MEMORANDUM

To: Public Comment Files on Dodd-Frank Act Implementation

Title VI, Improvements to Regulation of Bank and Savings Associations Holding Companies and Depository Institutions: Prohibitions on Proprietary Trading and Certain Relationships with Hedge Funds and Private Equity Funds

Title VII, Wall Street Transparency and Accountability: Definitions; Mandatory Clearing of Security-Based Swaps, End User Exception and Security-Based Swap Clearing Agencies

Title IX, Investor Protection and Improvements to the Regulation of Securities: Study – Fiduciary Duty

Public Comment File on Concept Release on Equity Market Structure

Public Comment File on PWG Money Market Fund Report

From: Jennifer B. McHugh

Re: Meeting with SIFMA Board

On April 5, 2011, SEC Chairman Mary L. Schapiro met with members of the Board of SIFMA. During the meeting, Chairman Schapiro discussed Dodd-Frank Act implementation, market structure issues, and money market fund reform. Chairman Schapiro's talking points for the meeting are attached. Chairman Schapiro was joined by Jennifer McHugh, Senior Advisor to the Chairman.

In addition to the SIFMA board members, SIFMA CEO Timothy Ryan and SIFMA General Counsel Ira Hammerman participated in the meeting.

SIFMA Board Members:

Frank Barron	Morgan Stanley
Francois Barthelemy	Societe Generale
Bernard Beal	M.R. Beal & Company
Joan Binstock	Lord, Abbett & Co
Curt Bradbury, Jr.	Stephens Inc.
Richard Brueckner	Pershing LLC

Kent Christian	Wells Fargo Advisors
William Dwyer	LPL Financial
Kenneth Gibbs	Jefferies & Company
John Gidman	Loomis, Sayles & Company
Tom Hartnett	Deutsche Bank AG
Robert Hawley	BNP Paribas
Chet Helck	Raymond James Financial, Inc.
Noe Hinojosa	Estrada Hinojosa & Company, Inc.
William A. Johnstone	Davidson Companies
Thomas M. Joyce	Knight Capital Group
Ronald Kruszewski	Stifel, Nicolaus & Company
Alexandra Lebenthal	Alexandra & James LLC / Lebethal & Co
Naoki Matsuba	Nomura Holding America
Shawn Matthews	Cantor Fitzgerald, Inc.
Timothy O'Hara	Credit Suisse Securities
Walter Robertson III	Scott & Stringfellow LLC
Timothy Scheve	Janney Montgomery Scott
Joseph Sweeney	Ameriprise Financial
John Taft	RBC Wealth Management
James Tricarico	Edward Jones
David W. Wiley III	Wiley Bros. - Aintree Capital LLC

As prepared for delivery

Mary L. Schapiro
Chairman
U.S. Securities and Exchange Commission
Talking Points
SIFMA Board Meeting
April 5, 2011

Introduction

- Thank you for inviting me to join you today. And, thank you for that introduction, Tim [Ryan, SIFMA CEO]**.**

- I'm pleased to meet with you today to discuss some of the core regulatory issues we are working on at the SEC, many of which derive from the Dodd-Frank Act.

- As you may have heard me say before, the Dodd-Frank Act requires us to do more than 100 rulemakings and conduct more than 20 studies. Thus, it has been a significant focus of ours during the past 8 months, in addition to our traditional regulatory functions.

IA/BD Study

- One of the studies that has received the most attention is the study on the obligations of broker-dealers and investment advisers, which was released in late January.

- That study made two core recommendations:

    - the first regarding the establishment of a uniform fiduciary standard of conduct for broker-dealers and investment advisers (when providing personalized investment advice about securities to retail investors); the uniform fiduciary standard would be is no less stringent than the fiduciary standard that applies to investment advisers under the Investment Advisers Act;

    - the second core recommendation related to harmonization of elements of the broker-dealer and investment adviser regulatory regimes so that the same or substantially similar services are governed by the same or substantially similar regulatory requirements.

- While much of the public reaction to the study has focused on the first recommendation regarding a uniform fiduciary standard, I believe that both recommendations are important to enhancing the regulatory environment. A fiduciary standard will not be fully effective, if there is not an appropriate regulatory framework to support it.

Study's Findings

- The study notes that both broker-dealers and investment advisers are regulated extensively, though differently. And further noted that retail investors do not understand or appreciate the different legal standards that apply.

- The study further stated that retail investors should not have to parse through legal distinctions to determine the type of advice they are entitled to receive. Instead, retail investors should be protected uniformly when receiving personalized investment advice about securities -- regardless of whether they choose to work with an investment adviser or a broker-dealer.

- At the same time, the study noted that retail investors should continue to have access to the various fee structures, account options, and types of advice that investment advisers and broker-dealers provide.

Discretionary Rulemaking Authority

- The Commission has discretionary rulemaking authority under the Dodd-Frank Act to implement the fiduciary standard recommendation from the study.

    - As articulated by Congress in the Dodd-Frank Act, the standard would be to act in the best interest of a client or customer without regard to the financial or other interest of the broker, dealer or investment adviser. And, as I mentioned, the Dodd-Frank Act requires that the uniform fiduciary standard be no less stringent than the standard that applies to investment advisers under the Investment Advisers Act.

Input from the Public and Next Steps

- The study was conducted by a team of SEC staff from across the agency, including representatives from the Divisions that oversee broker-dealers and investment advisers, as well as examiners, economists, and others.

- We received over 3500 comment letters on the study. And we held a series of in person meetings with broker-dealers, investment advisers, investor advocates, academics and others – including SIFMA and many of your members. These comment letters and meetings greatly informed the recommendations, text and tone of the study.

- Following release of the study, we have met with several interested parties at their request to get feedback on their reactions to the study and potential implementation issues.

- While we have not yet put together a rulemaking team to consider follow-on rulemaking, the informal feedback we are receiving will help in consideration of next steps. We appreciate the input, including input on the issues raised by Commissioners Casey and Paredes in their separate statement on the study.

- In addition, we recognize that appropriate guidance on implementing a fiduciary standard will be a necessary corollary to any rulemaking. The feedback we are receiving is helping our consideration of what guidance would be most useful.

Coordination Among Agencies

- I've been asked to comment on coordination among agencies, which I am happy to do because I think that one of the positive by-products of the Dodd-Frank Act is an enhanced level of coordination and collaboration among federal financial regulators.

- In addition to the collaboration that occurs as a result of the work of the FSOC, a number of the provisions in Dodd-Frank call for joint rulemaking or rulemaking done in consultation with other regulators.

- This has fostered an increased level of interaction and enhanced levels of trust and appreciation of our various regulatory missions, which I believe will serve to make each of us a stronger regulator.

Coordination with DOL

- One area where I understand you are particularly interested has to do with coordination with the Department of Labor on their proposed rule to change the definition of who is a fiduciary under ERISA – a statute that DOL administers.

Swaps Dealer Issue

- One of the practical issues that arose during the comment process on that rule involves the interplay between the DOL requirements and the business conduct requirements for swaps dealers under the Dodd-Frank Act – namely that the disclosures a swaps dealer must make under the Dodd-Frank Act could cause the swaps dealer to be a "fiduciary" under ERISA, but as a fiduciary the swaps dealer may not be able to enter into the swap transaction.

- SEC staff, DOL staff, and CFTC staff are aware of this issue and have been meeting and talking frequently to address the practical implications.

General Coordination Between DOL and SEC Staff on Fiduciary Proposal

- In addition, with respect to coordination generally on issues identified by the DOL's fiduciary proposal, staff of the SEC attended the two-day set of hearings that the DOL

held March 1 and 2 on their fiduciary definition proposal. This enabled our staff to get a first- hand sense of some of the issues that are being raised. In addition, we have talked generally with the DOL about issues raised by their rulemaking.

- Our staff is committed to continuing to coordinate with DOL and serving as a resource as we move forward. We will do that while recognizing, however, that ERISA serves as an overlay with respect to retirement investing. It is a separate statutory regime that the DOL administers. Ultimately, who is a fiduciary for purposes of ERISA is a question for DOL to determine.

Derivatives Implementation

- One area arising out of Dodd-Frank that requires significant coordination with another federal regulator - the CFTC - is implementation of the Dodd-Frank derivatives provisions.

- We continue to work towards completing the rulemaking proposal and adoption process under Dodd-Frank within Congress' deadlines for implementation. However, given the complex issues raised by OTC derivatives, this is a very challenging task.

- We are progressing at a deliberate pace, taking the time necessary to thoughtfully consider the issues before proposing specific rules, and will continue to do so as we move toward adoption.

- We believe that this approach will help ensure that, when finally adopted, these rulemakings serve the broader objective of providing a workable framework that allows the OTC derivatives market to continue to develop in a more transparent, efficient, accessible, and competitive manner.

- In the derivatives area alone, we have proposed rules relating to: conflicts of interest at clearing agencies and SEFs, fraud and manipulation in connection with security based swaps, operations of swap data repositories, reporting, market participant definitions, the process to determine mandatory clearing and exceptions for end users, and clearing agency standards for operation. We have also proposed rules concerning ABS (and adopted some), say on pay requirements, specialized disclosure, private fund registration and reporting, and several others.

Volker Rule

- Another area of cross-agency coordination involves the so-called "Volker Rule". Agency staffs worked very closely together to draft the recently published FSOC Volcker Rule study.

- The study recognizes the close relationship between impermissible proprietary trading and other permitted activities (for example, was the position taken in anticipation of customer demand or for speculative purposes).

- The recommended supervisory framework seeks to leverage industry compliance efforts involving data review and metrics analysis with examination and testing by the agencies to enforce compliance.

- The study also recognizes that effective oversight by federal financial agencies requires specialized skills and would be resource intensive. For example, the Commission would need additional resources to develop appropriate data points, build infrastructure to obtain and review information, and hire and train additional staff with quantitative and market expertise to identify and investigate outliers and questionable trades.

- Going forward, Commission staff will continue to work closely with the other federal financial regulators to build off the study and draft rules to implement the Volcker Rule.

Money Market Fund Reform

Overview

- A final issue I've been asked to address is money market fund reform. And, again, this is an issue on which we have engaged in close consultation with other federal financial regulators.

- There are approximately $2.7 trillion in money market funds, and over 30 million investors hold accounts with money market funds. They are a very popular cash management vehicle for both retail and institutional investors.

- However, the events of September 2008 – and the breaking of the buck by the Reserve Primary Fund -- highlight the fact that money market funds are susceptible to runs.

New SEC Rules

- The Commission instituted significant reforms to its money market fund regulation by tightening the risk limiting conditions in our rules – and for the first time imposing a liquidity requirement on money markets funds. All of this was to enable money market funds to better withstand systemic events and runs on their assets.

- In addition, as a result of our new rules, we are receiving portfolio level money market fund data that greatly enhances our ability to monitor money market funds – and also enables the public for the first time to have information about money market funds' shadow NAVs.

Further Reform

- However, as we recognized when we adopted those rules, and continue to recognize, more needs to be done to address the structure of money market funds that makes them susceptible to runs.

- The PWG issued a report on money market fund reform options, including floating NAVs, a private sector liquidity facility, and treating money market funds as special purpose banks.

- The SEC requested comment on this PWG report, and received approximately 80 comments.

- The main take-aways from the comments were (1) there was strong opposition to floating NAVs from the fund industry, fund investors, and the corporate community that issues commercial paper that money market funds purchase; (2) the fund industry is advocating a liquidity bank option; and (3) a new idea emerged – capital requirements for money market funds.

- The SEC plans to hold a roundtable in May with FSOC participation. The roundtable will cover the various reform options so that we can hear public feedback and engage in a meaningful public dialogue. The roundtable will be webcast.

Market Structure

- I don't want to conclude my remarks today without mentioning that we remain fully committed to meaningful market structure reform. While Dodd-Frank implementation takes up a significant amount of Commission bandwidth, we are continuing our focus on our core responsibilities.

- As we approach the anniversary of May 6th, we need to maintain our focus on assuring that American investors can be comfortable that markets operate in an orderly and efficient manner, with a system of regulation that matches the structure of today's securities markets.

- We have made good progress to date, with the implementation of single stock circuit breakers for the most liquid stocks, the clarification of the procedures for breaking erroneous trades, and the elimination of market maker stub quotes.

- Our work to improve the market structure continues. We expect the exchanges and FINRA to file a proposal to establish a new "limit up-limit down" mechanism that is designed to improve upon the single stock circuit breakers by effectively limiting

excessive volatility, but without the risk that a trading pause will be triggered by an erroneous trade.

- And in recognition of how dependent our markets have become on sophisticated technology, we are developing a proposal better ensure the quality and integrity of the trading, market data and other automated systems of exchanges and significant ATSs, and to provide more public transparency about how well they operate.

Conclusion

- So we have a good deal of work on our plate, but I think we're up for the job. And I look forward to your input along the way. I would be happy to answer any questions.

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