



# U.S. SENATE BANKING COMMITTEE

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**For Immediate Release**  
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**Statement of Chairman Dodd**  
**“Turmoil in U.S. Credit Markets: Examining the U.S. Regulatory Framework for**  
**Assessing Sovereign Investments”**

**Remarks as Prepared:**

Good morning. Today’s hearing marks the sixth in a series of hearings examining the ongoing turmoil in U.S. credit markets. Today, we focus on a source of capital that has helped some of the largest U.S. financial institutions weather the storm in the credit markets—foreign government-controlled entities known as sovereign wealth funds.

This is the second time the Committee has examined these funds. Last year, Senator Bayh chaired a very good hearing on this topic. We appreciate his work in this area.

U.S. financial companies have raised over \$60 billion in new equity from both foreign and domestic sources since the credit crunch began in July 2007. Of that amount, approximately \$39 billion, or nearly two-thirds, was supplied by sovereign wealth funds. Ninety-three percent of those bank capital infusions came from sovereign funds in just 4 countries: the United Arab Emirates, Kuwait, Singapore, and China.

Foreign government investments in our country are not new. However, many analysts project tremendous growth in this area. The International Monetary Fund estimates that more than 20 sovereign wealth funds, largely financed by petrodollars and excess foreign exchange reserves, currently manage \$1.9 to 2.9 trillion globally. These funds, while less than the amount of assets managed by pension funds worldwide, are up to twice the amount of assets managed by hedge funds, and up to three times the amount managed by private equity funds.

That amount is growing – and growing quickly. Sovereign wealth fund assets are expected to grow to \$12 trillion by 2012.

With that kind of rapidly growing financial muscle, the operations of sovereign wealth funds in U.S. markets have raised questions generally about how they are run, by whom, and for what purpose. Additional questions have been raised about the impact of

sovereign wealth funds on the safety and soundness of the U.S. financial system, and on the security of critical U.S. industries.

I believe that the United States can and must continue to maintain an open investment climate while still protecting our economic and national security. However, maintaining that vital, delicate balance between openness and security will require continued vigilance – including by this Committee.

It was with that balance in mind that Senator Shelby and I authored the Foreign Investment and National Security Act (FINSA), which was signed into law last July. On Monday, the Treasury Department issued proposed rules to implement this law. In my view, these rules are consistent with our legislation's purpose and an important step forward.

These rules will not only protect our national security. They will also hopefully bring greater predictability to the investment process. But it is important to note that CFIUS is only one tool available to address concerns about certain investments in the United States.

The United States regulates the activities of, and collects data on, sovereign investments through a host of statutes. U.S. banking, securities, government contracting, and other laws regulate the activities of both foreign and domestic investors. Federal officials are responsible for implementing those laws, including officials at the Federal Reserve Board, the Securities and Exchange Commission, the Treasury Department, the Commerce Department, and the Defense Department, among others. The purpose of today's hearing is to better understand how well these laws are working to protect U.S. markets and companies while at the same time allowing foreign investment.

For example, the SEC requires sovereign funds and other investors with ownership stakes exceeding 5% in a public company to file disclosure statements. Hearings held by this Committee in 1975 indicate that this requirement is directed at foreign investors in order to improve the ability of the federal government to monitor foreign investment in the United States. The anti-fraud provisions of the Exchange Act, which prohibit market manipulation and other frauds, also apply to sovereign funds.

Like any laws or regulations, the effectiveness of these rules depends on the extent to which they can be enforced. And here another unique challenge is posed by sovereign wealth funds. SEC Chairman Cox has said it well: "if the same government from whom we sought [enforcement] assistance were also the controlling person behind the entity under investigation, a considerable conflict of interest would arise. Another issue is the conflicts of interest that arise when government is both the regulator and the regulated."

I am eager to learn about how the SEC is addressing these and other enforcement concerns. It is imperative that this Committee know whether existing securities requirements are adequate for the purpose of securing the health and stability of our nation's markets in the face of increasing investment from foreign sovereign entities.

Similarly, it is also important to examine the adequacy of the authority available to the Federal Reserve Board to maintain the safety and soundness of our nation's financial system when sovereigns invest billions into our financial institutions. How does the Fed determine whether a review of an investment in a financial institution is necessary? Given the size and anticipated increase of sovereign investment in U.S. financial markets, do they pose any systemic risk concerns? How does the Fed assess those risks?

Fundamentally, this Committee – and the American public – must know with certainty that sovereign wealth funds conduct themselves according to the same standards to which other economic actors are held: transparency, sound governance, commercial purpose, and market integrity.

These are critical issues for our economy. And they are being raised at a critical moment in our national life. We cannot afford as a nation to upset that vital balance between openness and security. If we do, the consequences for our nation will be dire.

I appreciate the willingness of our distinguished witnesses to join us today in this important work.