FINANCING AMERICA'S ECONOMIC GROWTH

Push Back

Main Street Impact

Federal Reserve

Smart Regulation

Over Enforcement

National Association of Corporate Treasurers
2016 National Conference

Remarks by
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Introduction

Good evening. I'm David Hirschmann, President and CEO of the U.S. Chamber's Center for Capital Markets Competitiveness.

Let me begin by thanking the National Association of Corporate Treasurers (NACT) for hosting this great conference and inviting me to be a part of it. This organization has a great leader in Tom Deas—and he's also a valued partner to the U.S. Chamber.

In particular, Tom and so many of you have been instrumental in our efforts on behalf of the Coalition of Derivatives End-Users in securing much needed relief for the nonfinancial end-user community. Thanks to the hard work of the Coalition, we were able to make not one, but two critical changes to Dodd-Frank last year:

- exempting end-users from margin requirements for un-cleared swaps

- and clarifying that transactions with centralized treasury units of end-users are exempt from mandatory clearing requirements.

For each of you, it's logical to focus on your day job, where both the challenges are more urgent, and progress is more obvious.

However, as NACT has shown, when you engage, no matter the environment, you can make a difference.

This was your success. And it is testament to the power of the voices in this room.

The Chamber and NACT share many common goals:

- strengthening our capital markets;
- ensuring corporate liquidity;
- and ensuring that regulators consider the impact on non-financial companies of financial regulatory proposals.

It's hard to get much done in Washington alone, but with good friends and partners like Tom and NACT, we can accomplish a lot.

Productivity in a Time of Gridlock

Now, I'm not here to sugar coat the hyper-partisanship in Washington. Things are as bad as they appear, if not worse.

Sometimes, it appears it's open season on business from elements of both political parties.

Politicians are feeding off of—or in some cases running form—the understandable anger most American's feel at the lack of opportunities in a protracted, slow-growth economy.

We certainly share this frustration. America can—and must do better. But to grow at our full potential, we need to implement the right policies.

We need to address the long list of critical issues that aren't being tackled – from our uncompetitive tax code to, in the words of the White House Chief of Staff, the most "audacious" pro-regulatory environment we've ever seen.

I don't want to minimize the unique nature of this year's Presidential race, but some perspective is also helpful.

This is not the first time in our politics where hyperbole has trumped reasoned debate.

I cut my teeth on the NAFTA battle. Some of you may recall, Ross Perot breathlessly claimed tens of millions of jobs would move to Mexico.

Others claimed our roads would not be safe. Grandma would be pushed off the road by Mexican truck drivers.

> **"We want to ensure corporations have adequate liquidity, can manage risk, and have clear rules of the road."**

The debate reached a low point when two members of Congress said NAFTA was just a plot to allow Mexico to steal the water from the Great Lakes.

And yet, we were able to get NAFTA through. And, over 20 years later, I'm pleased to say that I just checked last week and the Great Lakes have not moved down to Mexico.

Today's hyperbolic rhetoric – on both sides of aisle – may be more magnified through social media and more dangerous because it is coming from the major party candidates, but it is not new.

Our job, then, is to explain why some of the solutions being offered today would only make things worse.

We need to be careful that ideas that would turn the clock back, don't gain traction. You can see them coming:

- a financial transactions tax;
- a bank run by the post office;
- the government as plan administrator for your 401K;
- and, of course, escalating calls for breaking up large banks.

Today, financial institutions have become a favorite punching bag on the campaign trail. It seems like the financial services industry has been blamed for everything from income inequality to the common cold.

We have been quick to point out that the financial industry is far from perfect.

But, we have also come to the conclusion that if we continue to let all of these attacks go unanswered, we will doom our nation to a slow-growth economy.

As I mentioned, at the Chamber, we don't do presidential politics. But we do think this is a critical time to redouble our efforts to explain what kinds of policies would help our nation grow and create more opportunity for everyone.

So, how do you make progress in this environment? Tell and effective story by developing the data, opposing bad ideas, and making constructive, positive recommendations. Build coalitions in DC and develop state and local voices at the grassroots level. Engage with regulators, such as the more than 780 comment letters the Chamber has filed on financial regulations since the Dodd-Frank Act became law. Work with Congress. And lastly, when needed, litigate—an action the Chamber recently decided to take with respect to the Department of Labor's fiduciary duty rule.

Can we make progress? It might surprise you that despite this environment, we were able to move the ball last year on a number of issues, including:

- lifting the ban on oil-exports;
- renewing the Export-Import Bank charter;
- making a whole list of "temporary" tax issues permanent;
- addressing critical issues in the Affordable Care Act;
- securing needed exemptions for derivatives end-users;
- and that is by no means a complete list.

In fact, no matter how crazy the larger political debate, fact-based story telling still matters.

In short, use every tool in the toolbox to make progress, but it all starts with fact-based arguments and a credible messenger.

That is why our partnership with NACT is so important.

Main Issues Impacting NACT Membership

Over the six years since Dodd-Frank was passed into law and the eight years that the Financial Stability Board started revamping the Basel capital structure, regulators have been issuing rule after rule designed to give life to the expansive and often confusing mandates of these initiatives.

As the business community is engulfed by this regulatory tide, the key question we are compelled to ask is not whether each rule works, but have all the rules led to a system that works as planned? Is it effective?

Do we have a financial regulatory structure that meets its objectives of transparency and risk mitigation and sustains and fosters liquid, transparent, efficient, and innovative capital markets?

> **"Now is the time for regulators to assess the cumulative impact of regulations on our capital markets and on business growth."**

The short answer is no.

Unfortunately, regulators have implemented many rules in a vacuum with, in some cases, little or no regard for how their rules work together with those of other regulators both in the United States and globally.

Without the luxury of a crystal ball, regulators are attempting to save the system from everything and anything, all at the expense of growth—the growth we need, both for jobs as well as to solve our nation's fiscal and other problems.

What is chilling is that economic growth is not even part of the conversation here in the United States.

What does that mean for you?

A survey we just conducted of over 300 corporate finance leaders found that over three quarters report that access to credit and money management solutions are becoming more expensive or are harder to find.

For some, financial services providers may change or they may not be able to provide the same range of services that were previously available.

Banking regulators have been imposing significant restrictions on banking organizations in the form of increased capital and liquidity requirements.

These banking organizations serve as critical counterparties to corporations by not only facilitating corporate risk management through derivatives, but also underwriting corporate debt and equity securities and providing liquidity for corporates to invest in their businesses, create jobs, and generate economic growth.

The banking regulators recently proposed a rule for a Net Stable Funding Ratio (NSFC), which places additional restrictions on banks to retain levels of capital commensurate with their liabilities with maturities greater than one year.

The costs of incremental long-term funding required by banks under the Net Stable Funding Ratio will likely result in increased transaction costs for corporates and decreased liquidity as banks exit particular markets.

This NSFR will be applied on top of the liquidity coverage ratio, the bank's minimum capital standards, initial and variation margin requirements, a leverage ratio, and a supplemental leverage ratio, among other safeguards. And there are more to come.

I realize this is already way too many acronyms for an after dinner speech, but you get the point.

Layer, upon layer of complex rules, with no one in charge of measuring collateral damage on the real economy.

Even in the area of derivatives, U.S. and international regulators can't seem to agree on how to make sure corporates only have to comply with one rule set, rather than several.

While end-users are exempt from reporting over-the-counter derivatives in the United States, they are required to report all over-the-counter derivatives in Europe, including internal transactions involving a European affiliate.

And, there are new challenges. Just last month, the Treasury Department issued new anti-inversion regulations and an earnings-stripping proposal that could drastically impact a company's treasury operations and liquidity management.

The proposal would restrict a corporate's ability to facilitate liquidity via cash pools and also require companies to undertake documentation and credit analysis efforts, price intercompany loans at arms-length and transfer interest according to loan schedules.

It would have a significant impact on intra-company transfers and loans and would treat them as equity for tax purposes, even if they are in the form of straight debt instruments.

These rules threaten a company's ability to invest in its business, as well as capital investment strategies and American competitiveness in the global economy—all supposedly in the name of preventing companies from avoiding taxation.

Now, as I complete this list of regulatory challenges, it bears repeating that business is not anti-regulation.

Heck, in many cases we aren't calling for less regulation. What we need, what we require to grow our businesses, are clear rules of the road.

Think about it in your own life. I happen to like the fact that no one can legally go 85 miles an hour past my daughter and me on the way to school in the morning. But I would not like it if the cop on the corner set the speed limit each day based on the weather, the traffic patterns, or the mood they were in. We all benefit from clear, predictable rules.

We must have an environment where we are allowed to take responsible risks. We must get the balance right. If the regulatory pendulum swings too far, we will restrict your ability to access capital, manage risk, raise debt, mange cash flow, and achieve success for your business and our economy.

Now is the time for regulators to assess the cumulative impact of regulations on our capital markets and on business growth. In Europe, they are underway in this endeavor and U.S. regulators should do the same before we go further down a road and can't turn back.

Simply put, we need to ensure that when all the rules are written—we have a system that enables responsible risk-taking and growth.

How to Get Involved

Each of you has made the right choice to join NACT and be engaged.

Lawmakers tell us they want and need to hear from you. They do not fully understand or appreciate the complexity you face every day as cash and risk managers.

There's an old saying in Washington: If you don't have a seat at the table, you're on the menu. The good news is that working with NACT you have a seat at the table—and regulators will actually listen to you!

You can make a huge difference, with little time commitment, by simply explaining what you do every day.

You can start simply by educating others in your company—especially your DC team if you have one. Join NACT or the Chamber in signing a comment letter or otherwise express your views. Simple steps can make a big difference.

Conclusion

Let's not lose sight of what we're fighting for or the stakes involved. We want to ensure that the United States continues to attract and retain capital, that it is put to work to expand our economy and create jobs.

"Our appeal to policymakers is simple: put politics and bureaucratic turf-building aside."

We want to ensure corporations have adequate liquidity, can manage risk, and have clear rules of the road.

So our appeal to policymakers is simple: put politics and bureaucratic turf-building aside. Make the priorities of growth, jobs, and America's financial leadership your top concerns.

And our appeal to you is even simpler: get involved, take your seat at the table, and make your voice heard!

The Chamber and NACT are working in good faith with all parties to fix what is broken and to ensure that America's capital markets are the most attractive, transparent, and efficient in the world. And we need your help!

Thank you.

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