Dennis Kelleher - **Opening Statement**

"The Impact of Dodd-Frank on Customers, Credit, and Job Creators"
The Committee on Financial Services
Subcommittee on Capital Markets and Government Sponsored Enterprises
December 13, 2012

Good morning Chairman Bachus, Ranking Member Frank and members of the Committee. Thank you for the invitation to Better Markets to testify today.

I am the President and CEO of Better Markets, which is a nonprofit, nonpartisan organization that promotes the public interest in the domestic and global financial markets. It advocates for transparency, oversight and accountability with the goal of a stronger, safer financial system that is less prone to crisis and failure, thereby, eliminating or minimizing the need for more taxpayer funded bailouts.

I have detailed my background and what Better Markets does in my written testimony and it is also available on our website (www.bettermarkets.com) and I will not repeat that here.

For those who say high risk, speculative proprietary trading by the handful of too big to fail banks isn't a problem, I say look at JP Morgan Chase and the so-called "London Whale" trade that **so far** has cost the bank more than $6 billion and might cost it as much as $9 billion

- That doesn't include the more than $20 billion in shareholder market capitalization losses, which are almost never mentioned

- Those billions in losses resulted from **a huge speculative proprietary trade using federally insured depositors' money**, which was done to generate profits for JP Morgan

    - JP Morgan bet around $100 billion of federally insured depositors money

        - And, remember, JP Morgan and its CEO **admitted** that the risks taken by the traders when betting their depositors' money

            - were done without **anyone** in senior executive, financial, legal, compliance, risk or others **even knowing** what the risks of the trades were

                - That admission shows that these gigantic banks aren't only too big to fail, but are too big to manage

For those who say the JP Morgan "London Whale" prop trade had nothing to do with the financial crisis, I say

(1) it doesn't matter because the issue is eliminating or reducing high risk trading that could prove lethal to a taxpayer backed bank and required taxpayer bailouts, and

(2) there are plenty of examples of prop trading in connection with the financial crisis, with Citigroup being the poster child and having to write off almost $40 billion just due to the CDO positions in its trading book

   a. Lehman Brothers, which failed 4 years and 3 months almost to the day, is another

      - Because time is short, I won't go into the details here, but they are in my written testimony and in the four comment letters filed by Better Markets

It is important to remember that **the Volcker Rule is narrow in application and limited in scope**:

- it prohibits the handful of biggest too-big-to-fail banks from making huge, high risk, speculative bets, usually, but not always, with the banks' own (or borrowed) money

  - This type of trading is in stark contrast to banks' investing and trading their customers' money on their customers' behalf.

    - Proprietary trading by the biggest banks is nothing more than gambling.

Big banks gambling like this would be fine **if** it **only** threatened the betting bank and **if only** the bank suffered the consequences.

  - But that is not the case with high risk proprietary trading by the biggest, too-big-to-fail banks:

    - Those gigantic banks are backed by the taxpayers;
    - Their failure threatens our financial system and our entire economy; and,
    - That's why they are too big to fail and why they will be bailed out by the taxpayers

      - As a result, the banks get the upside of their gambling and taxpayers get the downside when the bets go bad and the losses are lethal, as was evidenced in the recent financial crisis

- And, the downside can be enormous: Better Markets did a recent study showing that crisis will cost the US more than $12.8 trillion dollars

Banning prop trading isn't **<u>the</u>** solution. But it is an important part of **<u>a</u>** solution, along with

- Capital, liquidity, leverage & other prudential standards;
- Living wills & resolution authorities; and,
- Other financial reform measures

Finally, implementing the Volcker Rule is not complex or difficult. The two keys are:

1. Focusing on **compensation** to break the link between proprietary trading and banker bonuses (via the bonus pool); and

2. Backing up the law with swift, certain and significant **penalties** for traders, supervisors and executives;

This can all be done without interfering with the permitted activities of

- Market making, and
- Risk mitigating hedging, and others

As a result, the ban on prop trading will not harm Customers, Credit, or Job Creators

- Indeed, removing the threat posed by these biggest too-big-to-fail banking giants to our financial system and economy is likely to unleash a renaissance in our financial industry as

    - transparency,
    - competition, and
    - fairness

        - create numerous opportunities for current and new market participants.

Thank you