

“Enhancing U.S. Financial Competitiveness and Market Stability”
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Thank you Tom, and thanks to the U.S Chamber for hosting this important event. The Chamber has been a leader on issues fundamental to the competitiveness of the U.S. financial services sector, and the Financial Services Roundtable commends your leadership.

As the speakers today will testify, we’re not alone in our efforts. There is growing awareness of the threats to our competitive position, and a growing receptivity to the idea of reform. For decades, most Americans have taken for granted our position of world leadership in the financial industry. In the face of mounting evidence, policymakers finally are awakening to the significant challenges from abroad.

And they are waking up to what the industry means to our nation. To its role in creating jobs ... supporting consumers ... financing virtually every business sector ... and driving our collective growth. The financial services industry is central to the health and vitality of our economy ... and threats to its well-being cannot be taken lightly by anyone. Action is required to make our regulatory and legal environment more flexible, more competitive, and more effective.

Current market events have somewhat overshadowed the competitiveness issue but in reality gives guidance to our concerns. There is a common response to both the competitive threats facing U.S. financial markets and firms and the current instability of markets. That response is simply – better regulation, better regulatory coordination and consistency.

Now it would be presumptuous of me to suggest we could have prevented the current credit crisis by simply creating better regulation and better coordination. It is safe, however, to suggest that the current system has exacerbated our problems.

Our current predicament is a study in regulatory ineffectiveness. It serves to highlight the pitfalls of an overly complex system ... the lack of regulatory coordination and prudential supervision and the resultant gaps in protection for consumers.

As an example, let’s consider how the U.S. mortgage industry is regulated. The process often starts with mortgage brokers, who are licensed by the 50 states without the benefit of any uniform standards. The brokers then turn to bank and non-bank lenders to make these mortgages. They have a whole different set of regulators ...a combination of the OCC, OTS, FDIC, Federal Reserve, and, of course, 50 states.

Again, there are no common principles or uniform standards for guidance. Moreover, just to complicate things, many of the supervisory standards that apply to banks do not apply to the non-bank lenders, and they comprise half the market.

But that's just the start of the problem. What happens next is bank and non-bank lenders sell the mortgage loans to securitizers, who are supervised by the SEC, which has no formal means to coordinate its supervision with other federal agencies.

The securitizers then package and sell the loans to investors, including insurance companies, who purchase the assets based upon credit ratings. Insurance companies, as you know, are regulated by 50 separate state insurance commissioners. Credit rating agencies, in turn, are approved by the SEC, but are only lightly regulated, if at all.

I could continue from there ... but the point is already clear: we have scores of different regulatory authorities involved ... each with a different piece of the process ... and none with the institutional capacity to talk to one another ... some without the capacity to talk to their own regulated entities.....and none with full accountability or oversight of the end-to-end process.

Beyond the current crisis, our regulatory system has created long-term competitive challenges for us globally. The complexity and costs of our regulatory system discourage firms from operating here, especially when they can operate in other markets at lower costs and raise capital just as efficiently, if not more so.

Today, the U.S. financial services industry collectively spends more than \$5 billion annually in direct regulatory costs, not including the indirect costs of regulatory compliance that get passed on to consumers.

As an example of the results of this burdensome cost structure, last month ABN Amro announced it was closing all portfolio investment accounts held by customers with a United States passport. Their decision was a result of, and I quote – “high costs to comply with American regulatory laws.” – close quote.

Economic power can and does shift, reflecting the competitive environment. While the U.S. is still the largest financial market, we all know that London found that out a century ago when economic and financial resources migrated from London to New York. Now it is reversing.

Today, economic power is shifting far faster than it ever has in the past. In fact, major foreign financial markets have been growing faster than the U.S. for the past 15 years and increasing in sophistication, providing a more encouraging and rational environment in which to do business.

- The U.S. is one of the slowest-growing major financial markets, with a growth rate of 8.7% per year.
- By contrast, financial assets in China are growing by 26% per year, India by 20%, and even the Euro zone growing 9.2%.

Clearly, we are losing the competitive challenge ... that, magnified by the current market situation, leads one to believe that it's due in large part to the fact that other markets have adopted more flexible regulatory structures with greater coordination that makes it easier to do business.

London is a case in point. The fact is, London is now more competitive than New York from a legal, regulatory and tax perspective.

As more activity and jobs head overseas, and again the issue is compounded by market disruptions ... the momentum for change is building, and the direction of required change is becoming clearer.

The question is: what can we do to strengthen our regulatory system so our markets remain stable and our companies remain competitive?

The right ideas are out there. Later today, Treasury Secretary Paulson will be speaking here on the current outlook of the U.S. Treasury Department. I'm sure Secretary Paulson will mention the progress Treasury is making on its guidelines for corrective action. All of us are looking forward to these guidelines, which build on a number of different studies recently done, including the Roundtable's own. These studies bring different perspectives ... somewhat different but overlapping sets of issues ... but one shared conclusion: the urgent need for fundamental reform in our approach to financial regulation.

...The need for a system of financial regulation that is based upon a common set of principles that are applied across markets by all financial regulators.

...The need for a system that promotes greater coordination between regulatory bodies ... that encourages and rewards compliance ... and can adapt more readily to changes in market conditions.

...And the need for a system of uniform, prudential supervision across all markets.

These three reforms can be found in the Roundtable's *Blueprint for U.S. Financial Competitiveness* and would achieve these goals contemporaneously. While those reforms are couched in terms of "competitiveness", they also constitute a call for better, more effective regulation..... which is an imperative given the current market turmoil.

The move from our current rules-based approach to one based on a set of principles would give all regulators and regulated firms a common compass to guide behavior, create more uniform national standards and instill greater transparency in regulatory processes.

The Roundtable's *Blueprint* identifies six principles that should be applied consistently by all federal and state regulators:

- fair treatment for consumers...
- ensuring competitive and innovative financial markets...
- providing proportionate, risk-based regulation...
- characterized by prudential supervision and enforcement...
- offering options for serving consumers...
- with recognition of management responsibilities.

A principles-based approach would be more effective, more predictable and less costly ... as has been proven in other jurisdictions around the globe. Our current, highly prescriptive, approach to regulation in the U.S. is simply unable to keep pace with developments in the marketplace and adapt to changes before they potentially become problems. As a result, we're left with out-of-date regulations that simply do not apply to the current market. Conversely, creating principle-based regulation rather than a rules-based approach would allow such regulations to be adapted to the current markets on a more timely and consistent basis.

Prudential supervision and enforcement should be the standard. This approach encourages regulated firms to report matters of concern to supervisors and to take corrective actions – without subjecting themselves to automatic enforcement before they can fix their problems. It would help enhance compliance with laws and regulation, while reducing the potential for either unnecessary enforcement after-the-fact or costly litigation. Better for consumers and better for the financial industry.

To address the existing gaps in coordination between regulators – gaps as we saw in the mortgage process that arguably have contributed to our current state of affairs – we recommend expanding the current President's Working Group to include a broader range of state and federal regulators and enhancing its mission. The group would provide a single forum for all financial regulators ... so they become more anticipatory than reactive and can work together across the entire financial sector – especially in times of market stress.

Had these reforms been in place during the past few years, the U.S. financial markets might be in a different place right now.

Let me illustrate how:

First, the application of our proposed principles would have required all participants in the mortgage market to recognize their obligation to treat consumers fairly ... and would have required all lenders to follow common prudential lending practices and risk management procedures.

Second, a uniform system of prudential supervision would have allowed regulators to work with the industry BEFORE such turmoil had occurred.....to correct such actions BEFORE the point we are at in the market right now.

Third, an expanded President's Working Group with a more forward-looking mission would have required better regulatory coordination among regulators at every step of the mortgage transaction, from the retail sale through securitization.

Perhaps we couldn't have averted the crisis, but I do believe the problems would have been identified sooner and proven less severe.

These three reforms would strike a balance between regulation and innovation ... and between dealing with immediate conditions and serving long-term economic goals.

They would put us on equal footing from a regulatory standpoint with other major financial centers –London, Zurich, Singapore and Hong Kong – where regulation is already rooted in a uniform approach to supervision and clearer financial market principles.

These three reforms are eminently achievable through a united effort.

I am pleased to announce publicly today that the Roundtable has drafted the necessary legislation to make these three reforms a reality. We offer this as a practical starting point to address the current market strains and, with the long-term vision that such changes will help us withstand the competitive challenge from abroad.

The only potential obstacle is political will. The Roundtable is fully prepared to act now, during this difficult period when the appetite for change is strong. The current market calls a lot for such change. We stand ready to work with the Chamber and all others in this effort.

Our immediate challenge is to see that the reforms I've laid out are enacted, and we are prepared to work with the Treasury Department, the Congress and our financial regulators to make that happen.

This is not just an industry issue – it's a national economic issue. It's time to move from talking to taking action – with all the urgency the situation warrants. We can't risk continued market disruption any more than we can risk our position as the world leader in financial services.

What's at stake is nothing less than our future prosperity.

Thank you.