



Regulatory Reform Summit: Dodd-Frank Impact Analysis

Emerging Implications for the Economy, Clients and Your Business

Wednesday, July 13, 2011
Grand Hyatt, NYC

8:30 – 8:45am
Tim Ryan – President & CEO, SIFMA

Welcome and Opening Remarks

As prepared for delivery

It's hard to believe that it has been one year since we last gathered here, just days before the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. I'm sure you'll agree: it has been a very busy year.

The financial crisis of 2008 exposed real flaws in the financial regulatory systems both at home and abroad. Dodd-Frank is the U.S. framework looking to fix those flaws.

While Dodd-Frank is the law, by design it is a framework. It leaves room for interpretation. It provides guidance for rulemaking. That's what the regulators have been working on for the past year.

SIFMA supports many of the changes proposed in Dodd-Frank. We have devoted enormous resources to the task of working with regulators through the public notice and comment period. To date, SIFMA alone has filed over 100 comment letters in an attempt to help inform the process and provide information needed for the regulators to create regulations that actually work. We're also working seamlessly in coordination with other trade groups, divvying up assignments based on expertise.

We all want to see increased coordination and comprehensive cost benefit analysis to ensure the new rules as proposed actually help make our financial system safer and more secure and provide the infrastructure to move our still fragile economy forward.

Yesterday, SIFMA's Economic Advisory Roundtable released its semi-annual economic outlook for the second half of 2011 and the first half of 2012. Beyond general predictions about economic growth, jobs, interest rate and monetary policy, we asked our roundtable to assess the economic impact, through credit availability and cost, of Dodd-Frank.



In the end, respondents were generally negative about the impact Dodd-Frank would have on economic growth, availability of credit, and cost of credit to households and business over the next 18 months.

Over 75 percent of survey respondents expected a negative impact on credit availability and nearly 60 percent expected a negative impact on the cost of credit for households. The forecast for impact on the business sector was only slightly less negative, with 65 percent and 53 percent predicting a negative impact on the availability of credit and cost of credit, respectively.

We're not alone in our call for greater coordination and studies on the cost benefit analysis of these new rules on the economy.

Federal Reserve Chairman Bernanke states that while everyone involved wants a system that is coherent and consistent with banks performing their vital social function in terms of extending credit, he also notes that "nobody has looked at it in all detail."

We need to study the collective impact of all new regulations in the works before layering on even more requirements.

It is critical to understand the impact of Dodd-Frank and the numerous other initiatives already undertaken to make our financial system safer by reducing risk.

- Balance sheets have improved and accounting standards are far more transparent. Since the end of 2007, U.S. financial firms have raised more than \$300 billion of common equity while repaying taxpayers for their TARP investment early AND with a \$12 billion profit. The largest U.S. banks have reduced their average leverage ratio from 16:1 to 11:1 and increased loan loss reserves by about 200%. Off-balance sheet activity has also been reduced dramatically.
- All large U.S. financial institutions are now subject to Federal Reserve supervision and capital requirements. Many have already undergone stress tests with both the Treasury and Fed.
- Banks pay more into the FDIC bank insurance fund.
- Derivatives markets are in the process of being transformed with more supervision.
- All originators of mortgages and other consumer products are now subject to the same rules and federal supervision.



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- Dodd-Frank requires risk retention of and more robust disclosure for asset-backed securitizations.
- And, banks are prohibited from engaging in certain types of proprietary trading as defined by the Volcker Rule.

With these changes already in place, we're now facing the rules coming under the Dodd-Frank Act and possibly even higher capital requirements over Basel III standards with proposed surcharges for systemically important banks.

You've heard how big the Dodd-Frank mandate is: 235 rulemakings, already generating 41 reports, 71 studies authored by 11 different federal agencies and bureaus. Much work has been already done – as of July 1, we have finalized 38 new rules. But, we still have a long road ahead of us. 26 deadlines have been missed. 215 rules have yet to be proposed. 122 rulemaking deadlines come due in the third quarter of 2011 alone. That's more than a quarter of all required rulemakings, all taking place in the midst of an unstable economic environment.

Regulators are faced with a daunting task of implementing Dodd-Frank. There are a lot of balls in the air and we're not as targeted as we should be. To complicate matters, multiple regulators have joint jurisdiction over the same markets and products. We are concerned coordination across regulators, jurisdictions and geographical borders is just not happening at the level it should.

What will happen if we lack the coordination and the time to assess the totality of regulatory burdens? We will greatly decrease the odds that when each rule is completed, they will fit with other rules to effectively regulate the markets in the efficient, cohesive manner intended by Congress.

What is the danger of rules not working together?

We risk impeding the flow of capital and credit, which in turn would undermine both economic growth and job creation.

This would impact not just the financial markets, not just global corporations; but would have a profound impact on the lives of ordinary Americans.

Make no mistake, we're not here to say don't do anything. We support regulatory reform and Dodd-Frank is the law of the land.

But we do believe that, as new regulations are created, they must be balanced and consistent. And if that requires taking a little more time to study and review in order to get the rules right, then that time should be taken.



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What do we mean by balanced? Measures designed to increase safety shouldn't hinder the market's ability to be a source of capital and credit.

It's important to consider whether rules designed to reduce systemic risk may pose a greater threat to our economic recovery by strangling credit.

But no one is looking at that threat.

Here is an example of the balance needed in meeting Dodd-Frank. We want to uphold the spirit of Dodd-Frank, but need to do so with an understanding of current market conditions, and taking into consideration the overall, cumulative impact of all new regulations.

In fact, Dodd-Frank created a specific new entity to do just that – the Financial Stability Oversight Council, or the FSOC. The FSOC has a mandate to monitor all domestic and international regulatory proposals that impact U.S. competitiveness. That's a pretty broad responsibility, and we believe it is important they exercise it.

We urge the FSOC to ensure consistent implementation of regulations both domestically and internationally. Unfortunately for the FSOC, there are a lot of moving parts. While they are trying to implement standards for both bank and non-bank systemically important financial institutions (SIFIs), they are also working simultaneously with the Financial Stability Board, or FSB and the Basel Committee on implanting standards for global SIFIs – the G-SIFIs. We have to have rules from U.S. regulators in sync with the rest of the world including what's coming out of the EU and Asia as well as the FSB, BIS and its Basel Committee. We cannot unilaterally impose restrictions on institutions in the U.S. markets that do not apply in other major financial markets around the world, creating unnecessary barriers to market entry and putting U.S. financial markets and the companies and individuals who rely on their depth and liquidity at a disadvantage.

We cannot risk the global competitiveness of U.S. markets. Nor can we risk the competitiveness of any global market.

Perhaps the single most compelling issue threatening U.S. competitiveness is international capital and liquidity requirements, and the possible capital surcharge for Global Systemically Important Banks, or G-SIBs.

A vital piece of that issue is determining who the G-SIBs are. And that single question can't be answered without first answering a whole series of related questions:

Who decides whether a firm should go on the list? Is it a global decision? Should countries without a G-SIB have a say in the process? What are the consequences of being a G-SIB? How do you know when you are approaching becoming a G-SIB, and can you manage your business to avoid such a designation? Will the process be



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transparent and subject to review or appeal? Will the list of G-SIBs be public, and if so, how will the list be made public, by whom and when?

This is one area where we need to recognize that while we want to implement all the Dodd-Frank regulatory mandates, some regulations need the time it takes to see the effect of other regulations. We strongly believe that any decision on a G-SIB capital surcharge should wait for a study of the other regulatory changes already churning through the system. This surcharge would create costs that risk exceeding the diminishing benefits of higher capital requirements above Basel III minimums. Additional capital requirements cannot be a substitute for efficient and effective regulation.

We've been working with our global affiliate, the Global Financial Markets Association, GFMA, to voice the industry's position on policies, like capital requirements, emanating from the Financial Stability Board, or FSB and G-20. We all believe harmonization of standards is a laudable goal and that peer reviews are an excellent review and implementation mechanism. The FSB needs to narrow its agenda and focus on capital (especially risk based capital), liquidity (but not until next year after ratios are released) and data standards (like the Legal Entity Identifier, or LEI).

We must make sure Dodd-Frank regulations balance long-term consequences with their short-term objectives. That they're consistent and implemented at the right time and in coordination with global initiatives. During the next year, SIFMA will continue providing information and analysis to regulators as they move forward. And, we will highlight the need for enhanced coordination and cost benefit analysis to ensure our financial regulatory system is safe and strong and well equipped to fuel economic growth and job creation for years to come.

Thank you.