Exchequer Club Monthly Luncheon

Remarks by
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Introduction

- Thank you very much, Alison [WATSON], and good afternoon everyone. It's a pleasure to be here.

- The Exchequer Club has a well-deserved reputation as a leading forum for serious discussions of issues facing the financial services industry.

- It's an honor for me to follow in the footsteps of so many distinguished speakers. I hope to offer something today that will help us advance the debate.

- I'd like to thank Wayne Abernathy for making my appearance today possible, and for the generous sponsors, SIFMA and Jones Day, who support this important venue.

- And, I’d like to recognize Tom Quaadman and Kristin Westmoreland, from our team who are here today—please raise your hands.

- Business is often falsely accused of not wanting regulation. In fact, what our members want is clear, predictable rules of the road.

- One of my favorite things to do in life is drive my daughter to school in the morning.

- While I don’t think of it every day, I’m certainly glad there is a speed limit to prevent drivers from racing by us at dangerous speeds.

- But I’m equally glad the speed limit is clearly posted, and doesn’t change arbitrarily based on the mood of police officer at the end of the corner.

- Clear, predictable, rules of the road.

- Now recently, many of the streets around where I live in Alexandria were changed from 35 MPH to 25MPH. This was done, in large part, to serve as an additional deterrent to those going 55, 65 or even faster. Good idea.

- I hope it works for that. I can assure you it has been a good revenue generator for Alexandria.

- It also got me to thinking, how would financial regulators have handled this?

- The FED and banking regulators probably would have determined the 35 MPH was too risky for the system – and required residents to set aside funds to pay for future accidents – let's call it TLAC, the Transportation Loss Absorbing Capital fund.

- Meanwhile, the CFPB would have issued guidance as part of an enforcement action against someone going 80 miles an hour, pointing out that even going 25 MPH may not be appropriate in all cases.

- I'd like to start with a brief explanation of the Chamber's Center for Capital Markets Competitiveness—what we do and how we do it.

About CCMC

- The Chamber established CCMC in 2007 because our regulatory system—which dates back to the Civil War and New Deal—was no longer able to properly regulate a dynamic 21st century economy.

- It was in dire need of constructive reform. We recognized that our capital markets we're becoming less competitive, that layers of rules we're choking off credit and raising the price of capital, and that we needed to get to work to improve them.

- We clearly understood the fundamental link between effective financial markets regulation and a healthy American economy.

- It's worth noting that we were calling for reforms well before the financial crisis hit.

- Our original goal—creating a 21st century regulatory system—is still at the center of our mission. But let me cast a wider net of our work and the principles that guide it.

- **First**, a key part of our mission is educating lawmakers and the American people about how important capital markets are to jobs, growth, and opportunity.

- If we can’t demonstrate, with real examples and data, the consequences of getting regulatory reform done right, then shame on us.

- We won’t win any public policy fights on this issue if voters don’t understand how capital markets improve their lives.

- For example, for years the Chamber has helped explain the importance of the services small businesses rely on to manage cash flow and short-term liquidity.

- This is especially important for seasonal businesses like florists around Valentine’s Day or a caterer during the busy summer season.

- With the help of our state and local partners we’ve identified a number of real small businesses owners who can help demonstrate the relationship between financial regulation and Main Street economic growth.

- In Salt Lake City, Utah, for example, we got to know Maxine Turner of Cuisine Unlimited.

- For 36 years, Maxine has owned and operated a successful catering business. She's served everyone from Olympic athletes to small local parties.

- Maxine works hard to grow and expand her business. Yet, when she was presented with a big opportunity to do just that, she hit one road block after another.

- When she got a contract for a new performing arts center, she discovered she was no longer eligible for an SBA loan to buy the equipment she needed.

- And the kind of loan she was seeking didn't meet the current risk appetite of her long-term bank or other banks she spoke with.

- Can Maxine explain which Dodd-Frank rule or combination of Dodd Frank rules caused this? No.

- But, her story is a good example of why we need to get financial regulation right.

- Our opponents have done a pretty good job blaming the financial services industry for everything from income inequality to the common cold.

- We may not match their vitriol. But we can passionately explain the role that financial services plays in our economy—with real people, real examples, and real data.

- The point is this: We can't change hearts and minds if we're not out there making the case for the tremendous value financial services deliver to individuals, businesses, and our economy.

- **<u>Second</u>**, our "north star" objective is simple—greater economic growth. Capital markets are the key to achieving the rates of growth we need to put people back to work, fund new businesses and startups, and restore America's global economic leadership.

- We reject the idea that 1%–2% growth is the "new normal." We can and must do better, and financial services must play an important role.

- **<u>Third</u>**, we aren't against regulation, and we have the record to prove it. We recognize that government has a critical role to play if we are to have the efficient capital markets needed to sustain long-term growth and prosperity.

- Going back to my speed limit example, no one benefits from a speed limit that that is changed based on who is enforcing it – especially way after the fact.

- Clear rules, with tough but fair enforcement, benefits all of us.

- More on this in a minute.

- And <u>**fourth**</u>, we want to be part of the solution. We want to work with all stakeholders to find commonsense solutions to the challenges facing our capital markets.

- For 10 years, we've been using every tool in our toolbox to advance this agenda.

- We've put specific ideas on the table to make the system better.

- We've engaged with Congress and the regulators.

- We have worked with our state and local partners, non-financial companies and other allies.

- In fact, last year we were joined by 120 state and local chambers in asking Congress to take steps necessary to restore financing to Main Street businesses.

- When we can, we work with regulators to achieve smarter regulations. Sometimes, we have no choice but to fight against specific proposals.

- Since 2007, we have filed almost 1,000 letters with regulators and Congress to help improve some rules.

- However, when regulators adopt rules that just won't work, we go to the courts. The Chamber's in-house law firm has won some important victories.

- But this is a tool we use reluctantly. And only when we think we have no other choice and, by winning, can help achieve a better outcome for our members.

- With the full backing of the U.S. Chamber, we have a lot of tools in our toolbox—and we use all of them.

Pro-Growth Reform Priorities

- So, where do we stand?

- Compared to 7-8 years ago, our financial system is more stable, our banks are better capitalized, and we've made needed reforms to derivatives.

- But Dodd-Frank, in combination with Basel III, got too much wrong—policymakers forgot that you can't have stability without growth.

- Regulators viewed **credit** as a problem that needed to be solved.

- **Risk** needed to be eliminated, rather than managed.

- And **saving** and investment needed to be curtailed, not made easier and more flexible.

- There's been too much focus on achieving short-term stability, when what we need is long-term stability that promotes sustainable, robust growth.

- In responding to the crises, we seem to have forgotten that reasonable risk taking and the right to fail on Main Street is the secret sauce that drives our growth engine.

- Those policy choices have contributed to the worst economic recovery in generations.

- They have squeezed business financing, raised the cost of capital, limited access to credit, and taken cash out of the economy altogether.

- And you know the rules aren't right when some banks are even turning away large deposits!

- Last year we conducted a survey of 300 small, medium, and larger companies to ask them both what they <u>need</u> from the financial services industry and what they are <u>currently</u> finding.

- What they need, not surprisingly, is a variety of firms competing for their business. They need choices.

- What they are finding is fewer choices and higher costs than they used to have.

- Some of this may be a natural fallout from increased capital requirements and other regulations we supported.

- But some of it is needless, self-inflicted wounds resulting from the "gotcha" and disjointed regulatory environment.

- I didn't come here today to re-litigate the policy sausage making of the past. Instead, I'd like to suggest a few commonsense steps we can take to right the ship and get back on course …

- … Steps that can help us reach a goal we should all seek: the best regulated and most transparent, competitive, and liquid capital markets in the world—markets that can finance America's growth and provide countless opportunities for our citizens.

- We cover hundreds of issues, but I'm only going to focus on a handful. And then I'm happy to take questions on any topic you're interested in.

Regional, Community, and Small Bank Relief

- First and foremost, we need to pursue regulatory fixes to restore lending to Main Street.

- The rigid thresholds in Dodd-Frank that trigger enhanced regulation have swept up many regional and community banks that pose absolutely no systemic risk.

- As a result, these banks are unable to fully execute their unique role in the American economy—providing liquidity and financing to Main Street businesses.

- I’m sure some of you in this room have advised banks as they turn themselves upside down to avoid crossing these thresholds.

- The point is if we choke off lending to Main Street businesses like this, we’ll never get the economy really moving again.

- It’s time to rethink these artificial thresholds. And, we need to right-size regulation for <u>everyone</u>.

- We need to take additional steps to ensure CCAR and other processes are implemented predictably and sensibly.

- Even for the largest banks, we should look at sun-setting regulations that no longer make that have been superseded by other regulations or no longer make sense.

- We are encouraged by the administration's willingness to evaluate and reform the current system and look forward to seeing Secretary Mnuchin's report on the President's Executive Order.

SIFI Designation for Non-Banks

- We can also reduce unnecessary regulatory burdens and bolster our economy by reforming the rules governing systemic risk designation for non-banks.

- 80% of our financial system is composed of non-bank financial institutions. This is a source of some envy in Europe. We shouldn't try to punish it here.

- The designation process is broken. For starters, the new administration should withdraw the ill-conceived appeal of the Met Life decision.

- We should then reform FSOC and the designation process.

- If you tell an insurance company it's going to have to comply by rules designed for a bank, it's probably going to start thinking and acting more like a bank. And before you know it, you're taking things off the table, limiting choices, concentrating risk, and undermining economic growth.

- I remember the debates of over a decade ago about an optional Federal Charter for insurance. The one idea I'm pretty sure I never heard was to take more than 40% of the life insurance industry and give it to the Fed to provide another layer of regulation.

Regulatory Restructuring

- While we're at it, we're reminding policymakers that it's past time for an overhaul of the financial regulatory system.

- I don't need to tell you that Dodd-Frank didn't modernize our system, it simply layered on a new framework. Twenty-one differing bodies were tasked with implementing at least one of Dodd-Frank's over 400 rules.

- This is akin to watching children stack up blocks as high as they can until the whole thing comes tumbling down. That’s the road we’re on today.

- Streamlining our financial regulatory structure so that it actually works will require a bold and thoughtful undertaking.

- A Presidential Commission, similar to the Reagan-Moynihan commission that saved Social Security, could help modernize the system to meet the needs of a 21st century economy.

- Now, I’m not naïve about the chances of this happening. But sooner or later, I believe we will be left with no other choice.

- In the meantime, we have to look across the system and find areas—in regulation and enforcement—where duplication or a lack of coordination is causing financial services providers to give up and walk away from offering products their customers need.

- To help guide those efforts, CCMC has released a blueprint for financial regulatory reform—one that promotes stability and assures growth. It has more than 100 practical and actionable reform recommendations.

- I’d go through all of them but the Club would have to serve you both lunch **and** dinner.

- However reform comes about, it must ensure that the system is transparent, efficient, and accountable—and that it encourages competition and growth.

CFPB

- While many rules need reform, so too do many of the regulatory agencies. Chief among them is the Consumer Financial Protection Bureau.

- If we ever had cause to wonder the benefits of the checks and balances our forefathers embedded in to our government, we’ve had a real time lab experiment over the past five years of what government looks like without them.

- Regulation by enforcement.

- A regulator that thinks the statutes of limitations don't apply.

- An arbitration rule drafted as a favor for the class action trial bar.

- Monthly name-and-shame press releases designed more to garner press for the CFPB rather than provide consumers with useful information.

- The CFPB should be restructured to be more accountable, just like every other agency. We support all the reforms that have been proposed—especially a bipartisan, five-person commission at the top and an end of the "blank check" financing the CFPB currently receives.

Repeal and Replace the Fiduciary Rule

- Let me mention a couple of specific rules we're working on very closely.

- One critical issue is the Department of Labor's fiduciary rule. The evidence is in. The consequences of this rule are even worse than we and others predicted

- Orphaned accounts have doubled in the first quarter of this year.

- 11 million households with brokerage IRAs are facing new account minimums, reduced investment choices and the loss of advice.

- Of course we should protect vulnerable investors from bad advice – but this rule will only line the pockets of the trial bar and make our nation's savings crisis worse.

- We're pleased with President Trump's Executive Memo that led to the delay of the rule.

- And we stand ready to help create meaningful policy that will actually meet the retirement needs of small business owners, employees, and retirement savers.

Glass-Steagall Act

- I mentioned a few moments ago that our financial regulatory system dates back to the Civil War and the New Deal.

- We should not look to failed policies of the past to deal with a very different future.

- Case in point is the effort to revive the 1930s era Glass-Steagall Act. It's a really bad idea.

- Sen. Elizabeth Warren conceded to *The New York Times* that the repeal of Glass-Steagall restrictions did not cause, nor would Glass-Steagall have prevented, the 2007 financial crisis.

- A 21st century U.S. economy needs a strong, flexible, and innovative 21st century financial system, not a pencil-and-ledger Roosevelt-era system.

- Revival of Glass-Steagall would be a step in the wrong direction and we oppose it.

Conclusion

- Those are just a few of our priorities, but the question remains—how do we succeed in advancing this agenda?

- Despite the very welcome support for reforms from the new Administration, we understand that getting those reforms done will not come easily.

- In Congress, financial regulatory reform is in line behind health care, tax reform, and infrastructure and even when we get there we need 60 votes in the Senate.

- We continue to have a set of very determined opponents that are well funded.

- They are aggressive communicators, and are adept at vilifying anyone proposing even the most sensible reforms.

- And, we have another simple reality I worry about. Simply put, defense is easier than offence.

- We have a chance to play offense and make some sorely needed fixes to financial regulation.

- We will need to bring hard data to the table.

- We will need to provide real-world examples.

- And we will need to simply outwork those who are defending the unworkable status quo.

- Each of us in this room has a role to play because we understand the importance of getting financial regulation right.

- At the U.S. Chamber of Commerce, we've found that if we use every tool in arsenal … if we engage with all the facts, energy, creativity, and passion we can muster … <u>and if can get all of our constituents to help us pull the cart</u>, we <u>**can**</u> make progress.

- America's economic engine has been sputtering in part, because we cut off the fuel supply. Let's fill up the tank and put the pedal to the metal and get this economy growing again.

- Thank you very much. Now, let me turn to Bert Ely for the first question …

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