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Statement by the President's Working Group on Financial Markets

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U.S. DEPARTMENT OF THE TREASURY

Press Center

Statement by the President's Working Group on Financial Markets

10/6/2008

HP-1177

Washington, DC-- The President's Working Group on Financial Markets issued the following statement today:

Conditions in U.S. and global financial markets remain extremely strained. The President's Working Group on Financial Markets (PWG) is working with market participants and regulators globally to address the current challenges and restore confidence and stability to financial markets around the world.

With the passage of the Emergency Economic Stabilization Act of 2008 (EESA), Congress has granted important new authorities to the Treasury, Federal Reserve, and the FDIC. These new authorities will be employed in conjunction with existing authorities to restore market confidence by strengthening the balance sheets of financial intermediaries and improving overall market functioning.

The diversity of institutions and markets under stress, and the magnitude and complexity of the adjustment underway, requires that the tools available to policymakers, regulators and supervisors be used in forceful and coordinated ways across regulatory and supervisory agencies in the United States and throughout the world. This will involve moving with substantial force on a number of fronts. These broad initiatives are outlined below.

Strengthening Financial Institutions

The Treasury Department will move rapidly to implement the new authorities in EESA to help strengthen financial institutions that are struggling with troubled assets and/or need to raise capital. It will be done in a transparent and methodical fashion. In the coming days, Treasury will work with the Federal Reserve and other financial regulators to develop strategies that deploy these tools to maximize their effectiveness in strengthening the financial system while protecting the taxpayers' interests.

The new legislation adds broad, flexible authorities to allow Treasury to buy troubled assets and provide guarantees, and address capital raising. The new legislation also enables Treasury to directly strengthen the balance sheet of individual institutions. These authorities allow Treasury to act to remove some of the uncertainty regarding financial strength, and provide financial institutions with greater operating flexibility and enhance their ability to raise additional capital in the private marketplace.

FDIC Stand-alone Assistance

The FDIC has broad powers to protect depositors and mitigate instability in our banking system. In addition to the coverage that it provides to insured deposits, the FDIC has the ability to use its insurance fund and its substantial lines of credit with the Treasury to address the risk to the financial system posed by the possible failure of a bank.

As the regulatory community confronted the risks posed by a potential failure of Wachovia Corporation, the Board of the FDIC, the Board of Governors of the Federal Reserve System, and the Secretary of the Treasury in consultation with the President determined that they should invoke the systemic risk exception to the traditional bank resolution process.

We will work together in the future where similar approaches are necessary for the stability of the financial system.

When systemic risk determinations are necessary and appropriate in the future, the FDIC will use its authority and its resources, on an open or closed-bank basis, to protect depositors, guarantee liabilities, facilitate orderly wind downs, mergers, or adopt other stabilizing measures.

Increasing Liquidity to Financial Markets

With regard to liquidity, the Federal Reserve has introduced a series of innovative facilities and policies to enhance liquidity in our markets. These include the Term Auction Facility, Primary Dealer Credit Facility, Term Securities Lending Facility, and Currency swaps.

The Federal Reserve will continue to take a leadership role with respect to liquidity in our markets. It is committed to using all of the tools at its disposal to provide the increased liquidity that is now required for the effective functioning of financial markets. In this regard, the authority to pay interest on reserves that was provided by EESA is essential, because it allows the Federal Reserve to expand its balance sheet as necessary to support financial stability while conducting a monetary policy that promotes the Federal Reserve's macroeconomic objectives of maximum employment and stable prices.

The Federal Reserve and the Treasury Department are consulting with market participants on ways to provide additional support for term unsecured funding markets.

Cash / Money Markets

Bank deposits and money markets funds play an important role in the savings and investing of Americans. These savings and investment vehicles are critical to investor confidence. They also provide funds for financing activity that is so critically important to our credit markets.

Last month, the Treasury Department announced a temporary guarantee program for money market mutual funds. That program began operations last Monday. This action was complemented by the Federal Reserve providing additional liquidity to money market mutual funds with their Asset Backed Commercial Paper (ABCP) Money Market Mutual Fund (MMMF) Liquidity Facility (AMLF) program, which has brought liquidity to the ABCP market. Today, the Federal Reserve is taking additional actions to enhance the flexibility of bank holding companies to provide support to their bank sponsored funds.

In addition, the Securities and Exchange Commission and the FASB issued a clarification regarding the valuation of assets, including commercial paper, during such periods of market stress.

In addition, the recent legislation temporarily increases the amount that the FDIC insures in bank and thrift deposits from $100,000 to $250,000. The legislation also increases the FDIC's ability to borrow from the Treasury if needed.

Collectively these actions should enhance market stability and investor confidence in such funds

Mortgage Markets

We are committed to seeing the housing GSEs serve their public purpose of providing stability, liquidity, and affordability to the housing market. The Federal Home Loan Bank System continues to be an important source of liquidity to the banking system in support of housing finance. To provide critical additional funding to our mortgage markets, Fannie Mae and Freddie Mac are increasing their purchases of agency mortgage-backed securities (MBS).

FHFA has directed the two companies to implement such a purchase program immediately. We also expect each company to continue to increase its direct support to the mortgage market through their ongoing securitization activities.

Treasury too has established a backstop secured credit facility for the housing GSEs. In addition, to increase the availability of capital for new home loans, Treasury expanded the agency MBS purchase program we announced in September. This will complement the capital provided by the GSEs and will help facilitate mortgage availability and affordability.

Market Integrity

Confidence is also enhanced by vigorous law enforcement so that those who invest know there is someone who is looking out for them. The SEC and Commodity Futures Trading Commission (CFTC) bring hundreds of cases every year directed at protecting investors. This past fiscal year the SEC returned approximately $1 billion to injured investors just as it did the year before. In the past few months, the SEC with others in law enforcement, have restored liquidity to Auction Rate Security investors in the largest securities buyback in the nation's history with tens of billions of dollars of liquidity being restored to tens of thousands of investors. The CFTC this year obtained more than $630 million in penalties against those attempting to manipulate the commodity markets and defraud customers as it continues to aggressively pursue its ongoing national crude oil investigation aimed at protecting the nation's energy markets. The SEC and CFTC have dozens of ongoing investigations related to the current market conditions and are using all of their tools to vigorously protect investors and maintain the integrity of our capital markets.

Clearing and Settlement Systems

Regulators are closely monitoring clearing and settlement systems to ensure their proper functioning as we encourage further centralized clearing for other financial instruments to bring enhanced transparency and counterparty risk management to those markets.

While addressing our challenges, we must also remind investors and lenders that we have a resilient and diverse economy and workforce. We have faced economic and financial market challenges in the past. Each time we have worked through them and emerged with stronger financial institutions and regulatory policies. While it will take time and a lot of hard work, we are confident that this time will be no different.

Leadership has been shown with decisiveness and determination by the public sector. Together, we can greatly improve the functioning of markets and move forward to rebuilding our great capital markets.