CONGRESSMAN BARNEY FRANK
OPENING STATEMENT

HEARING OF THE HOUSE FINANCIAL SERVICES COMMITTEE: "THE ANNUAL REPORT OF THE FINANCIAL STABILITY OVERSIGHT COUNCIL"

WITNESS: TIMOTHY GEITHNER, SECRETARY OF THE TREASURY

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As my retirement approaches a certain amount of nostalgia is inescapable and I try not to indulge it. But I am overwhelmed with it, its 2006 all over again. When I was about become Chairman of this Committee after the 2006 election, I was besieged by the Wall Street Journal, and Wall Street people, and the Chamber of Commerce with pleas that we deregulate America. That if we did not dismantle Sarbanes-Oxley and cut back on the oppressive regulation of the financial community everybody would soon be in England or in Hong Kong. And of course, what then happened was the worst collapse of the American economy in a very long time <u>precisely</u> because of the lack of regulation. People seem to have forgotten that.

I'm hearing again that the problems in the American economy are too much regulation. Ben Bernanke, who I will remind people, when George Bush, President George Bush, had an important economic appointment to make, he sent for the usual suspects, who were always Ben Bernanke. He appointed Ben Bernanke to be on the Board of Governors of the Federal Reserve in his first full year; then he made him Chairman of the Council of Economic Advisers; then he made him Chairman of the Federal Reserve. Ben Bernanke stays on as Chairman of the Federal Reserve, as the most bipartisan person in this city.

And he testified before us and my colleague Mr. Himes and some others noted he listed the headwinds against the American economy. Excessive regulation of the financial industry was not one of them. And he said yes, there are all kinds of factors, he was asked and said, no it's not a significant headwind. Europe is a headwind, and of course my colleagues on the other side have tried to retard the efforts of some including Mr. Bernanke to help with that.

So we are being told the problem now is not enough freedom for the people whose irresponsibility caused this problem. We are being told to back off; we are being told that the regulations are too complicated for these poor people in the financial industry to understand. Well you know what was too complicated for them to understand, their own razzle-dazzle shenanigans. That's what got them into trouble.

And I do want to address this question of consolidation. People say we created all these new agencies. Well, there were two agencies that had pretty much similar functions, the Office of Thrift Supervision and the Office of the Comptroller of the Currency. We consolidated those. So we got rid of one operating agency, and we created one new operating agency. The FSOC is not an operating agency, it's a coordinating council. An Office of Financial Research is not an operating agency, it gets information, which I understand people don't want us to have.

But we did create one new agency, and that's really what they are worried about. It's called the Consumer Financial Protection Bureau and for the first time we took from existing bank regulators the function of protecting consumers and made it their primary job, and it has been working very well. Although I think we have had eleven hearings now, oversight hearings in which we have complained there is no oversight of this institution. That's not their complaint; their complaint is that its standing up for consumers as it recently did regarding Capitol One.

Now I will acknowledge there is one major flaw in our structure that I wish I could fix -- we should not have a separate Securities and Exchange Commission and a Commodity Futures Trading Commission. The biggest single gap we had in the American financial regulatory system was the decision to not regulate derivatives at all, and we made a major breakthrough in the financial reform bill regulating derivatives. And we are just now getting those rules in place, partly because ten people had to be involved -- five commissioners at the SEC, five at the CFTC. And derivatives are split, the problem is that the split reflects a deep cultural and economic split in America. The Commodity Futures Trading Commission was created many years ago to deal with protecting, theoretically, farmers; the Securities and Exchange Commission -- the financial community. I would very much like to get that consolidated. I notice the Republicans talked about consolidation, they left that one out. They talked about consolidating the banking industry, the bank agencies.

I just want to go back again to the fundamental point, the notion that the problem today in America today with financial institutions is too much regulation. You know once a week we get a demonstration that that's not true -- the banks lying about LIBOR, a disgraceful pattern of behavior of simply lying. Mr. Dimon of JP Morgan Chase, a very well-regarded justifiably well-regarded executive, losing control of derivative trading so billions and billions, and just like with AIG they <u>don't know</u> how much money they had lost. Capitol One admitting that they had vendors that were cheating people and only an independent consumer bureau was able to step in.

Now there have been problems in the past, we had a Controller of the Currency who frankly was not a good regulator in the sense of being tough on the banks. We have a new one, Mr. Curry, and I think you are going to see a great deal of improvement. But the notion that our problem is too much regulation -- I guess I am struck by the precocity of people who make that comment because it is a very articulate statement coming apparently from people who were born sometime in early 2009.