



Federal Financial Analytics, Inc.

TESTIMONY DETAILS SWF IMPACT ON U.S. FINANCIAL INDUSTRY

“Financial firms are backed by express and implicit taxpayer guarantees and are critical to a functioning U.S. payment system, capital market and economy as a whole. Financial institutions also handle other people’s money – funds provided to them in trust by depositors, investors and retirees, taking on a safekeeping or even fiduciary responsibility that may not be compatible with foreign-government objectives. Finally, financial institutions – most notably private-equity firms – invest in other firms and, thereby, gain inside knowledge about their operations, intellectual property and objectives. All of this makes it vital that SWF and similar state activities in the U.S. financial system be conducted in a transparent fashion with clear regulatory authority built in advance to prevent conflicts of interest, insider transactions or – most troubling – activities designed to foster home-country political or military objectives.”

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WASHINGTON, D. C. – Karen Shaw Petrou, managing partner of Federal Financial Analytics, will testify tomorrow at the first in-depth look in the U.S. Congress on the impact sovereign wealth funds, especially Chinese ones, will have on the U.S. financial system. In testimony before the U.S.-China Economic and Security Review Commission (USCC),

Petrou will argue for new requirements that, she said, will both ensure the continuance of an open U.S. market and establish essential protections.

Specifically, Petrou called for:

- a policy that governs all foreign entities with sovereign control, not just SWFs. In this, China should be treated the same as all other nations, with no special or additional restrictions;
- a requirement that all sovereign investments in U.S. financial firms – banks, brokers, insurance companies and private-equity firms – be executed through third-party asset management; and
- prior approval by the applicable regulator of any stake above five percent if the sovereign investor places this directly. Petrou notes that current efforts to structure investments as “passive” ones do not insulate takeover firms from actual control by a sovereign investor.

The testimony is attached.

Federal Financial Analytics, Inc. has for the past twenty years counseled large financial institutions and even their regulators on major legislative, regulatory and policy issues that pose strategic risk. It does not lobby on behalf of clients, but advises them on appropriate responses in light of identified challenges, working on an array of GSE, Basel II, and acquisition-value issues. The firm publishes numerous information and analytical services, including Financial Services Management and GSE Activity Report.

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