

Congress of the United States
Washington, DC 20515

November 18, 2009

The Honorable Barney Frank
Chairman, House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Christopher Dodd
Chairman, Senate Committee on Banking, Housing, & Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Frank and Chairman Dodd:

In light of Tuesday's report released by the Special Inspector General for the Troubled Assets Relief Program, Neil Barofsky – *Factors Affecting Efforts to Limit Payments to AIG Counterparties* – we write to request your assistance in addressing major issues displayed prominently in the report.

On March 25, 2009, I requested, joined by 26 fellow members of Congress, that Mr. Barofsky investigate the events surrounding AIG's payments to Goldman Sachs, Merrill Lynch, Societe Generale and other firms to settle certain open derivative transactions.

As a result of the findings in the report, there should be a comprehensive Congressional review of the Federal Reserve System and an exploration of possible changes in its governance model. More immediately, a complete and public audit of the system should be made part of the regulatory reform bills currently moving through your committees.

The following issues illustrate a set of circumstances that grant tremendous power to a body that is subject to minimal accountability, thus giving rise to my request.

First, Mr. Barofsky cites the unwillingness on the part of officials at the Federal Reserve Bank of New York (FRBNY) to negotiate "haircuts" with AIG counterparties. FRBNY has argued that it was acting as an AIG creditor, not as a regulator. I believe it is intellectually disingenuous to separate these roles in this case,¹ and frankly, how effective a regulator can the Federal Reserve be if it is unwilling to strive for good public policy through its regulatory powers?

¹ Mr. Barofsky points out that Treasury and the Federal Reserve were willing to use their power as regulators in order to get banks to accept the initial \$125 billion of TARP funding.

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Second, there is an inherent conflict in the manner in which regional reserve branch presidents are selected – in that representatives of the member banks select the regional president. It seems counterproductive, yet the banking system has provided case after case of regulated entities selecting their own regulator.

Third, the Federal Reserve has continually resisted efforts to engage in discussion on structural and governance reform at the System. Most recently, Bloomberg reported yesterday that the Federal Reserve has rejected a White House request that [the Federal Reserve] conduct a public review of its structure and operations.

Despite a request from the administration that provided ample opportunity for the Federal Reserve to have input into its own reforms, the central bank has simply refused. It is because of this attitude that I argue that real financial regulatory reform cannot occur without an examination into the structure of this entity.

Fourth, and most importantly, the Federal Reserve has shown a repeated unwillingness to accept efforts to improve transparency for the System.

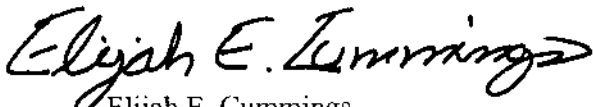
As we are reminded in the report, it was only through your persistence, Chairman Dodd, that we were finally able to grasp the nature and extent of the counterparty payments. Despite repeated objections by the Federal Reserve System that the release of this information would have a detrimental effect on the health of AIG, their counterparties, and the markets, we now have the requested information, and the markets continue to function. As Mr. Barofsky stated – “the sky did not fall”.

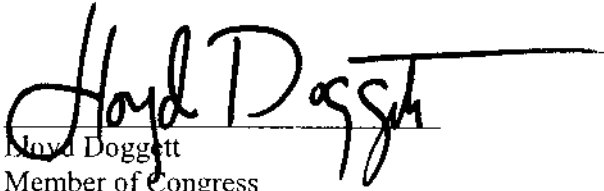
As I and so many others have stated since the bailout first began – transparency must be the hallmark of any use of government funds.

Concluding, we respectfully request that for the reasons enunciated herein, that a Congressional examination of the governance structure at the Federal Reserve be undertaken, and also that the regulatory reform bills moving through your committees include a complete and public audit of the Federal Reserve System. The actions requested would shine much needed-light on this creature of Congress.

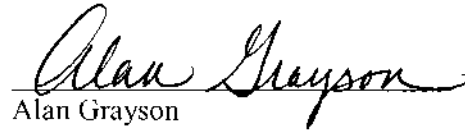
Please contact me or Martin Levine on my staff at 202.225.4741 or at martin.levine@mail.house.gov with questions.

Sincerely,

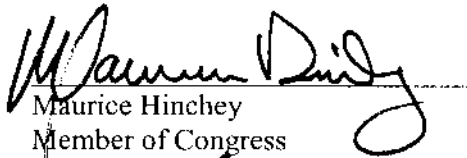

Elijah E. Cummings
Member of Congress



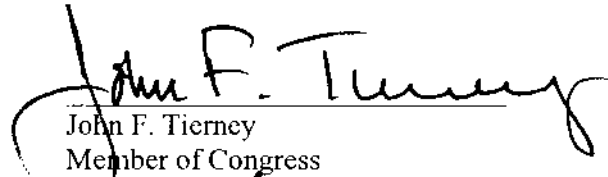
Hoyt Hoggatt
Member of Congress



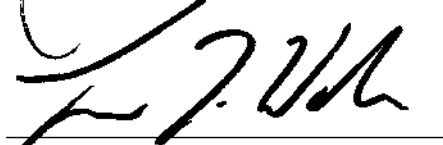
Alan Grayson
Member of Congress



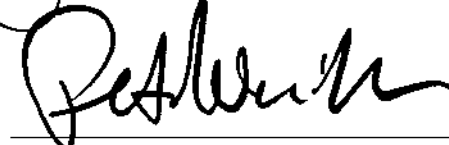
Maurice Hinchey
Member of Congress



John F. Tierney
Member of Congress



Tim Walz
Member of Congress



Peter Welch
Member of Congress

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