Welcome to all of you and thanks for being part of this conference on how to reduce the risk of future financial crises.

I want to begin by complimenting Dick Berner and his team for bringing us all together today, and for the work they have done setting up the Office of Financial Research. And I want to thank Amias Gerety and his Treasury team for their work in supporting the Financial Stability Oversight Council. They, and their colleagues at the financial oversight agencies, have a lot of complicated and consequential work ahead of them.

I also want to recognize a few people, some of whom are here today, who have been so important to the conception, creation, and development of the Office of Financial Research. John Liechty, Alan Mendelowitz, Lewis Alexander, Adam Lavier, and Andrew Lo have been central to this effort, and I appreciate the ideas and advice and support they have so generously offered.

Finally, I want to give special recognition to Senator Jack Reed, who took this idea of establishing a strong, independent agency, with the important job of improving the quality of data, research, and analysis in order to better prevent financial crises, and made it a key part of last year's landmark financial reform law. He was determined and relentless, and he made this happen.

The actions we took in 2008 and 2009 to resolve the financial crisis, together with the financial reforms we enacted last year, are bringing about a fundamental restructuring of our financial system.

We are working to make the institutions that are fundamental to the health of the financial system stronger and more resilient, by forcing banks to hold more capital against the risks inherent in financial activity, and to fund themselves more conservatively.

We are working to put in place stronger protections for the broader financial markets, the derivatives markets, mortgage markets, repo and securities lending markets, to help protect the economy from the damage caused by financial shocks and to reduce the risk of contagion from weaker institutions to stronger ones.

We now have better tools to resolve large, complex financial institutions, so that when they make mistakes in the future, we can protect the broader economy from the damage they cause when they fail, without putting taxpayers’ money at risk.

We are making the largest financial institutions pay more for the costs of maintaining a more stable financial system.

We now have limits on the size and concentration of banks in our financial system so that businesses and individuals are less vulnerable to the mistakes they may make in the future. These limits are much tougher than exist in any other major economy.

We are changing the structure of compensation in the financial system, by giving shareholders more power, improving disclosure, and limiting the ability of firms to pay their senior executives in a way that insulates them from the losses that can come from taking too much risk.

We are improving the quality of disclosure around the risks banks face, and leading a global effort to improve the design of stress tests.

We are bringing the shadow financial system out of the dark, and extending the reach of constraints on leverage to firms that could threaten the stability of the financial system.

We are working to reduce the degree of moral hazard in the financial system, while strengthening its resilience against financial panics.

We are working to give the financial regulators the greater resources they need to enforce stronger protections for investors and consumers.

We are redesigning consumer protection in the United States, so that we provide better safeguards against predation and fraud and better disclosure so that consumers can make better decisions about how to borrow responsibly.
As a result of these reforms and those still ahead, our financial system is already in much stronger shape than before the crisis. We closed down the weakest parts, and forced the survivors to meet a tough market test of viability.

Those firms have raised $300 billion of common equity since 2008, giving them—and as a result, the rest of the financial system as well—stronger shock absorbers against the inevitable risks involved in managing an inherently uncertain world.

We are working to extend our reforms globally, and we are doing our best to limit the risk that the necessary job of making the system more stable does not damage growth in the short term.

These are the core objectives of the financial reform and restructuring strategy we adopted in the United States.

The Office of Financial Research is an important part of this effort to modernize our financial system.

The recent financial crisis, like other financial crises, had many causes—too much leverage, pockets of moral hazard, poor incentives, large gaps in oversight or regulation.

Another cause was a lack of sufficient information and knowledge among both market participants and regulators—knowledge about the scale of losses firms and investors might face, where the risks reside, and how contagion might spread.

Now, these things are fundamentally uncertain. But more knowledge—achieved through better data, research, and analysis—can make them less uncertain.

That greater knowledge, in turn, offers the potential of better market discipline, a more agile and preemptive regulatory response to emerging risks, and better designed interventions to contain crises.

Policy makers are always looking for the financial system equivalent of the MRI; over-the-horizon radar, the kind we put on aircraft carriers; or, to borrow Andrew Lo's analogy, a National Weather Service.

That goal will always elude us. But we will keep pursuing it, and we can do a lot better than we have done to date.

With better data and a more substantial commitment of resources to research and analysis, we can do a better job of equipping investors, risk managers, central banks, and supervisors with the ability to reduce the severity of future crisis.

The OFR will collect and make available, to regulators and to the public, more and better financial data.

It will seek to better measure and analyze factors affecting financial stability.

It will report to Congress and to the public on its analyses of significant market developments, potential threats to financial stability, and appropriate policy responses.

And it will collaborate with regulators, industry, the academic community, and foreign policymakers and institutions to establish global standards for financial data. The Legal Entity Identifier project, which precisely identifies the parties to financial transactions, will help regulators, risk managers, and market participants all better understand risks and exposures across the financial system. We are pleased that U.S. leadership has helped give a strong start to the LEI project, whose framework was recently endorsed by the G-20.

Your goal today is to help set the agenda for the Office of Financial Research, help us to identify areas where better data and more research offers the best return.

As the architects of both the Council and the OFR have recognized: we need to rely extensively on collaboration—among regulators, between the public and private sectors, internationally, and otherwise.

President Obama and the leaders of Congress made an important decision in the early months of 2009, while the crisis was still burning and we were still on the edge of a second Great Depression. Rather than delay financial reform until we had put out the financial fires and repaired all the damage, we chose to move early, so that the scars of the crisis would motivate reform. By moving early, before the memory of the crisis faded, we believed we could maximize the prospects of more substantial and enduring reforms.

And yet, even with all the damage caused by this crisis, with millions of Americans still struggling to find work or stay in their homes, and even in the face of the European crisis, we are seeing a determined effort to slow and weaken reforms that are critical to our ability to protect Americans from another crisis.

The forces working against reform are trying a range of different strategies, including blocking appointments of new leadership to key oversight positions, cutting funding, policy riders on appropriations bills, new legislation to repeal the entire law or just critical pieces of it, efforts to use cost-benefit analysis as roadblocks to reform, and other efforts to slow the pace of implementation of regulation in the hopes of watering it down.

If these efforts to weaken reform are successful, then consumers will be more vulnerable to future abuse, businesses will be more vulnerable to future contractions in credit availability caused by financial mistakes, and the economy will be more vulnerable to devastating crises.
If the opponents of reform are successful, then we will be left with a broken, poorly designed system of financial oversight and protection, with inadequate resources to prevent and deter abuse.

These are sensible and essential reforms. We are going to fight to preserve them.

This challenge is about a fundamental obligation of government, to provide and enforce the system of incentives and constraints necessary to create a financial system that helps people save for retirement, borrow to buy a house or a car or pay for college, allows businesses to finance productive investments, protects people from predation and abuse, and does not leave the taxpayer responsible for paying for the mistakes of banks.

We are committed to meeting that challenge. We have a lot work to do. And you have the ability here at this conference to help us do a better job of meeting that challenge.

Welcome, and thank you again for coming.

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