

Regulatory Reform Testimony

Ben Bernanke:

Chairman Frank, eh, Ranking Member Bachus, and other members of the Committee, I appreciate the opportunity to discuss ways of improving the financial regulatory framework to better protect against systemic risks. In my view, a broad-based agenda for reform should include at least five key elements.

Ben Bernanke:

First, legislative change is needed to ensure that systemically important financial firms are subject to effective consolidated supervision, whether or not the firm owns a bank.

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Second, an oversight council made up of the agencies involved in financial supervision and regulation should be established, with a mandate to monitor and identify emerging risks to financial stability across the entire financial system, to identify regulatory gaps, and to coordinate the agencies' responses to potential systemic risks. To further encourage a more comprehensive and holistic approach to financial oversight, all federal financial supervisors and regulators--not just the Federal Reserve--should be directed and empowered to take account of the risks to the broader financial system as part of their normal oversight responsibilities.

Ben Bernanke:

Third, a new special resolution process should be created that would allow the government to wind down a failing, systemically important financial institution whose disorderly collapse would pose substantial risks to the financial system and the broader economy. Importantly, this regime should allow the government to impose losses on shareholders and creditors of the firm.

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Fourth, all systemically important payment, clearing, and settlement arrangements should be subject to consistent and robust oversight and prudential standards.

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And fifth, policymakers should ensure that consumers are protected from unfair and deceptive practices in their financial dealings.

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Taken together, these changes should significantly improve both the regulatory system's ability to constrain the buildup of systemic risks as well as the financial system's resiliency when serious adverse shocks occur.

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