

Bachus Statement During Derivatives Hearing

July 10, 2009

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, made the following statement today during the hearing on derivatives.

"Mr. Chairman, derivatives serve an important function in the market. They allow companies to hedge against risk, deploy capital effectively, lower cost and offer protection against fluctuating prices. However, derivatives are also about shifting risk. We do not want a system that shifts that risk on to the taxpayer and I am concerned that the Administration's proposal will do just that. As we learned from Fannie and Freddie fiasco, government regulators are not in the best position to effectively evaluate these risks.

"In addition I am concerned that the Administration's proposal will adversely affect the thousands of companies across America that use derivatives to manage interest rate, exchange rate, commodity, credit default, and other risks.

"For example, the Administration supports moving over-the-counter products into venues like clearinghouses and exchanges that will require the terms of the contracts to become standardized. Because accounting rules require derivative hedges to have a close and consistent relationship with the underlying asset or liability that is being hedged, standardization could make it more difficult, if not impossible, for American companies to manage their risk exposures with the customized derivatives they require for hedge accounting.

"In addition, mandatory clearing would require some companies to divert hundreds of millions of dollars of capital away from business investment for use as cash collateral. It seems counterintuitive during a recession to leave companies exposed to greater risk, raise their cost of capital, and make economic recovery more difficult to achieve.

"I also want to take this opportunity to address the larger issues surrounding regulatory reform. Republicans are not saying no to reform-we are saying no to bail outs. The Administration plan does nothing to stop the endless cycle of costly taxpayer bailouts and in fact sets up a new framework to perpetuate the bailouts. The Republican plan provides for an enhanced bankruptcy process in which financial firms and their creditors - not the American taxpayer -bear the costs of failure, as an alternative to continuing the bailouts.

"Republicans also take a different approach on consumer protection. The Administration's plan, which is reflected in your bill, Mr. Chairman, will make it harder for families to get the credit they need to make ends meet, and will undermine the economic recovery.

"Creation of this redundant agency will also weaken our community banks which will incur higher fees for deposit insurance, higher compliance costs to meet the new mandates, and considerable assessment burden to fund this massive new agency. This will place community banks at a competitive disadvantage to mega-banks; restrict credit availability and consumer choice; and lead to more consolidation in the financial services industry.

"The Republican plan would do a better job of protecting consumers. Consolidating the consumer protection functions of the Federal Reserve, OCC, OTS, NCUA and FDIC in a new functional regulator for all depository institutions will ensure consistency in enforcement and eliminate the consumer confusion created by the current system. We would streamline the complaint process. And we would strengthen anti-fraud enforcement, give regulators more investigative and enforcement tools, and increase restitution for victims.

"Republicans also question the wisdom of anointing the Federal Reserve as a super regulator. The Republican plan would refocus the Fed on its core mission of conducting the nation's monetary policy and eliminate entirely its authority to conduct AIG-style bailouts of individual companies at taxpayer expense.

"As you can see, Mr. Chairman, we are very concerned that the regulatory reform proposals put forth by the Administration will continue the same regulatory policies that created the financial and credit market crisis, and exacerbate the credit contraction that is hindering the economic recovery."

NOTE: Click here to view video of Ranking Member Bachus' remarks.

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