U.S. DEPARTMENT OF THE TREASURY

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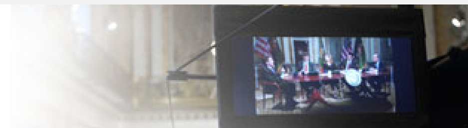

Remarks by Deputy Secretary Neal S. Wolin

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Pew Charitable Trusts

As Prepared for Delivery

Last summer, the President signed into law a comprehensive set of reforms to the financial system.

But as the important work of implementation proceeds, critics of the Dodd-Frank Act have engaged in a broad set of attacks against the law and its implementation.

Today, I will to respond to those criticisms.

But first, let's take a step back. Although our economy and our financial markets have made important progress on the path towards recovery, we cannot forget why we enacted this legislation.

In the fall of 2008, we witnessed a financial panic of a scale and severity not seen in decades. The crisis was brought about by fundamental failures in our financial system.

The failures were many and they were varied.

In the years leading up to the crisis, firms took on risks they did not fully understand and used legislative loopholes to operate some businesses without oversight, transparency, or restraint.

Profits and compensation were all too often tied to short-term gains without proper consideration of long-term consequences.

Across the country, many Americans took on more debt than they could afford, and many firms encouraged them to do just that.

In Washington, regulators did not make full use of the authority they had to protect consumers and limit excessive risk.

And policymakers were too slow to fix a broken system.

The crisis erased trillions of dollars of wealth, put Americans out of work across the country, and shook the foundations of our entire economy.

And the crisis exposed the fundamental flaws in our financial system.

In the aftermath, the President was determined to reform that system.

There was no alternative to reform. Not only our economy but also the lives and livelihoods of tens of millions of American families were devastated by the crisis. And it was manifestly clear that the financial system that led us to the edge of the abyss was broken and needed to be fixed.

The system we had favored short-term gains for individual firms over the stability and growth of the economy as a whole. The system we had was weak and susceptible to crisis. And the system we had left taxpayers to save it in times of trouble.

We had no choice but to build a better, stronger system.

That's why we proposed, Congress passed, and the President signed into law a sweeping set of reforms to do just that.

The Dodd-Frank Act creates a comprehensive and robust regulatory framework. The statute creates a structure for the government to monitor and respond to systemic risk. It makes clear that no firm will be considered "too big to fail." It requires regulators to impose heightened prudential standards on large, interconnected financial firms. It provides for the comprehensive regulation of the derivatives markets for the first time. And the statute establishes a single agency dedicated to protecting consumers.

For the past nine months, regulators have been hard at work implementing these and many other critical reforms contained in Dodd-Frank.

Yet today, even as millions of Americans are still recovering from the crisis, some on Wall Street, K Street, and Capitol Hill seek to slow down, roll back, or even repeal these crucial reforms.

Some complain about the pace of reform.

Some say that there's a lack of coordination by the regulators.

Some argue that transparency in the derivatives markets will harm liquidity, or that margin requirements will unnecessarily tie up capital.

Some complain that our reforms will unfairly disadvantage U.S. firms as they compete globally.

Some say the new consumer agency will stifle consumer choice and innovation, that it will interfere with existing regulators, or that it's not accountable to anyone.

And some even say we can't afford to pay for reform.

I want to address these criticisms one by one.

First, the pace of reform.

After the Dodd-Frank Act was signed into law last summer, many in Washington and in the financial services industry said that the legislation lacked details, and that the uncertainty of the shape of final regulations made it difficult for businesses to plan for the future. They called for clarity, and they wanted it fast.

We said that regulators would move quickly but carefully to implement the legislation. We said that we would seek public input. We said it's critical to get the details right.

Recently, some of these very same critics – those who previously demanded clarity as quickly as possible – are saying that we're moving too quickly. They now suggest that too many details are coming too fast. They say that regulators aren't setting aside sufficient time to study the issues and make the right decisions, and that businesses won't have time to adjust to the new regulations.

Our response to them remains the same. Regulators have been and are moving quickly but carefully to implement this legislation. We continue to seek public input. And of course, it remains critical to get the details right.

Although there may be reasonable debate about the substance of Dodd-Frank implementation work, there is no question that regulators have been implementing the statute in a careful, considered, and serious manner.

The *second* criticism is that implementation of the law is uncoordinated.

Our financial regulatory system is built on the independence of regulators, and given the importance of Dodd-Frank implementation, independent regulators will have different views on complicated issues – working through differences is an important part of getting the substance right.

At the same time, Dodd-Frank forces regulators, more than ever before, to work together to close gaps in regulation and to prevent breakdowns in coordination – this is a central change brought about by the law. Beyond joint rules and consultation required on specific rulemakings, we have been and will continue working together where issues cut across multiple agencies, to make the pieces of reform fit together in a sensible, coherent way.

The Financial Stability Oversight Council, which is a key component of Dodd-Frank, has a mandate to coordinate across agencies and instill joint accountability for the strength of the financial system. Already, we have worked through the FSOC to develop an integrated roadmap for implementation, to coordinate an unprecedented six-agency proposal on risk retention, and to develop unanimous support for recommendations on implementing the Volcker Rule. As Chair of the FSOC, Treasury will continue to make it a top priority that the work of the regulators is well-coordinated.

Third, critics claim that reforms to the derivatives markets will harm liquidity and inhibit effective allocation of capital.

Regulation of the over–the-counter derivatives markets is a critical element of the Dodd-Frank Act. The financial crisis demonstrated that without adequate transparency and capital reserves, derivatives can allow hidden risks to build and leave counterparties without sufficient buffers to sustain losses.

The critics argue that requiring *standardized* contracts to be traded on *open, transparent* markets will harm liquidity. This position ignores the history and the basic structure of our financial system. The equities market, where stocks are traded publicly and price information is readily available, is one of the most liquid markets in the world – because of, not in spite of, transparency.

Increased transparency in the derivatives markets will tighten spreads, reduce costs, and increase-understanding of risks for market participants. Now, a transparent structure like this might not improve the bottom line of certain market participants – but it promotes efficient markets, capital formation, and growth in the broader economy, while reducing the risk and potential costs of another destabilizing financial crisis.

Critics also say that margin requirements for derivatives tie up capital unnecessarily, diverting it away from investments that promote economic growth.

Requiring the largest participants and dealers in derivatives markets to hold capital and margin is critical to improving the resilience of the financial system. The margin requirements for financial entities are, then – like derivatives themselves – a "risk-management tool," serving as important bulwark against losses infecting the system and contributing to another crisis.

Commercial end-users who are simply hedging operating risk, however, pose a very different level of risk to the system than financial end-users and the largest participants in the swaps market, in particular because of the interconnectedness of the largest users of swaps. Both the statute and the recently proposed rules recognize that the use of derivative contracts by commercial end-users, such as airlines or manufacturers, poses far less risk.

The statute does not allow capital requirements to be imposed on commercial end-users of derivatives. And recently, the regulators have further clarified in the proposed rules that when these end-users operate within established risk limits, they will not have to post margin on their contracts – leaving that capital free for job creation and investment.

Fourth, critics say that unless we achieve harmonized policies across borders, we should hold off or go slow on moving forward with Dodd-Frank, lest there be an unlevel playing field internationally. They also argue that if our reforms are too strong or different, U.S. firms will not be able to compete on a global scale.

I disagree. We have already enacted comprehensive legislation, and others are now putting their legal and regulatory frameworks in place. We are working hard at the international level to make sure that others put in place similar frameworks on the key issues where international consistency is essential – such as OTC derivatives, liquidity, leverage, and capital.

Now, it's true that the devil lies in the details, and that when different jurisdictions implement commonly-agreed-to international principles, problems and disagreements may arise. That is why in addition to our work in international fora like the G-20 and the Financial Stability Board, we work every day with our foreign counterparts, especially in Europe, through our financial market and regulatory dialogue.

But as we work in the international sphere to promote a level playing field, we must not fail to implement our reforms at home. Ultimately, if we fail to do what is necessary to reform and protect our system, we put at risk its fundamental strength and resilience.

Critics don't want to hear any of this. They simply say if our financial system is different from our partners, U.S. firms won't be able to compete. It's not a credible argument, because our systems have never been identical, and they never will be.

A great deal of their criticism is focused on enhanced capital requirements.

More and higher-quality capital, especially at the biggest and most interconnected financial institutions, is essential to providing better buffers against shock. Indeed, as the international community has recognized, the lack of such buffers was a core problem in the crisis we've just experienced. Implementation of Dodd-Frank and the work of the Basel Committee are critical to ensuring that firms are better insulated from stress.

We believe, of course, that it's important to strike the right balance. We need a capital regime that strengthens firms so that they can withstand stress, but also one that allows U.S. firms to compete effectively on a global basis.

Detailed rules about capital requirements and other aspects of financial regulation will always vary among sovereign nations. What's important, what we have made good progress on – and what we are committed to – is closing regulatory gaps, ending opportunities for geographic arbitrage, and preventing a global race to the bottom.

Fifth, critics suggest that the Consumer Financial Protection Bureau will stifle consumer choice and innovation, or interfere with the role of existing regulators. And they also claim that the agency isn't accountable.

Rather than limiting choice, the CFPB will be essential to creating *real* choice for consumers. The system we had before allowed lenders to hide the true costs of financial products in hidden fees and interest rate changes. Consumers often didn't get the information they needed to understand the loan they were taking out or the credit card agreement they were signing. That's not choice.

Real choice is about having the information to make the right decisions. The CFPB's job is to deter deceptive and abusive practices, promote clear disclosure, and help consumers get the information they need. With that information, consumers will have *real* choice – they will be able to understand what products and services are best for them and to make fully informed financial decisions.

And as consumers begin to make more informed financial decisions, it will raise the bar for the products and services offered to them. More empowered consumers will motivate the financial sector to offer new and better options. Rather than stifling innovation, the CFPB will catalyze it.

I want to emphasize that the CFPB's mission – helping consumers get good information and cracking down on deceptive and abusive practices – in no way interferes with the role of prudential regulators. What we had before – a patchwork system where too many agencies were responsible for consumer protection, but none of them actually focused on it – that system simply didn't work.

The existence of the CFPB allows prudential regulators to focus on their core tasks – making sure that banks have the capital, the liquidity, and the risk-management tools to ensure safety and soundness in the system. It allows the CFPB to focus on its own single task – to make sure that consumer financial products are offered in a fair, transparent, and competitive way.

And the agency will be accountable in executing that task. The CFPB was created because in the old system, *no one* was truly accountable for consumer protection. Now, a single consumer agency answers to Congress and the American people. Dodd-Frank includes several provisions to ensure the agency's accountability.

The CFPB must submit annual reports to Congress, the Director must testify multiple times each year on the agency's budget and activities, and the GAO audits the CFPB's expenditures annually. Furthermore, the CFPB is subject to the oversight of the inspectors general of Treasury and the Federal Reserve. And most importantly, there is direct oversight of the agency's rulemaking: the FSOC can review and even reject the CFPB's rules, and, as with any other regulator, Congress has the ability to *overturn* any of the CFPB's rules.

Sixth – and perhaps the most striking criticism of all – is that we can't afford these new protections. Some say that regulatory reform is too costly. We say that the costliest system of all is one that's prone to collapse.

In the absence of the proper protections – in effect, in the absence of the protections that this legislation puts in place – our system descended into a crisis that had tremendous costs to businesses, to the economy, and to the American people.

If we had not moved to reform the system, we would find ourselves still exposed to a cycle of collapses and crisis, with potentially devastating repercussions for the nation. But we did reform the system. And we need make sure that agencies have the resources they need to implement the law.

The strategy of some critics to defund enforcement or implementation is part of a larger strategy to undermine the statute and weaken the comprehensive reforms it puts in place. We cannot afford to let that happen.

We can't afford it, because the price of reform is a small one compared to the cost of crisis. We must invest now in building a strong, stable system. There is no responsible alternative, because if we don't invest in reform now, we run the unacceptable risk that we will pay dearly later – in jobs, in lost wealth, in foreclosed homes, and in the soundness and security of our entire economy.

We can't allow that.

We all remember the devastation of the financial crisis. We all know that that gaps and inconsistencies in our regulatory system allowed it to occur.

We are now engaged in the hard work of fixing that system.

We are doing so carefully. We are focused on getting the details right.

There will, of course, continue to be disagreements and opposition as we move forward. There will be critics and naysayers.

But those who are charged with *implementing* reform have not forgotten why we *needed* reform.

We needed reform because ultimately, a fragile system benefits no one.

We needed reform because we can't afford another crisis.

And we needed reform so that all Americans can share in prosperity.

That prosperity requires a new system – a balanced system. A system that is stronger and more robust, but one that also promotes innovation, fosters growth, and creates jobs. A system that channels capital effectively to businesses and to consumers.

For much of the last century, our financial system was the envy of the world. Our system contained a balance between strong protections and dynamic, innovative financial markets.

Eventually, we lost that balance, and our system became unstable and fell into crisis. We cannot let that happen again. That's why we enacted Dodd-Frank. To restore the balance and once again make our financial system the world's strongest, most dynamic, and most productive.

But to achieve that goal, we must move forward with implementing this law.

We are doing so quickly, carefully, and responsibly. We will continue to do so in the face of these criticisms. And we will continue to oppose efforts to slow down, weaken, or repeal these essential reforms.