Remarks of Senator Charles E. Schumer
Banking Committee Hearing
"Restoring American Financial Stability Act of 2010"
March 22, 2010

I'd like to begin by thanking my colleague, Chairman Dodd, for all his hard work and dedication in crafting this legislation, and the months he spent negotiating with Senators Shelby, Corker and others to find areas of bipartisan compromise.

The bill we are considering reflects many of the agreements reached during those negotiations – some of which I agree with and some of which I don't – but on the whole it is a good, strong bill that will reform Wall Street and protect Main Street.

A lot of people did a lot of things wrong in the years leading up to the recent financial crisis – borrowers, investors, regulators, elected officials. But there is no question that the banks are at the heart of what went wrong. They took advantage of consumers and engaged in risky practices that ultimately put our whole financial system – in fact, our whole economy – at risk. As President Obama said, we should never again allow a few financial institutions to hold our entire economy hostage.

So we need reform – real reform. And in my opinion the bill Chairman Dodd has put forward meets that test.

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I'd like to briefly mention a series of corporate governance measures that I worked with Chairman Dodd to put in the bill, including say-on-pay and a provision authorizing the SEC to adopt proxy access rules. They were drawn from legislation I offered with Senator Cantwell last spring called the "Shareholder Bill of Rights."

The premise of that bill was that the best way to rein in runaway executive compensation and excessive risk-taking by major institutions is to empower the firms' shareholders, and ensure that corporate boards fulfill their oversight responsibilities.

As Warren Buffett noted in his most recent shareholder letter, boards and CEOs of failed companies clearly failed to uphold their responsibility to protect shareholders. Buffett said that "CEOs and, in many cases, directors have long benefitted from oversized financial carrots" and now we need "some meaningful sticks".

The governance proposals I fought for – especially say-on-pay and proxy access – would usher in a new era of accountability and refocus directors on their primary duty: protecting the interests of shareholders.

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I also want to thank Chairman Dodd for working with me to include a proposal that will guarantee a stable source of funding for the Securities and Exchange Commission once and for all by allowing the agency to become fully self-funded.

Right now, the SEC doesn't have the money they need to hire enough analysts and update their technological resources. They are just overwhelmed and overmatched.

By simply allowing the SEC to retain the fees it currently collects, the bill would give the SEC access to hundreds of millions of dollars in additional funding over its current budget. And by allowing the SEC to be sure it will be able to keep all its fees every year it would allow the Commission to embark on the kind of long-term reforms Chairman Schapiro has promised without worrying whether the money will be there next year to pay personnel and continue technology upgrades.

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Finally, I'd like to say a few words about the need for a strong, independent consumer watchdog. One of the roots of this financial crisis was undoubtedly that total failure of our consumer protection regime – Americans were sold products they didn't understand and couldn't afford, by mortgage originators eager for a fee and happy to sell those loans into the great securitization machine.

After the events of the last several years, nobody can argue that fundamental reform of our consumer protection regime is not necessary – the status quo simply won't do. There is no accountability in the current system – consumer protection is split among 7 different regulatory agencies.

Some argue that you can't split consumer protection from safety and soundness regulation. But historically every time there's a tension between the two, the consumer loses. Consumers deserve an accountable regulator with oversight of consumer financial products as its primary objective, not as an afterthought.

The industry will warn us not to stamp out "innovation" – but just because you have a fancy new car that can go 100 miles per hour doesn't mean we shouldn't have brakes, seat belts and speed limits. Chairman Dodd's bill takes important steps to make sure a crisis like we just experienced – and the aftermath of which is still very much with us – never happens again.

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It has now been more than 2 years since the first defining event of the financial crisis – the collapse of Bear Stearns, which had to be bought by JP Morgan. It's also been more than 18 months since the collapse of Lehman Brothers sent our financial markets into a deep panic and revealed the fragility of our financial system and the shortcomings of our regulatory system.

When the financial system fails on the scale we just experienced, it's not executives of financial firms who suffer, or hedge fund managers. It's mostly middle-class Americans – who lose their jobs when the real economy inevitably feels the effects of the financial crisis; and families whose retirement plans and college savings accounts are decimated.

As I said before, there is plenty of blame to go around. But more than 2 years into this crisis, Congress will have only itself to blame if we don't come together and pass a comprehensive plan to fill the gaps in our regulatory system; protect consumers and taxpayers; refocus and rededicate our regulatory resources; and empower investors to work on the front lines to keep our corporations honest and accountable.

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As Congress has looked into the weaknesses in our financial system over the last year-plus, it became obvious that our financial system needed these reforms. They are an important step forward. And again, thank you for your hard work on this legislation, Chairman Dodd and other members of this Committee on both sides of the aisle. I look forward to continuing to work with you all to fundamentally reform the way we regulate our financial markets.