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Five Goals Our Financial System Must Achieve
To Spur Jobs, Growth, and Opportunity

Eighth Annual Capital Markets Summit

Remarks by
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Introduction

Thank you very much and good morning, ladies and gentlemen. Let me thank David, Amanda, and the CCMC team for putting together another outstanding summit. I'd also like to recognize Carrie Dwyer for her continued leadership and contributions as chair of the CCMC Board.

It's been nearly four years since Dodd-Frank was passed into law, and dealing with it has been like drinking from a fire hose. Like many of you, we have been necessarily focused on the provisions and compliance implications of hundreds of separate regulations, rules, and standards.

But when you add it all up, the test of financial regulatory reform is not whether this set of rules or that set of rules are effective. The real test is whether we have succeeded in creating a financial regulatory structure that sustains and fosters liquid, transparent, efficient, and innovative capital markets.

So we need to step back and think about the big picture.

Why does our financial system exist in the first place? Are we advancing or undermining our shared goals? Are we making the system work better for the millions of businesses and consumers who rely on it? Is it well coordinated at home and abroad? Are we making the rules clearer and more predictable? Are we fostering responsible risk-taking that is essential to economic growth, while working to make the system more resilient?

We must ask ourselves these fundamental questions—and we must force lawmakers, regulators, and the public to do it too.

Although we're four years into Dodd-Frank implementation, there are still many decisions to make, rules to write, and regulations to shape and amend. We'll continue to be in the trenches, working to fix Dodd-Frank.

But our efforts can’t stop there.

We must also combat the misconception that our capital markets are a burden; that they are an accident waiting to happen … that they are a malevolent force and an instrument of inequality.

Our capital markets are none of those things. Let’s never forget that at the most fundamental level our financial system exists to promote jobs, growth, and opportunity. It’s one of America’s greatest national assets, and we must treat it that way.

It’s time to refocus the debate, reassert the stakes, remind the public of the benefits, and ensure our financial system is serving the needs of all Americans.

Today I’d like to offer five goals our financial system must achieve to advance our recovery, strengthen our businesses, and help Americans realize their dreams.

Goal No. 1: Meet the Financial Needs of American Consumers and Businesses

A stable and vibrant financial system fuels opportunity. So the first and most important goal is to meet the needs of consumers and businesses by ensuring they have access to a full array of choices to save, invest, borrow, and plan.

A robust system ensures credit is available for the basic items that most Americans simply aren’t able to pay cash for. That’s everything from a car to get to work, a new refrigerator or washing machine to replace the one that finally gave out, or a set of braces for a child. To be clear—consumer credit that is transparently and responsibly extended is not the problem. In fact, it is essential to making our daily lives better.

Our capital markets also allow workers to invest in their retirement so they can look forward to a more secure future.

A robust system fuels entrepreneurship, powering the ideas and innovations that improve our lives. It provides the capital businesses of every size need to help drive our economy—whether it is a startup borrowing against a personal line of credit or a large company issuing debt or seeking investment.

It creates a worldwide destination for people to invest and save—and American businesses reap the benefits.

In order to provide the steady flow of capital in all the ways companies and consumers need it, our system must allow a full range of financial products—from credit cards to bonds to bank loans.

That means capital providers must be able to responsibly create and offer products based on what the market needs, rather than what has the least regulatory risk or compliance costs. They must have the freedom and flexibility to innovate.

Unfortunately, under our current system's slew of uncertain and changing rules, far less energy is being poured into developing new and better ways to serve consumers. And more time and effort is going into managing new compliance and regulatory requirements.

As we look ahead to the future, after years of being told what not to do, American financial institutions, are left wondering what they can do. Today they want to be thinking about what their customers' need, not just what regulators want.

Take the CFPB, for example—it has virtually unlimited power to dictate what financial products can be offered. And, too often, its approach has been to regulate using vague guidance or press statements followed by one-off enforcement. When faced with this level uncertainty, some financial institutions are getting out of some businesses—not because they aren't needed or good for consumers, but because they carry a disproportionate regulatory risk.

Another example is the current discussions around Money Market Fund reform. Money Market Funds play an essential role in meeting short-term capital and cash flow needs of businesses, states, and municipalities. Any further regulation must preserve the utility of money market funds for investors and issuers.

Goal No. 2: Preserve a Healthy Financial Services Industry with Every Kind of Financial Institution.

That brings me to my second goal. To serve the varied needs of American consumers and businesses, we need diversity in the system.

A diverse marketplace is a unique source of strength for the American economy—not a weakness. It must be preserved. So we need firms of all types and all sizes—and we need to stop vilifying honest market participants.

Banks are as much a fixture of Main Street as Wall Street—and here's a newsflash: banks aren't the bad guys. They add value and create growth and opportunity in every corner and community of this country. The United States is home to more than 7,000 banks and savings institutions—everywhere from New York City to Silver City, New Mexico.

We need community banks, online banks, credit unions, mid-sized banks, regional banks, super-regional banks and, yes, national and global banks.

We also need to embrace the fact that non-banks play a huge role in our financial economy. And we need every kind of non-bank: brokerage firms, investment companies, insurers, re-insurers, angel and venture investors, private equity … just to get the list started.

Diversity within our system is important to serve different needs and markets. Having a variety of financial institutions also helps diversify risk in our markets.

Some aspects of Dodd-Frank directly threaten this needed diversity.

Take the Financial Stability Oversight Council's designation of insurers, asset managers, and other large non-banks as systemically important. Under Dodd-Frank, those who are designated are then handed off to the Federal Reserve to be regulated like banks. While the Fed has clearly indicated that it understands that one-size-fits all regulation is not appropriate, it has also said it feels Congress left it no choice.

This approach to systemic risk regulation could create a less diverse and robust system, where we have homogenized the risks and vulnerabilities of firms just in time for the next crisis.

We're pleased that Congress has recently taken steps to clarify its intent, particularly in the application of bank-like capital standards to insurers and asset managers. And, at a minimum, firms that may be designated deserve to know why regulators think they pose a risk to the system and what steps they could take to avoid being designated.

SIFI is just one example. But across the system, we must address shortcomings that undercut the important goal of maintaining a competitive, robust, and diverse financial system.

Goal No. 3: Possess Clear and Predictable Rules

The third goal of our system is that it should be governed by clear and predicable rules.

This is the only way capital providers can take appropriate risks to provide our economy with the financing it needs to grow and prosper.

It’s pretty simple. When devising rules, regulators should clearly define the problem they’re trying to solve, and their analysis should be evidence-based. They should seek to maximize the benefits and minimize the costs. They should consider how their proposals will interact with other regulations on the books to avoid unintended consequences.

When they need to change the rules, they should do it in an open and transparent manner. And enforcement of the rules should be rigorous, fair, and consistent—and not used as a means to change regulation.

Bottom line: market participants must understand what’s expected of them. When regulatory compliance becomes a guessing game, that’s when participants take their ball and go home.

A lot has been said about the over 400 rules that Dodd-Frank required or suggested regulators write. Far less has been said about the financial regulators who are trying to change the rules without even bothering to *write* a rule. It’s happening more than you think.

Look no further than the CFPB’s approach for changing the way indirect auto loans are made in the United States. It issued a bulletin a year ago saying lenders should consider forcing the dealers to move to flat fees when they offer financing. And without so much as a formal rule, the Bureau brought its first enforcement action late last year.

This has left auto dealers and auto lenders with no certainty and a lot of questions. What exactly is the methodology the CFPB is using to determine if there are fair lending violations? Will the CFPB mandate flat pricing? Is this good for consumers? Will flat pricing eliminate fair lending risk? And if flat pricing is not the answer, what is?

Consumers, lenders, and dealers would have been better served if the Bureau had actually issued a transparent rulemaking based on sound data and demonstrated need. One-off enforcement and warnings by press release aren’t going to cut it.

Clear, predictable rules that are enforced fairly will strengthen the system for all of us. That’s a goal everyone should support.

Goal No. 4: Coordinate at Home and Abroad

Our system should strive for the goal of being coordinated both at home and abroad.

Domestically, our agencies must coordinate, cooperate, and communicate to avoid duplication, overlap, and confusion. In a well-functioning system there can be no room for inter-agency turf battles and the uncertainty and inefficiency they bring.

But one of the central shortcomings of Dodd-Frank is that it left the byzantine structure of our financial regulatory regime in place—it just layered on another 400 rules and set 20 different agencies to the task of writing and implementing them. And then it added four new regulatory bodies to the mix: the CFPB, the FSOC (F-sock), the Office of Financial Research, and the Federal Insurance Office.

It's no wonder we've got complexity and contradiction, creating challenges for regulators as well as those being regulated.

For example, there are five separate agencies in charge of the Volcker Rule. We've got to harmonize implementation, interpretation, and enforcement of this consequential rule.

To be fair, by historical standards, regulators are coordinating more than they ever have. And, the FSOC was at least intended to help coordinate the alphabet soup of financial regulators. It was tasked with assessing the cumulative impact of all these rules. We still believe it can fulfill that role. And it needs to do it in a hurry!

International cooperation is also critical … … not just because it's polite, but because it's the only way American companies can compete.

This doesn't mean that we get to export our domestic regulations. Some have tried that with the Volcker Rule and derivatives regulations—we all know how that's been received by other economies. Not kindly. And we're not exactly on board with some of our competitors' plans, like Europe's sweeping proposal to tax a range of financial transactions, including those that occur in the United States.

So we must have systems in place to resolve cross-border issues and prevent regulatory responses that breed protectionism.

And we should pursue a consistent international standard for accounting and auditing. In a global economy, investors should speak the same financial reporting language to ensure the smooth flow of commerce.

Goal No. 5: Manage Risk, Not Eliminate It

The fifth goal of our financial system should be to encourage responsible risk-taking, not eliminate it.

Our capital markets must reflect our entrepreneurial culture—and the hallmark of entrepreneurship is reasonable risk-taking. If we eliminate the right to take risk, we eliminate the opportunity to succeed. We forfeit the chance to bring an innovative product to market, to make a profit, to create a job, or to expand a business. The flip side is that failure is an option. Some investments won't pan out. Some ventures will lose money. Some startups won't survive.

So the challenge is to preserve a culture where entrepreneurial risk-taking is allowed and encouraged, without leading to reckless risk-taking.

As I've discussed before, a fundamental flaw in Dodd-Frank was the assumption that systemic risk can be predicted or rooted out of the system entirely. It can't be done. Risk isn't eliminated, it's only transferred.

If we continue to nurture the wrong-headed idea that risk can and should be regulated out of existence, here's what we'll get:

We'll get a financial sector where the safest course is not to lend … not to offer innovative products … not to invest in new business ideas … not to foster the next generation of American entrepreneurs.

What *can* we do? We can identify risk. We can manage it. We can make sure companies and their shareholders understand the risks they're taking. We can make markets more transparent, as we have done with derivatives. And we can ensure that regulators better understand the risks in the system.

But let's not be naïve. We can reduce the likelihood, frequency, and even the size of future financial crises. But there is no functioning system will ensure we NEVER have a crisis.

It's foolish to predicate our entire regulatory process on trying to perfectly predict and prevent the next crisis. The better course is to fundamentally strengthen the financial system by reducing uncertainty, eradicating perverse incentives, and preventing unintended consequences that lead to crises in the first place.

How Does Our Current System Stack Up?

When you add up all the provisions and proposals, the standards and rules, how does our regulatory framework stack up against these broad goals?

Overall, is it meeting the needs of consumers and businesses?

Is it preserving a diverse array of financial service providers? Is it characterized by providing a level playing field with clear, predictable rules that convey to market participants what's expected of them? Is it ensuring coordination among domestic agencies and cooperation with leading economies? Is it effectively managing risk, or is it preoccupied with the fool's errand of eliminating it?

Ultimately, is it creating a financial system that will help grow our economy and create jobs and opportunities for all Americans?

The examples I've given, along with a slew of others that would take all day to list, show that Dodd-Frank and other financial reform measures are undermining those goals. Dodd-Frank's complex, conflicting, and confusing requirements are still challenging regulators and those being regulated. Unless we are willing to act, our financial regulatory system won't work for companies, consumers, or investors—not the way we need it to.

Because we have always believed in advancing constructive solutions, at your places you'll find copies of CCMC's **2014 FAR Agenda**. This is a set of recommendations to **Fix** what Dodd-Frank got wrong; **Add** what it left out; and **Replace** the provisions that are unworkable. In it you'll find concrete ideas to address many of the shortcomings in our system.

All of the stakeholders must continue to work together to meet the goals I outlined today. We've got to keep working with Congress toward the kind of reform we all agree we need. We must keep up our engagement in the rulemaking process and with key regulators.

When all else fails—when the agencies overstep their bounds or trample the rights of consumers or businesses—we must not hesitate to seek redress in the courts.

Conclusion

Finally, we've got to keep reminding lawmakers and the public—and if necessary, ourselves—of what these efforts are all about.

It's high time we move past the idea that the debate over our financial system is a battle between regulation and deregulation. You know and I know that this is a fight for the competitiveness of our economy and for the prosperity of all Americans.

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Five years from now we can't afford to be asking the same questions. We can't afford stalemate, gridlock, and rehashing old arguments.

We'll have fallen far behind our international competitors. Americans will have been denied access to the diverse array of financial products they need to build businesses, buy homes, pay for education, and secure their retirement. Jobs, growth, and opportunity will have suffered badly.

The Chamber and CCMC will fight hard to get elected leaders, regulators, and the American people focused on the fundamentals.

We are offering a set of goals by which every current and prospective financial regulation and can and should be judged. And we are putting forward ideas and proposals to help meet those goals.

We need to strengthen our financial markets. We need to communicate their value from Wall Street to Main Street.

We need to protect and bolster one of America's greatest assets—a vibrant, transparent, attractive, and fair financial system that powers America's economic engine and breathes life into the dreams of every American.

So let's get out there and keep doing it.

Thank you.

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