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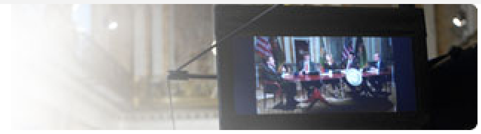

Remarks by Deputy Assistant Secretary for International Monetary and Financial Policy Mark Sobel at the AIMA Policy and Regulatory Forum 2011

3/17/2011
Brussels, Belgium

It is a great pleasure to be here to kick off this discussion on U.S. regulatory reform. In my remarks today, I will emphasize three key points:

- First, the United States has legislated and is implementing a comprehensive set of financial regulatory reforms, the most sweeping since the Great Depression. Due to these efforts and the bold actions taken by the Administration to repair the financial system, our institutions are leading the way in establishing a strong foundation for stability and sustained growth.
- Second, the U.S. regulatory reform agenda from the start has been closely aligned and fully consistent with the work of the G-20 and Financial Stability Board (FSB).
- Third, international regulatory reform cooperation has been successful and remains strong. But the need to translate general principles into concrete details can create challenges for maintaining consistency and a level playing field, thus heightening the need for close day-to-day cooperation. This cooperation is taking place. There is no dearth of work to be done.

<u>U.S. Financial Repair, Regulatory Reform and International Consistency</u>

Let me begin with U.S. financial repair and regulatory reform and their international consistency. At the beginning of the Administration, Secretary Geithner launched the Financial Stability Plan. The hallmark of the Plan was a rigorous stress test, which provided for significant granularity and assumed severe stress in assessing financial institutions' balance sheets, along with unprecedented transparency and a tough minimum capital benchmark, in order to identify the capital needs of our institutions. These stress tests helped lift a cloud of uncertainty and marked a turning point which allowed sound firms to begin raising fresh private capital. Our banks are now strongly capitalized, government capital injections are being repaid with profits, and lending conditions are improving. Not enough can be said about the value of rigorous, transparent stress testing with a pre-announced capital backstop.

Last July, Congress passed the Dodd-Frank Act, which is now being vigorously implemented. We have published a comprehensive integrated implementation roadmap which underscores the enormity of the undertaking.

Let me touch on some of the key areas of U.S. regulatory reform to highlight the magnitude of the undertakings and their international consistency.

First, the crisis taught us that we could not just look at risks in an individual firm, but instead must look across firms and markets, and that we needed a more systemic and macro-prudential focus as well. Dodd-Frank created the Financial Stability Oversight Council (FSOC) to bring together the key U.S. regulators in order to monitor emerging risks, identify threats to our financial stability, promote market discipline and coordinate policy responses.

The FSOC will meet later today for the fourth time. Already, the FSOC has:

- released a study on the “Volcker Rule”;
- provided recommendations on how regulators should implement concentration limits;
- issued a study on retention requirements for securitization; and
- requested comments on criteria and procedures that will guide FSOC designations of nonbank financial companies for heightened supervision.

As the FSOC was being founded, Europe created the European Systemic Risk Board. The ESRB has fewer direct powers than the FSOC as the ESRB can issue warnings and recommend remedial actions with a “comply or explain” obligation in the face of inaction. The United Kingdom also is creating the Financial Policy Committee at the Bank of England to examine financial stability issues. Internationally, the FSB is now undertaking a work program with the IMF and BIS to develop macro-prudential policy frameworks for the G-20.

Second, the crisis demonstrated that capital and liquidity requirements were simply too low, and G-20 Leaders agreed in Toronto that, going forward, firms should hold sufficient capital to be able to withstand a crisis of the magnitude just witnessed without recourse to taxpayer support. The Dodd-Frank Act clearly embodies the view that capital and liquidity standards must be far more robust and leverage must be constrained.

Last year, responding to a G-20 Leaders call in Pittsburgh, the G-20 Governors and Heads of Supervision agreed to substantially raise capital standards, introduce strengthened liquidity requirements, and adopt a mandatory leverage ratio. These will be implemented over the coming years. Secretary Geithner has emphasized repeatedly that strengthening these requirements is the core reform for making the global financial system more resilient. We must together carry through forcefully.

Let me respond to questions I always receive from my European friends. The United States is implementing Basel II. Currently, nine U.S. banking organizations, representing more than half of the assets of our system, are on a parallel run to be completed in mid-2011, using advanced approaches to assess risk in all aspects of the firms' portfolios. U.S. banking agencies have also published a proposed rule for implementing the Basel II trading book revisions. U.S. agencies are working on domestic rulemaking to incorporate Basel III into their rules and guidance, and the Secretary has repeatedly stated that the United States is committed to implementing Basel III requirements on the agreed schedules.

Third, the crisis also demonstrated the imperative of strong resolution regimes as part of efforts to constrain risk and reduce moral hazard. The Dodd-Frank Act provides new authority, similar to the authority that the FDIC has with regard to insured banks, to resolve nonbank financial institutions whose failure could have systemic effects. This will allow us to break up a failing firm, replace culpable management, and ensure that the financial industry bears the cost.

Establishing more effective resolution regimes is at the heart of international work. Already, regulators have set up crisis management groups and required recovery and resolution plans from the largest global firms. Further work is underway to develop a policy framework for addressing the moral hazard associated with systemically important financial institutions (SIFIs) for this year's G-20 Summit. Undoubtedly, you will hear references this year in the context of debates about higher loss absorbency to: going and gone concerns; the “point of non-viability"; capital surcharges; G-SIFIs; and bail-in and contingent capital or CoCos, both from a statutory and contractual standpoint. Amid these discussions, one point must stand out -- new and innovative capital tools can complement, but not substitute for, effective national resolution regimes.

Fourth, the crisis showed that we must build stronger shock absorbers across financial markets and infrastructure to lessen the spread of shocks. Dodd-Frank puts forward comprehensive oversight, protections, and disclosure for OTC derivatives markets. All OTC contracts will need to be reported to a trade repository, and all standardized contracts will need to be cleared through regulated central counterparties and traded on regulated exchanges or electronic platforms. Contracts not cleared through a CCP will be subject to higher capital requirements.

The Dodd-Frank Act's derivatives provisions comport with G-20 and FSB principles and International Organization of Securities Commissioners (IOSCO) work. The debates we are having in the United States strikingly resemble those now faced in the EU under the European Market Infrastructure Regulation (EMIR). International consistency on OTC derivatives is critical to avoid gaps, and the United States and the European Commission are working hand-in-glove on a daily basis in this area.

Fifth, the crisis also demonstrated the need to extend the perimeter of regulation and oversight to all systemically important financial institutions, instruments, and markets. The Dodd-Frank Act explicitly provides for designation of systemically important non-bank financial institutions for consolidated supervision; registration and enhanced reporting requirements for hedge funds with assets greater than $150 million; and stronger regulation of credit rating agencies to minimize conflicts of interest and improve transparency and disclosure. The FSB has now launched a significant work program on "shadow banking."

Again, I chose these five areas not because they are exhaustive, but because they are central to the Dodd-Frank Act and demonstrate the consistency of our domestic and international approaches. But the Act and the extent of international cooperation runs far deeper. Notably, good progress is also being made toward the G-20's goal of achieving convergence around a single set of high quality global accounting standards as well as in promoting global cooperation and adherence to anti-money laundering, prudential, and tax information exchange standards.

The Need for Continued Cooperation

Notwithstanding the strong cooperation through the G-20, the FSB, and standard setting bodies, the reality is that translating high-level principles into national implementation strategies can result in adverse spillover effects from one jurisdiction to another if authorities do not work closely together. Further, just as Europeans have stated that Sarbanes-Oxley and other U.S. legislation had spillover effects in Europe, so European legislation and the widespread use of "equivalence" provisions has had spillovers in the United States.

The key challenge for the United States and EU are to manage these spillovers, recognizing that we will not be identical. To this end, we must work together to ensure to the best of our ability that we are proceeding with consistent and convergent "outcomes based" approaches that promote sound regulation and a level playing field, while allowing firms to operate efficiently and without discrimination on a cross-border basis.

At the international level, this work is proceeding apace. Regulators are working together in various standard setting bodies, such as the Basel Committee and IOSCO, to develop best practices. They are adopting these international standards and best practices and implementing them at home. The FSB itself has established a Standing Committee on Standards Implementation, anchored in country and thematic peer review processes, aimed at strengthening common implementation.

Augmenting this, the United States and EU have a long history of working together through their Financial Market Regulatory Dialogue. The Dialogue has helped keep U.S. and EU officials in close daily contact to identify and address looming spillover problems. However, as demonstrated, for example, by our debates about the Alternative Investment Fund Managers Directive, the need to avoid "geographic mandates" under EMIR, short selling, and the meaning of "equivalence" and "endorsement" under the EU Credit Rating Directive, the need for close and continuing contact and cooperation is crystal clear. And of course, for us, this work requires navigating the roles of the Commission, Parliament, member-states, and the European supervisory authorities. In short, our plates are full.

Conclusion

In conclusion, the United States is leading the way in strengthening its financial system and implementing bold and vigorous regulatory reforms at home. The United States is very mindful of the need to do so in an internationally consistent manner to promote a level playing field. We know that we live in a world of 24/7 global financial markets, but also in a world where regulation and supervision take place primarily at the national level. It is thus the destiny or fate of our countries to continue cooperating closely in building strengthened financial sectors and to do our best to strive for seamlessness. Much has been done, but much more remains to be done.