose economic assumptions in models, making publicly available data/information used by rating agencies in making rating determinations; using different nomenclature to differentiate ratings of structured transactions, corporate and municipal debt issuances; rating performance of originators; stronger conflict of interest disclosures; changing "pricing model" of ratings.
3. *SEC Cross-Border Initiatives.* Mr. Colby mentioned the SEC's initiatives concerning mutual recognition and revisions to Securities Exchange Act rule 15a-6, and concerns with US capital markets competitiveness. In the context of mutual recognition, he noted that the SEC is not seeking to do a rule-by-rule analysis but to focus on results and what the rules were designed to do.
4. *Principles-Based Regulation.* Mr. Colby discussed the "principles- vs. rules-based regulation. He believes there is a middle ground and felt that certain rules could be more principles-based, including sales practices, disclosure obligations, suitability determinations, and supervision.
5. *Prudential Oversight.* Mr. Colby also discussed prudential vs. enforcement-focused oversight. He noted that the role of the Division of Trading and Markets in the context of CSEs should be characterized as prudential oversight.

6. *CSEs; Greater Coordination among Regulators.* Mr. Colby discussed CSEs and the benefits of transparency of the consolidated entity vs. merely the US broker dealer. He noted that the SEC has frequent interactions with the Federal Reserve. The SEC also had had discussions with the UK FSA and the Federal Reserve on risk management functions across various entities.
7. *Various Rule Amendments.* Finally, Mr. Colby mentioned certain rule amendments that were under discussion, including protection of client information, notification of loss of customer information and what customer information can sales representatives take when they move to another firm.
8. *Q&A.* In response to a question regarding the status of a SIFMA proposal that would permit member firms to carry registrations for employees of affiliated companies, he noted that there had been discussions with FINRA to harmonize its proposal with SIFMA's.