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DEPUTY SECRETARY OF THE TREASURY NEAL S. WOLIN WRITTEN TESTIMONY BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

"OVERSIGHT OF DODD-FRANK IMPLEMENTATION: MONITORING SYSTEMIC RISK AND PROMOTING FINANCIAL STABILITY"

May 12, 2011

Chairman Johnson, Ranking Member Shelby, and Members of the Committee, I appreciate the opportunity to provide an update on the Treasury Department's implementation of the Dodd-Frank Act.

Last year, the President signed into law the most sweeping financial reforms since the Great Depression. Although our economy and our financial markets have made important progress on the path towards recovery, we cannot forget why we enacted this legislation.

In the fall of 2008, we witnessed a financial panic of a scale and severity not seen in decades. The crisis was brought about by fundamental failures in our financial system. The failures were many and they were varied. The crisis erased trillions of dollars of wealth, put Americans out of work across the country, and shook the foundations of our entire economy.

And the crisis exposed the fundamental flaws in our financial system.

There was no alternative to reform. The system we had favored short-term gains for individual firms over the stability and growth of the economy as a whole. The system we had was weak and susceptible to crisis. And the system we had left taxpayers to save it in times of trouble.

We had no choice but to build a better, stronger system. That's why we proposed, Congress passed, and the President signed into law a sweeping set of reforms to do just that.

But enacting this law was just the beginning.

We are now undertaking the difficult and complex process of implementation, and today I'd like to discuss some of our accomplishments and our next steps as we approach the ten month mark since enactment.

Before I describe how we are implementing the Dodd-Frank Act, I want to detail the broad principles guiding our efforts.

First, we are moving as quickly and as carefully as we can.

Wherever possible, we are quickly providing clarity to the public and the markets. But the task we face cannot be achieved overnight. We are writing rules in some of the most complex areas of finance; consolidating authority that was previously spread across multiple agencies; setting up new institutions for consumer protection and for addressing systemic risks; and negotiating with countries around the world. In getting this done, we are making sure to get it right.

After the Dodd-Frank Act was signed into law, many who criticized the legislation said that it lacked details, and that the uncertainty of the shape of final regulations made it difficult for businesses to plan for the future. These critics called for clarity without delay.

Now many of these same critics suggest that the pace of implementation, as prescribed by law, is moving too fast.

Treasury and regulators have consistently indicated – then and now -- that we would move quickly but carefully to implement the legislation, that we would seek public input into the process, and that it was critical to get the details right. Over the past ten months, Treasury and regulators have been doing just that -- implementing the statute in a careful, considered, and serious manner.

Second, we are conducting this process out in the open, bringing full transparency to implementation activities.

As new rules have been proposed, we have consulted with a broad range of groups and individuals. The American people are able to see who is at the table. Comments have been made publicly available. Treasury has made public the topics of meetings on Dodd-Frank implementation and the names of the attendees.

In addition to providing transparency across Treasury's activities, the studies and rule making processes conducted at Treasury or through the Financial Stability Oversight Council (FSOC or Council) have benefitted from significant public outreach and comment, often through both Advanced Notice of Proposed Rulemaking and Notice of Proposed Rulemaking. This process allows interested parties the opportunity to provide input, as well as understand the evolution of rules.

The Office of Financial Research (OFR), Federal Insurance Office (FIO) and Consumer Financial Protection Bureau (CFPB) have all provided transparency and sought public input in their efforts to implement Dodd-Frank reforms.

Third, wherever possible, we are seeking to streamline and simplify government regulation.

Over the years, our financial system has accumulated layers upon layers of rules, which can be overwhelming. That is why alongside our efforts to strengthen and improve protections through the system, we seek to avoid duplication and to eliminate rules that do not work. For example, Dodd-Frank exempts small companies from complying with certain internal control rules of Sarbanes-Oxley.

The Dodd-Frank Act recognizes the need to update and rationalize the patchwork regulatory framework that was built over decades. Consolidation of organizational structures and oversight responsibilities are a critical part of the statute's reforms.

In addition, the statute requires many joint rulemakings, and even where rules are not required to be issued jointly, agencies must often coordinate to adopt comparable rules for functionally or economically similar products or entities. Through this process we seek to avoid overlapping and inconsistent rules.

These efforts build on a core priority of President Obama. In January, the President issued an Executive Order relating to streamlining and simplifying regulations, seeking to ensure cost-effective, evidence-based regulations that are compatible with economic growth, job creation, and competitiveness. Among other things, the Order requires that agencies: consider costs and benefits and choose the least burdensome path (to the extent consistent with law); encourage public participation in rulemaking; attempt to coordinate, simplify, and harmonize regulations to reduce costs and promote certainty; and conduct retrospective analyses of rules, on a periodic basis, to identify rules that "may be outmoded, ineffective, insufficient, or excessively burdensome."

We are following these priorities as we implement Dodd-Frank. Indeed, we believe that the enactment of Dodd-Frank provides a historic moment for all of the affected agencies to pause and take stock: an opportunity to ensure that future regulation is consistent with these priorities, and that rules currently on the books are serving their intended purposes. Properly applied, these priorities and guidelines can help strike the right regulatory balance: ensuring that regulations protect our financial system and improve the performance of our economy, without imposing unreasonable costs on society.

Fourth, we are creating a more coordinated regulatory process.

Dodd-Frank requires regulators, more than ever before, to work together to close gaps in regulation and to prevent breakdowns in coordination – this is a central change brought about by the law. Beyond joint rules and consultation required on specific rulemakings, the statute requires working together where issues cut across multiple agencies, to make the pieces of reform fit together in a sensible, coherent way.

While our financial regulatory system is built on the independence of regulators -- and given the importance of Dodd-Frank implementation, independent regulators will have different views on complicated issues – working through differences is an important part of getting the substance right.

The Dodd-Frank Act preserves agency independence, while providing a new forum for collaboration and consultation among regulators. The Financial Stability Oversight Council, which is a key component of Dodd-Frank, has a mandate to coordinate across agencies and instill joint accountability for the strength of the financial system.

Already, we have worked through the FSOC to develop an integrated roadmap for implementation, to coordinate an unprecedented six-agency proposal on risk retention, and to develop unanimous support for recommendations on implementing the Volcker Rule. As Chair of the FSOC, the Secretary of the Treasury will continue to make it a top priority that the work of the regulators is well-coordinated.

Fifth, we are working to ensure a level playing field.

We are working hard at the international level to make sure that others put in place similar frameworks on the key issues where international consistency is essential – such as OTC derivatives, and financial institutions' liquidity, leverage, and capital.

The details of these rules governing complex markets and institutions are critical and when different jurisdictions implement commonly-agreed-to international principles, disagreements may arise. That is why in addition to dialogue in international fora like the G-20 and the Financial Stability Board, we work every day with our foreign counterparts, especially in Europe, through our financial market and regulatory dialogue.

But as we work in the international sphere to promote a level playing field, we must not fail to implement our reforms at home. U.S. leadership on reform is essential to making sure that a level playing field is in place. Ultimately, if we fail to do what is necessary to reform and protect our system, we put at risk its fundamental strength and resilience.

Detailed rules of financial regulation will always vary among sovereign nations. What's important, what we have made good progress on – and what we are committed to – is closing regulatory gaps, ending opportunities for geographic arbitrage, and preventing a global race to the bottom.

Sixth, we are working to protect the freedom for innovation that is absolutely necessary for growth.

Before the crisis, our financial system allowed too much room for abuse and excessive risk. But as we put in place rules to correct those mistakes, we have to achieve a careful balance and safeguard the freedom for competition and innovation that is essential for growth.

For example, as enhanced capital requirements are introduced, we will work to achieve a balanced regime that strengthens firms so they can withstand stress, but that also allows U.S. firms to compete effectively on a global basis.

Moreover, new provisions in Dodd-Frank will increase transparency and reduce risks in the derivatives markets. These electronic trading and central clearing provisions will tighten spreads, reduce costs, and increase understanding of risks for market participants. These new transparent structures will promotes efficient markets, capital formation, and growth in the broader economy, while reducing the risk and potential costs of another destabilizing financial crisis.

Implementation of Dodd-Frank will result in a strong, stable financial system, which is the foundation needed to foster competition, innovation and economic growth.

Seventh, we are keeping Congress fully informed of our progress on a regular basis.

Guided by these principles, we have made significant progress since Dodd-Frank was enacted almost 10 months ago. I'd like to update you on a few of the institutions at the heart of this legislation – the Financial Stability Oversight Council, the Office of Financial Research, the Federal Insurance Office and the Consumer Financial Protection Bureau.

FINANCIAL STABILITY OVERSIGHT COUNCIL

The Dodd-Frank Act created the Financial Stability Oversight Council to coordinate across agencies and instill joint accountability for the stability of the financial system. The Council is mandated to identify and monitor risks to U.S. financial stability, respond to any emerging threats in the system and promote market discipline. The Act also provides the Council with a leading role in several important regulatory decisions, including which nonbank financial institutions and financial market utilities will be designated for heightened prudential standards.

The Council has made significant progress in the short time since the Dodd-Frank Act was signed into law. Since enactment, the Council has: (1) built its basic organizational framework; (2) laid the groundwork for the designation of nonbank financial companies and financial market utilities; (3) initiated monitoring for potential risks to U.S. financial stability; (4) carried out the explicit statutory requirements of the Council, including the completion of several studies; and (5) served as a forum for discussion and coordination among the agencies implementing Dodd-Frank.

COUNCIL STRUCTURE AND OPERATIONS

We have built a structure for the Council that is designed to promote accountability and action. Every two weeks, a Deputies Committee comprised of senior officials from each of the member agencies meets to set the Council's agenda, and to direct the work of the Council's Systemic Risk Committee and five functional committees. The functional committees are organized around the Council's ongoing statutory responsibilities: designations of nonbank financial companies, designations of financial market utilities, heightened prudential standards, orderly liquidation and resolution plans, and data.

In the ten months since Dodd-Frank was enacted, the Council's principals have met four times and plan to meet again later this month -- significantly more often than the statutorily required quarterly meetings.

At each meeting to date, the Council has held a public session. This exemplifies a commitment to conduct its work in as open and transparent a manner as practicable given the confidential supervisory and sensitive information that is at the heart of the Council's work.

DESIGNATIONS

For the first time, Dodd-Frank requires consolidated supervision of and heightened prudential standards for the largest, most interconnected nonbank financial companies that could pose a threat to the financial system. The statute also authorizes heightened standards be applied to designated financial market utilities and payment, clearing and settlement activities.

The Council is engaging in two parallel rulemakings to establish a process and define criteria for these designations that are robust and transparent. While the statute carefully outlines the considerations and process requirements for making these designations, the Council is conducting rulemakings to ensure transparency and to obtain input from all interested parties.

For its nonbank designations work, the Council issued an Advanced Notice of Proposed Rulemaking or "ANPR" in October 2010 and a Notice of Proposed Rulemaking or "NPRM" in January 2011 providing guidance on the statutorily mandated criteria and defining the procedures that the Council will follow in considering the designation of nonbank financial companies. For designations of financial market utilities, public comments from last November's ANPR informed an NPRM released in March. The comment period for that NPRM is 60 days and closes on May 27. The Council's member agencies continue to work in close collaboration, having received significant input from market participants, non-profits, academics, and members of the public to develop an analytical framework for designations that will provide a consistent approach and will incorporate the need for both quantitative and qualitative judgments. We plan to provide additional guidance regarding the Council's approach to designation and we will seek public comment on it.

It is important to understand that the Council needs to retain flexibility to exercise judgment as it considers both quantifiable metrics and the unique risks that a particular firm may present to the financial system. Moreover, flexibility is needed because financial markets are dynamic and the designation process must take into account changes in firms, markets and risks. That is one of the key reasons that the statute mandates an annual reevaluation of any designation made by the Council.

The Council's commitment to a robust designations process goes beyond transparency during the rulemaking process. Every designation decision will be firm-specific and is subject to judicial review. Moreover, even before the Council votes on a proposed designation, a company under consideration will have the opportunity to submit written materials to the Council on whether, in the company's view, it meets the standard for designation. Only after Council members have reviewed that information will they vote on a proposed designation, which requires the support of two-thirds of the Council (including the affirmative vote of the Chair) and requires the Council to provide the company with a written explanation of the basis of the proposed designation to the firm. If challenged, the proposed designation is subject to review through a formal hearing process and a two-thirds final vote. Upon the final vote approving the designation, the Council must then submit a report to Congress detailing its final decision.

MONITORING THREATS TO FINANCIAL STABILITY

Monitoring threats to financial stability is the cornerstone of the Council's responsibilities. This macro-prudential role demands coordination, collaboration and information sharing among each of the members of the Council. We are working together to bring the best information to bear, while protecting the security and confidentiality of sensitive information.

The Council has established a committee structure to support its monitoring function. The structure is intended to balance the need for an interdisciplinary and cross-cutting approach with the need to leverage existing expertise and experience, and is the locus of accountability for systemic risk monitoring.

Through this structure, the FSOC focuses on identifying and analyzing cross-cutting risks that may affect financial institutions and financial markets in the medium and longer term. With respect to financial institutions, the FSOC focuses on structural issues such as trends in leverage or funding structure, new products, or exposures to particular risks. With respect to financial markets, the FSOC focuses on issues such as trends in volatility or liquidity, market structure, or asset valuations.

In addition, the FSOC serves as a forum for agencies to discuss emerging issues of immediate importance as well as share information about issues that arise in the course of their supervisory and oversight work that could impact financial stability.

The Dodd-Frank Act provides for a public report to Congress detailing this monitoring in the form of an annual report on the activities of the Council and the health of the financial system. As stated in the statute this report will: outline the activities of the Council, including any designations or recommendations made with respect to activities that could threaten financial stability; detail significant financial market and regulatory developments, including insurance and accounting regulations and standards; and, describe potential emerging threats to the financial stability of the United States. The statute also requires that the report provide recommendations to enhance the integrity, efficiency, competitiveness, and stability of United States financial markets; promote market discipline; and maintain investor confidence.

Staff at each of the member agencies is hard at work preparing the Council's first annual report.

STUDIES

On January 18, the Council released a study and recommendations on the implementation of the Dodd-Frank Act's "Volcker Rule." The Council sought input from the public in advance of the study on issues associated with the statutory required considerations and received more than 8,000 comments. The study recommends principles for implementing the Volcker Rule and suggests a comprehensive framework for identifying activities prohibited by the Rule. That framework includes an internal compliance regime, quantitative analysis and reporting, and supervisory review.

Also, at its January meeting, the Council approved a study of the effects of the Dodd-Frank Act's limits on the concentration of large companies on financial stability and released the study's recommendations for public comment. The Council's study found that the concentration limit will reduce moral hazard, increase financial stability, and improve efficiency and competition within the U.S. financial system. The study also made largely technical recommendations to mitigate practical difficulties likely to arise in the administration and enforcement of the concentration limit, without undermining its effectiveness in limiting excessive concentration among financial companies. The Council received six comments and is currently reviewing those comments to determine whether any of the recommendations should be modified.

The Council continues to have specific responsibilities to study key issues outlined in Dodd-Frank. For instance, the Council must complete a study regarding the treatment of fully secured creditors in the context of the Act's orderly liquidation authority by July and a study regarding contingent capital instruments by July 2012.

INTERAGENCY REGULATORY COORDINATION

The Council also has served as a forum for discussion and coordination among the agencies implementing the Dodd-Frank Act.

For the Council's first meeting in October 2010, the staff of member agencies developed a detailed, public road map for implementation of the legislation. This integrated roadmap outlined a coordinated timeline of goals, both for the Council and its independent member agencies, to fully implement the Dodd-Frank Act.

As Chair of the Council, the Treasury Secretary is required to coordinate several major rulemakings under the Dodd-Frank Act. For example, to facilitate the joint rulemaking on credit risk retention, Treasury staff held frequent interagency discussions beginning shortly after the Dodd-Frank Act was passed to develop the rule text and preamble. This joint rulemaking required reaching consensus among six rulemaking agencies. The proposed rule, released on March 31, demonstrates our ability to promote effective collaboration, and it is a significant step towards strengthening securitization markets. Treasury staff is currently engaged in a similar process with the staff of member agencies tasked with drafting the Volcker Rule.

The Council's regulatory coordination role is greater than the specific statutory instances where coordination is required. Deputies meetings have served as a forum for sharing information about significant regulatory developments, particularly those that impact the work of more than one member agency and relate to financial stability. For example, the Federal Reserve recently briefed deputies on the results of its Comprehensive Capital Analysis and Review. Treasury has provided updates on housing finance reform.

OFFICE OF FINANCIAL RESEARCH

In order to constrain systemic risk effectively, the Council and its members must have the ability to effectively monitor it.

The Dodd-Frank Act established the Office of Financial Research (OFR) to improve the quality of financial data available to policymakers and facilitate more robust and sophisticated analysis of the financial system.

In the lead-up to the financial crisis, financial reporting failed to adapt to a rapidly evolving financial system. Supervisors and market participants lacked data about the increasing leverage in the rapidly growing shadow banking system. Policymakers and investors responded to the crisis with inadequate information about the interconnectedness of firms and associated risks to the financial system.

The Dodd-Frank Act established two complementary centers within the OFR – one focused on data, and one focused on research and analysis – to help ensure that, going forward, regulators' understanding of the risks within the financial system can keep pace with innovation and with market developments.

The OFR will standardize and provide data and analytical tools for OFR researchers, the FSOC, its members, and the public. In collecting information, the OFR will minimize the reporting burden on industry by, whenever possible, relying on data already in the regulatory system, and by assisting Council members in standardizing information collected by those members. The OFR is already working to accomplish both goals and its staff is working closely with the regulatory community to catalog data already collected to help ensure duplication will not occur. And the OFR is collaborating with the SEC and CFTC to standardize reporting of parties to swap transactions.

More broadly, the OFR is exploring ways in which it can help make government more efficient. For example, the OFR is investigating how it might act as a central warehouse of data for the regulatory community and other ways in which it could facilitate data sharing. The OFR has also been soliciting input from FSOC member agencies to find ways to support their efforts.

The OFR's Research and Analysis Center, will measure and analyze factors affecting financial stability and help to develop policies that promote it. The OFR will also report to the Congress and the public on its analysis of significant financial market developments, potential emerging threats to stability and policy responses. The combination of better, more granular data, and new analytic capabilities focused on systemic threats can help all market participants—industry as well as regulators—better understand risks within the financial system.

Attracting and hiring top quality senior leadership is critical to OFR and in guiding its mission.

The search for an OFR Director is ongoing and a high priority for the Administration. The Administration is evaluating candidates based on a combination of strong analytical ability, experience in financial services, management experience, and communication skills. In the meantime, key personnel have been hired.

Richard Berner recently joined the Treasury Department as Counselor to the Secretary with the responsibility to oversee the implementation of the Office of Financial Research. Mr. Berner is a well-respected economist who will bring judgment and leadership to the OFR implementation team, along with critical risk management and financial industry expertise.

The OFR also is filling senior personnel roles including its Chief Operating Officer, Chief Data Officer and Chief Business Officer. The OFR is hiring top-tier talent with deep industry experience in data management, technology, and risk management. Industry experience will help ensure that the organization will collect data in a systematic, structured, and non-duplicative way, with clear benefits to industry and regulators.

The OFR is also making progress in establishing its research team and network, which will include academics from across the country and in a variety of disciplines. The interdisciplinary research team will add significant capacity to the FSOC's ability to measure and analyze the many dimensions of financial stability.

We project that by the end of September, the OFR will have over 60 full-time employees. Treasury is committed to providing this implementation team with needed support and guidance, and I, along with other senior Treasury officials, are meeting with the team weekly to make sure priorities are identified, progress is measured and that the stand-up of the OFR is well executed.

As the OFR continues to recruit highly-qualified individuals to lead and support its work, current staff is already working with regulators and industry to standardize financial reporting. This will improve the ability of policymakers and private industry to aggregate information—critical to risk management. It will also facilitate more efficient processing by private firms and markets.

The OFR's first step in this direction has been to promote the establishment of a global standard for identifying parties to financial transactions: a legal entity identifiers (LEI). During the financial crisis, a LEI could have given policymakers and private institutions a clearer understanding of the interconnections among financial institutions.

The LEI initiative is moving forward quickly. The OFR is working closely with U.S. and foreign financial regulators to define consistent requirements, and is using established international forums, such as the Financial Stability Board, to engage in multilateral discussions. The OFR already published a framework in its November Policy Statement, consistent with the requirements set forth by the SEC and CFTC in their Notices of Proposed Rulemakings for swap transaction reporting. Meanwhile, various financial trade associations and their members formed a global coalition to produce a common set of requirements for such a standard. Last week they published a white paper that lays out draft requirements, and they are seeking input from public and private entities. The International Organization for Standardization—which has deep expertise in this area and representation from industry and regulators—is moving quickly to define a new standard that it intends to be consistent with public and private requirements.

In addition to these efforts, OFR staff is supporting the work of the Financial Stability Oversight Council. This includes data and analysis in support of the FSOC's evaluation of nonbank financial companies for designation and its report on systemic risk.

The OFR is also establishing forums and networks to allow experts within and outside the regulatory system to contribute to the Council's mission. This year, the OFR will host along with the National Science Foundation, a conference that brings together top academics in finance, economics, and computer science, and members of industry and the regulatory community on systemic risk monitoring and potential responses. OFR staff also will be participating in the academic community through its publications

CONSUMER FINANCIAL PROTECTION BUREAU

While the Council and the Office of Financial Research are designed to help us monitor and address risk in the broader financial system, the Consumer Financial Protection Bureau was created to address a specific gap in our regulatory structure – the need for a single agency dedicated to consumer protection.

The CFPB, which will assume existing authorities of seven federal agencies on July 21, 2011, will work to make sure that consumers have the information they need to understand the terms of their agreements with financial companies. It will also work to make regulations and guidance as clear and streamlined as possible in order to ease the burden on providers of consumer financial products and services.

The CFPB will consolidate existing federal rulemaking authorities with respect to consumer financial products and services, have enforcement and supervision authority for depository institutions with over $10 billion in assets and their affiliates, as well as supervise the consumer financial services activities of many non-bank financial firms that sell consumer financial services.

The Act charges the Secretary of Treasury with standing up the CFPB until a director is appointed. Under his leadership we set up an implementation team with a clear mandate shortly after enactment.

Elizabeth Warren, as Special Advisor to the Secretary, is leading Treasury's effort to build the CFPB. The CFPB implementation team, now consisting of over 200 staff members, is focused on setting up key functions of the bureau such as bank supervision, fair lending and enforcement programs and research, markets, and regulation teams. In order to do this, CFPB is making major investments in infrastructure and human capital. The CFPB implementation team has reached agreement with the six agencies transferring staff with regards to a process for transferring staff to CFPB that will minimize disruption to existing agencies while allowing CFPB to gain from existing expertise.

The CFPB implementation team has made a concentrated effort to reach out to the public, industry, and other concerned groups during the initial stand up of the CFPB. As an example of this extensive outreach, Elizabeth Warren has made it a priority to meet with community bankers and credit unions from all 50 states. She has also met with dozens of CEOs and other executives of the largest financial institutions and consumer advocates. The CFPB's office of servicemember affairs, led by Holly Petraeus, is actively working with the Department of Defense to help inform and protect servicemembers from financial tricks and traps.

The CFPB is well on track to meet the statutory deadlines for reports mandated by Dodd-Frank, and the CFPB implementation team is planning and preparing for the promulgation of certain rules mandated by the Dodd-Frank Act. For example, the CFPB implementation team is actively working to complete initial steps toward the consolidation of the TILA/RESPA mortgage disclosure forms. This consolidation will allow us to reduce the regulatory burden on industry and provide consumers with more of the information they need to make the right decision.

There has been significant progress towards standing up core elements of the CFPB by the designated transfer date of July 21, 2011. In addition to its bank supervision program, the CFPB will stand up components of its consumer response system and be prepared to take over rule writing projects that will transfer over to the bureau.

And the agency will be accountable in executing these tasks. Dodd-Frank includes several provisions to ensure the agency's accountability.

The CFPB must submit annual reports to Congress, the Director must testify multiple times each year on the agency's budget and activities, and the GAO audits the CFPB's expenditures annually. Furthermore, the CFPB is currently subject to the oversight of the inspectors general of Treasury and the Federal Reserve. And, most importantly, there is direct oversight of the agency's rulemaking: the FSOC can review and even reject the CFPB's rules, and, as with any other regulator, Congress has the ability to overturn any of the CFPB's rules.

The goal of the CFPB is to make markets for consumer financial products and services work for Americans – whether they are applying for a mortgage, choosing among credit cards, or using any number of other consumer financial products. The CFPB implementation team is on track to standing up an agency capable of accomplishing this goal.

FEDERAL INSURANCE OFFICE

In addition to providing for new regulatory protections and oversight for consumers, the Dodd-Frank Act enhances the federal government's ability to monitor the insurance sector and coordinate and develop federal policy on major domestic and international insurance issues. The crisis highlighted the lack of expertise within our federal government regarding the insurance industry. In response, the Act establishes the Federal Insurance Office (the "FIO"), which will provide the U.S. Government – for the first time -- dedicated expertise regarding the insurance industry.

The FIO will monitor for problems or gaps in insurance regulation that can contribute to a systemic crisis in the insurance industry or the financial system; gather data and information on the industry and insurers; and coordinate federal policy in the insurance sector.

The Act does not provide the FIO with general supervisory or regulatory authority over the business of insurance. The States remain the functional regulators. Through the FIO, however, the federal government will work toward modernizing and improving our system of insurance regulation.

Secretary Geithner announced at the March FSOC meeting that Michael McRaith has been selected to become the Director of the FIO. Mr. McRaith is currently the Director of the Illinois Department of Insurance, and will bring significant experience and judgment to the FIO.

Treasury also recently announced that the Department will establish a Federal Advisory Committee on Insurance. The objective of the Committee is to present advice and recommendations to the FIO to assist the Office in carrying out its duties and authorities. The Advisory Committee will reserve half of its membership for the State insurance commissioners so that the FIO will benefit from the knowledge and regulatory experience of our functional regulators. The remaining members will represent a diverse set of expert perspectives from the various sectors of the insurance industry (life, property and casualty, reinsurance, agents and brokers), as well as academics, consumer advocates, or experts in the issues facing underserved insurance communities and consumers.

The FIO has served an important consultative role in advising on several Dodd-Frank studies, rule writing processes and ongoing responsibilities. These include providing expert advice on the Volcker Rule study and rule writing, Orderly Liquidation Authority rule writing and participating in the FSOC insurance working group.

The Federal Insurance Office has become a provision member of the International Association of Insurance Supervisors (IAIS), where it will represent the United States, and it is expected to be voted-in as a full member in the fall. The FIO is also leading the US delegation for the insurance and pensions committee of the Organization for Economic Co-operation and Development.

The Secretary of the Treasury, supported by the FIO, together with the United States Trade Representative, is now empowered to negotiate certain international agreements regarding prudential insurance measures. We anticipate that the FIO will be actively involved, for example, in working with the representatives of other countries on reinsurance collateral and U.S. equivalence under Solvency II.

CONCLUSION

The Dodd-Frank Act builds a stronger financial system by addressing major gaps and weaknesses in regulation. It puts in place buffers and safeguards to reduce the chance that another generation will go through a crisis of similar magnitude. It protects taxpayers from bailouts. It brings fairness and transparency to consumers of financial services. And it lays the foundation for a financial system that is pro-investment and pro-growth. The Act and its successful implementation will help ensure that our financial system becomes safer, stronger and, just as in the past century, the world leader.

Thank you very much.