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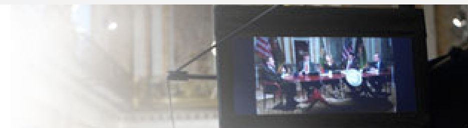

Remarks by Assistant Secretary Mary Miller at a SIFMA Regulatory Reform Summit

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As Prepared for Delivery

Thank you, it is a real pleasure to be here today. I want to thank SIFMA for including me in this program.

In my role covering financial markets at the Treasury, there are many things we could talk about today. Front and center in the news and in much of my ongoing work is the debt limit and ongoing deficit negotiations in Washington. I hope to have a chance to answer a few questions about those issues at the end of this speech, but I would like to first focus on financial regulatory reform.

Nearly one year ago, Congress passed and the President signed into law the most significant financial reform since the 1930s. As history shows, crisis and subsequent reform can be an important catalyst for stability and a baseline for tremendous growth. After the Great Depression, we adopted a strong set of reforms governing finance that restored investor confidence in U.S. institutions and markets. The regulatory checks and balances helped to create a remarkably long period of relative economic stability. Recessions happened, but they were shorter and less damaging. The result was that, for decades, the U.S. was among the most desirable places in the world to invest. Our financial system was the envy of the rest of the world. Over time, however, the great strengths of our financial system and the regulatory checks and balances eroded in the run up to the financial crisis.

As we work to carry out the Dodd-Frank Act, we are mindful that in order for the U.S. to remain a desirable place to invest, we must put in place a framework that restores integrity in our financial markets and engenders the trust and confidence of not just Americans, but also investors around the world. The reputation of our financial system is at stake.

Strong investor and consumer protections combined with dynamic, competitive markets are essential to ensuring that the financial system can efficiently direct investment. Entrepreneurs, innovators, and small businesses must have the opportunity to access the financing that they need to grow and to create jobs for Americans. Ultimately, that is what the financial system is about – providing efficient and effective means of transferring capital from savers and investors to entrepreneurs and other businesses that drive economic growth."

In order to make sure that the financial system can serve that critical function in the economy, we are committed to implementing effective reform that encourages stability, which is necessary to restore investor confidence in our markets. We will ensure that reform is cost-effective by considering the costs and benefits. We are committed to getting the balance and details of reform correct so that markets can function effectively with consistent, transparent rules of the road. And, we are committed to moving as quickly as possible to provide the certainty that markets need.

The obligation to put in place effective reforms exists because the costs of not doing so are too high. Scaling back or repealing major parts of the Dodd-Frank Act, or not providing regulators with the funds they need to implement the Act, will leave our economy exposed to a cycle of collapses and crises, with potentially devastating repercussions for businesses, for financial markets, and for all Americans. In the absence of the protections that the Dodd-Frank Act puts in place, our system descended into a crisis that has left deep scars on our nation.

I want to draw a distinction between the recovery that we have seen in financial markets and the recovery in the real economy. Some segments of the financial markets have substantially recovered since the crisis – for example, the domestic equity markets have approximately doubled since March of 2009. However, unemployment remains unacceptably high and continued weakness in the housing market is a headwind to strong recovery. The large drop in home prices erased trillions of dollars of wealth and continues to cause hardship for millions of families in this country. Additionally, the financial crisis exacerbated our nation's fiscal situation by forcing the Federal Government to borrow significant amounts of money to stabilize both financial markets and the economy.

We must continue to work together to put in place sensible reforms that restore confidence in our financial system so that it can once again be an engine for economic growth and innovation in this country.

We are committed to a transparent rule-making process that relies on substantial public engagement. Incorporating useful and constructive input from all stakeholders is the only way to achieve an outcome that is best for the economy and the markets.

Stakeholders have engaged extensively in the implementation process; the Volcker study alone received over 8,000 comments. We have even re-opened certain rules for comment where we felt the process would benefit from additional public engagement. The risk-retention rule for securitization is a good example where six agencies, including Treasury, decided to extend a comment period to allow additional time for thoughtful input. I can assure you that we take this input seriously – every study and rule has directly benefitted from these comments.

I also want to emphasize that it is essential that regulators and other institutions implementing reforms have the critical resources necessary to do their jobs effectively. If resources are not adequate, we simply will not be able to bring the care and judgment to the process that will allow the new rules to work. The firms that will suffer the most from regulations that are not well crafted are the strongest, best capitalized, and best managed firms. Their competitors will be able to cut corners without adequate supervision. We can't allow loopholes, gaps, and weaknesses to undermine the fundamental strength of our reform. The leaders of the major U.S. financial institutions should be champions, not opponents, of ensuring that regulators have sufficient resources to achieve their objectives.

The current level of coordination between independent regulators is unprecedented and will promote harmonized and simplified regulation, which will reduce costs for the market, promote certainty and support further recovery. In particular, the Financial Stability Oversight Council (or FSOC), has a mandate to coordinate across agencies. Already, we have worked through the FSOC to develop an integrated roadmap for implementation, to produce the Volcker report and coordinate the interagency rulemaking on the Volcker Rule, to coordinate an unprecedented six-agency proposal on risk retention, and to issue a proposed rule on the designation of financial market utilities.

We have taken a pragmatic and balanced approach to timing. Wherever possible, we are providing clarity to the public and to the markets. But the task we face cannot be achieved overnight. Regulators are writing rules in some of the most complex areas of finance, consolidating authority that was previously spread across multiple agencies, setting up new institutions, and harmonizing with countries around the world. While we want to move as quickly as possible, our first priority will always be to get it right. I want to emphasize that there is more certainty than there was a year ago, and there will be even more clarity one year from now.

As I noted, we are committed to striking the right balance between ensuring safety and soundness and promoting growth and innovation.

For example, regulation of the over-the-counter derivatives market is a critical element of the Dodd-Frank Act. Critics argue that requiring standardized derivatives to be traded on open, transparent platforms will harm liquidity. This position ignores the history and the basic structure of our financial system. The equity market, where stocks are traded publically 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 market will tighten spreads, reduce costs, and increase understanding of risks for market participants. A transparent structure might not improve the bottom line of certain market participants, but it promotes efficient markets, while reducing the risk and potential costs of another destabilizing crisis.

We understand the complexities and varying needs of the market and have not taken a simple one-size fits all approach. Recognizing that the unique characteristics and oversight of the foreign exchange swaps and forwards market already reflect many of Dodd-Frank's objectives for reform – including high levels of transparency, effective risk management, and financial stability – Congress provided the Secretary of the Treasury with the authority to determine as a practical matter whether central clearing and exchange trading requirements should apply to foreign exchange swaps and forwards. Central clearing requirements will strengthen the rest of the derivatives market, but could actually jeopardize practices in the FX swaps and forwards market that help limit risk and ensure that it functions effectively. Imposing central clearing and trading requirements on FX swaps and forwards would introduce risks and operational challenges to the current settlement arrangements that significantly outweigh the potential benefits. Given these considerations, Treasury issued a Notice of Proposed Determination providing that central clearing and exchange trading requirements would not apply to FX swaps and forwards.

Critics also say that margin requirements tie up capital, diverting it away from investment. Requiring the largest participants and dealers in the derivatives market to hold capital and margin is critical to improving the resilience of the financial system.

Commercial end-users, such as airlines or manufacturers, who are hedging business risks pose a very different level of risk to the financial system than financial end-users. The statute does not require capital requirements to be imposed on commercial end-users of derivatives. And recently, regulators have further clarified in proposed rules that when these end-users operate within established risk limits, they will not have to post margin on their contracts.

We are also working hard to make sure that other countries put in place similar frameworks on the key issues where international consistency is essential – such as OTC derivatives. Secretary Geithner has stated publicly and repeatedly his commitment to ensuring international harmonization. In addition to dialogue in international forums like the G-20 and the Financial Stability Board, Treasury and the financial regulatory agencies work every day with our foreign counterparts in Europe and Asia.

Dodd-Frank puts us in a position to lead internationally on reform, set the standards for the rest of the world, and foster a race to the top while working with our counterparts in other countries to ensure international consistency. Substantially delaying reform here in the U.S. would reduce financial stability in our country and around the world. That's a risk that we cannot take.

Another area that I would like to discuss is the Office of Financial Research, the OFR. The Dodd-Frank Act established the OFR to improve the quality of financial data available to regulators and policy makers to facilitate a more thorough and sophisticated analysis of the financial system. The OFR will collect data in a systematic, structured, and non-duplicative way. These data will ultimately improve the ability of policymakers and private industry to aggregate information that is critical to risk management. Comprehensive, standardized data sets will provide clear benefits to the market.

One of the OFR's ongoing initiatives is to promote the establishment of a global standard for identifying parties to financial transactions: a legal entity identifier (LEI). During the financial crisis, if LEIs had been in place, policy makers and private institutions would have had a much better understanding of the true exposures and interconnectedness among and across financial institutions. The LEI initiative is moving forward quickly and will provide substantial risk management benefits to the market. This progress is partly the result of the public-private partnership that SIFMA helped conceive. I would like to extend my thanks for SIFMA's strong and continued support of this initiative.

Another example of our commitment to striking the right balance is the Volcker rule. The Volcker rule study that the FSOC published in January made it clear that we are committed to preserving market making and not disrupting financial intermediation or impeding dealers' ability to facilitate customer business. It is important to curtail unnecessary risk taking, but the study notes that it is equally important to do so in a way that does not harm liquidity in the markets and is not overly burdensome for financial institutions. The framework laid out in the study builds off of sound risk management practices and should prove consistent with firms' existing risk management systems. We are currently leading a coordinated rulemaking process among the regulators to implement the study's recommendations.

These are just a few of the examples that highlight our commitment to ensuring that reform is implemented sensibly from the perspective of both promoting safety and soundness while remaining attuned to the need for competitive and efficient markets.

We will continue to deliver measures to restore integrity and trust in our financial system to ensure that it can, once again, serve as an engine for economic growth and job creation. A pro-growth, pro-investment financial system allows us to help transform ideas into industries, to finance great companies, unleash the next revolution in technology, make key advancements in science, and create jobs and economic prosperity. This can only be accomplished with a stable financial system that encourages investment and does not expose the country to a cycle of collapses and crisis.

Effective financial market reform requires having people in government who understand markets. Many of the people at the Treasury today, both at the senior level and the staff level, have substantial first-hand experience working with markets and understand the importance of balancing stability and innovation. Human capital is a key to success here. I would ask this group and all Americans to consider the important role that public service can play at this critical juncture. Having the best and brightest minds in Washington is helpful in ensuring that the implementation of reform is effective and supports economic growth and competitive markets.

We recognize that there is still a lot left to accomplish, and we look forward to working with you over the coming months to implement reform in a careful, effective manner. One year from today, I am confident that there will be much more clarity about the final rules of the road. In the meantime, we will not back down from our commitment to strengthen the financial system to ensure that businesses and families have the confidence that they need to put their capital to work. Your continued engagement is critical to ensuring that reform is accomplished in the most thoughtful and productive way.