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Congressional Oversight Panel Releases Special Report on Regulatory Reform

January 29, 2009

Report Recommends Action in Eight Key Areas to Avoid Future Financial Crises

WASHINGTON, D.C.—TODAY, January 29th, 2009, the Congressional Oversight Panel released a special report on regulatory reform. The report discusses how regulation would have helped avert the crisis that we are in today, and how the implementation of smart regulation will help the United States prevent another financial crisis and protect our economic future.

“Why does regulation matter? If we had had better regulation we could have prevented the mess we are in today. Good regulation has the power to channel investment into productive economic activity, to make markets safer, and to prevent financial meltdowns,” said Elizabeth Warren, the Chair of the Panel. “We are at a crucial moment in our history. The decisions that we make during the next few months about the rules for our financial system will determine the strength and stability of our economy for the next fifty years.”

The report examines how deregulation of financial markets over the last twenty-five years has injected substantial risk into the financial system. Boom-and-bust cycles plagued the United States’ economy until reforms of the 1930’s ushered in a half-century of financial stability. However, instead of updating financial regulation to meet the demands of new products and new markets, the United States loosened regulations. The report specifically points to three areas of regulation that could have prevented the current economic crisis, specifically basic consumer protection rules, supervision of credit rating agencies, and regulation of companies that are “too big to fail.”

Finally, the report outlines how “we can do better” in order to prevent future crises. The recommendations cover eight separate areas:

1. Better regulation of the way loans are made to consumers
2. Serious regulation of credit rating agencies
3. Better management in dealing with “too-big-to-fail” companies
4. Identifying and regulating financial institutions that pose systemic risk
5. Increasing supervision of derivatives and off-balance sheet entities that have created a shadow financial system
6. Changing executive pay structures to discourage excessive risk-taking
7. Working with other countries to establish basic rules that will apply to companies doing business around the globe
8. Planning now for the next crisis.

The full report can be found at COP.Senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: Congressman Jeb Hensarling (R-TX), Richard H. Neiman, Superintendent of Banks for the State of New York, Damon Silvers, Associate General Counsel of the AFL-CIO, former US Senator John E. Sununu (R-NH), and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.

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