

**OPENING STATEMENT OF
CONGRESSMAN PAUL E. KANJORSKI
COMMITTEE ON FINANCIAL SERVICES
HEARING ON CAPITAL MARKETS REGULATORY REFORM:
STRENGTHENING INVESTOR PROTECTION,
ENHANCING OVERSIGHT OF PRIVATE POOLS OF CAPITAL, AND
CREATING A NATIONAL INSURANCE OFFICE
OCTOBER 6, 2009**

Mr. Chairman, today the Financial Services Committee will examine the three legislative discussion drafts on investor protection, private fund adviser registration, and insurance information that I released last week. If we have learned anything from the financial crisis, it is that excessive deregulation is dangerous. My three bills work to reverse this trend by closing loopholes and fixing problems in our broken regulatory structure, especially in our securities and insurance markets.

As we work through these drafts and the many other pieces encompassing financial services regulatory reform, we should listen to common-sense ideas and seek out consensus where it exists. I am therefore open to making changes to these draft bills. In working to enact meaningful regulatory reform, however, we must ensure that special interests do not weaken particular solutions to the point of becoming toothless.

Looking ahead to next year and beyond – after this round of reform is done – we must remain diligent guardians of the public interest and of the financial system’s health as a whole. Financial innovation and capitalism always seek to outpace the development of laws and regulations. This is the nature of our system. To correct this bias, vigilance is our only hope.

That said, the three draft bills before us today will no doubt enhance regulatory authority and improve access to information. For example, the Investor Protection Act provides the U.S. Securities and Exchange Commission with more firepower to perform its mandated duties. Like the Administration’s reform plan, this bill includes a requirement that all securities professionals providing advice have a fiduciary duty toward their customers. Through a harmonized standard, broker-dealers and investment advisers will have to put investors’ interests first.

The draft Investor Protection Act also significantly expands the ability of the Commission to reward those whistleblowers whose tips lead to successful enforcement actions. The legislation will further permit the Commission to adopt rules to bar the inclusion of mandatory arbitration clauses in securities contracts.

Additionally, this legislation significantly expands upon the proposals put forward by the Administration by closing loopholes identified by the Madoff and Stanford Financial frauds, updating the Securities Investor Protection Act, and modifying the authorities of the Public Company Accounting Oversight Board. Moreover, the bill doubles the Commission’s available funding over five years.

But, enhancing the Commission's firepower and providing more money are simply not enough. As a result, the draft bill calls for an independent, comprehensive study of the entire regulatory structure that oversees the securities industry by a high-caliber body with expertise in organizational change that will identify further improvements to the implementation of our securities laws.

The second draft bill, the Private Fund Investment Adviser Registration Act, requires advisers of hedge funds, private equity firms, and others who have previously escaped direct regulatory oversight to register with the Commission and disclose certain vital information. Transparency has been non-existent in this area for far too long, and the financial crisis revealed that our system cannot tolerate such omissions going forward.

The third bill would create a Federal Insurance Office to provide national policymakers with access to the information and resources needed to respond to crises, mitigate systemic risks, and help ensure a well functioning financial system. The credit meltdown highlighted the lack of expertise within the federal government regarding the insurance industry, especially during the collapse of American International Group and last year's turmoil in the bond insurance markets. My bill would rectify these shortcomings and promote stability in our insurance markets.

In closing, Mr. Chairman, our job today is to swing the regulatory pendulum back toward the interests of hard-working Americans. The three draft bills before us will accomplish that objective. Billionaires on Wall Street have had their day, egged on by a culture of greed, deregulation, and a survival-of-the-fittest attitude that ignored the harsh effects those things inflict upon larger society. Today's hearing advances the effort to correct those excesses.
