



December 7, 2009

The Honorable Christopher Dodd  
Chairman  
Senate Committee on Banking,  
Housing, and Urban Affairs  
Washington, DC 20510

The Honorable Richard Shelby  
Ranking Member  
Senate Committee on Banking,  
Housing, and Urban Affairs  
Washington, DC 20510

**RE: Oppose Pre-Funding a New Systemic Risk Resolution Fund**

Dear Chairman Dodd and Ranking Member Shelby:

As the Senate Banking Committee considers legislation to overhaul the nation's financial regulatory structure, we respectfully urge you not include provisions to **pre-fund a systemic risk resolution fund** to pay for the failure of systemically significant financial firms. A new pre-funded systemic fund would threaten the economic recovery by diverting capital from job creation when previous efforts to augment capital are beginning to have an impact. Further, there is no evidence that the existence of such a fund would deter the creation of new asset bubbles or other market distortions.

**Maintaining capital in our economy is critical for financial institutions, investors, and consumers.** Some have suggested that as much as \$100 billion would be needed for a systemic fund, and the House bill authorizes a fund of up to \$150 billion. To build a \$100 billion fund, roughly \$13-14 billion per year would be needed in the next 5-6 years using conservative estimates. At a time when the industry is rebuilding its capital and helping to restore the economy, redirecting \$100 billion in capital will further hamper economic recovery. Moreover, it is not clear how these funds will be raised. For the financial services industry, which is already hampered by capital depletion and investor uncertainty, such a fund would only exacerbate these problems.

**Duplicative and costly assessments.** Insured depository institutions, brokers and dealers, and insurance companies already are subject to resolution regimes that depend on a guaranty mechanism funded by assessments. Any new resolution regime for large, systemically significant financial institutions should not unnecessarily burden those systems or the companies that support them. Doing so would not be in the best interest of the small businesses and families that count on those systems to protect their interests. Moreover, pre-

funding a reserve of money with virtually no parameters surrounding its use may well have far-reaching consequences for debtor/creditor relationships.

**Increased moral hazard.** Treasury Secretary Geithner has stated that any pre-funded systemic reserve would likely only increase corporate moral hazard, since it could be viewed as extending open-ended aid to creditors and shareholders. Proper regulation and continued oversight of existing consumer laws offers the surer path to taxpayer protection.

**Competitive and International effects.** There is no need to have healthy financial firms pre-fund the failure of competitors. In addition to upending bankruptcy laws and distorting investments, it will disadvantage U.S. firms who would compete against foreign firms with no such obligations.

**Promote economic growth, not a systemic fund.** Rather than siphon funds from job creating companies, Congress should continue to focus on methods to strengthen regulatory oversight. The financial services industry plays a critical role in job creation. Responsible capital creation coupled with sound financial regulation is the best path toward robust U.S. economic growth.

We urge you to oppose any legislative effort to establish a pre-funded assessment system as part of the new federal resolution authority.

Sincerely,

American Council of Life Insurers  
American Insurance Association  
The Financial Services Forum  
The Financial Services Roundtable  
Property Casualty Insurers Association of America  
Securities Industry and Financial Markets Association

cc: Senate Banking Committee Members