STATEMENT FOR THE RECORD

BY

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BEFORE THE

HOUSE FINANCIAL SERVICES COMMITTEE

UNITED STATES HOUSE OF REPRESENTATIVES

Re: International Context of Financial Regulatory Reform

JUNE 16, 2011

Chairman Bachus, Ranking Member Frank, and Members of the Committee, my name is Tim Ryan and I am President & CEO of the Securities Industry and Financial Markets Association ("SIFMA").[1] SIFMA appreciates the opportunity to testify at this important hearing on the International Context of Financial Regulatory Reform. In this context, our testimony will specifically discuss the capital regimes proposed by the Basel Committee on Banking Supervision ("Basel") and the Financial Stability Board of the G-20 ("FSB"), the Volcker Rule under Section 619 of the Dodd Frank Act ("Dodd-Frank" or the "Act"), global reforms to the derivatives markets, and the impact of convergence of U.S. GAAP accounting standards with International Financial Reporting Standards ("IFRS").

[1] The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in he financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

The passage of Dodd-Frank, together with industry initiatives, other U.S and global regulatory reforms, and actions proposed by Basel and FSB, are important efforts to ensure safety and soundness and to restore confidence in the global financial system in the aftermath of the financial crisis. As important as these various actions have and will be, it is equally important that policy makers, market participants, investors and consumers understand the magnitude and collective impact of these actions and their effect on U.S. markets, the economy and the lives of ordinary Americans. As Federal Reserve Chairman Ben Bernanke recently stated no such effort to consider the collective impact of these actions has taken place.[2]

Furthermore, we believe that U.S. regulators and our G-20 partners continue to be insufficiently coordinated to provide consistent implementation of reforms on a cross-border basis. We echo the comments of Treasury Secretary Geithner last week in calling for better such coordination.[3]

As we move towards the one year anniversary of the passage of Dodd-Frank, we welcome your focus on these issues and their impact on the future health and competitiveness of the U.S. financial services sector and markets and on economic growth.

SIFMA has been, and will continue to be, a constructive voice as these U.S. and global reforms are developed and implemented. Our members understand the value that a well-designed regulatory system can bring to restoring investor confidence and minimizing systemic risk. However, while we are supportive of many of these initiatives, we also believe that the range and extent of them, combined with the significant changes already implemented, could have potentially far reaching consequences for the economy and the long-term viability of U.S. financial markets as a ready source of capital and credit.

[2] Response of Federal Reserve Chairman Ben Bernanke, International Monetary Conference, June 7, 2011

[3] Remarks of Secretary Timothy Geithner before the International Monetary Conference, June 6, 2011.

Based on this, we ask the Committee to view our testimony within the context of the following broad themes and exert its oversight powers with respect to the following:

1) **Costs to the economy must be taken into account.** The layering and aggregate impact of both U.S. and global regulatory reforms imposes significant costs not just on the industry, issuers, and investors, but on consumers and the U.S. economy. In the wake of the crisis, it may be tempting to adopt *any* reform that seems to promote safety, but that would be extremely unwise if the economic costs outweigh the marginal benefits to increased safety. At present, far too little attention is paid to examining potential costs of particular reforms in terms of reduced credit or financial intermediation. And far too little attention is paid to assessing the actual amount of additional safety that particular proposed reforms will achieve. This balance ***must*** be taken into account -- costs and benefits -- for reform to be effective.

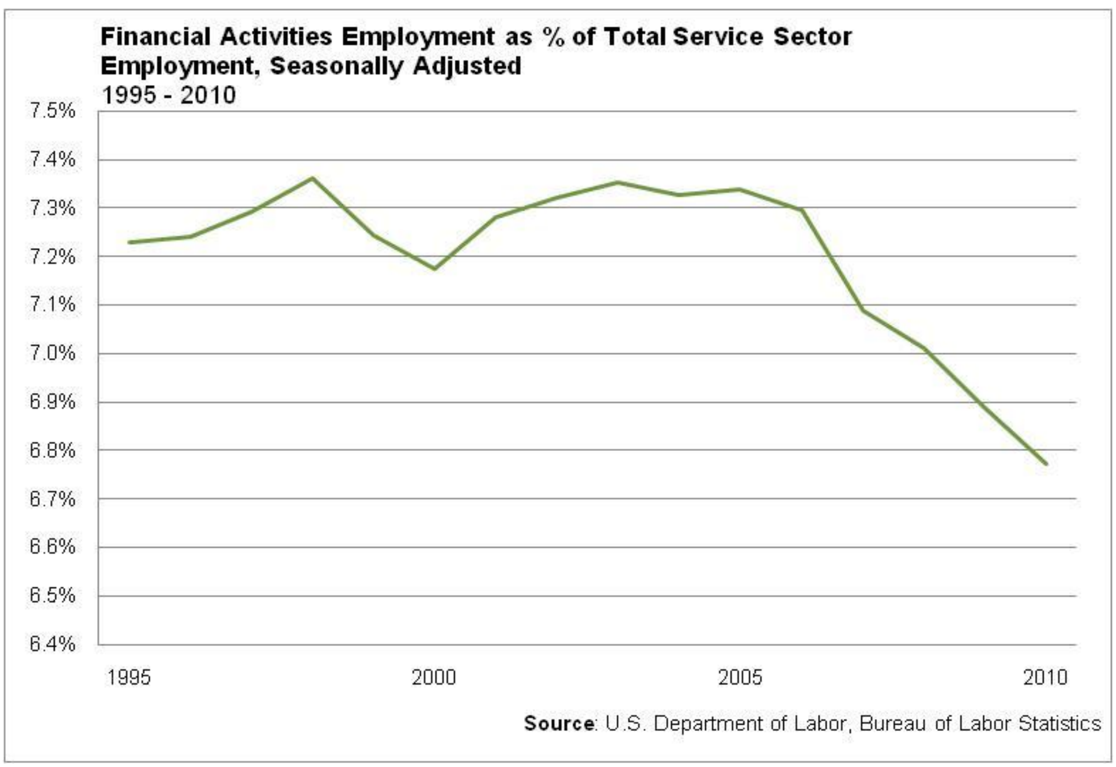
2) **Consistent rules and their consistent implementation across jurisdictions is critical to fairness, U.S. competitiveness, and safety and soundness.** Uniform global rules and their consistent global application with respect to major financial reforms, such as Basel III and FSB capital requirements, changes to the derivatives market, and limits on proprietary trading, are critical if the U.S. is to maintain its position as the deepest, most liquid, and most innovative financial market in the world. This fundamental principle will be undermined if the U.S. unilaterally imposes restrictions on its institutions that do not apply in other major financial markets around the world -- which is already occurring with respect to certain aspects of derivatives reform and the "Volcker Rule" restrictions on proprietary trading. And it is also undermined where supposedly common rules are implemented inconsistently in different countries -- as critics have complained about with respect to Basel capital

rules. Much more needs to be done to ensure the consistent application of ***existing*** rules before significant new rules are adopted, which will only widen competitive disparities.

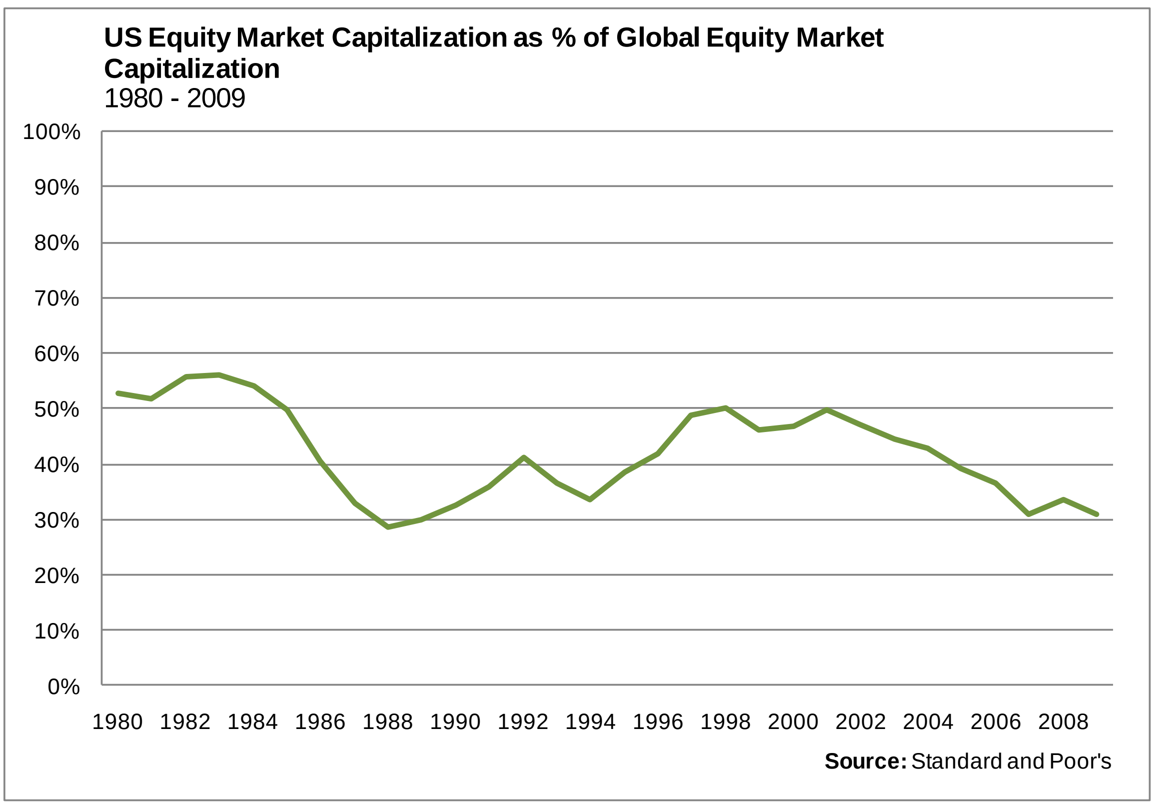
Accordingly, my testimony will address the following key points: 1) the importance of the healthy and vibrant financial services sector to the U.S. economy; 2) concerns related to the aggregate impact and fragmentation of global regulatory reforms; and 3) the potentially negative impact of certain regulatory reforms.

Benefits of the Financial Services Sector

A robust finance industry provides businesses with vehicles to lower the cost of capital, stimulates global investment and trade, and presents investors with a broad array of products and services to increase return and manage risk. Importantly, these financial services and products help facilitate and finance the export of manufactured goods and agricultural products, while helping the U.S. become the world's number one exporter of services, a key contributor in terms of U.S. private sector employment.



The long-term health and vigor of this sector, and its ability to service customer needs, depends on its ability to remain competitive. This is all the more important as the U.S. share of global output and its financial markets has become relatively smaller, and as the U.S. faces increasing competition from both developed and emerging markets, such as China.[4] Highlighting this point is the fact that the U.S. share of global equity market capitalization in 2009 was about 31%, roughly half the share in 1983. In comparison, emerging markets now account for about 28% of global equity market capitalization, over five times their share in 1982.



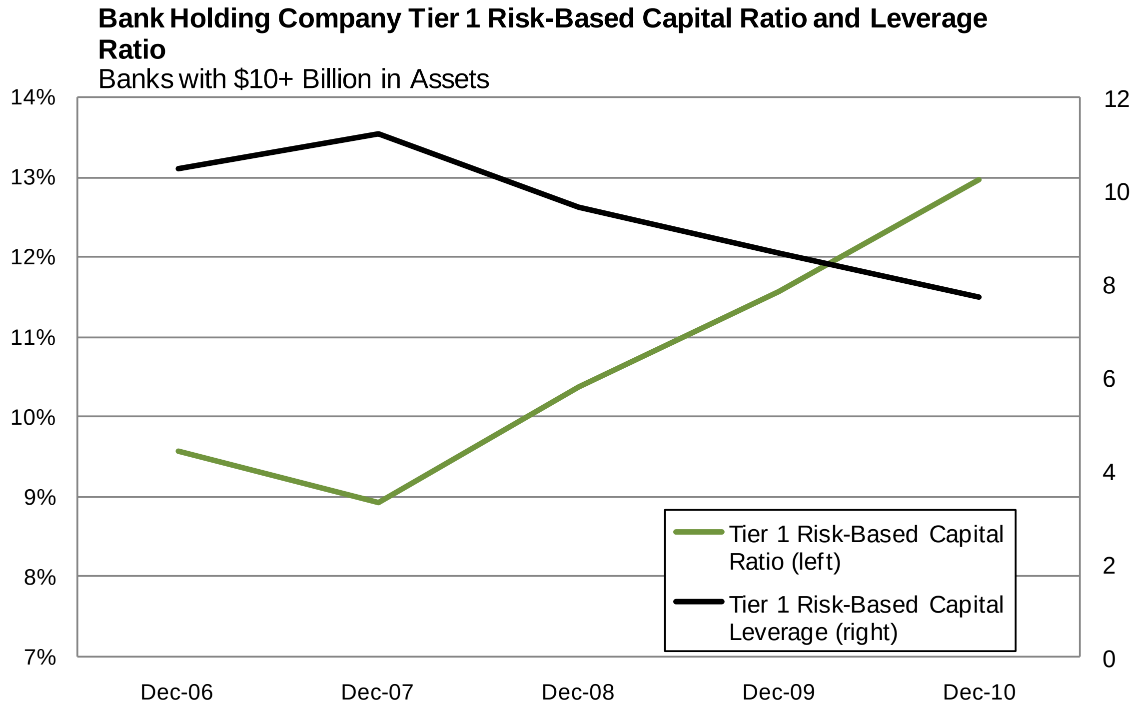
[4] "The 10 companies that went public abroad in 2010 — and 75 from 2000 to 2009 — compares with only two United States companies choosing foreign exchanges from 1991 to 1999." New York Times, June 8, 2011, "Fleeing to Foreign Shores", by Graham Bowley.

As U.S. corporations continue to expand their global capabilities and establish themselves in foreign markets, financial firms must follow them to remain competitive. That is, financial institutions provide the services that facilitate the entry of companies into international markets. They have developed global platforms in order to offer their services on a cross-border basis, or they have established local offices. In this way, financial services firms have set up the infrastructure to help multinationals navigate through the complexities of trade and investment flows that span geographic regions and economies. These are not services that can be replicated by smaller domestic financial firms as some have suggested. Furthermore, because of our deep and liquid markets, and strong investor based economy, foreign financial firms have made significant investments in the U.S., adding capital, liquidity, and employment. An unlevel playing field resulting from the failure to coordinate regulations cross-border in terms of capital requirements and activities restrictions would not only affect U.S. firms but diminish the attractiveness of U.S. markets to foreign financial firms, to the detriment of U.S. markets, issuers and investors.[5]

That is not to say there shouldn't be new enhanced capital requirements and activity rules; to the contrary, institutions operating in the United States, both U.S. and foreign domiciled, hold much greater, and higher quality capital today than before the crisis. Since the end of 2007, U.S. financial firms have raised more than $300 billion of common equity while repaying U.S. taxpayers for their TARP investment early and with a $12 billion profit. The largest U.S. banks have also reduced their average leverage ratio from 16:1 to 11:1 and increased loan loss reserves by almost 200%.[6]

[5] Foreign firms operating in the U.S. employ 250,000 U.S. citizens and permanent residents and are responsible for 25% of commercial and industrial lending in the U.S., according to the Institute of International Bankers.

[6] Remarks of Secretary Timothy Geithner before the International Monetary Conference, June 6, 2011.



Tier 1 Risk-Based Capital Ratio =
Tier 1 Risk-Based Capital / Total Risk-Weighted Assets
Leverage Ratio = 1/Capital Ratio **Source**: Federal Financial Institutions Examination Council

Piling on additional capital requirements and other rules designed to reduce risks in the system, absent a clear understanding of the cumulative effect of such changes, will negatively impact both the ability to fund credit and capital demand in the United States and the recovery of the general economy by raising costs to consumers or reducing credit availability. No regulator has attempted to assess this impact on the economy in a thorough and robust manner.

Fragmentation of Global Regulation

Furthermore, SIFMA believes that fragmented or conflicting regulation will complicate the ability of market intermediaries, investors, and those seeking to raise capital to conduct business efficiently. That is why it is critical that, as U.S. regulatory authorities implement Dodd-Frank, and our G-20 partners implement their reform measures, they adhere to G-20 principles by avoiding inconsistent and divergent regulation that would impose unnecessary burdens on global markets, create barriers to market entry, distort competition, and encourage regulatory arbitrage.

Indeed, U.S. regulations that are being implemented on a unilateral basis are threatening the competitiveness of the U.S. markets. Consequently, we urge the Committee to request that the Financial Stability Oversight Council ("FSOC") meet its Dodd-Frank mandate to monitor domestic and international regulatory proposals that impact U.S. competitiveness.[7] This is essential to ensure that U.S. financial markets, and ultimately the U.S. economy, are not put at a competitive disadvantage in terms of access to credit and capital. While the Dodd-Frank Act created a legal framework for regulatory reform, advances in other jurisdictions are moving at different and uneven paces. It remains vital that we seek a well-balanced and well-coordinated regulatory framework and guard against the potential for the promulgation and implementation of reforms that can result in the type of regulation that the G20 committed to avoid – measures that create barriers to market entry, distort competition, and encourage regulatory arbitrage. Secretary Geithner underscored this point in his remarks on June 6 where he stated:

> We live in a global financial marketplace, with other financial centers competing to attract a greater share of future financial activity and profits. As we strengthen the protections we need in the United States, we have to reduce the chance that risk just moves outside the Untied States. Allowing that would not just weaken the relative strength of U.S. firms and markets, it would also leave the world economy vulnerable to future crisis.[8]

[7] "…to monitor domestic and international financial regulatory proposals and developments, including insurance and accounting issues, and to advise Congress and make recommendations in such areas that will enhance the integrity, efficiency, competitiveness, and stability of the U.S. financial markets;" Section 112 (a) (2) (D), Dodd-Frank Wall Street Reform and Consumer Protection Act

[8] Remarks of Secretary Timothy Geithner before the International Monetary Conference, June 6, 2011.

Equally important is to be able to understand the aggregate impact these regulatory and legislative initiatives will have on the economy's ability to grow. While individually each initiative may have merit – and SIFMA's members support many of the reforms – it is also vital to determine whether, taken together, these reforms negatively impact consumers, investors, capital flows, economic growth, or job creation during a period of global economic vulnerability. However, no such determination has been made. As previously noted, in response to a question on the matter, Federal Reserve Chairman Bernanke stated: "Nobody has looked at it in all detail, but we certainly are trying as in each part to develop a system that is coherent and that is consistent with banks performing their vital social function in terms of extending credit."[9]

We believe that the FSOC, as mandated by Congress under the Act, should conduct an analysis of the major policy changes implemented by U.S. regulators since the crisis, including those required by the Act and the proposed global reforms to determine the aggregate impact of these changes on the U.S. economy and U.S. financial markets. We also believe such an analysis should be done with respect to each major financial reform proposal, including increased capital requirements, comprehensive derivatives reform, and the Volcker rule.

Nearly two years ago, G20 Leaders identified this as a potential problem, noting that in light of these far reaching reforms that they must "…work together to assess how our policies fit together, to evaluate whether they are collectively consistent with more sustainable and balanced growth, and to act as necessary to meet our common objectives."[10] This is critically important so as to ensure a durable economic recovery. To date we have seen no analysis from the G20 that looks at the costs and aggregate impact to the global economy of the unprecedented level of reforms. We believe that a sound framework for gauging the cumulative impact of global reform measures on economic growth and job

[9] Federal Reserve Chairman Ben Bernanke, International Monetary Conference, June 7, 2011

[10] G20 Leaders Statement of September 24-25, 2009 related to developing a "Framework for Strong, Sustainable, and Balanced Growth".

creation, and where the right balance lies, is one of the most important tasks ahead.

For example, viewed in the aggregate, it will be important to ensure that Basel III capital and liquidity rules, combined with the proposed FSB capital surcharge on globally systemically important financial institutions ("G-SIFI's") and Dodd-Frank's "enhanced prudential standards" for like institutions deemed systemic in the U.S., do not unduly reduce lending and underwriting capacity in our financial markets, resulting in significantly reduced capital formation and investment. It will be important to assess whether sharply increased capital and liquidity requirements will lead to counterproductive changes to business models and increases to the cost of financial intermediation. Furthermore, U.S. and global regulators must consider the tangible effects of other reform provisions, such as Orderly Liquidation Authority, Living Wills, the Collins Amendment in Dodd-Frank, The Federal Reserve Board's recently proposed capital plans requirement, Basel 2.5, Volcker prohibitions on proprietary trading, pushing out derivatives trading from banks (Section 716), and exchange trading and clearing mandates for OTC derivatives.

These provisions, at least for U.S. and foreign-domiciled firms operating in the U.S., are expressly designed to reduce risk, both to individual firms and to the financial system. As a result, with all due respect, we strongly disagree with Governor Tarullo that such provisions should be viewed as "complementary" to "enhanced prudential standards" or any G-SIFI surcharge.[11] Rather, we concur with the recent comments of Secretary Geithner where he stated that in considering a surcharge, regulators

> "also need to look at the full impact of other reforms in the system that have the effect of reducing both the probability of failure of large institutions … the new liquidity requirements on these institutions, limits

[11] For these reasons, the special resolution mechanism of Dodd-Frank and the enhanced capital requirements called for by that same law should be regarded as complementary rather than as substitutes>" Remarks of Federal Reserve Governor Daniel K. Tarullo, Peter G. Peterson Institute for International Economics June 3, 2011.

> on leverage, concentration limits, activity restrictions, the forthcoming margin rules for derivatives, the stronger financial cushions being built in central counterparties, the tougher requirements on tri-party repos and securities lending. In short, capital requirements cannot bear the full burden of protecting the system against risk, and they should be considered in the context of the reinforcement provided by these other reforms."[12]

From a global perspective, we believe that the FSB should undertake a global impact assessment that would model the economic impact of the disparate global reform efforts on global growth and job creation. This should be done both for individual major reform proposals and for the proposals in the aggregate. In addition, the FSB and Basel should institute a rigorous peer review process among global supervisors, not one based simply on surveys, to make certain that reforms are implemented and applied in a consistent manner.

Discussion of Key Regulatory Reform Measures and their Potential Impact on U.S. Markets

While the regulatory reform and repair measures taken to date have put the U.S. and global financial systems on sounder footing, it is also the case that a number of measures, either create, or risk creating, divergences that could raise costs to investors, unnecessarily increase the complexity of compliance, hinder global efforts to cooperate and coordinate regulation, and at their worst provoke retaliatory measures by other jurisdictions, ultimately resulting in a drag on global economic recovery. We note that similar examples can be found in regulatory reform measures in other regions, but for purpose of this testimony, we focus on Dodd-Frank measures.

[12] Secretary Timothy Geithner, International Monetary Conference, June 6, 2011

G-SIFIs Capital Surcharge

SIFMA members fully accept that any institution, regardless of its size, complexity, or interconnectedness should be allowed to fail and that taxpayers should not be called upon to support such institutions to prevent their failure. We believe that significant progress towards this goal has already been made, particularly in light of the new Basel III standards, which substantially enhance both the quality and quantity of capital, Basel 2.5, the Collins Amendment in Dodd-Frank, the Federal Reserve's recent requirement that firms prepare capital and dividend plans, and Title II of Dodd-Frank, which provides for an orderly liquidation of a failing systemic institution operating in the United States and the requirement that such institutions maintain a "living will" to inform regulators how they would wind down such an institution. Furthermore, it is important to note that the Act explicitly prohibits bailouts and open bank assistance and provides for the industry, not taxpayers, to underwrite any loss in resolving a failed systemic institution. In addition, the European Union has proposed its own form of resolution, "Crisis Resolution" and is working towards finalizing the legislation to apply to the 27 member states. This ongoing action, while no doubt difficult given the different business models and regulatory structures in Europe, greatly improves the outlook for a cross-border resolution framework that provides regulators with the tools to mitigate systemic risk and should be expressly taken into account by U.S. and European regulators and the FSB when assessing the need for other reforms, including substantially increased capital requirements. It is simply incorrect not to give weight to the imposition of resolution plans in the U.S. and Europe.

That is why we are extremely concerned that an additional capital charges for G-SIFIs is being discussed by the FSB, and vigorously disagree that one is needed. This "surcharge" would be in addition to recent substantial increases to capital mandated by domestic regulators in the U.S. (via the stress teat and TARP repayment) as well as the increased capital required by Basel III and Basel 2.5.

Likewise, it is entirely unclear how such an international surcharge would dovetail with the Dodd-Frank requirements for “enhanced prudential standards” for large banks.

The U.S. will decide this month whether to agree with other members of the FSB to propose such an international capital surcharge, which some have reported as being as high as 2 to 3 percentage points, on global systemically identified banks, including many U.S. banks and foreign banks operating in the U.S. An agreement by the FSB could “bind” member country regulators to implement this surcharge on institutions operating in their domestic markets. But this is only a minimum. The Federal Reserve could also decide to make such a surcharge even higher on U.S. banks under the enhanced prudential standard requirement of Dodd-Frank.

Again, it is critical that there be a robust and transparent economic analysis of any FSB or Federal Reserve proposal that would impose a substantial capital surcharge – not just by these bodies but by the FSOC as well. This is precisely the kind of systemic issue for which the FSOC was established, and it should conduct this analysis taking into account other substantial reforms put in place from the crisis. We also believe that Congress should have the benefit of considering this analysis before any such reform is agreed to internationally or adopted as law in the U.S. Given the potential negative economic consequences to the U.S. economy, it is entirely appropriate that congress review such data before such a significant action is taken.

A surcharge, and particularly a surcharge of the amount being discussed, is unwarranted given the current level and quality of capitalization in the U.S. and runs the risk of slowing the economic recovery and impairing U.S. competitiveness,. Nor is it clear that such action would materially mitigate systemic risk in U.S. markets, beyond actions already taken.

It is important to understand that under the Basel III accord, in advance of any G-SIFI surcharge, or "enhanced prudential standards" under Dodd-Frank, and subsequent to the Federal Reserve stress tests, banks are required to make significant increases in both the quality and quantity of their capital:

- First, minimum capital levels are raised – the tier one common equity ratio (CET1) is more than tripled to 7%.

- Second, common equity is defined much more strictly:

    - Regulatory capital deductions have to be taken from common equity rather than from Tier 1 or Tier 2 capital as is currently the case; and
    - The deductions from common equity are significantly more stringent.

- Third, as a practical matter, banks will be required to hold capital buffers above the 7% requirement, due to several factors:

    - Operationally, they must ensure that capital levels do not go below the required minimum in order to avoid negative regulatory consequences;

    - Analysts and investors in the marketplace typically expect banks to operate above the regulatory minimum; and

    - Under the Pillar 2 ICAAP process, supervisors will require banks to build in a cushion above the minimum in order to meet capital objectives.

Why do surcharges matter? Any additional capital requirements in excess of those already imposed by Basel III should be carefully considered in the context of the potentially negative economic consequences they could cause in terms of lower credit availability and a higher cost of capital for the financial system as a whole. These consequences include: passing increased costs of capital on to customers via increased lending costs across the economy; driving SIFIs to allocate capital to less capital intensive activities; inhibiting the availability of credit, causing SIFIs to take on more risk to maintain the return on investment necessary to attract capital and driving businesses to the unregulated shadow banking sector. None of these are good outcomes, particularly considering the added costs imposed by many other new requirements, such as compliance costs, fees, risk management staff, and the like. Excessive capital charges make it more expensive for banks to lend money or provide liquidity to U.S. businesses. The result inevitably will be higher cost of credit and less credit and less funding availability.

In addition, investors will only put capital in an institution if they believe they will receive an adequate return on that capital. If capital levels are set too high, the ability of firms to raise additional capital will be inhibited because markets will perceive that the firms can no longer earn an adequate return or, in the alternative, that firms will have to increase risk to maintain the same level of return. For example, if a firm earns 10% on a certain level of capital, doubling the level of capital will result in a 5% return. If the market will not provide the additional capital for a 5% return, the firm must either shrink back into the lower level of capital (by decreasing loans, for example) or increase its risk in an attempt to maintain the higher return. Furthermore, unrealistic capital levels will drive financial business to the shadow banking system, only increasing risk to the system. Indeed, in his remarks the other week, Secretary Geithner made this point when he said “central banks and supervisors need a balance between setting capital requirements high enough to provide strong cushions against loss but not so high to drive the re-emergence of a risky shadow banking system."[13]

This would appear to be particularly the case for some of the larger institutions subject to the highest surcharges and will inevitably further constrain the supply of credit and suppress growth in GDP. The Final Report of the Macroeconomic Group of the FSB and Basel Committee expressly recognized this point last December with respect to "assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements."[14] That is, it acknowledged that the impact of new requirements on GDP would be dependent on the extent to which banks sought to implement new capital requirements ahead of the transition schedule set by supervisors. The shorter the implementation period the more negative the impact on GDP, with such effects accentuated to the degree that banks chose to hold an additional voluntary equity capital buffer above the new standards.

We strongly believe that given the current quantity and quality of capital of institutions operating in the U.S., effectively four times that held by such institutions at the time of the financial crisis, there is no need for immediate action, without adequate time for study, public comment and Congressional review. Given that the U.S. is already implementing massive regulatory reforms and will imposed substantially higher capital requirements with the implementation of Basel III, we respectfully urge U.S. regulators not to rush into a global agreement this summer. Likewise, in adopting "enhanced prudential standards" for larger banks under Dodd-Frank, including capital plans, we do not believe the Federal Reserve should unilaterally impose a surcharge that exceeds the substantially higher capital threshold required for internationally active banks under Basel III.

[13] Secretary Timothy Geithner, International Monetary Conference, June 6, 2011

[14] FSB and BCBS, *Final Report – Assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements* – December 2010.

Again, no sufficient economic analysis has been undertaken to consider the impact of this proposal, in tandem with Dodd-Frank and previous regulatory actions. Thus we restate our view that the FSOC should undertake such an analysis and report to Congress before entering into such an agreement. Given the potential negative economic consequences to the U.S. economy, it is entirely appropriate that Congress review such data. There is no downside to U.S. regulators studying the impact of a surcharge and possible alternatives until other countries, which are moving slower than the U.S., implement regulatory reform and resolution requirements. Nor do we believe we should agree to a surcharge falsely premised on all other countries following the U.S. lead.

Dodd-Frank Section 619 - Volcker Rule

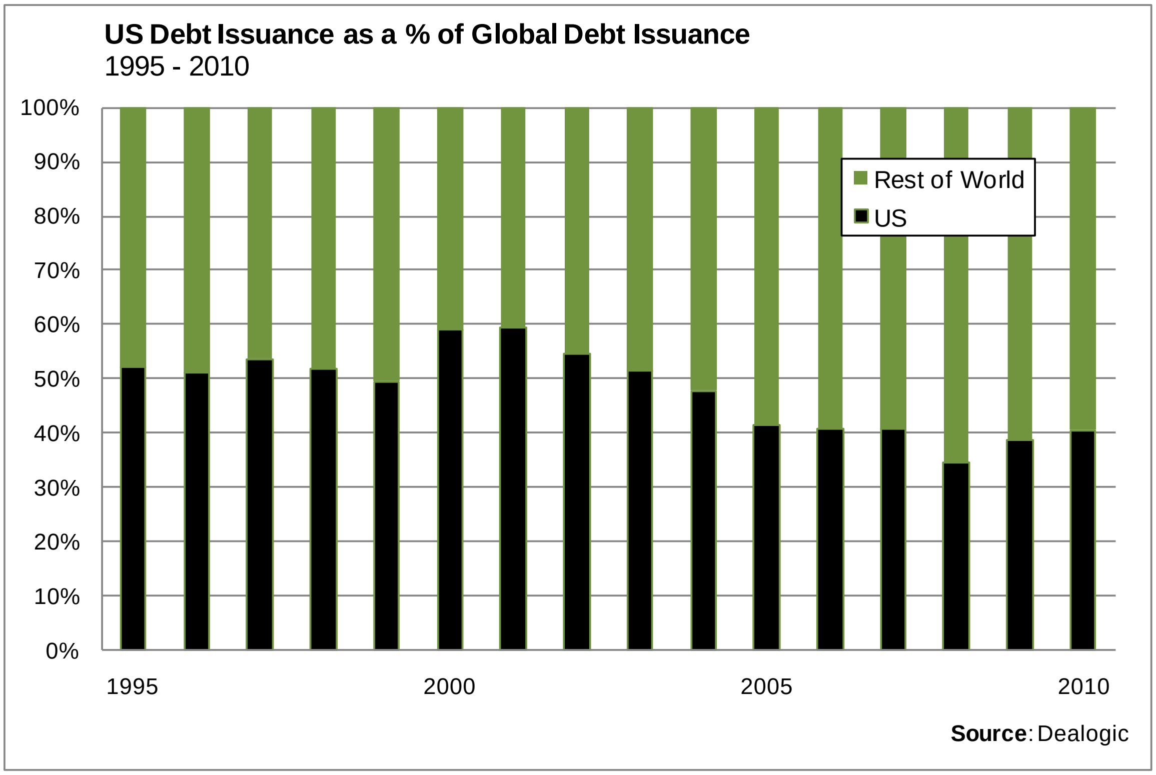
Section 619 of the Dodd-Frank Act, or the Volcker rule, prohibits proprietary trading and sponsorship and investment in hedge funds and private equity funds by U.S. banks and their affiliates and foreign banks and affiliates operating in the U.S. This unilateral U.S. reform measure is unlikely to be replicated in other nations. While such action may lessen potential risk in the U.S. system, importantly, if implemented in an overly restrictive manner, it has the potential to negatively affect the liquidity of U.S. markets by limiting the ability to engage in market making and hedging activities to the detriment of U.S. issuers which could accelerate the decline of U.S. market share for debt and equity offerings. Also, we do not believe that the Volcker Rule was meant to disrupt traditional risk management activities of banks and we believe that these activities should be recognized as outside the scope of the Volcker Rule’s prohibitions.

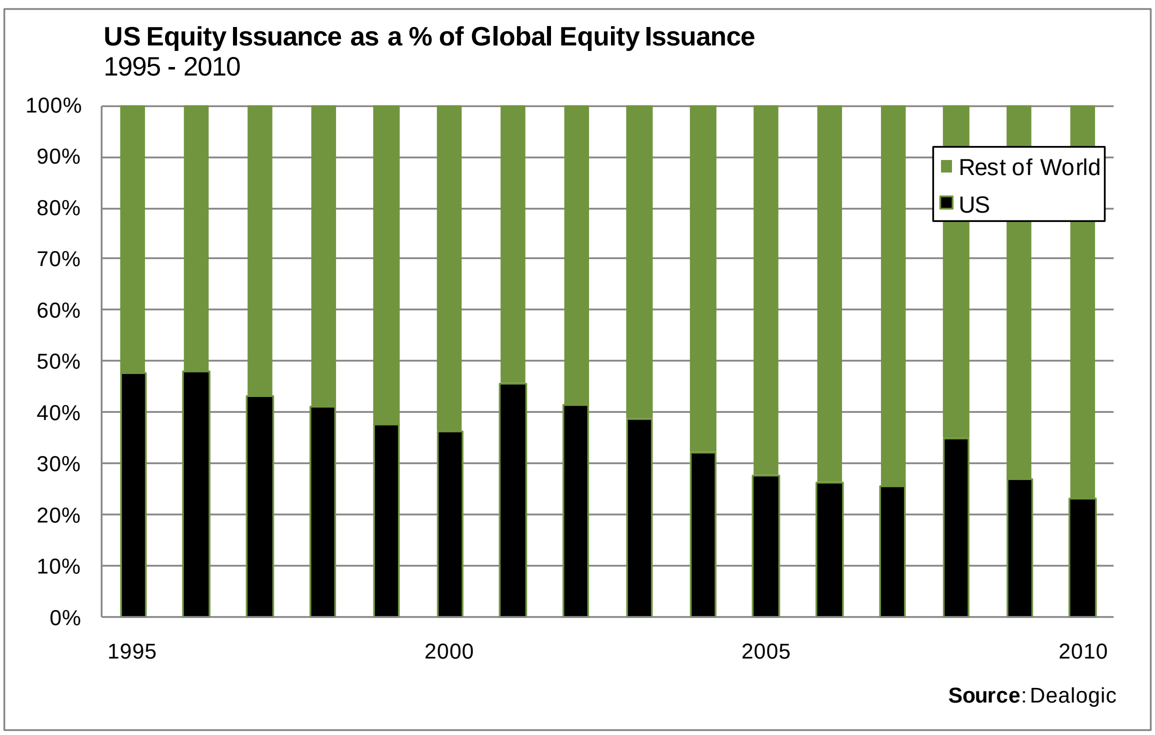
In most securities, derivatives, and commodities markets, banks and their dealer affiliates subject to the Volcker Rule play a critical role as the central providers of liquidity to other market participants. A poorly constructed or excessively restrictive implementation of proprietary trading limitations could hamper that liquidity in a wide range of markets, and consequently impede the ability of businesses to access capital and the ability of households to build wealth.

The risk of unintended consequences for investors and the U.S. economy is significant and should be carefully considered during this rule writing phase of implementation. Congress recognized in the statutory language imposing the Volcker Rule that certain activities, such as market making and hedging, play an important role in capital formation and should not be undermined by overly restrictive rules. Without the liquidity that dealers provide to U.S. capital markets, there could be substantial negative effects, including:

- Higher funding and debt costs for U.S. companies;
- Reduced ability of households to build wealth through participation in liquid, well-functioning securities markets;
- Reduced access to credit for small or growing firms with less established credit ratings and histories;
- Reduced willingness of investors to provide capital to businesses because of greater difficulties in exiting those investments;
- Higher trading costs and consequently lower returns over time for investors, such as pension and mutual funds; and
- Reduced ability for companies to transfer risks to others more willing and able to bear them via derivatives, with a consequent reduction in overall efficiency of the broad economy.

If implemented in a way that is overly restrictive for market making, hedging, the Volcker Rule could harm liquidity in the U.S. market, constrain capital formation, restrict credit availability to the consumer and business, and thus, undermine the nation's fragile recovery. Further, it could hasten further loss of U.S. market share in debt and equity issuance to other nations since issuers and investors demand liquidity as a function and preference of markets in which they issue and list.


US Debt Issuance as a % of Global Debt Issuance
1995 - 2010
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Rest of World
US
1995
2000
2005
2010
Source: Dealogic


US Equity Issuance as a % of Global Equity Issuance
1995 - 2010
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Rest of World
US
1995
2000
2005
2010
Source: Dealogic

Finally, given the potential negative consequences of an overly restrictive approach to this rule, it is critical that the Volcker Rule be implemented in a fashion that is consistent across the various agencies that have been given rule-writing and enforcement authority.

Derivatives Markets

Title VII of Dodd Frank fundamentally transforms the U.S. swap and security-based swap (collectively, "Swap") markets. Of the 106 Dodd Frank rulemaking deadlines due by the third quarter of 2011, the majority relate to over the counter ("OTC") derivatives regulation.

As we approach the July rulemaking deadlines for many of those rules, it has become increasingly clear to market participants and U.S. regulators, as well as legislators, that finalizing these rules will require more time and analysis than Congress originally contemplated. Implementation sequencing and timing are key considerations in the rulemaking process, and we have had extensive discussions with the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission ("SEC," and together "Commissions") on potential frameworks, noting that the Commissions have flexibility to determine effective dates for final rules.[15]

Further, given the SEC's and CFTC's serious consideration of comments and the significant comments from a wide range of markets participants on proposed rules, it seems likely that the Commissions may revise prior proposals. We strongly urge the Commissions to re-propose rules once completed, which will allow an additional comment period after the rule proposals are amended to reflect comments received. We understand that the Commissions may be concerned about additional delay, but re-proposal will only postpone the Title VII rulemaking implementation for a number of months, not years, and the costs of

[15] SIFMA and other Associations Submit Comments to the CFTC and SEC on a Phase-In Schedule for Derivative Requirements of Dodd-Frank Act, May 4, 2011 (www.sifma.org/Issues/item.aspx?id=25260)

any such delay will be far outweighed by the benefits resulting from further industry, market and public input into, and regulatory deliberation with respect to, the rulemaking process.[16]

Most recently, we have commented to both the CFTC and SEC that while most Title VII provisions require rulemaking to become effective, arguably some are scheduled to become effective on July 16 ("self-operative provisions"). In general, intractable compliance, interpretive and operational challenges will arise if such provisions go into effect in July. Compliance with these provisions is complicated in part because certain key terms, "Swap," "Swap dealer" and "major Swap participant," are subject to further definition, and because the self-operative provisions are integrally related to other provisions that require rulemaking. We have requested that self operative provisions for the most part be delayed until final rules are effective.[17] We appreciate the recognition of this situation by the CFTC in its extension granted on Tuesday and acknowledgement by the SEC of the need to take steps in this area. It will be critical that the Commissions actions clearly provide legal certainty until such time as rulemaking is completed and rules are effective.

In addition, given the global nature of this marketplace; it is also important that U.S regulators give careful consideration to the extraterritorial application of their swap dealer regulations. Again, as Treasury Secretary Geithner stated in his June 6 speech, "Without international consensus, the broader cause of central clearing will be undermined. Risk in derivatives will become concentrated in those jurisdictions with the least oversight."[18]

[16] See SIFMA and Other Associations Submit Comments to the CFTC on the Reopening and Extension of Comment Periods for Rulemakings Implementing Dodd-Frank Act, May 26, 2011 (www.sifma.org/Issues/item.aspx?id=25695) and to the SEC on the Re-proposal of Rules Implementing Title VII of Dodd-Frank Act, May 31, 2011 (www.sifma.org/Issues/item.aspx?id=25741)

[17] See SIFMA and Other Associations Submit Comments to the SEC for Clarification and Relief Under Sections 754 and 739 of the Dodd-Frank Act, June 10, 2011 (www.sifma.org/Issues/item.aspx?id=25938) and SIFMA and Other Associations Submit Comments to the CFTC on Clarification and Relief Under Sections 754 and 739 of the Dodd-Frank Act, June 10, 2011 (www.sifma.org/Issues/item.aspx?id=25937)

[18] Remarks of Secretary Timothy Geithner before the International Monetary Conference, June 6, 2011.

While SIFMA has significant and numerous other concerns with Title VII[19], let me emphasize two important themes: implementation phase-in and extraterritoriality.

Implementation Phase-In

We have discussed with the regulatory community the significant practical hurdles to implementing this new regulatory structure for swaps, including the interdependencies of the key portions of that structure, and we have suggested approaches to a phased-in implementation schedule. Such a phase-in would permit more deliberative consultation and coordination, and also allow for implementation with minimal disruption to the financial institutions, their main street counterparties, and the marketplace. We base our phase-in recommendations on a number of principles, including: implementation of final rules should avoid market disruptions; data reporting to regulators to inform future rulemaking and rules aimed at reducing systemic risk should be prioritized; and implementation should be sequenced so that effectiveness of each rule set is coordinated across interrelated applicable rule sets.

Dealers, major swap participants, asset managers, technology and systems providers, and the Commissions will need to engage in a concerted effort to educate their clients and the market about the changes in business and regulatory practices that the new rules will require. The Commissions should phase in requirements based on the state of readiness of each particular asset class (including, where applicable, by specific products within an asset class) and market participant type.

Application of provisions of Title VII to the diversity of Swaps and market participants will involve the interaction of rules relating to different asset classes and products as well as differences among rules imposed by different U.S.

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[19] See SIFMA comment letters on OTC Derivatives at www.sifma.org/Issues/Regulatory-Reform/OTC-Derivatives/Activity/.

regulators and regulators in different countries. Understanding these interactions and sequencing implementation of the rules accordingly will create a more robust regulatory structure.

Extraterritoriality

The swaps market is truly global: a single swap may be negotiated and executed between counterparties located in two different countries, booked in a third country, and risk-managed in a fourth country, thereby triggering swaps regulation in multiple jurisdictions simultaneously. Many participants use a central booking entity to efficiently manage risks arising from swaps that they execute around the world through their subsidiaries, affiliates and branches.

These global arrangements emerged decades ago from the efforts of counterparties to maximize their credit protection and reduce their risks. The regulation of these swap arrangements is complicated by the nature of swaps, which are characterized by ongoing payments, deliveries or other obligations between the parties throughout their long duration. This may result in regulation of the swaps relationship over the course of many years, rather than primarily at the time of the execution of the transaction as with the purchase or sale of cash instruments.

It is therefore critical that any effective approach to U.S. swaps regulation must accommodate the global risk management and efficient operational structures currently in place. U.S. regulators should carefully draft the Title VII rules to avoid disrupting these international arrangements except where necessary to achieve an explicit legislative purpose. U.S. regulators should also give effect to the principles of international comity by refraining from unnecessarily regulating conduct outside national borders while appropriately allocating supervision of cross-border swaps activities in a way that protects U.S. markets and counterparties and avoids duplicative and inconsistent regulations. We believe that our recommended approach to regulating foreign swap dealers and cross-border swaps activities is consistent with the legal authority provided by Dodd Frank as well as the Commissions' current approach towards extraterritorial application of U.S. regulation, would achieve the statute's objectives, give effect to the principles of comity by appropriately allocating supervisory responsibilities between the U.S. and home country supervisors, and facilitate an efficient, effectively regulated and competitive global swaps market.[20]

It is critical for the competitiveness of the U.S. economy that we get these regulations right – vast sectors of the U.S. economy – including manufacturing, healthcare, and technology – use these products as a tool to manage risks and to compete globally. Final regulations that miss the mark will have a real and negative impact on the economy.

International Accounting Standards

The rapid globalization of the capital markets over the last several decades has accelerated the effort to forge a common set of accounting standards for use by all issuers. Given the importance of accurate and transparent financial reporting to markets, market participants have placed great value upon the attainment of a set of high quality accounting standards.

SIFMA strongly supports convergence towards a single set of high quality accounting standards. The lack of a common set of accounting standards has created barriers for users of financial statements – including creditors, investors and analysts – to compare even firms in the same industry. The issues to be resolved are highly technical, and can have a significant impact on the business of financial services firms.

One area that demonstrates both the material differences between the two sets of standards and the difficulty of convergence is the FASB and the IASB models on offsetting. SIFMA welcomes and is supportive of FASB's work to seek

[20] SIFMA Submits Comments to Multiple Federal Agencies on the Extraterritorial Application of Title VII of the Dodd-Frank Act, February 3, 2011 (http://www.sifma.org/Issues/item.aspx?id=23247).

convergence in this important area; however, we are concerned with FASB's recent exposure draft regarding harmonizing these differences, and do not support the FASB framework in this area as a basis for convergence as we believe it will not result in the highest quality accounting standard.[21] Application of the proposed guidance will require gross presentation of most derivative receivables and payables, most repurchase and reverse repurchase agreements and all receivables and payables from unsettled regular-way trades, which for our member firms will obscure true credit risk positions and liquidity profiles, and provide misleading views of future cash flows given the way in which derivatives settle. This distorted view could impact a reporting entity's capital ratios, funding options, and tax liabilities.

We understand that on June 15 the FASB tentatively agreed to maintain the U.S. GAAP approach to offsetting derivative receivables and payables (on a net basis), while the IASB voted to adopt the gross approach. The differences between the two approaches will be reconciled with disclosures to be agreed upon between the Boards. We believe that the FASB's tentative conclusion will result in the highest quality accounting standard and therefore support the proposed approach to converge balance sheet presentation through disclosure.

In conclusion, we greatly appreciate the Committee's interest in these matters and believe it is entirely appropriate for the Congress to review the actions taken and proposed by U.S. and global regulators as it relates to capital, activities and financial reporting. While we all share the goal of ensuring safety and soundness, and avoiding a future crisis like that experienced in 2008, it is equally important that we considered the economic impact, and potential consequences, of our efforts to ensure the pendulum does not swing to far in the opposite direction at a cost we cannot afford.

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[21] "Proposed Accounting Standards Update: Balance Sheet (Topic 210) Offsetting", April 28, 2011, SIFMA letter to Susan M. Cosper, Technical Director, FASB.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Thomas Timothy Ryan, Jr.	SIFMA
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☐ Yes ☑ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature:	

Please attach a copy of this form to your written testimony.