Statement of Senator Richard C. Shelby
Committee on Banking, Housing and Urban Affairs
February 4, 2010

- Thank you Mr. Chairman.

- On Tuesday, we heard from Paul Volcker, Chairman of the President's Economic Recovery Advisory Board, and from Treasury Deputy Secretary Wolin, about the Administration's most recent regulatory reform proposals.

- I remain willing to consider any proposal that will strengthen our regulatory framework and help our economy.

- Before we do so, however, we must understand the objectives of any proposal, and how those objectives are to be met.

- The newest proposals are the so-called "Volcker Rule" to ban proprietary trading and hedge fund activities from firms with insured depositories, as well as limits on a bank's share of market liabilities.

- The stated objective of the Administration's newest proposals is to enhance the safety of the banking system. I certainly agree with that.

- Unfortunately, the manner in which the Administration's proposals will accomplish that objective remains elusive.

- With respect to placing limitations on the proprietary trading activities of banks, Chairman Volcker and Mr. Wolin seem conflicted on how regulators could, in practice, distinguish proprietary trades from trades made by banks to help fulfill customer needs.

- Chairman Volcker said that regulators should not be given the discretion to place restrictions on proprietary trading. Yet, when pressed for details on how the regulations would be implemented, Mr. Wolin stated: “Like an awful lot of banking law and a lot of the proposals, lots will be left to the regulators to implement in a very detailed way.”

- When I asked about size limits, and how regulators would define “excessive growth,” Chairman Volcker paraphrased the late Justice Potter Stewart: “You know it when you see it.”

- Mr. Wolin failed to provide any more clarity when he said: “We do not have the details of that fully nailed down.”

- As I stated on Tuesday, the manner in which the President introduced these new ideas is not conducive to developing thoughtful, comprehensive reform legislation.

- Chairman Dodd and I have made meaningful progress in our discussions on regulatory reform. It is my hope that we will continue to do so.

- Our overarching goal must remain eliminating taxpayer bailouts while establishing the strongest, most competitive and economically efficient regulatory structure possible.

- Achieving this goal will involve consolidating our financial regulators, modernizing derivatives regulation, and strengthening consumer protection ***without*** undermining the safety and soundness of our financial institutions. In my view, these goals are not negotiable.

- We have a unique opportunity to make significant and necessary changes on a bipartisan basis. Whether we seize this opportunity remains to be seen.

- Thank you Mr. Chairman.