

# Reg Burden Poses Risk To Nation's Dominance

BY GREGORY P. WILSON

The United States' position as the dominant global financial hub is under increasing competitive pressure from London and other places whose financial markets are not only growing faster but are also advantaged by regulatory regimes that make it easier to do business. These facts have long-term implications for our economy—a point recognized by the concurrent work of at least three national, bipartisan efforts.

Though U.S. standards and financial regulation in the past may have been a major contributing factor to our present competitive advantage, they are more likely to be a source of our competitive disadvantage in the future.

This is due not just to the increasing complexity and cost of our regulatory system. Excessive regulation, inefficient regulation by multiple layers of regulators at the state and federal levels, regulation that is not balanced and performance-based, and regulation that stands in the way of innovation and is out of touch with market realities—all have a cost for companies, their shareholders, and their customers.

The more important failure, in my view, is the lack of a clear and coherent vision, strategy, and streamlined regulatory structure to ensure U.S. financial competitiveness. The good news here is that many of these problems are things that we can directly control.

It is in our national interest to ensure strong and well-supervised financial markets for our own continued economic development and growth. Consequently, this means having a robust regime that complements financial sector competitiveness by regulating with—rather than against—basic market forces.

Given the U.S. role in the global economy, there is an urgent need for a new dialogue about a modern financial regulatory regime to maintain and improve U.S. competitiveness.

The U.S. government should launch such a program immediately. We need to transform the complex and cumbersome system that has been cobbled together over time into a more modern regulatory regime that embraces competitiveness and innovation. The time for tinkering at the margin is over.

To launch this effort, President Bush should revise the presidential executive order that established the Working Group on Financial Mar-

kets. Specifically, three new actions need to be considered:

**Set a new mandate.** Revitalize the president's Working Group under the chairmanship of the secretary of the Treasury, and give it a new mandate to design a blueprint for a modern financial services policy and regulatory regime commensurate with the U.S. role as the leading power in a competitive, global economy. Among other things:

- **Conduct a diagnostic.** Require the Working Group to review the work of the various bipartisan efforts currently under way. These efforts include the initiative launched by New York Mayor Michael Bloomberg and U.S. Senator Charles Schumer, the Commission on the Regulation of Capital Markets in the 21st Century (U.S. Chamber of Commerce), and the National Committee on Capital Markets Regulation.

- **Institutionalize private-sector input.** Create a small financial markets advisory council drawn from leaders in the private sector. The council's role would be to advise on a formal, regular, and ongoing basis. Participants in the three bipartisan efforts above would be likely candidates for this council.

- **Establish real deadlines.** Set a clear deadline for an initial action report to the President for his consideration of needed policy, legislative, and administrative changes (e.g., deliver the first preliminary report within three to six months). Subsequent and regular reports to the president and the Congress could be provided.

**Agree on a vision and strategy for financial competitiveness.** Require the Working Group to develop an explicit vision for the financial sector and its regulation, as well as a supporting, comprehensive financial sector strategy—an action plan based on a portfolio of legislative, regulatory, and administrative initiatives.

Such a vision could be as simple as stating that the United States strives to maintain and improve its leadership as the preferred financial marketplace in the global economy. Principles for ensuring world-class competition and ethical market conduct, prudent risk management and impeccable governance, and superior customer service and investor protection second to none can flow from this vision. Once there is agreement on a vision, a real strategy becomes an imperative.

**Offer a new U.S. banking license and regime for national, global players.** Require the Working Group to provide recommendations for a new universal banking charter and an independent regulatory regime for those financial institutions that elect to serve customers nationally or internationally and that meet new standards. Elements of this optional national charter could include but not be limited to:

- **Define clear objectives.** The objectives would be a world-class, prudential, efficient, and transparent regulatory regime based on equal treatment for all who opt in and elect to serve their customers from a national platform across some or all segments of the financial services industry.

- **Allow an option.** This regime would be a new option for all domestic and international participants, not an extra layer of regulation. It would leave in place the current regulatory regime for those that don't opt in.

- **Create a single regulator.** Those who opt in would have a single regulator across all financial services—a single point of contact to cut unnecessary red tape and make decisions that will help companies serve their customers better. Ultimately, there would be a single point of regulatory accountability as well.

- **Ensure full preemption.** Full federal preemption of state laws would apply to all institutions electing this new regime. National standards would prevail. State regulation would continue for institutions that opt to remain chartered at the state or multistate level.

- **Adopt more principles-based regulation.** Regulation would be primarily "principles-based," as opposed to "rules-based," with bright lines for "prompt corrective action" by the new regulator.

In summary, the current U.S. position across financial markets, while healthy enough today, is at risk. Without fundamental change, our regulatory system is a potential drag on our economy. Leadership of a bipartisan public-private partnership is needed now to develop a shared vision, common strategy, and modern regulatory structure to secure U.S. financial competitiveness in the 21st century.

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