

Statement of Tim Ryan

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Before HFSC

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Chairman Bachus, Ranking Member Frank, and Members of the Committee, my name is Tim Ryan and I am President & CEO of the Securities Industry and Financial Markets Association ("SIFMA").¹ Thank you for holding this hearing on the International Context of Financial Regulatory Reform and inviting me to testify.

SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. We have members of all sizes and types: global, regional, local, retail, institutional, commercial, buy side and sell side of the financial markets. SIFMA has been, and will continue to be, a constructive voice on financial market reforms efforts in the U.S. and globally.

In my written statement I have responded to the questions you asked in your invitation, and in my oral statement I want to focus on three major issues SIFMA believes warrant special attention. I hope the Congress will agree with me and press for answers to the questions I will raise through a combination of further hearings by this Committee and additional study by policy makers here and globally.

First, who are the globally systemically important financial institutions, the so called G-SIFIs? This is a difficult question which frames subsequent debates, including the capital surcharge debate, and impacts what actions should be taken with respect to such firms.

Most of us think we know the firms most likely to make the list, but at this moment no such public list exists. We do know there is a long list of firms that do not want to be in the G-SIFI club. There are a related series of questions that need to be asked on this topic: (1) who decides whether a firm should go on the list? (2) Is this a domestic decision or a global decision? (3) Should countries without a G-SIFI have a say in the

¹ The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

process? (4) What are the consequences of being a G-SIFI? (5) How do you know when you are approaching becoming a G-SIFI, and can you manage your business to avoid such a designation? (6) What will be the criteria and factors used to make these determinations? (7) Will the process be transparent, fair and subject to review or appeal? (8) Will the list of G-SIFIs be public, and if so, how will the list be made public, by whom and when? None of these questions have been publicly answered.

Second, Regulators have spent a lot of time focused on the need for and size of a special additional capital surcharge on G-SIFIs to mitigate systemic risk. Like the first question, this one has several related questions associated with it, such as how large should the surcharge be, what types of capital should qualify to meet the surcharge and will there be any mitigating factors or actions which might lessen the need for a surcharge.

Since the financial crisis occurred, policy makers, regulators, the financial services industry and consumers have been changing their behavior to learn from the crisis. We have been so busy making changes to the system, we have failed to understand or even study the aggregate impact of these actions on the financial markets and the collateral effect of these changes on the economy and consumers.

It is important for you to understand the enormous amount of change taking place in our financial markets today. In the U.S. financial firms have raised more than \$300 billion of common equity while repaying U.S. taxpayers for their TARP investment early and with a \$12 billion profit. The largest U.S. banks have also reduced their average leverage ratio from 16:1 to 11:1 and increased loan loss reserves by almost 200%.

Aside from these balance sheet improvements in the U.S., all U.S. financial firms are now subject to Federal Reserve supervision and capital requirements, off-balance sheet activity has been reduced dramatically, and the FASB has required structured products to be consolidated on a firm's balance sheet with higher capital and liquidity requirements on such obligations. The Dodd-Frank Act requires risk retention of asset-backed securitizations and new and more robust disclosure regimes for such issuances. It requires banks to pay more into the FDIC bank insurance fund. The derivatives markets are in the process of being transformed with more supervision, increased reporting and margin requirements, as well as central clearing, reductions of counterparty risk and exchange trading of certain derivative contracts. Originators of mortgages and other consumer products are now subject to the same rules and federal supervision and banks may no longer engage in proprietary trading.

Financial firms are also working to implement the new Basel III capital and liquidity standards, create resolution and recovery plans and commenting on a tidal wave of other regulatory changes mandated by Dodd-Frank, such as the creation of an Orderly

Liquidation Authority to allow the FDIC to resolve systemically important non-banks and holding companies. Finally, as the FDIC's General Counsel told this Committee earlier this week, the Dodd-Frank Act ends taxpayer bailouts and the notion that financial firms can be "Too Big To Fail" in a number of ways, including a ban on bailouts and open bank assistance and a requirement that the surviving systemically important financial institutions reimburse taxpayers for the cost of resolving the failure of a systemically important firm.

Each of these changes reduces risk in individual financial firms and across the system as a whole. Talk of creating an additional G-SIFI capital surcharge is premature at best, and at worst, could hurt our economy and consumers without making the system any safer than the actions already taken.

SIFMA urges the Congress and regulators to postpone any decision on a G-SIFI capital surcharge until the industry has had time to implement all of the regulatory changes making their way through the system and conduct a study of the impact of such a capital surcharge on the industry and the economy. Such a delay and study would be consistent with the Basel process for establishing the Basel I, II and III Capital Accords.

Third, how is the regulatory implementation of Dodd-Frank going?

SIFMA supports many of the changes being made by Dodd-Frank, and we have devoted enormous resources to the task of working with regulators through the public notice and comment period. To date we have filed nearly 100 comments letters, held numerous meetings with our members and policy makers and monitored all of the efforts being undertaken to implement Dodd-Frank. Based on our experience, coordination between regulatory agencies is not where it should be, and the FSOC is not doing its job of facilitating this coordination. Many major decisions remain to be made, including a number of decisions which will effect international agreements, and the Congress could help this process by focusing attention on the need for better coordination.

SIFMA urges the Congress to more closely oversee the FSOC and the other coordination efforts of U.S. and global regulators and where appropriate assist them in setting more reasonable timelines for implementation of Dodd-Frank and our international agreements. Such coordination must include a robust, transparent and objective mechanism to ensure that international capital and liquidity requirements are implemented across jurisdictions in a consistent and fair manner.

On derivatives, it is critically important that Congress instruct U.S. regulators to avoid extraterritorial applications that disadvantage U.S. markets, create an unlevel playing field, or place an undue burden on U.S. corporate, agricultural producers and other end

users of derivatives. Finally, while we are supportive of the convergence of U.S. GAAP and international accounting standards, we are concerned with the application of IASB standards on offsetting, and we welcome the recent pronouncement by the U.S. standard setter, FASB, supporting the U.S. GAAP standard that allows netting.

Again, thank you for holding this hearing and asking me to testify. I would be happy to take your questions.