

***Statement for the Record from Senator Jack Reed for Hearing on ‘Establishing a Framework for Systemic Risk Regulation’, July 22, 2009***

Today’s hearing will help us create a new framework for identifying and minimizing systemic risks, so that we can prevent our financial markets from ever again facing the turmoil we have witnessed over the last year. We need to be thoughtful and deliberate in our approach, but we need to act soon. As part of this process, we should think carefully about some key remaining questions.

First, there seems to be a consensus emerging among regulators and many in Congress on the need for a Council to address risks in the financial system. But my colleagues and I will need to think carefully about the specific role and tools available to such a Council. The Administration’s proposal would establish a Financial Services Oversight Council, to be chaired by Treasury and consisting of the banking, securities and other financial regulators.

Such an approach gathers the right people around the table but may leave them with no “teeth” to intervene to prevent or react to problems. Much of the responsibility for setting standards would remain with the Federal Reserve, which raises serious concerns given its failure in recent years to identify serious risks to our financial system, and the agency’s inaction on consumer protection issues.

Second, under the Administration’s plan, there would be heightened supervision and consolidation of all large, interconnected financial firms, including a process for identifying Tier 1 financial holding companies. This approach has merit, but requires careful consideration, especially as it would apply to firms that have operated under various exemptions and grandfathering provisions. We will also need to carefully consider if and how to identify Tier 1 firms on an ongoing basis. Today’s hearing will allow for the consideration of the best approach in this area, including whether it is best done by a Council or a single regulator.

Finally, among the issues we should consider is the Administration’s proposal to enhance the Federal Reserve’s authority with respect to the safety and soundness of systemically important payment, clearing, and settlement arrangements. This issue is of particular importance because of the role of these systems in increasing regulation of over-the-counter derivatives, and the existing responsibilities of the SEC and the CFTC in this area.

I appreciate the testimony of the witnesses today and I look forward to discussing these important questions.