

Republicans Announce Comprehensive Regulatory Reform Plan

June 11, 2009

Plan Presents A Clear Exit Strategy From Taxpayer Funded Bailouts, While Modernizing the Financial Services Regulatory Structure

Financial Services Committee Republican Leadership, led by Ranking Member Spencer Bachus (AL), unveiled their comprehensive plan to modernize the regulatory structure of the financial services industry during a press conference today. The Republican plan will protect investors, taxpayers, and consumers, and make Wall Street responsible for its actions.

The Republican plan is guided by three key principles: no more bailouts; getting the government out of picking winners and losers; and restoring market discipline to eliminate the expectation of a government rescue.

Ranking Member Bachus said, "The plan we are announcing today brings a new era of responsibility to Wall Street. No longer will financial firms be able to hand their losses off to the taxpayer. Restoring market discipline and getting the government out of the bailout business is critical to helping prevent another crisis. Our plan also brings needed reforms to the Federal Reserve to ensure transparency and accountability, and to protect taxpayers who have been forced to pay for Wall Street's mistakes during this crisis."

Committee Republicans are offering a clear alternative to the failed and often politicized policy of rescuing "too big to fail" institutions that Democrats seek to institutionalize. The Republican plan would end all bailouts and direct all insolvent non-banks to an enhanced bankruptcy process. Bankruptcy is a fair and transparent process to unwind insolvent companies. The creation of a new chapter in the bankruptcy code will ensure that bankruptcy is efficient at handling non-bank financial institutions and that appropriate regulatory expertise is available to the bankruptcy court when dealing with these failures.

"My constituents and I are very uncomfortable with the idea that our tax-dollars were going to bailing out large financial institutions," noted Congresswoman Shelley Moore Capito. "Thankfully this proposal draws a line in the sand when it comes to bailouts, while protecting taxpayers and creating a renewed sense of stability and certainty in the financial markets that can serve as a sound foundation for growth and market security. We can't afford to reward failure and we need transparency and accountability, not the government picking winners and losers."

To fundamentally reform the Federal Reserve, the plan relieves the Fed of its current supervisory duties so that it can refocus on its core mission of conducting monetary policy. To promote accountability and transparency, the Government Accountability Office will conduct audits of the Federal Reserve. The Fed would also be prohibited from using its authority under section 13(3) of the Federal Reserve Act to bail out any specific financial institution. Its remaining section 13 (3) authority would be limited by requiring Treasury approval of -- and giving Congress the ability to disapprove - any action under 13(3). All transactions carried out pursuant to section 13(3) would be brought onto Treasury's balance sheet.

"These proposals get the government out of the bailout business, prevent it from cherry-picking winners and losers, and send a clear signal that from now on, Wall Street -- not taxpayers -- will be responsible for risky business," said Congresswoman Judy Biggert. "Our proposals put taxpayers first. They point toward smarter, stronger regulators and regulations that promote transparency, accountability, and competition."

The Republican plan modernizes our banking regulation by consolidating redundant financial regulatory agencies to streamline the supervision of deposit taking entities while preserving charter choice as well as the dual banking system. The Republican plan would streamline the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) and also shift the supervisory functions of the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) to that agency. The FDIC would retain responsibility for administering the deposit insurance system, including its backup examination authority to protect the Deposit Insurance Fund, and for resolving failed depository institutions.

Congressman Scott Garrett said, "At the core of our plan is a promise to the American taxpayer: no more bailouts. It's time to reject the "too big to fail" logic that has resulted in unprecedented government intrusion into the marketplace and reinstate the free market principles that are the cornerstone of our nation and a healthy financial sector."

During the financial crisis, the regulators' unprecedented action, or inaction, has not addressed the fundamental problem and only further exacerbated the crisis. The Republican plan addresses the causes of the financial crisis, and modernizes the regulatory structure while adopting a new approach to the financial markets, one that no longer includes the taxpayer as the financial backstop of the financial markets. It is the most comprehensive approach to modernize our regulatory structure in decades.

"The collapse of the past requires bold solutions for the future to preserve the market system that made this nation so strong," said Congressman Tom Price. "Today we offer a plan that will restore the market discipline and consumer confidence that is necessary in a 21st century financial system. Our comprehensive solution promises that taxpayers will never again be forced to pick up the tab for the failures of others. Rather than cementing the too-big-to-fail model that has let down so many, we put to bed the federal policies that created our overleveraged financial institutions. Our plan provides a responsible resolution to financial institution insolvency, streamlines our regulators and makes certain they are communicating effectively, and ensures consumers are armed with the decision-making power that will allow them to create their own prosperity. Most importantly, we reject the creation of a new systemic risk regulator which would only entrench us in a political economy where the government picks winners and losers. By returning our financial sector to a system based on risk and reward, rather than backstops and bailouts, we can provide a stable and flourishing financial sector that can benefit all Americans."

The Republican plan establishes a Market Stability and Capital Adequacy Board to monitor the interactions of the financial system, government policies, and practices. The Board will report on any potential risks that might be looming but will not have independent enforcement authority. In order to address regulatory gaps, each functional regulator would be required to assess the effects of their regulated entities' activities on macroeconomic stability and review how entities under their regulatory purview interact with entities outside their purview. The periodic reporting will help Congress and relevant regulators to decide upon appropriate actions to address threats to financial stability. The Treasury Secretary would chair the Board, and it will be comprised of outside experts and financial regulators.

Congressman Randy Neugebauer said, "Republicans would create a Market Stability and Capital Adequacy Board, rather than establishing the Federal Reserve as the 'Systemic Risk Regulator,' as Chairman Frank and Secretary Geithner and others have suggested. We believe designating one person or one regulator as the 'Systemic Risk Regulator' or 'Super Regulator' establishes an explicit government 'too big to fail' policy and concentrates too much authority in one place. Our plan is about modern regulation and smarter regulation that allows market discipline to work-it's not about more regulators and believes the government can or should eliminate and prevent risk."

The Republican plan reforms Fannie Mae and Freddie Mac by ending the conservatorship and cutting their ties to the government. If Fannie and Freddie are financially sound, they would be transformed into fully private firms. If not financially sound, the unwinding of the enterprises would be initiated. Additionally, the Republican plan would rid Fannie and Freddie of market advantages, including requiring SEC registration and the payment of taxes.

Congressman Jeb Hensarling said, "The government sanctioned monopolies of Fannie Mae and Freddie Mac lie at the epicenter of our current economic turmoil as the prime examples of misguided federal policies that incited, cajoled, and mandated financial institutions to loan money to people to buy homes they could not afford to keep. For years, these two institutions were allowed to abuse their congressionally granted charters to distort the free market and swell to unmanageable sizes, which exposed taxpayers to more than \$5 trillion of risk once the government was forced to place Fannie and Freddie in conservatorship. For any piece of legislation that purports to address capital market reform to be taken seriously, it must include fundamental reform of Fannie and Freddie that once and for all ends their hybrid status and protects taxpayers from ever again having to provide the mother of all bailouts which Fannie and Freddie will no doubt prove to be."

The Republican plan reduces the over reliance on credit ratings to restore market discipline and promote greater investor due diligence. The plan would remove all references to Nationally Recognized Statistical Ratings Organizations (NRSROs) in Federal statute and change the NRSRO meaning to Nationally Registered Statistical Ratings Organizations.

The Republican plan protects consumers through improved disclosures and complaint resolution procedures. The Republican proposal would expand the mission of the Financial Literacy and Education Commission (FLEC) to include consumer protection and disclosure issues. The FLEC would also set out the relevant and understandable disclosures for regulated institutions related to their policies, procedures, guidelines.

The Republican plan enhances anti-fraud enforcement to help restore investor and consumer confidence. Regulators will be given more tools to go after alleged violators and to coordinate with foreign regulators and other law enforcement agencies. Further, both civil and criminal monetary penalties in government enforcement actions will be increased and procedures put in place to facilitate better surveillance of bad actors.

The Republican plan is a culmination of diligent work over the past few months by Ranking Member Spencer Bachus, Financial Institutions Subcommittee Ranking Member Jeb Hensarling, Capital Markets Subcommittee Ranking Member Scott Garrett, Housing Subcommittee Ranking Member Shelley Moore Capito, Oversight and Investigations Subcommittee Ranking Member Judy Biggert, Deputy Ranking Member Randy Neugebauer, and Republican Study Committee Chairman Tom Price.

NOTE: [Click here](#) to view the Republican regulatory reform plan.

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