



United States Senate Committee on Banking, Housing, and Urban Affairs

Christopher J. Dodd (D-CT), Chairman

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Opening Statement of Chairman Christopher J. Dodd “Enhancing Investor Protection and the Regulation of Securities Markets, Part II”

Remarks as Prepared:

Today, the Committee meets for our second hearing to examine securities market regulation so that investors and our entire financial system are protected in the future from the kind of activities that led to the current crisis. This hearing is one in a series of nine we have already convened to modernize the overall regulatory framework and rebuild our financial system.

And I am thrilled we have two witnesses who are not only former Chairmen of the Securities and Exchange Commission but also residents of my state of Connecticut.

From the outset, I have argued that our financial system is not merely in need of “reform,” but of “modernization” – that truly protecting consumers and investors in the decades to come will require a vast overhaul of our financial architecture that recognizes the extraordinary transformation that has occurred over the last quarter century.

And nowhere has that transformation been clearer than in the area of securities, which have come to dominate our financial system, now representing 80 percent of all financial assets in the United States.

With pension funds, the proliferation of 401k’s and the like, today half of all households are invested in some way in securities.

As Federal Reserve Governor Tarullo said at our last hearing, “The source of systemic risk in our financial system has to some considerable extent migrated from traditional banking activities to markets over the last 20 or 25 years.”

In essence, as the assets in our financial system have shifted from banking deposits to securities, so, too, have the dangers posed to our economy as a whole.

We need regulators with the expertise, tools, and resources to regulate this new type of financial system. At our last hearing on this subject matter, this Committee heard about the need to watch for trends that could threaten the safety of the financial system. Our witnesses had different views on what regulatory body should perform that function.

Some felt it should be given to a special commission made up of the heads of existing agencies. Others argued for a new agency or to give that authority to an existing regulator.

As I have said, given the regulatory failures we saw in the lead-up to this crisis, I have concerns about this authority residing exclusively with any one body. For instance, we've seen problems with regulated bank holding companies where they have not been well-regulated at the holding company level.

And while there are many aspects to our financial system, systemic risk itself has many parts as well.

One is the regulation of practices and products which pose systemic risks, from subprime mortgages to credit default swaps. That is why I remain intrigued by the idea of a council approach to address this aspect of systemic risk. And I know our previous witnesses, Paul Stevens with the Investment Company Institute and Damon Silvers with the AFL-CIO have both recommended this type of concept.

Of course, systemic risk is only one issue which we are examining. At our last hearing on this subject matter, we heard how we could increase transparency by addressing the risks posed by derivatives. We heard ways to improve the performance of credit rating agencies who failed the American people terribly, by requiring them to verify the information they use to make ratings.

Most recently, Treasury Secretary Geithner has proposed the creation of a resolution mechanism for systemically important non-bank financial institutions.

And in providing this authority to the FDIC, I am pleased that he has recognized the need to ensure these powerful new tools do not all reside within a single agency.

These are all ideas that deserve careful examination. Today's diverse panel—including representatives from hedge funds, credit rating agencies, retail investors and industry self-regulatory organizations—paints a vivid picture of the numerous issues facing the securities markets at this moment.

The goals of modernization are clear: consistent regulation across our financial architecture, with strong cops on the beat in every neighborhood.

Checks and balances, to ensure our regulators and the institutions they oversee are held accountable.

Transparency so that consumers and investors are never in the dark about the risks they are taking on.

The time has come for a new era of responsibility in financial services. That begins with rebuilding our 21st century financial architecture from the bottom-up.

It begins with the work of this Committee.