SIFMA/TCH Prudential Regulation Conference
Washington, DC
June 2, 2016
8:30am-8:35am

Introductory Remarks
As prepared for delivery
Kenneth E. Bentsen, Jr.
SIFMA President & CEO

Good morning. I'm Ken Bentsen, President and CEO of SIFMA. It's a pleasure to be here.

I'd like to thank everyone for joining us here today at our 4th Annual Prudential Regulation Conference. SIFMA is pleased to once again partner with The Clearing House as we continue to navigate through and finalize the implementation of Dodd-Frank and other prudential rulemakings. I'd like to recognize The Clearing House's John Court and the staff at The Clearing House as well as my colleague Carter McDowell and the SIFMA staff for collaborating once again on this important event. Your hard work on this important topic has helped this conference grow in popularity over the last three years to the point that this year, we are at full capacity and have a waiting list of attendees.

I'd also like to recognize our event's gold sponsors, PricewaterhouseCoopers and Sullivan and Cromwell, and our strategic partners. Finally, I'd like to give a very special thanks and recognition to our friends at Covington and Burling for hosting us today in their spectacular, office space here at City Center.

Without all of your support, this event would not be possible.

Our goal is to bring together leading experts from the public and private sectors to examine the progress made since the enactment of Dodd-Frank, the role of regulation in today's banking system and how changes have affected U.S. and global capital markets.

As you look around the room you'll see a mix of industry leaders, regulators, senior staff from Congress and the Administration, experts from think tanks, and representatives from G-20 embassies. Each year, we look forward to bringing you all together at this event to engage in dialogue and have a conversation with one another about the challenges and questions that surround the topics we will discuss today.

Whether intentional or not, our conference tends to fall around the anniversary of the Dodd-Frank Act. After six years, most of the regulations in Title I & II have been completed; however, we have yet to come close to fully understanding their impact.

In his last State of the Union address, the President said that there should be no mistake that the American economy is the strongest and most durable in the world. I believe that is true, and a major contributing factor is that the US has the deepest, most liquid capital markets in the world, with a broad investor base, both retail and institutional, which underscores the resiliency of our nation's economy to rebound more rapidly than other jurisdictions. And it is the primary reason that leaders in Asia and Europe increasingly aspire to replicate the US financial market model.

Well-functioning capital markets recognize and drive capital to the best ideas and enterprises, and this efficient allocation of capital provides meaningful benefits to individuals, companies and society-at-large.

Certainly, our financial market system is vastly safer and more resilient than it was at the onset of the financial crisis. But to be clear, notwithstanding the rebound from the recession, US economic growth remains subpar as compared to previous post recessionary periods, and one must consider that the balance between seeking financial stability and economic growth may well be, and I believe is, out of balance. Excessive regulation in search of de-risking a global economy based on risk and reward may well be tamping down capital formation and growth.

In fact, earlier this week a Wall Street Journal headline read “Global Financial Institutions Retreat,” citing stricter regulations and capital requirements that make certain current business practices impractical.

On a global level, we are currently witnessing a rush to further regulate capital with the Basel agreements. Before we have even implemented Basel 3, we have begun working on Basel 4 in a way that causes regulatory requirements to further diverge from the way that banks manage risk internally. For example, we are making leverage ratios a binding constraint over the risk weighting of assets. We are replacing individual models with standardized models, in a one-size-fits-all approach that may cause additional unintended hindrances to capital formation and growth. Finally, we are raising capital around operational risk, which is often far more difficult to quantify.

If we look at the Fundamental Review of the Trading Book, the revisions made by the Basel Committee on Banking Supervision materially increase the amount of capital held against the book on top of large increases made after the crisis. Cumulatively, these changes thus have a significant impact on our capital markets.

We remain concerned about the Basel Committee’s recent consultative document proposing to restrict significantly the use of internal models. In a lackluster global economic environment, and in the absence of a comprehensive assessment of the economic impacts of the Basel 3 financial reform agenda, we question whether it is wise to introduce proposals that will jeopardize corporate access to credit and finance. In order to ensure a financial system that measures risk accurately, allocates capital accordingly and provides sound origination incentives that benefit the economy at large, risk sensitivity must remain a core feature of the capital framework. The Committee’s objectives can be, and ought to be, achieved without significantly restricting internal modeling. Assessments that are made internally by banks allow for the most accurate measurement of risk and also enable banks to make the most efficient capital allocation and pricing decisions, which benefit their customers, and regulators should not diverge from these internal assessments.

The Global Financial Markets Association, which is the umbrella organization for SIFMA and our affiliates in Europe and Asia – AFME and ASIFMA – has commissioned an independent report with Oliver Wyman on interaction, coherence and overall calibration of post-crisis Basel reforms. The intent is to assist the committee and other policymakers in their consideration of how to optimize these global regulations. The study explores topics such as whether or not a regulatory balance has been reached, explores unintended consequences on the market and its participants as a result of reduced market liquidity, and the burden on customer groups, products, just to name a few. Doug Elliott, the author of the report will give you a preview in the last panel today, and we look forward to sharing full details with you later this month with the study's official release.

On the domestic front, we continue to move forward with implementation of Title I and Title II. Heightened prudential standards, including annual government run capital and liquidity stress tests and robust resolution and recovery planning exercises ensure firms will be able to function in times of severe economic and market conditions. With these reforms the US has established a resolution regime to end too-big-to-fail, and our partners in Europe and Asia are addressing similar challenges.

That being said, we mustn't rush to pile regulation on top of regulation until we know the impact of what is already in place. For example, the Net Stable Funding Ratio on top of TLAC regulations that impose long-term debt requirements do not adequately provide for the underwriting and market-making of TLAC debt, and together with the Leverage Coverage Ratio and stress testing has a material negative impact overall market liquidity.

While we have come a long way in our efforts to reduce risk, we must be careful not to tip the scales too far, but instead strike a balance that works. If we overreach, the negative consequences on the flow of capital and economic growth could be substantial.

As an industry, we will continue to raise legitimate concerns about the consequences of over-regulation and the gold-plating of standards by US entities that throw us out of sync with our global counterparts and undermine our attempts to harmonize global standards. We will also offer thoughtful solutions through ongoing dialogue, comment letters, studies and recommendations. Our goal as an industry is not to eliminate or water down regulation, but to make sure it's balanced in a way that appropriately curtails risk without restricting the function of our capital markets or limiting economic growth.

That being said, I would also urge policy makers not to lose sight of what has already been implemented and to consider the cumulative impact of the rules when enacted together, including the related costs and interaction of the rule with new and existing rules that could ultimately be in conflict with one other.

At today's conference, we will discuss many of the reforms that have taken place in the prudential regulatory space and the path forward. We will look at current trends, new regulation on capital and liquidity, recovery and resolution planning, and the regulatory road ahead.

With that, I'd like to once again thank you for taking the time be here today.

It is now with great pleasure that I introduce our next speakers who will provide us with their insights through a conversation on the state of prudential regulations.

John C. Dugan formerly served as the Comptroller of the Currency from 2005-2010 and is a partner in the Covington and Burling's Washington, DC office, where he chairs the firm's Financial Institutions Group.

As Comptroller, Mr. Dugan headed the agency that supervises over 1,500 national banks and federal branches of foreign banks, which together hold nearly two-thirds of the assets of the US commercial banking system. He also served on the Board of Directors of the FDIC. During his five-year term, Mr. Dugan led the Office of the Comptroller of the Currency through the financial crisis and ensuing recession that resulted in extraordinary regulatory and supervisory actions for national banks of all sizes.

He also was deeply involved in numerous supervisory and regulatory initiatives, such as capital standards issued by the Basel Committee on Banking Supervision, on which he served; policy and regulatory recommendations of the Financial Stability Board. Most recently, he directed the OCC's efforts to help shape critical parts of Dodd-Frank.

Federal Reserve Governor Jerome H. Powell took office in May 2012. Prior to his appointment to the Board, Mr. Powell was a visiting scholar at the Bipartisan Policy Center, where he focused on federal and state fiscal issues. From 1997 through 2005, Mr. Powell was a partner at The Carlyle Group.

Mr. Powell served as an Assistant Secretary and as Undersecretary of the Treasury under President George H.W. Bush, with responsibility for policy on financial institutions, the Treasury debt market, and related areas. Prior to joining the Administration, he worked as a lawyer and investment banker in New York City.

Ladies and gentleman, please welcome former Comptroller of the Currency John Dugan and Federal Reserve Governor Jerome Powell.