OPENING STATEMENT OF CONGRESSMAN PAUL E. KANJORSKI

COMMITTEE ON FINANCIAL SERVICES

HEARING ON REGULATORY RESTRUCTURING AND REFORM OF THE FINANCIAL SYSTEM

OCTOBER 21, 2008

Mr. Chairman, we have reached a crossroads. Because our current regulatory regime has failed, we now must design a robust, effective supervisory system for the future. In devising this plan, we each must accept that regulation is needed to prevent systemic collapse. Deregulation -- along with the twin notions that markets solve everything while government solves nothing -- should be viewed as ideological relics of a bygone era.

We also need regulation to rein in the private sector's excesses. In this regard, I must rebuke the greed of some AIG executives and agents who spent freely at California spas and on English hunting trips after the company secured a $123 billion taxpayer loan. Their behavior is shocking. The Federal Reserve must police AIG's spending and impose executive pay limits. If it does not, I will do it legislatively. After all, the Federal Reserve lending money to AIG is no different from the Treasury investing capital in a bank.

Returning to our hearing's main topic, I currently believe that the oversight system of the future must adhere to seven principles. First, regulators must have the resources and flexibility needed to respond to a rapidly-evolving global economy full of complexity and innovation.

Second, we must recognize the interconnectedness of our global economy when revamping our regulatory system. We must ensure that the failure of one company, one regulator, or one supervisory system does not produce disastrous ricocheting effects elsewhere.

Third, we need genuine transparency in the new regulatory regime. As products, participants, and markets become more complex, we need greater clarity. In this regard, hedge funds and private equity firms must disclose more about their activities. The markets for credit default swaps and other derivatives must also operate more openly and under regulation.

Fourth, we must maintain present firewalls, eliminate current loopholes, and prevent regulatory arbitrage in the new regulatory system. Banking and commerce must continue to remain separate. Financial institutions can neither choose their holding company regulator nor evade better regulation with a weaker charter. All financial institutions must also properly manage their risks, rather than shifting items off balance sheet to circumvent capital rules.

Fifth, we need to consolidate regulation in fewer agencies, but maximize the number of cops on the beat to make sure that market participants follow the rules. We must additionally ensure that these agencies cooperate with one another, rather than engage in turf battles.

Sixth, we need to prioritize consumer and investor protection. We must safeguard the savings, homes, rights, and financial security of average Americans. When done right, strong consumer protection can result in better regulation and more efficient markets.

Seventh, in forcing financial firms to behave responsibly, we must still foster an entrepreneurial spirit. This innovation goal requires a delicate, but achievable, balancing act.

In sum, we have a challenging task ahead of us. Today's esteemed witnesses will help us to refine my seven regulatory principles and ultimately construct an effective regulatory foundation for the future. I look forward to their thoughts and to this important debate.
