The State of the Derivatives Market and Perspectives for CFTC Reauthorization

Good morning Chairman Roberts, Ranking Member Stabenow, and members of the Committee. Thank you for the invitation to testify today. As a former staffer who has had the privilege of working for three Senators, it is an honor to testify in the Senate and before this Committee.

I believe the best way to think about the CFTC, its reauthorization, its funding and derivatives regulation more broadly is by thinking about what has become a dirty four-letter word: TARP.

Those of you who were here in the Senate or the House at that time had to take one of the most searing and consequential votes of your careers. With no time and very little information, you had to decide to vote for or against sending $700 billion ***taxpayer*** dollars to bail out the largest financial institutions in this country, including every one of the largest derivatives dealers.

I was on the Senate floor during those days of debates and votes in September and October of 2008. I well remember the agony and anger of members being forced to make momentous decisions in a time of extremely limited information, where the facts were changing on a daily -- and sometimes hourly -- basis, and where the gravity of the situation grew more ominous by the moment.

The entire financial system was going to collapse, you were told. The payments system was going to stop, and your constituents were not going to be able to cash their paychecks, you were told. Indeed, the country was likely to fall into an economic abyss that was so bad it was going to be a second Great Depression, you were told.

Those were truly dark, dangerous and downright scary days and weeks as one unimaginable event after another happened. Financial giants were collapsing, others teetered on the brink of collapse, and the stock market was plummeting.

There was widespread confusion about what was really happening and utter lack of reliable information about what was going on, which ignited a panic not seen since 1929.

That was because the markets, the financial giants that ruled the markets, and their products had been largely deregulated. As a result, no one -- not market participants, not regulators, not policy makers, not elected officials – knew what was happening or, worse, what was going to happen next.

In the middle of all that – with events happening quickly, little information, widespread fear – you were asked to send $700 billion ***taxpayer*** dollars – your constituents' money -- to bail out the largest financial institutions in this country and prevent an economic catastrophe. 74

U.S. Senators voted for TARP and days later $125 billion of taxpayer money was put into the accounts of just 9 of the largest financial institutions in the country, followed shortly afterwards by hundreds of billions of more dollars.

And, that was just the tip of the bailout iceberg. Trillions of dollars ***more*** – Trillions with a "T" – was spent, lent, pledged, guaranteed or otherwise used by the government to prop up and bail out the financial system. Most of that was done by the Federal Reserve and kept secret from the public, including you, their elected officials, for years.

And, those are only the bailout costs. There were also widespread economic and human costs. In topline numbers, the 2008 crash is going to cost more than $20 trillion – again with a "t" – in just lost GDP. But the dollars and cents will never reflect the deep human suffering, which was enormous:

- Real unemployment skyrocketed to more than 17% (SHOW Exhibit A);
- More than 15 million foreclosure filings;
- More than 30% of homes were underwater; and
- So much more

As Better Markets detailed in a Report on the Costs of the Crisis (SHOW), linked in my written testimony.

As you know, derivatives were at the core of causing and spreading that disaster, requiring the TARP vote and inflicting so much pain and misery. In fact, the central role derivatives played in that crisis is why I have suggested that derivatives should be thought of as a conveyor belt distributing the "financial weapons of mass destruction" -- as Warren Buffet refers to derivatives -- throughout the U.S. and global financial system.

Without unregulated, non-transparent, over-the-counter derivatives and the enormous risk that they spread and amplified, the 2008 crash would have been very different and almost assuredly would have been significantly less severe.

That is why the Dodd-Frank financial reform act spent so much time on regulating derivatives, ensuring transparency, trading, competition, oversight and accountability. While other agencies have roles to play, ***the primary agency*** standing between that derivatives nightmare from happening again is the CFTC.

And, ***the primary people*** ensuring that the CFTC has the authority and resources to prevent that derivatives nightmare from happening again is ***you*** and your colleagues in the Senate and the House.

In closing, when thinking about that, I'd urge you to look at the list on page 20 of my written testimony. (SHOW) That's the list of the 42 financial institutions that received more taxpayer money from TARP than the CFTC's entire 2019 budget.

That's why reauthorizing and properly funding the CFTC today are as important as the 2008 TARP vote because only getting that right will reduce the likelihood of future votes where you have to again send taxpayer money to bail out Wall Street's derivatives dealers. Thank you.