



## U.S. Securities and Exchange Commission

### Chairman Cox Announces End of Consolidated Supervised Entities Program

**FOR IMMEDIATE RELEASE**  
**2008-230**

*Washington, D.C., Sept. 26, 2008* — Securities and Exchange Commission Chairman Christopher Cox today announced a decision by the Division of Trading and Markets to end the Consolidated Supervised Entities (CSE) program, created in 2004 as a way for global investment bank conglomerates that lack a supervisor under law to voluntarily submit to regulation. Chairman Cox also described the agency's plans for enhancing SEC oversight of the broker-dealer subsidiaries of bank holding companies regulated by the Federal Reserve, based on the recent Memorandum of Understanding (MOU) between the SEC and the Fed.

Chairman Cox made the following statement:

The last six months have made it abundantly clear that voluntary regulation does not work. When Congress passed the Gramm-Leach-Bliley Act, it created a significant regulatory gap by failing to give to the SEC or any agency the authority to regulate large investment bank holding companies, like Goldman Sachs, Morgan Stanley, Merrill Lynch, Lehman Brothers, and Bear Stearns.

Because of the lack of explicit statutory authority for the Commission to require these investment bank holding companies to report their capital, maintain liquidity, or submit to leverage requirements, the Commission in 2004 created a voluntary program, the Consolidated Supervised Entities program, in an effort to fill this regulatory gap.

As I have reported to the Congress multiple times in recent months, the CSE program was fundamentally flawed from the beginning, because investment banks could opt in or out of supervision voluntarily. The fact that investment bank holding companies could withdraw from this voluntary supervision at their discretion diminished the perceived mandate of the CSE program, and weakened its effectiveness.

The Inspector General of the SEC today released a report on the CSE program's supervision of Bear Stearns, and that report validates and echoes the concerns I have expressed to Congress. The report's major findings are ultimately derivative of the lack of specific legal authority for the SEC or any other agency to act as the regulator of these large investment bank holding companies.

With each of the major investment banks that had been part of

the CSE program being reconstituted within a bank holding company, they will all be subject to statutory supervision by the Federal Reserve. Under the Bank Holding Company Act, the Federal Reserve has robust statutory authority to impose and enforce supervisory requirements on those entities. Thus, there is not currently a regulatory gap in this area.

The CSE program within the Division of Trading and Markets will now be ending.

Under the Memorandum of Understanding between the SEC and the Federal Reserve that was executed in July of this year, we will continue to work closely with the Fed, but focused even more clearly on our statutory obligation to regulate the broker-dealer subsidiaries of the banking conglomerates. The information from the bank holding company level that the SEC will continue to receive under the MOU will strengthen our ability to protect the customers of the broker-dealers and the integrity of the broker-dealer firms.

The Inspector General's office also made 26 specific recommendations to improve the CSE program, which are comprehensive and worthy of support. Although the CSE program is ending, we will look closely at the applicability of those recommendations to other areas of the Commission's work and move to aggressively implement them.

As we learned from the CSE experience, it is critical that Congress ensure there are no similar major gaps in our regulatory framework. Unfortunately, as I reported to Congress this week, a massive hole remains: the approximately \$60 trillion credit default swap (CDS) market, which is regulated by no agency of government. Neither the SEC nor any regulator has authority even to require minimum disclosure. I urge Congress to take swift action to address this.

Finally, I would like to commend the extraordinary efforts of the SEC's diligent staff, who for so many months have been working around the clock in the current market turmoil. Their dedication and commitment in behalf of investors and the American people are unequalled.

<http://www.sec.gov/news/press/2008/2008-230.htm>

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