

**CONGRESSIONAL RECORD – 111<sup>th</sup> CONGRESS, SECOND SESSION**  
**Senate – April 21, 2010**

**FINANCIAL REGULATORY REFORM**

Mr. REED. Mr. President, I am here today not only to salute these great Americans but also to talk about the urgency of bringing the issue of Wall Street reform to the Senate for open debate and final passage. We have weathered and witnessed the worst financial crisis in the history of the country. We have seen wealth, trillions of dollars of wealth, evaporate because of this financial crisis. To hear people now talking about, well, this is not a good bill--the question is not whether we should delay further or go forward. The question is going forward with purpose, amending the bill on the floor, if necessary, in an open and transparent way so the American public can see we are moving forward on perhaps their No. 1 priority related to the economy, and economic recovery and financial reform are integrated key elements. We cannot have long-run economic success without fundamental financial reform.

We are here today essentially to urge that the anticipated vote on Monday to proceed to the bill be affirmed overwhelmingly to send a message to the

American people we are on the job for them, we are doing the work we have to do. We have to deal with a complex and significant legislative measure--but we have to do it now. The time for discussion, the time for consideration privately, has passed. Now we have to act.

I think we have to act because we should recognize the status quo is unacceptable. Those on the other side who have been saying: Not now, not now, not now, essentially are defending the status quo. We have to ask several questions. Who does the status quo favor? It favors the remaining big banks and other financial institutions. We have seen, over the last several days, that these banks are reporting record profits, mostly based on trading. Here is another irony. Because of the system we have today, we are in desperate need of economic activity at the local level, the infusion of capital, lending--all those things. Where are the banks making their huge profits? On trading, essentially taking their money and other people's money and not investing in new productive capacity, but betting on financial products. That is not, in my

view, what we should be doing at this moment. We have to recognize that if we do nothing, the banks will continue to operate as they have.

That, I think, has to be corrected. The second question is, what activities are protected by the status quo? I will tell you. Exotic derivative trading. We saw this week where the Securities and Exchange Commission has made allegations against Goldman Sachs. Now, that will be determined in a court of law.

However, the complexity of the transaction engaged in by Goldman and others, the creation of a synthetic collateralized debt obligation, to translate, was essentially picking out some representative mortgage funds and then betting on them. Somebody took the side that said they would still pay; some would take the side that they would default.

What did that add to our economic capacity? In fact, one of the ironies of this whole crisis is there was such a proliferation of these toxic mortgage bonds that they no longer could sell them at a profit, so they

started essentially creating virtual or synthetic securities.

Again, what has it added to the economic productivity of the United States? Not much. In fact, some would argue nothing at all. We have to have a financial sector which performs one of the essential functions of any financial sector, the allocation of capital to productive uses: highways, buildings, education support, all of those things that not only return a profit to the investors but also build up our economic capacity and build up our wealth over the long term.

Other activities that will be protected by the status quo include not only derivatives trading, but dark pools of capital, huge private equity funds that are shadowy in terms of their investment strategy, even to regulators, and the credit rating agencies. They are continuing to operate, and, frankly, we have to say their performance in the last several years was disappointing, and that is being very diplomatic. But they will continue to operate as they have in the past because we will not get

the reform that is so necessary.

Of course, the Wall Street salary structure, the incentive compensation, also will continue to be unaffected. So for all of these activities, if you are comfortable with them, then vote against the motion to proceed on Monday evening. If you are uncomfortable with them, if you do not want to see the remaining banks continue to operate as they have, then you have to vote, in my view, to move forward to debate this bill and engage on this issue.

Now, the third question we have to ask is, what does the status quo do for consumers and taxpayers? The answer is very little, if anything at all. We saw in this whole situation consumers who were in some cases misled. In some cases it was obvious they could not afford the credit arrangement they were signing on to, but the incentive on the other side was not to look behind the veneer of the borrower but simply to get the loan closed and then sell it off for securitization profits.

We have to change those incentives, and if we do not

proceed to this legislation, we do not have a chance of doing that. So we have to move forward. Some have claimed, the Republican leader and others, that this is just a partisan exercise. It has not been a partisan exercise. We have been, under the leadership of Chairman *Dodd*, engaged in this effort for months and months and months.

Some people might have forgotten around here, but we started the markup of the financial reform bill November 19 of last year. We had a bill. Senator *Dodd* brought it to the committee. We started opening statements, and then everyone said: We have not had time enough to do this. We want more discussion.

Senator *Dodd*, even with the urgency of moving on this measure, said: Fine. I respect my colleagues. I respect the process. We will stop. We will start talking.

Well, the negotiations went on and on and on. It was clear there was no sense of urgency on the other side to move to a decisive vote. Then he engaged other Members. Senator *Corker* and others entered the discussion. I have been discussing

derivatives in a very thoughtful way with Senator *Gregg* for months. But we have reached the point now where we have to take deliberate action and make some decisions.

We have to move to the floor, to debate and votes and final passage. This is something we have to continue to move forward. The way to move forward is to vote on the motion to proceed on Monday evening.

We have heard claims that this is a bailout bill, which I think would be a huge shock to many of my colleagues on the committee who have been working on this for months and months, Senator *Corker* and Senator *Warner* particularly, who crafted many of the provisions in this area.

The reality is, if we do nothing, which is the effect of voting against the cloture motion--if we do nothing, we could have a crisis next week. Greek sovereign debt--there is huge turmoil in Europe about Greek bonds, the ability of the Greek Government to pay, the need for support. If those talks collapse and suddenly throughout the

financial system there is a rush away from sovereign debt, not just Greek debt but other countries, what will happen? We do not quite know, I suspect, who is holding all of this debt and what are the systemic effects. We have to be prepared for something like that.

The notion that this crisis has passed and we can go about our merry way without dealing with these issues is naive. The way to deal with it is to establish a resolution mechanism. Senator *Warner* and Senator *Corker* have done a remarkable job of crafting one. One of the questions they struggled with the most is who is going to pay for the resolution.

Frankly, they stepped up to the plate today and said: Let's put the banks on the line for the first \$50 billion. That makes sense to me because it is clear who is going to pay: not the taxpayer but the banks. But, in any case, we cannot engage in this discussion of the mechanism and how it will finally come out until we bring the bill to the floor, debate it, and vote upon amendments or changes. That is what we have to do. But this

legislation is clearly not a bailout for the banks. If it was, they would be supporting it.

Frankly, all the newspapers I read suggest the intense lobbying effort against the bill is by the banks, which, coincidentally, seems to favor the position of those who do not want to proceed to the bill. So I think we are in a situation where we have to proceed forward. As I said, if we do not move forward, we are going to have a significant issue of confidence by the American people and others in the stability of our financial system. These are complex, intricate issues. They require debate and discussion. I do not think anyone should be presumptuous enough to stand here and say: We know exactly what to do, and we are going to do it without the consent and without the input of all of our colleagues. But that consent and input comes, ultimately, on the Senate floor through debate, discussion, and voting.

Now, again, where are we if we do not take up this measure next week? Well, the \$600 trillion market in derivatives will remain

opaque, complex, confusing, and a potential vulnerability for our financial system. I say \$600 trillion because when we talk about derivatives markets, billions are--you know, that is a rounding error. It is trillions of dollars, and a miscalculation, a mistake, a misjudgment in that market has huge consequences.

The big banks who sell complex, toxic instruments to pension plans, essentially taking savings and trading them, gambling with them, in some respects, they will continue to do that. They will not only take pension savings, but they will take municipalities' money in fancy bond arrangements that the municipalities never needed.

All of these things will continue.

Unregulated mortgage lenders will continue to go out and operate under the originate-and-sell model, which has led to so many problems. Payday lenders that are charging, in some cases, 900 percent interest will continue to be unregulated. Credit card companies, even after our efforts with the credit card legislation, will continue to

try to circumvent the rules to maximize their profit.

The bottom line is, the people who benefit from delay, from taking the course of action of delay and denial, I would say, because this urge to suggest this is a bailout bill is denying the facts of the bill, will be financial institutions and not consumers and not taxpayers.

So, as a result, I would urge all of my colleagues on Monday to vote to proceed to this bill. Again, we have to ask three questions. This will be decided on Monday evening. The status quo favors the banks. If you want to favor the banks, then vote against cloture. The status quo operates to allow all sorts of arcane and exotic activities which we know have posed significant threats to our financial system.

If you want these activities to continue unimproved, uncorrected, vote against cloture. The status quo disfavors consumers and taxpayers. So if you want to see them continue to be on the short side of the sale, vote against cloture. I would urge we vote for cloture, we move forward to debate real ideas

about how to improve our financial system, protect consumers, and strengthen our economy.

I yield the floor.