U.S. DEPARTMENT OF THE TREASURY

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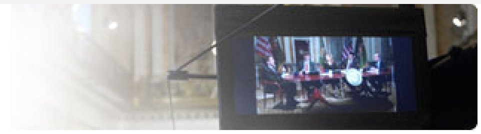

Remarks By Treasury Secretary Jacob J. Lew at The Volcker Alliance Event at The National Press Club

12/5/2016

Today's event and the work of the Volcker Alliance importantly focus on the unfinished business of financial reform, in particular the challenges posed by our fragmented regulatory system. I would like to begin this morning, however, by reviewing some of the important progress we have made since the financial crisis, and urge that we not slip into complacency that could result in taking a step backwards.

First, I want to address the importance of focusing on financial stability risks as well as traditional prudential oversight. Before the financial crisis, while many regulators had responsibility to oversee individual sectors and institutions, there was no body charged with overall review of financial stability risks, and given the fragmented nature of our regulatory system, this meant that significant financial stability risks slipped through the cracks and in the end, regulators failed to see or prevent the financial crisis that led to the Great Recession.

Wall Street Reform created the Financial Stability Oversight Council (FSOC) to bring together, under the chairmanship of the Secretary of the Treasury, all of the federal financial regulators, along with state regulators, and charged FSOC collectively to monitor and address financial stability risks as they develop in the future.

FSOC is built on a foundation of fact-driven and analysis-based decision making, with expert staff from across the membership supporting Council review, and in a few instances, action, when action is needed.

As a Council, we have come together to review important sectors, such as money market funds and asset management. We have come together to review the risks associated with major events, whether they be natural disasters like Superstorm Sandy or political developments like Brexit. And we have worked through reviews of both market utilities and several large non-bank financial firms that meet the criteria for additional oversight and supervision.

It is important to note that overall we have designated only eight utilities and four firms for heightened levels of prudential oversight, and after a significant change of business strategy reduced financial risks, we removed the designation of one of those firms. In our review of activities, we asked the hard questions and did the technical analysis, to understand potential financial stability risks. In some cases, individual agencies adopted general rules to address these risks, in others we coordinated ongoing review and sharing of information, but we have not significantly enlarged the number of firms subject to heightened prudential standards.

The goal was not to start by designating firms for higher levels of prudential review, but to determine what the right response is to make sure we have the visibility and ability to respond when needed to prevent a future financial crisis.
Just last month, FSOC discussed the progress made by its hedge fund working group that was formed in April as part of the review of asset management products and activities. This interagency group has been examining risks that could arise from the use of leverage by hedge funds. The group already has made significant progress in identifying how leverage at hedge funds could transmit stress to other parts of the financial system, data gaps and limitations that impede our ability to identify risks, and metrics for measuring the risks associated with hedge fund leverage. The working group recommended further analysis and continued monitoring, which will allow regulators to identify any financial stability risks as they emerge. It should be obvious that the time to act is not after a crisis hits, but rather as risks emerge and grow. And we will be better equipped to identify and respond to those risks thanks to the work of the FSOC and its member agencies. Our evaluation of the risks of the future, and our framework for coming together and sharing information, remains a critical line of defense against future financial crises.

A stable, well-functioning financial system is critical to promoting growth, creating jobs, and providing credit to consumers and businesses. We don't know what the next crisis will look like, or when it will arrive. What we do know is that the Council serves as an indispensable forum for regulators from across the entire system to ask the hard questions about the resilience of our financial system, and to take action when needed.

The other accomplishment I would like to discuss is, of course, the Volcker Rule.
The basic principle of the Volcker Rule is simple: financial institutions that benefit from federal deposit insurance and other protections should focus on serving their customers, not on making high risk investments for their own profit.

Treasury played a central role in the development of the Volcker Rule, with FSOC collecting public comments and then issuing a report with recommendations for the rule making. Treasury at the same time coordinated the five regulators, The Fed, CFTC, OCC, SEC and FDIC, to produce a joint rule. This was the first time that five independent regulatory agencies came together to adopt an identical rule. And now they are working to make sure that through their independent processes, execution remains as coordinated as possible.

I was proud to shepherd that joint rule to the finish line, and it reflects the importance of coordination among regulators in making complex judgments about our financial system.

The importance of this work—and the necessity of keeping our collective focus on financial stability—have long been clear to Paul Volcker and he personally, along with the Volcker Alliance, have supported this effort in many important ways. I appreciate the invitation to participate in this event, and would also like to take this opportunity to recognize the incredible contributions Chairman Volcker has made across a wide range of policy areas, and to our country more generally.

Throughout his decades of dedicated service, Chairman Volcker has been a steady and insightful policy-maker and adviser at the highest levels of government, over the course of many Administrations. The breadth and significance of his contributions are too many to list here, but I would note his service as Chairman of the Federal Reserve Board at a very challenging time, his service as Under Secretary of the Treasury for Monetary Policy, and his counsel to President Obama, as this Administration undertook historic reform proposals in the wake of our most recent financial crisis.

I have had the privilege to work with Chairman Volcker for many years, starting when I was a young aide to House Speaker Thomas P. O'Neill, Jr., and he was already Chairman. I remember well that his intellectual and physical presence were both forces to be reckoned with. As Secretary of the Treasury, I have consulted him many times and benefited from his wise counsel and friendship.

We have an award at the Treasury Department to recognize extraordinary public service, The Henry Morgenthau Award. Several years ago I had the honor of presenting this award to Chairman Ben Bernanke as he completed his term. Today, as I am about to complete my own term, it is my honor to bestow this award to Paul Volcker, with my personal appreciation for his many contributions over a distinguished career.

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