SPI's MARKET OVERVIEW AND RECOMMENDATIONS FOR THE *EMERGENCY ECONOMIC STABILIZATION ACT OF 2008*.

Section 132. Authority to Suspend Mark-to-Market Accounting.
Restates the Securities and Exchange Commission's authority to suspend the application of Statement Number 157 of the Financial Accounting Standards Board if the SEC determines that it is in the public interest and protects investors.

Section 133. Study on Mark-to-Market Accounting.
Requires the SEC, in consultation with the Federal Reserve and the Treasury, to conduct a study on mark-to-market accounting standards as provided in FAS 157, including its effects on balance sheets, impact on the quality of financial information, and other matters, and to report to Congress within 90 days on its findings.

Section 117. Study and Report on Margin Authority.
Directs the Comptroller General to conduct a study and report back to Congress on the role in which leverage and sudden deleveraging of financial institutions was a factor behind the current financial crisis

Herein are the concerns which need to be thoroughly analyzed, investigated and researched in-depth:

A) SIX CRITICAL "CHECKS AND BALANCES" FOR TARP AND THE EMERGENCY ECONOMIC STABILIZATION ACT OF 2008 Page 2 - 4:

B) FIVE OVERALL COMPLIANCE MEASURES FOR DOMESTIC AND FOREIGN TRADING Pages 4 - 5 :

C) THREE CRITICAL AREAS WHICH NEED TO BE TAKEN INTO ACCOUNT THAT CAN IMPACT OR AFFECT THE CURRENT DECISIONS SURROUNDING THE ACT AND TARP Pages 5 - 6:

D) AN EMERGENCY ECONOMIC RECOVERY COMMISSION 2008 OVERVIEW Page 7:

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A) *SIX CRITICAL "CHECKS AND BALANCES" FOR TARP AND THE EMERGENCY ECONOMIC STABILIZATION ACT OF 2008*

1. **LEVERAGE RULES HAVE TO BE APPLIED STRINGENTLY: Make supervision and enforcement rules absolutely clear and to the point for banking, financial institutions, and insurance corporations which are applied by the Federal Reserve, SEC and CFTC. Supervision and enforcement procedures and measures already in place: a) were not exercised with "due diligence." b) lacked in form or substance with regards to leveraging or c) did not provide connectivity between self-regulatory bodies and the FED, SEC, CFTC or State regulatory bodies. Without cohesive regulatory connectivity, there is: a) a duplication of regulatory effort, b) a counter productive environment where regulatory bodies work at cross purposes c) undue stress put on the brokerage industry with burdensome redundant bureaucratic regulatory investigations and examinations, and d) a "lack of communication and feedback" prevailing because highly financially versed personnel are NOT HIRED who understand the hedging "risk exposure" of indexes, currencies, stock options, derivatives, futures options, and wrap arounds / credit swaps e.g., structured investment vehicles.**

2. ***STRUCTURED INVESTMENT VEHICLES:** ** should not exist off the balance sheets Wherein, structured investment vehicles not on the balance sheet create leverage.**

3. **HAIRCUTS ON ALL SECURITIES: Haircuts should be attainable on all securities. Haircuts are down payments on an investment just like the down payment consumers need for a home.**

4. **THE UPTICK RULE ENFORCED: The Up-tick rule has to be enforced on short sales. The Up-tick rule prevents short sellers from adding to the downward momentum when the price of an asset is already experiencing sharp declines. The SEC eliminated the rule on July 6, 2007.**

5. **TRANSPARECY WITH LEVERAGED PRODUCTS: The Wrap – Around / CREDIT - SWAP packages *[e.g., STRUCTURED INVESTMENT VEHICLES*]* need to be transparent and cleared on the regulated exchange such as the NYMEX Clearport. Brokerage firms cannot own an exchange or clearing corporation – they need to be independently run. Transparency also means no crossing trades [off–the-exchange floor] at a brokerage firm. Trades must be mark to market each day [time and attendance[via a U.S.**

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A) *SIX CRITICAL "CHECKS AND BALANCES" FOR TARP AND THE EMERGENCY ECONOMIC STABILIZATION ACT OF 2008*

5. TRANSPARECY WITH LEVERAGED PRODUCTS CON"T:

Securities / Commodities Exchange. In addition, to establish a new exchange, the exchange BOD and management must hire experienced and qualified personnel who will do comprehensive self -regulatory compliance and back office operations supervision / oversight to work in conjunction the efforts of the Federal Reserve, SEC, CFTC and other regulatory bodies. Given the severe distressed state of the economy, a 2 year moratorium needs to be established on the opening up of new exchanges until the Emergency Economic Stabilization Act of 2008 has been properly undertaken and the economy is back on its feet. An "exchange" or "clearing corporation" is not a "franchise" that can just be set up without any regulatory consideration in how such "exchange" or "clearing corporation" is going to be managed, supervised and monitored as it relates to the framework of comprehensive compliance examinations and investigations via rules, standards and regulations.

*** *A STRUCTURED INVESTMENT VEHICLE [SIV]:* makes loans to various lenders then securitizes them in an entity that is funded through an implicit guarantee of a sponsoring bank. The entity is not on the balance sheet of the bank. The entity is off the books. The bank does not have to hold capital against their capital ratio – creating a cascading Enron on steroids "House of Cards" effect throughout the banking, financial and insurances industries.**

In other words, the expanding global markets put ever increasing pressures and demands upon the U.S. Exchanges and Clearing corporations to provide more viable trading hedging products as well as provide highly sophisticated trading platforms to handle large volumes of trade. It is a National Security matter when exchanges and clearing corporations do not have enough working capital to support their comprehensive self-regulatory mission. Every trade exacts a fee which crosses over an exchange floor or passes through a clearing corporation. Trading platform computer operations must be consistently upgraded for security [sabotage, infiltration and manipulation] and to meet the on-going demands of the market place.

Compliance staff must be consistently attentive to meet the needs of the Exchange, Clearing Corporation, Brokerage firms, U.S. Government Oversight Bodies and overall security matters of the Exchange. The exchange compliance staff are part of the front line corps who protects the

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5. **TRANSPAREСY WITH LEVERAGED PRODUCTS CON"T:**

   American public interests in the free market place. Any means to by-pass trading on the floor, leaves the Exchanges and Regulatory bodies not knowing what " immeasurable risk exposure" has been taken on by a bank, financial institution or insurance company. Hence, supervision and enforcement concerns and problems largely exist by not knowing [to what degree] how "transparency" compliance standards and regulations have been circumvented, usurped and undermined.

6. **NEED CLARIFICATION FOR MARK TO MARKET: The Mark To Market understanding in the U.S. securities industry is much different than those rules and regulations that apply to Mark To Market in the International Accounting Rules framework, especially those that are currently in use at the European Union. Questions: What are the tax implications for financial institutions, individuals, corporations and small businesses? What are the legal ramifications with Rule of Law versus By-Law for financial institutions, individuals, corporations and small businesses? Which measures, standards, rules and laws with tax considerations will be applied to financial institutions, individuals, corporations and small businesses?**

B) *FIVE OVERALL COMPLIANCE MEASURES FOR DOMESTIC AND FOREIGN TRADING:*

1. **Have two volume indicators for each security that is traded on a daily basis. One that shows the total number of shares that have traded today – just like the one that exists today. Another volume number that actually shows ownership changes in a security. This would allow regulators to see if any market participants are cascading securities or trying to impact their price movement by how much they are trading in relation to the number of shares that have actually changed ownership on the day. The regulation should be sure to be based on control people/entities, so that market participants do not circumvent the rule.**

2. **Require that funds disclose their holdings on a monthly basis in share equivalents. Any synthetic positions created by market participants should be aggregated up to one number. This would include the common stock, options, equity swaps, convertible bonds, and any other instruments that give the investor control or potentially give them control in a company. This would allow regulators to see if market participants are trying to bypass reporting requirements for taking positions in excess of 5%**

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B) *FIVE OVERALL COMPLIANCE MEASURES FOR DOMESTIC AND FOREIGN TRADING:*

3. **Require that funds disclose the gross share equivalent and net share equivalent of positions they own. This information would be helpful to regulators in keeping track of possible players that might be in a position to manipulate securities prices.**

4. **Require that Firm/Funds report their Gross/Net Exposure of their entire book and what their tangible equity value is. This would allow the government to aggregate the amount of leverage in the system and the directional lean of all the market participants'.**

5. **Have the top four recommendations broken out by domestic versus Foreign Investors. The regulators should look at how much of daily volume, gross and net exposure on an individual security basis and aggregate portfolio basis is split between domestic and foreign investors. This would allow them to better gauge if markets or a security is being manipulated by a domestic investor or foreign investor.**

C) *THREE AREAS WHICH NEED TO BE TAKEN INTO ACCOUNT THAT CAN IMPACT OR AFFECT THE CURRENT DECISIONS SURROUNDING THE ACT AND TARP:*

1. **WITH A PRESIDENTIAL DIRECTIVE OR ACTION BY CONGRESS, ESTABLISH THE FED AS AN INTERMEDIARY COUNTERPARTY FOR BANKS "MOVING" INTO A DISTRESSED SITUATION: The Fed can act like a "clearing corporation" for banks that need "immediate liquidity" which are moving into a distressed situation. Moving into a distressed situation DOES NOT mean: a) moderately distressed, b) distressed or c) heavily distressed banks. As the FED is having great demands placed on it right now, THE DIRECTIVE or Congressional Action can make it operationally possible for the FED to handle a "clearing function" of this nature [if the FED has the necessary resources available to do so] – given the current dire situation in the market place.**

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C) THREE AREAS WHICH NEED TO BE TAKEN INTO ACCOUNT THAT CAN IMPACT OR AFFECT THE CURRENT DECISIONS SURROUNDING THE ACT AND TARP:

2. UNDERFUNDED PENSIONS CONCERNS: It is very important to note that Government guarantees of public & private pensions are underfunded almost across the board. They almost all have equity market exposure that is making things worse in meeting their future liabilities. Not having the full pension benefits issue addressed leaves this current strategy of the Emergency Economic Stabilization Act of 2008 in a vulnerable and precarious situation.

3. ALTERNATIVE SUGGESTION TO THE CURRENT PLAN: The Act monies could be raised to 1 trillion. Cut the amount to 500 billion from 700 billion for the illiquid securities [junk mortgages] as well as have 500 billion for the American public through interest rate reductions on existing loans.

These illiquid securities would increase in value if the value of homes rise - hence the government would need less money if they can get home prices to rise and break the downward spiral in home prices.

For examples: Using an estimate of 10 trillion in outstanding mortgage debt One would multiply 10T by 1% This comes out to be approximately 100 billion in interest savings for the public. If the government modifies every loan in the country by 1% for 5 years, - it could save the public about 100 billion a year. This 1% reduction in interest rates[in normal circumstances] would increase the value of homes by approximately 10-11%. Given the current environment of consumer fear and distrust, it might just help keep prices from falling further and then creep up.

If the Federal Reserve cut interest rates by 1% while they do these loan modifications [and required banks to do 2% haircut], the mortgage rates would drop to about 4-5% for most borrowers. A 30 year conventional mortgage is pricing at about 6% right now while jumbo loans are pricing at 7%. This 2% delta would reprice the housing stock in the country by 15-20%. If the market regains normalcy, this would essentially reverse the losses of the past 12 months in home prices. Home prices are down approximately 19.5% from peak across the US.

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D) THE ECONOMIC RECOVERY COMMISSION 2008 OVERVIEW: It would prudent and wise to establish a bipartisan Emergency Economic Recovery Commission. The COMMISSION should be composed of panel members from the FED, FDIC, SEC, CFTC and PBGC. The Commission should also consist of representatives of management and self-regulatory personnel from U.S. Exchanges, Clearing Corporations, Brokerage firms, Insurance Companies, Banks, and other self-regulatory bodies e.g., NASD. What action will the Commission take up:

- **How "connectivity" is to be established between self- regulatory bodies and government regulatory bodies**
- **How to bring new investment hedging vehicles [real time listed trading] to the U.S. Exchanges in order for trades "not" to be made off the books**
- **How to figure out a relative degree of "transparency" and "risk exposure" with the current wrap arounds, credit swaps e.g., structured investment vehicles that are off the books**
- **How to ensure the U.S. Exchanges and Clearing Corporations are secure, liquid and not vulnerable during market crisis situations**
- **How to clearly define and distinguish what Mark to Market means to financial institutions, individual investors, corporations and small businesses. [asset base and stock portfolios tax consequences].**
- **How to address the current mounting problem in UNDERFUNDED PENSIONS**
- **How to properly address, identify, and analyze the heavy trading - investments being made by large domestic hedge funds and by foreign banks, corporations and governments**
- **How to define, measure, critically analyze and create an Action Plan in dealing with exogenous and indigenous factors which influence erosion in the free market place system [Rethinking Risk Factors]**

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