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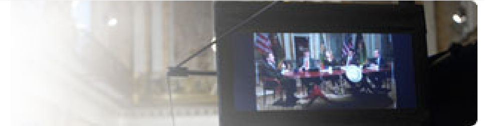

Deputy Secretary of the Treasury Neal S. Wolin Keynote address before the U.S. Chamber of Commerce, Center for Capital Markets Competitiveness Fourth Annual Capital Markets Summit

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"The Urgency of Financial Reform:
Why We Should Not Wait for One More Finance
Crisis before Fixing What's Broken"
As Prepared for Delivery

Thank you, David, for that kind introduction. And thanks for the opportunity to be here today.

On Monday evening, we took an important step towards final enactment of financial reform. The Senate Banking Committee has now voted out a comprehensive bill. Along with the bill passed by the House last December, it represents a strong foundation on which to build a safer financial system.

The bill would establish stronger supervision for financial firms – especially for the largest, most interconnected.

It would bring transparency and oversight to derivatives and other financial markets that were central to the crisis.

It would create an independent bureau of consumer financial protection to set and enforce clear rules of the road.

To prevent the expansion of the federal safety net and to protect taxpayers from risk of loss, it would separate the business of banking from speculative proprietary trading.

It would give us the tools to end the belief that any firm is "too big to fail".

There are places where we hope to strengthen the Committee's bill, just as there are places where we hope to strengthen the bill passed by the House.

Undoubtedly, there are places where those who oppose reform will seek to weaken the bill when it moves to the Senate floor.

As the President has made clear, we will oppose efforts to weaken it. And my primary message to you today is this: so should you. Because American businesses, large and small, need financial reform just as much as American families need financial reform.

Just over two years ago, the collapse of Bear Stearns revealed a fundamental breakdown in our financial system. The subsequent failure of Washington Mutual, Wachovia, and Lehman Brothers, and the near-failure of AIG produced a financial panic on a scale not seen since the Great Depression.

We must not forget how close we came to a complete financial meltdown. The capital markets all but ground to a halt. At the height of the crisis, the fear was so intense that firms were unable to get short-term financing even by pledging US Treasury securities as collateral. The strongest, most stable U.S. commercial companies could not borrow to meet working capital needs.

Over the past two years, we have seen that the fate of Wall Street and the fate of Main Street are bound together. Responsible American businesses and families have paid a heavy price for the financial industry's failures. Retirement accounts have been crushed, millions of jobs have been lost, and even today small businesses across the country are having trouble getting the credit they need to operate and grow.

Economists will conduct a complete autopsy of the crisis for years to come. But there should be no debate about one thing: a central cause of the financial crisis was a financial regulatory system decades out of date and riddled with gaps and loopholes.

So while we can have legitimate disagreements on the details of financial reform, there can be no disagreement that reform is necessary. And there should be no disagreement that reform is long, long overdue.

That is why it is so puzzling that, despite the urgent and undeniable need for reform, the Chamber of Commerce has launched a $3 million advertising campaign against it. That campaign is not designed to improve the House and Senate bills. It is designed to defeat them. It is designed to delay reform until the memory of the crisis fades and the political will for change dies out.

The Chamber's campaign comes on top of the $1.4 million *per day* already being spent on lobbying and campaign contributions by big banks and Wall Street financial firms. There are four financial lobbyists for every member of Congress.

All told, it is one of the most expensive special interest campaigns in history.

We believe that the fight against financial reform is shortsighted and misguided.

Today, I want to respond directly to some of the central lines of attack.

Opponents of financial reform have fought against the Administration's proposal to end, once and for all, the problem of "too big to fail."

This should not be a partisan or ideological debate. As David John of the Heritage Foundation has said, "Taxpayers should never again be forced repeatedly to bail out financial services firms like AIG because a company poses a risk to the entire financial system and regulators lack the necessary tools to close the company safely."

That's exactly right. We must have the ability to let even the largest firms fail – imposing losses on shareholders and creditors, but protecting the broader economy. Most importantly, we must guarantee that the taxpayers never have to foot the bill for Wall Street's irresponsibility.

Republicans should agree. Indeed, in a speech at the Oxford Union last fall, the ranking Republican on the Banking Committee, Senator Richard Shelby, forcefully made the case for resolution authority.

He argued that "we need clear procedures for resolving failure of large financial firms."

He said "such a regime will operate similarly to bankruptcy proceedings, with clearly delineated procedures for settling claims. Whereas ordinary bankruptcy proceedings would likely be too slow to respond to short-term counterparty exposures, a resolution regime must be nimbler."

And yet, the Chamber has called the proposed resolution authority a "permanent bailout fund." That is precisely backward. The only way to ensure that future Administrations are never again forced to bail out failing financial firms in times of crisis is to give them the tools to shut those firms down. There is no credible alternative.

We will not compromise on our commitment to end "too big to fail." We will not leave future administrations with the unacceptable choice of bailing out Wall Street firms or putting the financial system at risk in times of crisis.

The Chamber has also attacked our proposals to bring oversight and transparency to the derivatives market. That opposition is puzzling. The opaque, unregulated derivatives market was right at the center of the recent crisis.

And in fact, the Chamber's rhetoric on derivatives regulation matches our policy.

The Chamber has said that it will "work to support greater transparency for over the counter derivatives without jeopardizing the ability of business end users to effectively manage their risks." That is what both the House and the Senate bills are designed to do.

Standardized derivatives would have to be centrally cleared and traded on an exchange or trade execution facility – substantially reducing the build-up of bilateral counterparty credit risk between our major financial firms.

There would be strong and consistent prudential regulation of all over-the-counter derivative dealers and other major players in the OTC markets, including robust capital and margin requirements.

These proposals are designed to ensure that we never again face a situation – so devastating in the case of AIG – where the potential failure of a virtually unregulated major player in the derivatives market can impose risks on the entire system.

But these proposals are also designed specifically to protect the ability of end users to manage their risks. Our proposal strikes a careful, reasonable balance. It would produce a stronger, safer, more transparent marketplace. And end users hedging real risks would benefit from the greater price transparency that a regulated trading requirement would bring.

Now I'd like to turn to another element of the House and Senate Bills – the establishment of an independent agency or bureau focused on consumer financial protection. This proposal is the main target of the Chamber's attacks.

Today, seven different federal agencies have authority to write rules for consumer financial products and services, enforce the rules, or both. But none of them sees consumer financial protection as its priority.

Meanwhile, non-banks like mortgage lenders, auto-finance companies and payday lenders operate with uneven oversight at best. These non-banks compete with banks on an unlevel playing field, often driving down standards across the marketplace.

Many banks and non-banks treat their customers fairly and transparently. But as we have seen all too clearly in recent years, many do not. And banks that play by the letter and the spirit of the laws face competition from those that don't.

In the years leading up to the crisis, millions of Americans and small businesses were sold products they didn't understand and couldn't afford. Plenty of households made irresponsible choices. But millions of people were misled by unclear disclosures, overly complicated contracts, or loan originators incented to close the deal without regard to the borrower's ultimate ability to pay.

The result was tragic for the families who have lost their homes and for the millions who still carry crushing debts.

And the result was also devastating for the economy as a whole. Through the market for asset-backed securities, irresponsible lending destabilized the entire financial system.

In place of this fragmented, ineffective system of consumer regulation, President Obama has called for consolidating the consumer protection authorities of seven agencies into one independent consumer financial protection agency.

This is not a Democratic idea or a liberal idea. Just two years ago it was a Republican idea. The Bush Administration's 2008 Blueprint for a Modernized Financial Regulatory Structure called for a "dedicated business conduct regulator" responsible for consumer and investor protection. They called the separation of consumer financial protection from safety and soundness "optimal."

Reviewing the existing system of consumer financial protection, the Bush Administration found that "The current multi-agency business conduct oversight structure creates uneven enforcement, potential enforcement gaps, disputes over jurisdiction, and regulatory inconsistency."

Even the American Enterprise Institute has acknowledged the case for improved consumer protection. The AEI's Shadow Financial Regulatory Committee has written that "banking supervisors have generally done an inadequate job protecting consumers… Furthermore, bank regulators understandably give, and will always give, more attention to what they perceive as their primary functions… than to protecting consumers from unfair practices and deceptive behavior."

And yet, the Chamber of Commerce – funded, no doubt, with a good deal of your money – has launched a lavish, aggressive and misleading campaign to defeat the proposed independent agency.

The Chamber has every right to oppose those policies with which its members disagree. But as a leading, respected institution, the Chamber also has an obligation to be honest – with you, its members, and with the American people.

As Daniel Patrick Moynihan said, everyone is entitled to his own opinion. But everyone is not entitled to his own facts. So let's review the facts.

This Center – the Chamber of Commerce Center for Capital Markets Competitiveness – sponsors a website, Stop the CFPA .com. In answer to the question, "what is the CFPA?" that website says the following:

It says the House has passed a bill that would "go so far as to dictate and require `plain vanilla' products, assuming federal bureaucrats know what is best for consumers." That is false. The bill creates no such authority. Neither does the Senate bill.

As the tea-party folks might say, "read the bill." You will not find plain vanilla or anything like it.

The Chamber's website says that the consumer agency will "put new restrictions on consumer access to products." If that means that regulators will have the authority to prohibit no-doc subprime loans, as the Fed has already done, or to prohibit retroactive rate increases on credit cards, as Congress has already done… well, that's true.

Our proposals are based on a fervent commitment to consumer choice. For choice to be real, consumers must have the information they need to make the choices that are right for them. And the market must be as free as possible from unfair or deceptive practices that distort competition and mislead customers.

That is what the consumer agency is about: not restricting access, but making the marketplace more transparent, improving competition, and expanding real choice.

The Chamber's website says that the consumer agency would be a "massive new government agency." It will be a new agency. But it will not be massive. And it will simplify and replace – not duplicate – the existing approach to consumer financial protection regulation.

Where today seven agencies overlap in a confusing, duplicative but ineffective way, there would be one dedicated agency – consolidating authorities, eliminating redundancy, and streamlining regulation. That's not more government. That's better government.

In addition, the consumer agency will have the explicit duty to reduce regulatory burden – for example, by combining competing mortgage disclosures under two different laws, administered by two different agencies, into one, simple, clear form.

The Chamber's website claims that we seek to create an agency with authority that "extends far beyond traditional financial services products to a vast majority of the economy." Opponents have painted a terrifying picture where every corner store is subject to the long

arm of the consumer financial regulator.

Again, that is not true.

The legislative language of the bill voted out of the Senate Banking Committee is very clear: "the Bureau may not exercise any rulemaking, supervisory, enforcement, or other authority under this title with respect to a merchant, retailer, or seller of nonfinancial goods or services that is not engaged significantly in offering or providing consumer financial products or services."

Finally, let me address one other argument – the argument that, by separating consumer protection authority from safety and soundness authority, we will put banks at risk.

We reject the notion that demanding responsibility, fairness and transparency in consumer financial markets is somehow at odds with "safety and soundness." The crisis demonstrated clearly that unscrupulous lending is no better for banks than it is for their customers.

No doubt, bank regulators will sometimes disagree with consumer regulators. But inter-agency disagreements are nothing new. And in fact, both the House and Senate bills provide clearer mechanisms to resolving potential conflicts between consumer and bank regulators than currently exist for resolving conflicts between the various regulatory agencies today.

The idea that we have to choose between, on the one hand, protecting families and small businesses against unfair and deceptive practices and, on the other hand, keeping banks safe and sound is – quite simply – a false choice. We can do both. And we'll do both better if we dedicate different regulators to these different jobs, with mechanisms to ensure coordination.

The consumer agency is not designed to be a massive new bureaucracy. It will not limit choice or innovation. It will not dictate what products consumers must buy or businesses must sell.

It will do one thing: it will ensure, for the first time, that consumer financial protection regulation is coherent, consistent, and effective. No doubt, some people will oppose that mission. But let's have that debate on the merits – not on the basis of misinformation.

Before I came to this job, I ran a business – in the insurance business, which is regulated differently in each of the fifty states. I understand as well as anyone the frustration of dealing with duplicative or conflicting regulation. But that is not what we have proposed. We have proposed reasonable responses to the fundamental, systemic failure that nearly brought the global economy to its knees.

In the past few weeks, we have heard opponents of reform argue that we – the Administration, Chairman Dodd, the Democrats in the Senate – are "rushing" to enact financial reform. As the bill moves to the floor, we will undoubtedly hear that argument grow louder.

It has been over two years since the catastrophic breakdown in our system became apparent. It has been eighteen months since President Bush asked Congress for $700 billion dollars to stave off economic collapse. It has been nine months since President Obama put forward a detailed reform plan. And it has been three months since the House passed its own comprehensive bill.

Monday's markup in the Senate Banking Committee followed months and many hundreds of hours of detailed, collaborative bipartisan discussion.

Only in Washington would anyone think of saying that we are "rushing" to enact financial reform.

But the truth is that we do need to move quickly. The urgency around financial reform is real.

Recovery and reform go hand in hand.

As Republican Senator Bob Corker said, speaking of the need to enact financial reform legislation, "This is really a jobs bill. The longer there is uncertainty in the financial community about what comes next, the longer it will take to remove one of the impediments to restarting growth in our economy."

Getting Main Street back to work means getting our financial system safe, sound and stable.

The fight for financial reform still has a long way to go. Despite the overwhelming consensus in favor of financial reform, there are those who would prefer to preserve the status quo.

Even worse, there are those who, for narrow reasons, oppose one or another particular provision in the bill and therefore find it in their interests to delay or derail the broader effort.

The special interest opposition is formidable. But it is misguided. And I am confident that we will succeed.

As the fight for financial reform moves forward, we face a stark choice: will we learn the lessons of the financial crisis and enact comprehensive reform? Or will we let special interests win the day, delaying and chipping away at reform until it no longer represents real change?

For the benefit of every business and every family in America, for the competitiveness of American markets, and for the safety and soundness of our financial system, we need financial reform.

We should not wait for another crisis before we fix a broken system.

Thank you.

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