Senate Banking Committee Executive Session to Mark-up the
"Restoring American Financial Stability Act of 2010"
March 22, 2010

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

This evening we are considering urgently needed legislation to change the way Wall Street does business and protect consumers from financial abuses that led to the worst financial crisis we have had since the Great Depression. Eight and a half million people have lost their jobs and billions of dollars in retirement savings have been wiped out, all because of greedy, reckless, and over-leveraged financial firms.

More than one and half years after this crisis started, we have held more than 50 hearings, examined every aspect of our fragmented and outdated financial regulatory system, and spent more than 12 months developing a plan to make sure that taxpayers will not be asked to bail out Wall Street recklessness ever again. That is what is at stake when it comes to the Wall Street reform we will vote on tonight.

This bill provides a solid foundation for ending the abuses that led to the crisis and establishing a new way forward based on transparency, accountability, and clear rules of the road.

It puts consumers first and protects families from abusive credit cards, mortgages, and other financial products, making it clear that safe and sound consumer products are a must if we are to have a safe and sound financial system.

It ends taxpayer bailouts of Wall Street firms. Never again should we have to rescue a failing financial institution to prevent a catastrophe. These firms will be forced to act responsibly and in the best interest of the consumers they serve.

The bill also creates an early warning system to identify risks to our financial system and stop them before they spread to Main Street.

And it closes loopholes in the oversight of exotic Wall Street financial instruments such as derivatives.

Chairman Dodd has shown great leadership as we have contemplated the changes we so desperately need. I congratulate him on a strong and comprehensive bill that incorporates many of my legislative priorities, as well as ideas from others on this panel on both sides of the aisle. This proposal is not ideological. It is sensible, and balanced. And it is time to act.

I have worked closely with the Chairman to craft some of the most significant aspects of this bill. Let me highlight key aspects of these titles and my priorities:

Title I, which creates a new Financial Stability Oversight Council to prevent and mitigate risks in the financial system, includes a new Office of Financial Research. I developed this proposal with some of the best minds in the country to craft an entity capable of researching, modeling, and analyzing risks throughout the financial system. This office represents a bold step forward towards understanding the factors that threaten to rip holes in our system, provide early warnings, and allow regulators to act on that information. As this process moves forward, I will work with Chairman Dodd and my colleagues to ensure that this Office has the people, authority, and technology it needs to gather information from anywhere in the system.

Title II creates a safe way to liquidate large financial companies, so that taxpayers will never again have to prop up a failing firm to avoid sending shockwaves through the financial system. This title also puts in place a new rigorous system of capital and leverage requirements that will also discourage banks from getting so large. Under this title, the government will no longer be able to prop up failing institutions, which is an important message to send to Wall Street bankers in the future.

Title III makes long overdue changes to consolidate our country's fragmented and inefficient system for supervising banks and holding companies. It eliminates the Office of Thrift Supervision, a particularly lax supervisor, and redistributes responsibilities for bank oversight and supervision to bring greater consistency and more effective oversight to all firms. These changes are a major step forward, although further consolidation and streamlining of our regulatory agencies could improve the effectiveness of the system.

Title IV closes a significant gap in our financial system by requiring advisers to hedge funds and other private pools of capital to register with the Securities and Exchange Commission. Based on legislation I introduced, this title brings light into a part of our marketplace that has for far too long been in the shadows and out of the reach of regulatory oversight. I will continue to work with Chairman Dodd to ensure we establish the strongest and most comprehensive regime possible for all private pools of capital, including private equity and venture capital, so that none of the fraud and systemic risks that may lurk within these firms remain out of reach of regulators.

Title V establishes the Office of National Insurance to provide a central source of information and a single voice for insurance regulators when negotiating internationally. And Title VI makes important nuts and bolts changes to how we regulate banking institutions, moving us towards more consistency in regulation of similar products and ensuring that our banks and holding companies are well-capitalized and well-managed.

Title VII of the bill closes another huge set of regulatory gaps by bringing accountability and transparency to the derivatives markets, and in significant departure it overturns the law that prevented regulators from keeping an eye of this market. As we have learned from our experiences with AIG and Lehman brothers, derivatives were at a minimum the accelerant that complicated and expanded the financial crisis.

It will bring sunshine to this marketplace by requiring reporting of the terms of these contracts to regulators and market participants. It will also move as many swaps as possible from being opaque, bilateral transactions onto clearinghouses and trading platforms. This should help make the marketplace both more fair and efficient by providing companies and investors with complete information on the market. It is also requires that firms put forward sufficient capital to engage in these transactions, which should help rein in the excessive speculation we have seen in the past. I remain hopeful that there will be bipartisan support for regulating and policing our derivatives markets, and I hope to continue my work with Senator Gregg to help move us in that direction.

Title VIII provides the Federal Reserve with clear authority to ensure that derivatives clearinghouse and other critical payment, clearing, and settlement functions are adequately regulated. The Federal Reserve will set risk management standards for the critical “plumbing” of our banking system.

Title IX includes a number of strong investor protection provisions that represent a significant step forward in how we oversee our capital markets and ensure that investors have the best information available for their decision-making. This title reflects strong proposals I have put forward as the Chairman of the Securities, Insurance, and Investment subcommittee, including strong accountability provisions for credit rating agencies, and rules of the road to keep mortgage lenders and securitizers from ever bundling and reselling toxic products again.

I will continue to work with Senator Dodd to further strengthen the tools and authorities of the Securities and Exchange Commission to help them better protect investors. While two of my investor protection proposals are reflected in the Managers’ amendment, I believe more needs to be done to improve the efficiency of SEC enforcement actions, address issues revealed by the Madoff fraud, and enhance the SEC’s ability to obtain and share information. I will work with the Chairman and my colleagues as the bill goes to the floor to incorporate more of these necessary improvements to the securities laws.

Title X creates the Bureau of Consumer Financial Protection to establish a watchdog to prevent banks and other financial firms from taking advantage of consumers. The new Bureau would consolidate responsibilities that are currently scattered among dozens of agencies, giving one presidentially-appointed and Senate-confirmed leader the sole responsibility to protect consumers from abusive financial products.

Although Senator Dodd’s current consumer protection proposal is a good step forward, I continue to believe the plan he outlined in November, with a stand-alone agency and broader examination and enforcement responsibilities, would be better than what is in the bill today. This agency should be completely independent, its decisions should not be subject to any veto, and be able to enforce its own rules across the entire financial system. There should be no room left for bad players trying to take advantage of American families. I want my colleagues to know that I will offer a floor amendment to strengthen the new Consumer Financial Protection Bureau as this bill moves forward.

Finally, Title XI of this bill makes important improvements to the Federal Reserve System to ensure that, as a financial regulator, it is accountable to the American public rather than a tool of Wall Street banks. Among other governance improvements, the bill incorporates my proposals to require the head of the Federal Reserve Bank of New York to be Presidentially-appointed and Senate confirmed, and to create a new position of Vice Chairman for Supervision at the Board.

The legislation before us is a long time in coming. Passage of this bill today will move the debate forward and get us one step closer to protecting our country from risky and reckless Wall Street practices that led to millions losing their jobs, small businesses, and retirement savings.   I hope that our Republican colleagues will work with us to do what we all know needs to be done—pass a Wall Street reform bill.