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Statement of Neal S. Wolin
Deputy Secretary of the Treasury
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Chairman Johnson, Ranking Member Shelby, and members of the Committee, thank you for the opportunity to appear here today to discuss progress implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

The Dodd-Frank Act represents the most significant set of financial reforms since the Great Depression. Its full implementation will help protect Americans from the excessive risk, fragmented oversight, and poor consumer protections that played such leading roles in bringing about the recent financial crisis.

That crisis, and the recession that accompanied it, cost nearly 9 million jobs, erased a quarter of families' household wealth, and brought GDP growth to a low of nearly negative 9 percent.

Today, our economy has improved substantially, although more work remains ahead. More than 4.3 million private sector jobs have been created over the past 27 months and, since mid-2009, our economy has grown at an average annual rate of 2.4 percent.

As part of our broader efforts to strengthen the economy, Treasury is focused on fulfilling its role in implementing the Dodd-Frank Act to build a more efficient, transparent, and stable financial system—one that contributes to our country's economic strength, instead of putting it at risk.

The Dodd-Frank Act's reforms address key failures in our financial system that precipitated and prolonged the financial crisis. The Act's core elements include:

Tougher constraints on excessive risk-taking and leverage across the financial system. To lower the risk of failure of large financial institutions and reduce damage to the broader economy in the event a large financial institution does fail, the Dodd-Frank Act provides authority for regulators to impose tougher safeguards against risks that could threaten the stability of the financial system and the broader economy.

The Federal Reserve has proposed new standards to require banks to hold greater capital against risk and fund themselves more conservatively. New rules restricting proprietary trading under the Volcker Rule and limits to the size of financial institutions relative to the total financial system have been proposed or will be proposed in the coming months. Safeguards against excessive risk-taking and leverage will not only apply to the biggest banks, but also designated nonbank financial companies. Importantly, the bulk of these requirements do not apply to small and community banks, and help level the playing field for these smaller participants by helping eliminate distortions that previously favored the biggest banks that held the most risk.

The Dodd-Frank Act also established the Financial Stability Oversight Council (the Council) to coordinate agencies' efforts to monitor risks and emerging threats to U.S. financial stability, and the Office of Financial Research (OFR) to collect and standardize financial data, perform essential research, and develop new tools for measuring and monitoring risk in the financial system.

Orderly liquidation authority. The Dodd-Frank Act created a new orderly liquidation authority to resolve a failed or failing financial firm if its failure would have serious adverse effects on the financial stability of the United States. The statute makes clear that taxpayers will not be put at risk in the event a large financial firm fails. Investors and management, not taxpayers, will be responsible for the cost of the failure.

The FDIC has completed most of the rules necessary to implement the orderly liquidation authority, and is engaging in planning exercises with Treasury and other regulators to coordinate how it would work in practice. This summer, the largest bank holding companies will submit the first set of "living wills" to regulators and the Council. These documents will lay out plans for winding down a firm if it faces failure.

Comprehensive oversight of derivatives. The Dodd-Frank Act created a new regulatory framework for over-the-counter derivatives markets to increase oversight, transparency, and stability in this previously unregulated area of the financial system.

Regulators have proposed almost all the necessary rules to implement comprehensive oversight of the derivatives markets, and we expect most to be finalized this year. We are already seeing signs of standardized derivatives moving to central clearing, and substantial work is being done to build out new financial infrastructure to move trades into clearing and onto electronic trading platforms.

Stronger consumer financial protection. The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB) to consolidate consumer financial protection responsibilities that had been fragmented across several federal regulators into a single institution dedicated solely to that purpose. The CFPB's mission is to help ensure consumers have the information they need to make financial decisions appropriate for them, enforce Federal consumer financial laws, and restrict unfair, deceptive, or abusive acts and practices.

The CFPB is currently working to improve clarity and choice in consumer financial products through the Know Before You Owe project, which aims to simplify mortgage forms, credit card disclosures, and student financial aid offers. The CFPB is also focused on helping improve consumer financial protections for groups like servicemembers and older Americans, as well as bringing previously unregulated consumer financial institutions, like payday lenders, credit reporting bureaus, and private mortgage originators, under federal supervision for the first time. Earlier this year, the CFPB commenced its supervision of debt collectors and credit reporting agencies.

Transparency and market integrity. The Dodd-Frank Act included a number of measures that increase disclosure and transparency of financial markets, including new reporting rules for hedge funds, trade repositories to collect information on derivatives markets, and improved disclosures on asset-backed securities.

This summer, the largest hedge funds and private equity funds will be required to report important information about their investments and borrowing for the first time, helping regulators understand exposures at these significant investment vehicles. New swaps data repositories are being created that will provide regulators and market participants with a stronger understanding of the scale and nature of exposures within previously opaque derivatives markets.

Treasury's core responsibilities in implementing the Dodd-Frank Act include the Secretary's role as Chairperson of the Council, standing up the Office of Financial Research and Federal Insurance Office, and coordinating the rulemaking processes for risk retention for asset-backed securities and the Volcker Rule.

The Financial Stability Oversight Council

The Dodd-Frank Act created the Financial Stability Oversight Council to identify risks to the financial stability of the United States, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system.

The Council is actively engaged in these activities and has begun to institutionalize its role. To date, the Council has held 17 principals meetings, four since I last testified in December. In recent months, the Council's principals have come together to share information on a range of important financial developments as the Council, its members, and staff have actively engaged in monitoring the situation in Europe, in housing markets, the interaction of the economy and energy markets, and the lessons to be drawn from recent errors in risk management at several major financial institutions, including the failure of MF Global and trading losses at JPMorgan Chase. In addition to regular engagement at the principals level, the Council has active staff discussions through twice monthly deputies level meetings and ongoing staff work on individual committee and project workstreams.

The Council expects to release its second annual report on financial market and regulatory developments and potential emerging threats to our financial system in July. In addition to providing new recommendations, the report will include an update on the progress made on last year's recommendations, which focused on enhancing the integrity, efficiency, competitiveness, and stability of U.S. financial markets, promoting market discipline, and maintaining investor confidence.

One of the duties of the Council is to facilitate information-sharing and coordination among its members regarding rulemaking, examinations, reporting requirements, and enforcement actions. Through meetings among principals, deputies, and staff, the Council has served as an important forum for increasing coordination among the member agencies. Some argue that the Council should be able to ensure particular outcomes in independent agencies' rules, or perfect harmony between rules with disparate statutory bases. While the Council serves a very important role in bringing regulators together, the Dodd-Frank Act did not eliminate the independence of regulators to write rules within their statutory mandates.

Nonetheless, the Dodd-Frank Act implementation process has brought about unprecedented cooperation among agencies in writing new rules for our financial system. As Chair of the Council, Treasury continues to make it a top priority that the work of the regulators is well-coordinated.

The Treasury Secretary, as Chairperson of the Council, is coordinating the rulemaking required for the Dodd-Frank Act's risk retention requirements, which are designed to improve the alignment of interests between originators of risk and securitizers of, and investors in, asset-backed securities. After the proposed rule was released, the rule-writers received over 13,000 comment letters, and they are continuing to review feedback as they work towards a final rule.

The Council has also made progress on two of its direct responsibilities under the Dodd-Frank Act: designating financial market utilities (FMUs) and nonbank financial companies for enhanced prudential standards and supervision.

In July 2011, the Council finalized a rule setting the process and criteria for designating FMUs and, in August, began working to identify FMUs for consideration in accordance with the statue and the rule. In January 2012, an initial set of FMUs were notified that they would be under consideration for designation. In May, the Council unanimously voted to propose the designation of an initial set of FMUs as systemically important. This vote is not a final determination, and FMUs may request a hearing before the Council to contest a proposed designation. The Council expects to make final determinations on an initial set of FMU designations as early as this summer.

In April 2012, the Council issued a final rule and interpretive guidance establishing quantitative and qualitative criteria and procedures for designations of nonbank financial companies. The Council has begun work to apply the process described in the guidance. The Council recognizes that the designation of nonbank financial companies is an important part of the Dodd-Frank Act's implementation and intends to proceed with due care as expeditiously as possible.

The Dodd-Frank Act also provides for limits on the growth and concentration of our largest financial institutions. The Council has released a study and recommendations on the effective implementation of these limitations, and the Federal Reserve is expected to propose a rule to implement concentration limits later this year.

The Office of Financial Research

The Dodd-Frank Act established the Office of Financial Research to collect and standardize financial data, perform essential research, and develop new tools for measuring and monitoring risk in the financial system.

In December 2011, President Obama nominated Richard Berner to be the OFR's first Director. I appreciate this committee's support of Mr. Berner's nomination. Confirmation by the full Senate is important to ensure the OFR can fulfill its critical role.

A key component of the OFR's mission is supporting the Council and its member agencies by analyzing financial data to monitor risk within the financial system. Currently, the OFR is working on a number of projects with the Council, including providing analysis related to the Council's evaluation of nonbank financial companies for potential designation for Federal Reserve supervision and enhanced prudential standards; providing data and analysis in support of the Council's second annual report on financial market and regulatory developments and potential emerging threats to our financial system; and, in collaboration with Council member agencies, developing metrics and indicators related to financial stability.

To avoid duplicating existing government collection efforts or imposing unnecessary burdens on financial institutions, the OFR is focused on ensuring it relies on data already collected by regulatory agencies whenever possible. The OFR is working with regulators to catalogue the data they already collect, along with exploring ways it could promote stronger data sharing for the regulatory community to generate efficiencies and improved interagency cooperation.

As part of its mission, the OFR is also promoting standards to improve the quality and scope of financial data, which in turn should help regulators and market participants mitigate risks to the financial system and provide firms with important efficiencies and cost-savings. One ongoing priority is establishing a Legal Entity Identifier (LEI), or unique, global standard for identifying parties to financial transactions, to improve data quality and consistency. The OFR is playing a lead role in the international process coordinated by the Financial Stability Board (FSB) to develop an LEI. Just last week, the FSB endorsed recommendations the OFR developed in conjunction with its international counterparts to establish a global LEI system. This recognition allows market participants to begin preparing for the implementation of the global LEI next year.

A more comprehensive understanding of the largest and most complex financial firms' exposures is critical to identifying risks to the financial system and mitigating future crises. However, some have expressed concerns about the OFR—involving its accountability, access to personal financial information, and ability to secure sensitive data—that are unfounded.

First, Congress has oversight authority over the OFR, and the statute requires the Director to testify regularly before Congress. Consistent with requirements under the Dodd-Frank Act, the OFR will provide the Congress with its first Annual Report on its activities this summer and a second report, on the Office's human resources practices, later this year. In addition, the Dodd-Frank Act provides authority for Treasury's Inspector General, the Government Accountability Office, and the Council of Inspectors General on Financial Oversight to oversee the activities of the OFR.

Second, regarding data collection, the Dodd-Frank Act does not contemplate and the OFR will not collect personal financial information from consumers. The OFR, like other banking regulators, only has the authority to collect information from financial institutions, not individual citizens. The OFR will only utilize data required to fulfill its mission—assessing threats to stability across the financial system.

Lastly, data security is the highest priority for the OFR. As an office of the Department of the Treasury, the OFR utilizes Treasury's sophisticated security systems to protect sensitive data. The OFR is also implementing additional controls for OFR-specific systems, including a secure data enclave within Treasury's IT infrastructure. Access to confidential information will only be granted to personnel that require it to perform specific functions, and the OFR will regularly monitor and verify its use to protect against unauthorized access. In addition, the OFR is working in collaboration with other Council members to develop a mapping among data classification structures and tools to support secure collaboration and data sharing. Such tools include a data transmission protocol currently used by other Council members that will enable interagency data exchange and a secure collaboration tool for sharing documents.

The Federal Insurance Office

The Dodd-Frank Act created the Federal Insurance Office to monitor all aspects of the insurance industry, identify issues or gaps in regulation that could contribute to a systemic crisis in the insurance industry or financial system, monitor the accessibility and affordability of non-health insurance products to traditionally underserved communities, coordinate and develop federal policy on prudential aspects of international insurance matters, and contribute expertise to the Council.

As a member of the Council, FIO, in addition to two additional Council members that focus on insurance, has been actively involved in the rulemaking establishing the process for the designation of nonbank financial companies. FIO will be engaged in the review of nonbank financial companies as this process moves forward.

Until the establishment of FIO, the United States was not represented by a single, unified federal voice in the development of international insurance supervisory standards. FIO is providing important leadership in developing international insurance policy. Recently, FIO assumed a seat on the executive committee of the International Association of Insurance Supervisors (IAIS). The IAIS, in cooperation with the Financial Stability Board (FSB), is developing the methodology and indicators to identify global systemically important insurers, and FIO is actively engaged in that process. Additionally, FIO established and has provided necessary leadership in the EU-U.S. insurance dialogue regarding such matters as group supervision, capital requirements, reinsurance, and financial reporting. FIO also participated in the recent U.S.-China Strategic and Economic Dialogue in Beijing. Importantly, FIO has and will continue to work closely and consult with state insurance regulators and other federal agencies in its work.

Priorities Ahead

Under the Dodd-Frank Act, Treasury is charged with coordinating the implementation of the Volcker Rule. Treasury is actively engaged with the independent regulatory agencies in their work to finalize the Volcker Rule and make sure it is implemented effectively to prohibit proprietary trading activities and limit investments in and sponsorship of hedge funds and private equity funds.

The five Volcker Rule rulemaking agencies released substantially identical proposed rules, which reflect the commitment of Treasury and the regulators to a coordinated approach. The comment periods for all five rulemaking agencies are now complete, and we are reviewing and analyzing over 18,000 public comment letters. Treasury is hosting and actively participates in weekly interagency meetings to review those comments, and remains committed to fulfilling our coordination role and working with the rulemaking agencies to achieve a strong and consistent final rule.

Regulators are still in the process of conducting their evaluation of what happened with respect to recent losses at JPMorgan Chase, and why. The lessons learned from the recent failures in risk management at JPMorgan are an important input into the ongoing efforts to design strong safeguards and reforms, including, of course, those in the Volcker Rule.

The Volcker Rule, as reflected in the statutory language enacted as part of the Dodd-Frank Act and in the proposed rule, explicitly exempts from the prohibition on proprietary trading the ability of firms to engage in "risk-mitigating hedging activities in connection with and related to individual or aggregated positions…designed to reduce the specific risks to the banking entity." To that end, the final rule should clearly prohibit activity that, even if described as hedging, does not reduce the risks related to specific individual or aggregate positions held by a firm.

The exposures accumulated by JPMorgan, in the words of its executives, resulted in potential losses that exceeded its internal limits and those estimated by its internal risk management systems. This raises concerns that go well beyond the scope of the Volcker Rule. Among other things, regulators should require that banks' senior management and directors put in place effective models to evaluate risk, strengthen reporting structures to ensure risks are assessed independently and at appropriately senior levels, and establish clear accountability for failures in risk management. Regulators should make sure that they have a clear understanding of exposures and that banks and their senior management are held accountable for the thoroughness and reliability of their risk management systems. To further accountability, there should also be appropriate public transparency of risk management systems and internal limits.

Ultimately, the true test of reform is not whether it prevents firms from taking risk or from making mistakes, but whether our financial regulatory system is tough enough and designed well enough to prevent those mistakes from hurting the broader economy or costing taxpayers money. We all have an interest in achieving this outcome.

I emphasize the broader framework of reforms because our ability to protect the economy from financial mistakes in banks depends on the authority and resources we have to enforce tougher capital, leverage, and liquidity requirements on banks and the largest, most complex nonbank financial companies.

It depends on our ability to put in place the full framework of protections in the Dodd-Frank Act on derivatives, from margin requirements and central clearing of standardized derivatives to greater transparency into risks and exposures.

It depends on the resources available to the SEC, the CFTC, the CFPB and the other enforcement authorities to police and deter manipulation, fraud, and abuse.

It depends on our ability to protect taxpayers from future financial failures, in particular our ability to safely unwind a large firm without the broad collateral damage and risk to the taxpayer that we experienced in 2008.

And it depends on making sure that no exception built into the law is allowed to swallow the rule, frustrate the core purpose of the legislation, or otherwise undermine the impact of the tough safeguards we need.

The challenges our economy continues to experience since the financial crisis in 2008 only increase our commitment to make sure we meet our responsibility to the American public to implement lasting financial reform.

Recent events provide an additional reminder that comprehensive reform must continue to move forward. The Administration will continue to resist all efforts to roll back reforms already in place or block progress for those that remain to be implemented. The lessons of the financial crisis should not be left unlearned or forgotten, nor should American workers—or American taxpayers—be left unprotected from the consequences of future financial instability.

I appreciate the opportunity to discuss the priorities and progress associated with our work implementing the Dodd-Frank Act, and the leadership and support of this committee in those efforts.

Thank you.