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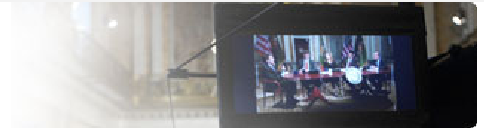

Remarks by Assistant Secretary for Financial Markets Mary Miller at the Annual Washington Conference of the Institute Of International Bankers (IIB)

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As prepared for delivery

WASHINGTON - Good morning and welcome to Washington. I welcome the chance to meet with a group that is focused on the perspectives of the international banking community in the United States.

As the Assistant Secretary for Financial Markets at the Treasury Department, I am part of the Office of Domestic Finance. But as this group knows well, our financial markets are global and interconnected. In my work at Treasury, I deal with the international nature of our markets every day.

Two of my main responsibilities are managing the U.S. Government's debt issuance and helping implement the Dodd-Frank Wall Street Reform and Consumer Protection Act. While both of these roles have fairly obvious connections to global financial markets, they are also more closely connected to each other than you might think.

The financial crisis and its aftermath took a heavy toll on our nation's economy and our fiscal situation. Millions of jobs were destroyed, countless families have lost their homes, and billions of dollars of Americans' savings were wiped out. We had no choice but to take aggressive steps to stabilize financial markets and help restart economic growth. And at the same time, the fallout from the crisis caused tax receipts to go down while payments for programs like unemployment insurance were going up.

To pay for these measures, we had to issue more debt. Although government borrowing peaked two years ago and deficits are coming down relative to GDP, our debt is still growing and economic growth remains moderate. Interest rates remain at historically low levels and have helped keep the costs of responding to the crisis much lower than they otherwise might have been.

But interest rates won't stay this low forever, and the long-term fiscal trend in the U.S. is unsustainable. As one of the officials responsible for our debt issuance, I know that American workers, families, homeowners and entrepreneurs can't afford another crisis. And the government can't either.

Fortunately, in the wake of the crisis, the President asked Congress to pass the reforms our outdated financial regulatory system needed, before memories of the crisis faded. Congress's response, the Dodd-Frank Act, put in place a number of important measures to strengthen and modernize the safeguards for our financial system.

Much of the basic framework of these reforms is already coming into effect. The Federal Deposit Insurance Corporation has finalized rules for winding down large firms that fail through an orderly bankruptcy-like process that will help limit the fallout from their failure. Had this "resolution authority" been in place in 2008, we would have had much more effective tools to mitigate the financial crisis.

The Consumer Financial Protection Bureau is up and running and undertaking initiatives for better disclosure to consumers. Regulators are deploying new authority and greater enforcement resources on a more coordinated basis to go after fraud and unfair practices.

The majority of the new initiatives for reducing risk and improving the transparency of the previously unregulated derivatives markets have been proposed and more rules are being finalized with each passing month. 2012 should bring much more clarity to firms adjusting for these changes.

As a result of the reforms we have been putting into place, the financial system is getting stronger and safer. Financial institutions are better capitalized, less leveraged, and more liquid, which reduces systemic risks. Some of these changes have already been required, some anticipate Basel III, and some simply reflect caution after the financial crisis. But the gains we have made will erode over time if we are not able to complete the work that is underway.

Given the stark reality presented by our fiscal situation, the deep and widespread damage that the crisis inflicted, and the continuing uncertainty in markets overseas, we must be careful not to succumb to a collective amnesia about how close we came to a complete financial collapse less than four years ago. As Secretary Geithner wrote in the *Wall Street Journal* on Friday, "Remember the crisis when you hear complaints about financial reform – complaints about limits on risk-taking or requirements for transparency or disclosure."

But as we continue moving forward, rest assured that we are not just trying to get reforms done so that we can check a box. We are focused on getting the reforms right so that they reduce risk, improve transparency and help restore market discipline in our system, while preserving the best features of our markets and the competitiveness of our financial institutions.

We aren't just looking at individual rules in isolation. Partly through the efforts of the Financial Stability Oversight Council, we are also beginning to look at the way rules interact with each other and assess their combined impact across the financial system. We want to be careful to get the balance right—building a more stable financial system, with better protections for consumers and investors, while allowing for healthy financial innovation in support of economic growth.

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Usually when I talk about progress on financial regulatory reform, I focus on the reforms we are putting in place at home and only have the opportunity to briefly discuss the importance of establishing strong and comparable standards and safeguards throughout the world. But given this audience, I would like to switch that around today and focus more on some of the international aspects of our reform efforts.

While regulations are adopted at the national level, markets are global and difficult cross-border issues are bound to arise. This is complex terrain, and we must work hard to align our national frameworks and develop high-quality international standards. We should strengthen international coordination and always keep in mind our collective goals to protect the safety and soundness of our markets; to achieve a level playing field globally; and to realize the economic benefits of global finance.

To protect our economy from risks that arise outside the United States, and to provide a fair and level playing field for U.S. firms, we need comparable international standards. And it's important to realize the benefits of setting high standards, not just in terms of reducing risks and promoting financial stability but also in terms of attracting investors and capital.

Before I came to Treasury, I worked for 26 years as an investor and manager of clients' assets. As an investor in global fixed income assets I did not look for the least regulated markets, with the lowest transparency, the weakest investor protections, and the greatest risks. I looked for opportunities with expectations of reasonable returns, with appropriate disclosures, and with strong legal and financial protections for the safety of the investments. Whether acting directly as investors or advising your clients, I expect that many of you share this view.

Comparable standards are particularly important in the reforms that toughen rules on capital, margin, liquidity and leverage, as well as in the global derivatives markets. In these areas we are working to discourage other nations from applying softer rules to their institutions that could create systemic risks for the global financial system.

Specific challenges include:

- aligning the developing derivative regimes around the world;
- preventing attempts to soften the national application of new capital rules;
- and designing the rules for resolution of large global financial institutions whose operations cross national borders.

Aligning the substance of the rules as much as possible is not enough, however. It's also important to align the timing as much as possible, to avoid leaving gaps that present risks to financial stability in the interim as well as creating competitive advantages for institutions in jurisdictions that are not as far along the path of reform. There's a delicate balance between leading with strong regulatory reform proposals in the U.S. and striving for timely adoption of comparable measures in other jurisdictions.

Also, in certain areas, U.S. reforms are tougher or just different from the rules forthcoming in other markets, so we need to figure out sensible ways to apply those rules to the foreign operations of U.S. firms and the U.S. operations of foreign firms. This is very complicated, and another example of where we need a clearly articulated consistent approach across the U.S. regulatory agencies.

The Volcker rule provides a good example of an area where the U.S. is pursuing reforms to reduce risk and conflicts of interest, but where most other nations have not followed. As you likely know, the comment period for the notice of proposed rulemaking to implement the Volcker rule recently closed for four of the five rule-writing agencies. Treasury is not writing the Volcker rule but the Secretary, as Chairperson of the Financial Stability Oversight Council, does have a specific statutory role as the coordinator of that process for the five agencies that are charged with implementing it.

More than 16,000 comments have been submitted in response to the proposed rule. Although the vast majority of those comments are identical form letters, there are still hundreds of unique comment letters, some of which run over a hundred pages in length. As you know, the Institute of International Bankers (IIB) submitted a comment letter, and dozens of other commenters have weighed in on a variety of issues relating to the international implications of the proposed rule.

A number of the issues that IIB raised in its comment letter are reflected in other letters that we received from individual market participants and foreign governments as well. Some of these issues include – but are certainly not limited to:

- the treatment of foreign government securities;
- the definition of activities that are conducted solely outside of the United States;
- the treatment of foreign funds that are comparable to U.S. mutual funds; and
- the compliance and reporting requirements that would apply to institutions.

We welcome this input, view it as an essential part of the process, and firmly believe that the final rule will benefit from the additional information, perspectives, and insights we receive through the comment process.

Getting the Volcker rule right is an important issue for the safety of our financial markets and for preserving their liquidity and efficiency. It's important to separate risky proprietary trading activity from the federal safety net. But as a former investor, including during the financial crisis, I also appreciate the role of market-making and know the importance of deep, liquid markets. It is essential to have buyers who are willing to step up and buy a position, particularly during times of market stress.

The statutory language of the Volcker Rule recognizes the importance of striking that balance, and so does the study issued by the Financial Stability Oversight Council last January. We are equally committed to achieving the right balance in the final rule. Along with the rule-writing agencies, Treasury is actively reviewing the comments, absorbing the valuable information they provide, and beginning to consider the best ways to address them as we coordinate the process for finalizing the rules.

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While the Treasury Secretary has a specific statutory role in coordinating the Volcker rule, Treasury is not a rule-writer for many parts of financial regulatory reform. We still have some important responsibilities either through coordination or direct assignments. I would like to provide two examples where we are engaged in activities of interest to foreign institutions.

One area where the Dodd-Frank Act does give Treasury specific responsibility is for a decision regarding foreign exchange swaps and forwards. This is also an area where a common international approach is important, because the foreign exchange market, by its very nature, is a global one.

Treasury has issued a Notice of Proposed Determination that central clearing and exchange-trading requirements would not apply to foreign exchange swaps and forwards. Consistent with the statutory factors, the proposed determination is based on an assessment that the unique characteristics and existing oversight of the foreign exchange swaps and forwards market already reflect many of Dodd-Frank's objectives for derivatives reform, including high levels of transparency and strong settlement practices.

As with the Volcker rule and all rulemaking processes, we are carefully considering the comments we received in response to the proposed determination, but have not made a final determination. We are also closely monitoring the evolution of foreign exchange market structure, especially with regard to reporting. We are very interested, for example, in the global trade repository that is being set up to provide more insight and transparency into the foreign exchange market.

This issue is a good example of how there are multiple ways for regulators and industry participants to work together to improve the financial system. The private sector doesn't have to wait on regulators and governments to act to implement reforms that could reduce risks, improve returns, increase transparency to market participants, and strengthen financial institutions.

As industry continues to develop the global FX trade repository, we are closely watching to see what kind of information the trade repository will provide publicly. We believe it is possible to provide detailed market information without compromising confidentiality. Industry has a chance to collectively decide whether it will make useful information available on a timely

basis.

Finally, because the foreign exchange market is a global market, having a global trade repository should be very beneficial to both market participants and regulators. Both should be able to benefit from consolidating information in a single location.

Another important initiative that we are working on to promote international consistency and that should benefit both regulators and market participants, is the development of a global standard for identifying parties to financial transactions: a legal entity identifier, or LEI. If legal entity identifiers had been in place during the financial crisis, regulators, policymakers, and market participants would have had a much better understanding of exposures and interconnectedness across financial institutions. Precise identification of counterparties would have helped wind down complex, troubled institutions.

In the near future, the LEI initiative should lead to more accurate data collection at a lower cost. Specifically, it should allow you to report to regulators with the same data you use in your management information and risk-management systems, and to run those systems better.

The LEI initiative continues to move forward globally with significant coordination among domestic and international regulators and financial trade associations. U.S. and global regulators will soon build its use into their reporting systems. We are confident that this effort will enhance the effectiveness of oversight tools for regulators and provide substantial risk management benefits to the market.

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These two very practical examples of public-private collaboration illustrate ways that we can work together to strengthen the global financial marketplace. I believe we share common interests in safe, strong, and competitive financial markets, not just in the United States but throughout the world. We have made progress on a number of fronts, but much remains to be done. We will continue to remain focused on implementing reform as quickly as practical to provide not only clarity and certainty, but more importantly, the measures we need to keep our financial system the safest and strongest in the world.
Thank you very much for your time and attention, and I look forward to taking a few of your questions.

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