Johnson Opening Statement on Financial Stability and Systemic Risk Oversight Hearing

WASHINGTON – Today, Senate Banking Committee Chairman Tim Johnson (D-SD) held an oversight hearing on the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The Committee heard from the Treasury Department, the Federal Reserve, FDIC, SEC, CFTC, and OCC to discuss their progress in implementing provisions of the Dodd-Frank Act related to monitoring systemic risk and promoting financial stability.

“While we will never be able to anticipate every possible cause of a future crisis, we are much better equipped to deal with the next crisis if and when it occurs,” said Johnson. “We should never forget the magnitude of the costs of the financial crisis, especially the destruction of millions of jobs and trillions of dollars of household wealth. Opponents of financial reform may want to use revisionist history, but Americans have not forgotten that the recession was caused in part by excessive risk taking among some of the largest financial firms. With Dodd-Frank, we have created a new, sound economic foundation that will protect against the entire economy being exposed the next time a large financial firm rolls the dice on a bet it cannot back up. The effective, timely, and well-coordinated implementation of these reforms is critical to our economic security.”

Below is Chairman Johnson’s statement as prepared for delivery:

“Today, as the Committee continues its oversight of the Dodd-Frank Wall Street Reform and Consumer Protection Act, I welcome our witnesses back to talk about systemic risk and financial stability.

“Last year when this Committee set out to respond to the worst economic crisis in generations, addressing systemic risk and “too-big-to-fail” were key tasks. Any serious financial reform effort had to include an early warning system that could detect systemic risk before it could threaten to bring down the entire economy. Equally important was creating a new orderly liquidation process to prevent future bailouts, and to force large, risky financial firms to plan ahead for their own possible failure.

“In Dodd-Frank we accomplished these goals, but those changes cannot just take place at the flick of a switch. Today our witnesses will provide us with an update on their implementation of the provisions related to monitoring systemic risk and promoting financial stability, less than 10 months after the legislation was signed into law.

“Each of the agencies here is part of the Financial Stability Oversight Council, or FSOC, established to be the early warning watchdog for our financial system. It is important to note that the seats of two voting members of the FSOC remain vacant -- the CFPB director and the independent insurance member. We need to nominate and confirm these individuals as soon as possible. Any political game playing surrounding these nominees to try to subvert critical Wall Street reforms would be irresponsible and risk our nation’s economic recovery.

“One of the FSOC’s early tasks is to write rules for designating large, risky nonbank financial institutions for enhanced supervision. The so-called shadow banking system was one of the key pieces that led to the crisis, and while it is important to provide oversight of the shadow banking system, it is also important that this designation does not become a synonym for “too-big-to-fail.”

“The Dodd-Frank Act ended “too-big-to-fail” bailouts by establishing the orderly liquidation authority to unwind failing financial firms without putting the financial system or taxpayers at risk. In fact, Ranking Member Shelby worked closely with then-Chairman Dodd to craft an amendment that became the final text of this provision in Dodd-Frank, and I want to thank Ranking Member Shelby for his work.

“While we will never be able to anticipate every possible cause of a future crisis, we are much better equipped to deal with the next crisis if and when it occurs. We should never forget the magnitude of the costs of the financial crisis, especially the destruction of millions of jobs and trillions of dollars of household wealth. Opponents of financial reform may want to use revisionist history, but Americans have not forgotten that the recession was caused in part by excessive risk taking among some of the largest financial firms. With Dodd-Frank, we have created a new, sound economic foundation that will protect against the entire economy being exposed the next time a large financial firm rolls the dice on a bet it cannot back up. The effective, timely, and well-coordinated implementation of these reforms is critical to our economic security.”

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