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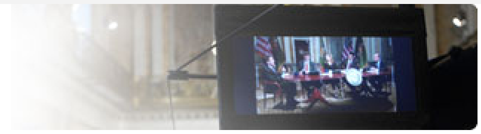

Remarks of Under Secretary Nathan Sheets at the Fifth Annual Office of Financial Research and the Financial Stability Oversight Council Conference

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As Prepared for Delivery

WASHINGTON – Thank you, Pat.

I want to start by offering you a warm welcome to Treasury and to the fifth annual OFR-FSOC Conference.

I am pleased to speak to you today, because I spend a good deal of my time working to improve the resilience of the global financial system.

I have responsibility for much of Treasury’s international portfolio, including issues related to international financial stability and our participation in the Financial Stability Board, or FSB.

Secretary Lew and President Obama view this work as critical, because we live in a world where regulation is carried out at the national level but financial markets are globally integrated.

We know from painful experience that developments in one economy can quickly spill over to the rest of the world.

We are active on the international stage because we have a responsibility to protect our citizens and taxpayers from the economic, financial, and social costs of another global financial crisis.

We also have a responsibility to U.S. financial firms to work to ensure that they can compete globally on a level playing field.

To these ends, we are working to make the international financial system resilient and competitive through multilateral mechanisms.

The U.S. Treasury has a long history of working multilaterally to promote global financial stability, in part because multilateral mechanisms can successfully foster coordination, communication, and trust between different countries.

The latter, trust, is perhaps the hardest to achieve but the most important part of the equation.

In our experience, multilateral approaches can give countries confidence that the probability of other countries adopting strong polices is sufficiently high that the best strategy is for them to adopt strong policies too.

How does this work today with respect to international financial regulation?

In 2008 and 2009, the United States played a crucial role in launching the current international financial regulatory agenda and architecture at the G-20 Leaders Meetings in Washington, DC., London, and Pittsburgh.

During this time the G-20 established the FSB and gave it responsibility for coordinating and monitoring the regulatory agenda’s implementation on a global basis. The FSB brings together national authorities (including finance ministries, central banks, and supervisors) responsible for financial stability in major economies, along with the standard-setting bodies and international financial institutions such as the Basel Committee and the International Monetary Fund.

The United States has three representatives to the Plenary: myself, a Federal Reserve Governor, and the Chair of the Securities and Exchange Commission.

The FSB’s work is carried out largely through the activities of three standing committees, which focus respectively on the assessment of vulnerabilities, standards implementation, and supervisory and regulatory cooperation.

As outlined in its founding documents, “The FSB’s decisions are not legally binding on its members—instead the organization operates by moral suasion and peer pressure, in order to set internationally agreed policies and minimum standards that its members commit to implementing at a national level.”

Since the crisis, the G-20 and the FSB have successfully fostered communication between the different players.

But communication alone is not enough. As I mentioned earlier, countries must also establish trust that international partners will hold up their end of the bargain.

The FSB, as a multilateral institution, helps build trust between its members in a variety of ways, such as conducting regular peer reviews to encourage jurisdictions to follow through on their reform commitments.

So, has this approach worked?

I will briefly review our performance to date on five key parts of the G20 agenda: capital and liquidity; OTC derivatives; resolution; shadow banking, or market-based finance; and central counterparties, or CCPs.

We have made demonstrable strides in improving the quantity and quality of large banks' capital and liquidity.

All large internationally active banks already meet the fully phased-in risk-based capital requirements, and, where applicable, surcharges for G-SIBs.

Final rules for the liquidity coverage ratio have been issued and are in force in almost all jurisdictions, and 80 percent of internationally active banks meet or exceed those standards.

Work is underway to improve consistency in banks' calculations of risk-weighted assets.

Turning to OTC derivatives, we have made important progress on trade reporting requirements, central clearing, and higher capital requirements for non-centrally cleared derivatives.

However, implementation continues to be uneven and is behind schedule in some jurisdictions.

We will continue to urge other G-20 members to act.

Without renewed and sustained focus on these critical issues, the vision of the 2009 Pittsburgh Summit—to reduce the risks derivative markets pose to the global financial system—will not be realized.

On resolution planning, I'll make quick two points, but leave the bulk of the discussion on this issue to the first panel.

First, in practical terms, it is vital for countries to put in place the necessary legislative and regulatory frameworks to support our improved toolkit.

Second, work on Total Loss Absorbing Capacity implementation (on the national level) will, of course, be central to our efforts in 2016.

Market-based finance has grown in importance and has a crucial role to play in a diverse and open system capable of financing investment, trade, and growth.

Even so, market-based finance is appropriately part of the international regulatory reform agenda because it also brings new risks.

To address these risks, the FSB will focus on two deliverables during 2016.

The first is the development of policy recommendations to address structural vulnerabilities associated with asset management activities.

The second is the evaluation of the case for developing policy recommendations to mitigate financial stability risks.

Finally, the standard setting bodies and the FSB also continue their critical workplan on CCPs' resilience, recovery, and resolvability so that these crucial parts of the financial architecture are not themselves Too Big To Fail.

Work underway includes deeper analysis of CCP resilience and recovery, which includes stress testing, "skin-in-the-game", margin methodologies, financial resources, and recovery plans.

There are also cross-cutting themes of governance and disclosures.

I expect ongoing work at the standard setting bodies will make progress toward more granular guidance on CCP resilience and recovery in advance of the G-20 Summit.

In the United States, Treasury staff, teams at the federal financial regulators, and U.S.-based members of standard setting bodies remain hard at work on the international financial regulatory agenda.

We remain focused because we know that the success of this U.S.-led global effort depends largely on the yeoman's work done on a daily basis on these critical issues.

Before turning the floor over to Charles and the first panel, I want to again welcome you to Treasury and the conference.

Activities like today's event and the work many of you do to improve financial regulatory outcomes, represent an important public good.

Thank you and enjoy the rest of the day.

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