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United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

June 27, 2008

The Honorable Henry M. Paulson, Jr.
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F. Street, NW
Washington, DC 20549

Dear Secretary Paulson, Chairman Bernanke, and Chairman Cox:

Recent media reports have indicated that the Federal Reserve ("Fed") and the Securities and Exchange Commission ("SEC"), in coordination with the Treasury Department, may be close to finalizing a formal Memorandum of Understanding ("MOU") that would, as one report states, "start the process of redrawing how Wall Street is regulated."

These published reports indicate that the MOU not only would provide for greater information-sharing between the Fed and the SEC, but also could expand the Fed's oversight over investment bank with primary dealer status.We recognize that the Treasury Department, the Fed, and the SEC have found it necessary to take unprecedented actions in response to the recent turmoil in our financial markets. In particular, the Federal Reserve has provided liquidity to the marketplace by temporarily opening the discount window for the first time to investment banks with primary dealer status through the creation of the Primary Dealer Credit Facility ("PDCF"), utilizing the emergency powers granted to it under section 13(c) under the Federal Reserve Act.

The Committee on Banking, Housing and Urban Affairs carefully examined the events leading up to, and the implications of, these historic actions in an April 3, 2008 hearing entitled "Turmoil in U.S. Credit Markets: Examining the Recent Actions of Federal Financial Regulators." At that hearing, Committee members raised serious concerns

about certain actions you have taken. Specifically, it was noted that Congress has neither granted the Federal Reserve the authority to permanently open the discount window to investment banks with primary dealer status, nor authorized the SEC's Consolidated Supervised Entities ("CSE") program through which it regulates investment bank holding companies that own depository institutions.

Given the limited authority of the Fed and the SEC to regulate investment banks with primary dealer status, and Congress's ultimate responsibility for formulating financial regulatory policy, we ask that no action regarding implementation of the MOU be taken before we can determine that it is in the best interests of our nation's economy and the well being of its citizens. While we recognize that oversight of investment banks with primary dealer status is temporarily necessary for the proper implementation of the PDCF, it is Congress's role to determine if and how any alterations to our financial regulatory system should be undertaken.

Sincerely,

Christopher J. Dodd

Richard C. Shelby