Senate Banking Committee Executive Session to Consider the "Restoring American Financial Stability Act of 2009" November 19, 2009

Opening Statement of Senator Jack Reed, as prepared for delivery:

Today marks an important milestone in what has been a year-long effort of this committee to closely examine the failings of our financial regulatory system and take needed and urgent steps to modernize it.

I particularly want to thank Chairman Dodd for his leadership over the past year. The bill we begin to consider today is comprehensive and based on a careful and thoughtful analysis of information gathered in more than 50 hearings on every aspect of the crisis.

The late-90s and the first few years of this century saw intense pressure to grant financial markets legislative flexibility; but that effort, in my view, had to be complemented by enhanced regulatory stability and scrutiny. Without that regulatory approach, we were in danger, as I suggested in November of 1999: "We run the risk of the doctrine 'too big to fail'; that the financial institutions will become so large we will have to save them even if they are unwise and foolish in their policies."

And that unfortunately is what happened. The contributing factors included inadequate capital, excessive leverage, a mismatch between short term funding and long term obligations, exotic and toxic financial instruments, faulty credit ratings, regulatory arbitrage, and regulatory inaction.

Rather than take action to ban a slew of abusive mortgage and credit card practices, the Federal Reserve looked the other way for years out of fear of stifling the markets.

Rather than fund a strong and aggressive markets watchdog at the Securities and Exchange Commission, staff and funding for technology was flat or declined from 2005 to 2007, while the size and complexity of markets, including those for derivatives and mortgage-backed securities, expanded rapidly and dangerously.

And rather than enforce robust risk management rules at banks and other firms, our outdated financial system preempted tougher state laws and let banks choose off of a menu of federal regulators that would be most accommodating.

Today families in Rhode Island and across the country are bearing the brunt of those decisions. The financial crisis and recession have resulted in millions of Americans losing their jobs and homes, and stripped billions of savings and income from taxpayers.

Senator Dodd's proposal represents a bold set of needed reforms to a financial regulatory system that needs more than just changes at the margin.

The bill before us includes a strong Consumer Financial Protection Agency that would for the first time place individuals and families on Main Street over the profits and greed we've seen far too often by those on Wall Street. I urge my colleagues to stand up for consumers and fight for the strong agency created in Senator Dodd's proposal.

The proposal accommodates the diversity of financial institutions large and small and tailors regulation carefully so as not to be overly burdensome. This agency will help banks and other businesses by applying more consistent rules and maintaining high standards to prevent abusive products that almost brought down our financial system.

The bill also consolidates the alphabet soup of financial regulators that has for too long confused consumers and eliminated accountability from this system. The bill we consider today realigns an ineffective system of responsibilities, so regulators can focus on one mission at a time, whether it be protecting consumers, regulating financial institutions, overseeing capital markets, or conducting monetary policy.

At the same time it puts in place an Agency for Financial Stability to complement the day-to-day supervisors by looking broadly across the financial system, sharing information, and preventing trends from becoming crises. And it retains an important role for the Federal Deposit Insurance Corporation to provide backup oversight to protect the deposit insurance fund.

And coming full circle, the proposal once-and-for-all ends the too-big–to-fail problem, creating a safe way to shut down large or complex companies before they bring down the financial system or taxpayers are forced to bail them out.

I have worked closely with Chairman Dodd to help craft some of the most significant aspects of this bill, and I will continue to push for strong, effective reforms. Let me highlight a few of my priorities:

We need comprehensive regulation of derivatives, including strong standards to govern derivatives activities of large banks, more transparent markets, and a reduction in risks between firms that have cost taxpayers hundreds of billions of dollars. Today's bill is largely consistent with the strong provisions in my derivatives bill.

We need to improve the existing regulatory regime for Nationally Recognized Statistical Rating Organizations, and I believe the only way to do that is to hold these credit rating agencies accountable for their work. Today's bill includes many important provisions from my credit rating bill, including allowing for investors to hold rating agencies accountable when these firms knowingly or recklessly fail to do their job.

We need to bring hedge funds and other private pools of capital under the watch of regulators, another key change included in the bill before us.

And we need to ensure that all of our regulators have the tools, authorities, and expertise they need to keep pace with a rapidly changing and expanding financial marketplace.

My colleagues on both sides of the aisle have been very engaged throughout the year on these issues, and I want to mention in particular Senator Bunning, who has worked alongside me on the Securities, Insurance, and Investment Subcommittee to examine many of the most critical issues facing us today.

I think there is broad agreement on this committee that we need to modernize an outdated and ill-equipped financial regulatory system, and I am glad that the formal process to do so begins today.

Senators face a choice. We can take action to reform our fragmented and inefficient system of financial regulation or we can perpetuate a system that every taxpayer knows benefits Wall Street at the expense of Main Street.