Statement of Mary J. Miller
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before the
Committee on Banking, Housing, and Urban Affairs
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Chairman Johnson, Ranking Member Crapo, and members of the Committee, thank you for inviting me to testify today on behalf of the Treasury Department.

Almost three years ago, President Obama signed into law a historic set of reforms to make our financial system stronger and more stable. As I testified before the Committee earlier this year, we have made considerable progress towards achieving those objectives through implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. While additional work remains to be done and we must always remain vigilant to potential emerging risks in financial institutions and markets, we are much closer to the end of this process than the beginning.

Many of the key reforms have already been finalized, with additional pieces falling into place on an ongoing basis. The Consumer Financial Protection Bureau is operational and has taken important steps to provide clarity on financial products for American consumers and rein in unfair, deceptive, and abusive practices. Despite funding constraints, the SEC and CFTC are using the expanded enforcement authority granted under Dodd-Frank. The bank regulatory agencies have just finalized key rules strengthening the quality and quantity of capital that banks are required to hold. A new framework for regulatory oversight of the over-the-counter derivatives market is largely in place, with swap dealers registering with the CFTC and certain interest-rate and credit-index swap transactions moving to central clearinghouses, reducing overall risk to the financial system.

The public is already beginning to see the benefits of reform through a safer and stronger financial system and a broader economic recovery. Although the financial markets have recovered more strongly than the overall economy, the economic recovery is gaining traction. Private sector payrolls have increased by more than 7 million jobs from the low point in February 2010, marking the 40th consecutive month of private-sector job growth. The unemployment rate, while still too high at 7.6 percent, has fallen almost 2.5 percentage points since its October 2009 peak of 10.0 percent. The recovery in the housing market appears to be taking firm hold as measured by rising home prices, stronger sales, and a declining number of delinquencies and defaults.

Although we have made good progress, we must intensify our efforts to complete the remaining pieces of financial reform as quickly as possible and stand ready to identify and respond to new threats to financial stability. We must also continue to work with our international counterparts to promote strong and consistent global approaches to financial regulation and encourage them to move swiftly towards the completion and implementation of key reforms in their jurisdictions.

I would like to update the Committee on several important regulatory developments since I appeared before you in February. In April, the Financial Stability Oversight Council released its 2013 annual report, which both identified potential emerging threats to financial stability and made recommendations to enhance the stability of the financial system. In May, Secretary Lew testified before this Committee on the Council's report.

At the beginning of June, the Financial Stability Oversight Council voted to make proposed designations of an initial set of nonbank financial companies under section 113 of the Dodd-Frank Act. Companies subject to a proposed designation had 30 days to request a hearing

prior to the Council making a final determination. Earlier this week, the Council made final designations of two companies in this initial set that did not request hearings, American International Group, Inc. and General Electric Capital Corporation, Inc. With respect to one other company currently subject to a proposed designation that requested a hearing, the hearing will be conducted no later than early August with a final decision by the Council no later than the beginning of October. This is an ongoing process, and the Council will continue to evaluate other companies for potential designation.

The Council's work on the designation of nonbank financial companies helps put us in a better position to address potential threats to the financial system. Large, complex nonbank financial companies that the Council determines could pose a threat to U.S. financial stability will be supervised on a consolidated basis by the Board of Governors of the Federal Reserve System and subject to capital requirements and other enhanced prudential standards.

Last week, the Federal Reserve finalized an important set of rules codifying the Basel capital requirements for banks and bank holding companies, and the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency followed suit earlier this week. Also, the banking regulators proposed a leverage requirement earlier this week as a companion to the Basel capital requirement, which is necessary to further the cause of safety and soundness in the financial system. I will defer to my colleagues on the panel to discuss the details of these rules, but the progress we have made on both a significantly stronger capital regime and the expansion of the supervisory umbrella to cover designated nonbank financial companies are key developments in making our financial system more resilient and protecting the American economy from the harm of another crisis.

In February, I also highlighted the Council's work on money market mutual fund reform. At the end of 2012, the Council issued proposed recommendations on money fund reforms for public comment. The comment period on those recommendations closed shortly after I testified. In its annual report, the Council recommended that the SEC consider the views expressed by commenters on the Council's proposed recommendations. Throughout this process, we have made it clear that the SEC is the primary regulator and should take the lead in driving reforms. In June, the Securities and Exchange Commission proposed regulations that are intended to reduce the risks presented by money funds. This is an important next step in the process. Public comments on the SEC's proposal will provide important feedback and information for the SEC to consider in developing a final rule.

In June, Treasury's Federal Insurance Office released its first annual report on the insurance industry. The report examines the principal sectors of the insurance industry, reviews key legal and regulatory developments affecting the insurance industry in the United States and internationally, and discusses current and emerging trends that could significantly impact the industry and the stability of the U.S. financial system. The Federal Insurance Office has also been working to complete its report on the modernization and improvement of the system of insurance regulation in the United States.

In addition, the Federal Insurance Office is working on the international front to represent U.S. interests in the development of international insurance standard-setting and financial stability activities. The Office has worked and will continue to work closely and consult with state insurance regulators on these efforts. The Office has been involved in the work of the International Association of Insurance Supervisors to develop the methodology for the identification of global systemically important insurers (G-SIIs) and the policy measures to be

applied to any designated G-SII. The Federal Insurance Office's international involvement has played an important complementary role to the progress that the Financial Stability Oversight Council has made domestically in the designation of nonbank financial companies.

I would also like to highlight for the Committee a few areas where Treasury intends to direct significant attention and resources during the remainder of the year to complete key outstanding pieces of reform. Secretary Lew, in his capacity as Chairperson of the Council, is responsible for coordinating the regulations issued by the five rulemaking agencies – the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Securities and Exchange Commission, and the Commodity Futures Trading Commission – to implement Section 619 of the Dodd-Frank Act, commonly referred to as the Volcker Rule. Starting from his first day in office, Secretary Lew has convened meetings with the heads of the rulemaking agencies to stress the importance of finishing work on the Volcker Rule. Finalizing the regulations will continue to be a top priority for the Secretary and the Treasury Department. Successful completion of this work will impose needed limits on banks' ability to engage in speculative trading activities and relationships with private equity and hedge funds for their own benefit rather than for the benefit of their customers.

Secretary Lew is similarly responsible for coordinating the rules to implement Section 941 of the Dodd-Frank Act. The risk-retention rule generally requires issuers of asset-backed securities to retain an interest in the asset-backed securities they sell to third parties. Staff from Treasury, the bank regulatory agencies, the Federal Housing Finance Agency, the Department of Housing and Urban Development, and the SEC have met regularly to review comments, analyze data, and coordinate on drafting the rule. Completion of these regulations is a priority for the

Treasury Department and in particular Secretary Lew, who convened the heads of the rulemaking agencies to discuss work on these rules last month.

Treasury will also continue to engage closely with our regulatory counterparts in the United States and internationally to strengthen our ability to wind down failing financial companies while minimizing the negative impact on the rest of the financial system and the economy. The bankruptcy process, aided by the Dodd-Frank Act's living wills requirement, continues to be the preferred method for resolving failing financial companies. All of the firms that are required to submit living wills will have done so by the end of this year, and the largest 11 bank holding companies will submit their second round of living wills this fall, providing an additional tool to facilitate their orderly resolution through bankruptcy should they fail.

However, in the case where bankruptcy is unable to resolve a failing company without imposing serious adverse effects on U.S. financial stability, the Dodd-Frank Act's orderly liquidation authority provides critical new authorities to allow firms to fail, no matter how large and complex. Treasury, the Federal Reserve, the FDIC, and other financial regulatory agencies will continue to engage in extensive preparations and conduct rigorous planning exercises and simulations to be fully prepared to wind down any financial company whose failure could threaten the stability of our system. In these simulations, the agencies have focused on resolving a company consistent with Dodd-Frank's important requirement that no taxpayer funds shall be used to prevent the liquidation of a financial company. Moreover, the law requires that losses be borne by creditors and shareholders of the company and, if necessary, the financial sector. This means that taxpayers will bear none of the losses.

Treasury and the regulators will also continue to closely collaborate with our international counterparts through forums like the Financial Stability Board and on a bilateral

basis to address obstacles to resolving large, cross-border firms. One example is the FDIC's recently signed memoranda of understanding with its counterparts in Canada and the United Kingdom defining the scope of information-sharing and cooperation in resolving internationally active insured depository institutions and certain other financial companies. Continued diligence and progress on this front will be essential to making the orderly liquidation authority an effective and reliable tool for winding down a failing company and mitigating threats to U.S. financial stability.

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The Dodd-Frank Act provides valuable new authorities to help protect our financial system. The Financial Stability Oversight Council's mission is to identify and respond to emerging threats to the stability of the United States financial system. It is actively carrying out those duties, as reflected both in its annual reports that it submits to Congress and its activities such as the designation of nonbank financial companies. Living wills and stress tests are the new rules of the road for bank holding companies, providing the companies, regulators, the marketplace, and the public with valuable information they previously lacked. These are not just one-time requirements. They are conducted on an annual or semi-annual basis, which will provide information about discrete points in time as well as long-term comparisons.

By the end of this year, we expect to approach the point of substantial completion of implementation of the Dodd-Frank Act. That does not mean we will be able to relax our guard. Constant evolution in the financial system and the activities of financial institutions will require regulators to be flexible and ready to address new threats to the financial system.