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"Where Were the Watchdogs? Financial Regulatory Lessons from Abroad"

Homeland Security and Governmental Affairs Committee

Chairman Joseph Lieberman

May 21, 2009

Good morning and welcome to our hearing today - "Where Were the Watchdogs? Financial Regulatory Lessons from Abroad." This is our Committee's third in a series of hearings examining the structure of our financial regulatory system; how that flawed structure contributed to the system's failure to anticipate the current economic crisis; and, most importantly, what kind of structure is needed to strengthen financial oversight for the future.

As we learned from previous hearings, our current regulatory system has evolved in a haphazard manner over the last 150 years — largely in response to whatever the latest crisis was to hit our nation and threaten its financial stability.

As a result, we have a financial regulatory system that is both fragmented and outdated. Numerous federal and state agencies share responsibility for regulating financial institutions and markets, creating redundancies and gaps over significant activities and businesses such as consumer protection enforcement, hedge funds, and credit default swaps. Our current crisis has clearly exposed many of these problems.

To strengthen our financial regulatory system and protect us from future crises, an array of interested parties - academics, policymakers, and experts - from across the political spectrum has called for significant reorganization.

As we move forward and consider our options, it makes sense to examine the experiences of other nations around the world that have had similar experiences. That is the primary purpose of today's hearing.

Over the past few years the United Kingdom, Australia, and a number of other countries have dramatically reformed their financial regulatory systems. They have merged agencies, reconsidered their fundamental approaches to regulation, and streamlined their regulatory structures. Many experts believe that these reforms have resulted in a more efficient use of regulatory resources and more clearly defined roles for regulators. And even though the U.S. economy is vastly different in size and scope from all others, there is still much we can learn by studying the examples of our free market partners.

We have an impressive panel of witnesses today, each of whom has thought extensively about the different ways in which a country can structure its financial regulatory system. And I would imagine that you all bear the scars of trying to change the regulatory status quo.

As our witnesses know, reorganizations are complicated and difficult. Our committee learned this first hand through its role in creating and overseeing the Department of Homeland Security and in reforming our nation's intelligence community in response to

9/11. But reorganizations can also pay dividends, resulting in better coordination, greater efficiency, and more transparency.

Today we will hear if other countries that dared to restructure their financial regulatory systems have earned those dividends and how their lessons learned may be applied here in the United States.

I recognize that, by itself, restructuring our financial regulatory system will not solve all of our current problems or necessarily prevent future crises. That may well be an impossible task. But I know that we will be better off in the future if we reorganize our regulatory structures , not just reform the content of our regulations.

I am confident in the work that my colleagues on the Senate Banking Committee are doing to address the weaknesses in our financial regulations. Improving consumer protections, addressing systemic risks, and regulating derivatives are all necessary steps to ensuring the vitality of our financial services industry and our overall economy.

But the underlying regulations and the overarching structure are tightly interwoven. I firmly believe that if we want to minimize the likelihood of severe financial crises in the future, we need to reform our regulations *AND* improve the architecture of our financial regulators.

As Treasury Secretary Geithner and the Obama Administration prepare to announce their own plan for comprehensive reform in the coming weeks, the testimony presented here today will help ensure that we are cognizant of what has, and has not, worked abroad. Thank you.

Senator Collins?

First we will hear from **David Green.** Mr. Green was Head of International Policy at the UK's Financial Services Authority after having previously spent three decades at the Bank of England. Mr. Green currently works for England's Financial Reporting Council.

Next we have **Jeffrey Carmichael**, the inaugural chairman of the Australian Prudential Regulation Authority, which had responsibility for regulating and supervising banks, insurance companies and pension funds. Dr. Carmichael currently works in Singapore as the CEO of Promontory Financial Group, Australasia.

Third is **Edmund Clark**, President and CEO of the TD Bank Financial Group in Canada. Mr. Clark has had a long career in both the Canadian government and private industry.

Finally, we will hear from **David Nason**, a key contributor to the Treasury Department's March 2008 Blueprint for a Modernized Financial Regulatory Structure. Mr. Nason works for Promontory Financial Group here in DC.