U.S. DEPARTMENT OF THE TREASURY

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Treasury Deputy Secretary Neal Wolin Keynote Address at the Securities Industry and Financial Markets Association's "Regulatory Reform Summit" July 15, 2010 As Prepared for Delivery

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Thank you for that kind introduction, Tim. It's a pleasure to be here this morning.

An enormous amount has been said about financial reform over the past year– many ideas put forward, many proposals debated.

The final bill, already passed by the House, is a strong bill – addressing the core problems that helped produce the financial crisis, laying the foundation for a stronger, more stable financial system, and aligned to a remarkable degree with the legislative proposal President Obama put forward almost exactly one year ago.

Now – on the cusp of a final Senate vote – is an appropriate moment to step back and take stock of what the financial reform legislation actually does.

First, this bill makes it possible to identify and manage systemic risk in a way that we could not do before.

The bill creates a Financial Stability Oversight Council, chaired by the Secretary of the Treasury, and composed of the heads of the financial regulatory agencies. The Council has a critical role in the management of systemic risk: to designate firms for heightened supervision by the Federal Reserve, and to make recommendations concerning the establishment of heightened prudential standards – with a view not only to the safety of specific institutions, but to the stability of entire system.

The Federal Reserve will have examination and enforcement authority over all bank holding companies over $50 billion, as well as any non-bank financial companies designated by the Council – so that the largest, most complex financial institutions will be subject to thorough oversight, regardless of their corporate form.

The bill establishes an Office of Financial Research within the Treasury Department – to support the Council through the collection and analysis of data concerning risk in the financial system. The OFR will be able to develop analytic capacity not available elsewhere – looking across the whole financial system, and providing insight to the FSOC and to the Secretary of the Treasury.

This legislation gives us the tools, for the first time, to look beyond the safety of individual firms or markets to the health of the broader financial system.

Second, this legislation requires that regulators impose substantially stronger prudential standards.

Robust, risk-based capital, leverage, and liquidity standards will provide a more reliable buffer against both firm-specific failures and systemic shocks. And prudential requirements will be higher for the largest, most interconnected firms – requiring them to internalize the risks they impose on the system by virtue of their size and complexity.

The bill will impose a new mandatory stress-testing regime on the largest bank holding companies and designated non-bank firms. It will require the largest firms to establish "living wills," laying out a credible plan for breakup and wind-down in the event of severe financial distress. Regulators will be able to require financial firms, including holding companies, to take swift action to remedy declines in capital levels and other critical measures of financial health. And there will be restrictions on certain risky activities by banks, as well as on the excessive growth by acquisition of financial firms.

Third, this legislation establishes a comprehensive regulatory framework for the derivatives markets – the source of so much risk and uncertainty in the recent crisis.

Standardized derivatives will be centrally cleared and traded. Derivative clearing organizations will be subject to conservative risk management standards to strengthen the core infrastructure of these markets, as well as public reporting requirements to increase transparency and efficiency.

Regulators must impose strong prudential standards, including capital and margin requirements, and strong business conduct standards on over-the-counter derivative dealers and all other major OTC market participants. And the SEC and CFTC will have full enforcement authority – to monitor markets, set position limits and take action against manipulation and abuse. Through a narrowly tailored end-user exemption, the legislation ensures that commercial firms will be able to hedge their risks effectively and efficiently.

Derivatives should reduce risk, not magnify it. They should be a force for stability, not contagion. By bringing the derivatives markets out of the shadows, the legislation will benefit every business that uses derivatives to manage real risks.

Fourth, this bill will put an end to the problem of "Too Big to Fail." It gives the federal government the authority to shut down and break apart large non-bank financial firms whose imminent failure might threaten the broader system. Modeled on the FDIC resolution process, this resolution authority closes a gap that severely limited the federal government's options during the crisis.

This authority is limited by procedural checks and balances, including a judicial review process, and is significantly consistent with the structure of claims under the bankruptcy code. It allows the FDIC to wind down a failing financial firm wiping out shareholders, firing culpable management, and allowing creditors to take losses while stabilizing the financial system.

Any losses that cannot be covered through sales of the firm's assets will be recouped from the largest financial institutions.

As a result, no firm will be insulated from the consequences of its actions. No firm will be protected from failure. No firm will benefit from the perception that taxpayers will be there to break their fall. The bill makes absolutely clear that taxpayers will never be asked bear the costs of a financial firm's failure.

Fifth, this legislation establishes a single agency dedicated to consumer financial protection.

The Bureau of Consumer Financial Protection, an independent entity within the Federal Reserve, will have one mission: to promote transparency and consumer choice, and to prevent abusive and deceptive practices.

The CFPB substantially consolidates the authorities of seven different regulators. This consolidation – into one agency with a single focus – will benefit not only consumers, but responsible actors throughout the financial system.

Now, the bill does much more. But these are the core elements: a focus on systemic risk; heightened prudential standards; comprehensive regulation of derivatives; an end to "too big to fail;" robust consumer protection.

Flaws in each of these areas helped precipitate or prolong the financial crisis. This bill fixes those fundamental flaws.

Enactment of the legislation is, of course, not the end of the financial reform effort. Now we must turn to the important work of implementation.

This bill does what good legislation should do: it creates a clear, full framework; it gives regulators the authority and also the explicit direction to act, and where appropriate it imposes requirements directly.

Legislation always leaves some work to the implementers, the regulators. To legislate every detail of financial regulation – every issue of practical application – would be to create a fixed and brittle system. But this bill is thorough and specific. It sets a clear path forward. It will significantly reduce the uncertainty that has existed in the wake of the financial crisis.

And it will replace a regulatory system that was deeply, fundamentally flawed; a regulatory system that brought us the worst financial collapse in generations, the devastation of which is still felt by millions of Americans every day.

While we may have differed on some issues through this legislative process, we share a common interest in moving forward swiftly with the work of implementation once the financial reform bill becomes law. And as we move forward, we will remain focused on the goal I know we all share: making the financial system of the United States the most stable, the most trusted, and the most competitive financial system in the world.

We have already begun a rigorous implementation planning process. That work cannot be done overnight. It will take time. But we are prepared to move on to the next stage with speed, with a strong sense of purpose, and with a commitment to ensuring that our financial system is both safe and vibrant.

Though not the focus of this summit, I want to speak for a moment about the GSEs – Fannie and Freddie. As we now look ahead, it's important to make clear that we are very focused on the need for reform of the housing finance system.

Designing and implementing practical solutions to the problems in the housing finance system will not be simple – particularly at this moment, when the housing market faces continued challenges in the wake of the crisis. Private capital has not returned to the market,

and the GSEs' securitization and guarantee activities today play an outsized – but unfortunately necessary – role in housing finance. They have been essential in restoring stability in the housing market and maintaining the availability of mortgage credit.

But it is obvious that the housing finance system cannot continue to operate as it has in the past. We have already begun a broad review of the housing finance system. Our objective is comprehensive and effective reform – reform that delivers a more stable housing market with more effective regulation, and with less risk borne by the American taxpayer.

Early next year, we will put forward a paper outlining our proposals and recommendations. We will undertake this work in parallel with the work of implementing the financial reform bill. Given the broad range of interests that all Americans have in ensuring that we have a strong and stable housing market, we are wide open to ideas, to discussion and to collaboration from all corners. The stakes are high and getting it right will be essential. We aim to have as inclusive a process as we can.

In closing, I'd like to share a quote from Silas Strawn, President of the Chamber of Commerce at the time of the New Deal. Speaking of the financial reform effort then pending in Congress – the Securities Exchange Act of 1934 –Strawn said the following:

"For several weeks the Stock Exchange Bill has received more attention in and out of Congress than any other pending measure. This bill is intended to eliminate unwise and destructive speculation. But it is the opinion not only of Stock Exchange brokers, but of thoughtful business men that its sweeping and drastic provisions would seriously affect the legitimate business of all members of Stock Exchanges and investment banks, with resultant disastrous consequences to the stock market; would greatly prejudice the interest of all investors; would tend to destroy the liquidity of banks and would impose on corporations of the country serious handicaps in the practical operation of their business."

Looking back, it is safe to say that Strawn's warnings were more than a little overdone. Far from weakening American firms, destroying the liquidity of American banks, and handicapping the operation of business, the '34 Act – along with the '33 Act, passed the year before – helped lay the foundations for the most stable, most competitive, most innovative, most transparent and most trusted financial system in the world.

Undoubtedly, in a piece of legislation as comprehensive as the financial reform bill, reasonable people will disagree on some details, just as reasonable people will undoubtedly have different opinions on the details of rules and other implementation work going forward. But like the securities laws of the 1930s, the Dodd-Frank legislation lays the foundation for a stronger, safer financial system – innovative, creative, competitive, globally leading, and far less prone to panic and collapse.

Later today, the Senate is scheduled to take its final vote. The President looks forward to signing financial reform into law as soon as possible. And we look forward, in the months ahead, to working together to ensure that the United States' financial system and capital markets remain the envy of the world.

Thank you very much.

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