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House Financial Services Committee OKs tough derivatives bill

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As expected, on Thursday morning the House Financial Services Committee approved tough new provisions to regulate the \$500-trillion OTC derivatives market. That's despite Republicans' near-solid opposition to the bill which they charge will both drive up the cost of using derivatives and drive derivatives trading to unregulated markets overseas.

House Financial Services Committee Chair Barney Frank (D-MA) had solid support from committee Democrats in Thursday's roll-call votes. Members rejected a Republican substitute offered by Rep. Scott Garrett (R-NJ) in a straight party-line 42-27 vote. Then they approved the committee bill, as amended Wednesday, in a 43-26 vote made possible by Rep. Walter Jones (R-NC) joining all 42 Democrats on the committee in the yes vote.

With the committee's work complete on Frank's "Over-the-Counter Derivatives Markets Act of 2009," Frank turned the committee's attention to marking up the "Consumer Financial Protection Agency Act of 2009," the next piece of what is to become comprehensive financial reform legislation. Frank said that he expects the committee to complete its work on three pieces of the reform package "by the end of next week," before taking up work on systemic risk legislation the following week.

According to the committee's Democrats and the Obama administration which has endorsed the amended House bill as a significant step forward, tightening regulatory control over the largely unregulated derivatives market will avoid a repeat of the financial crisis triggered by unregulated, un-collateralized derivatives trading by AIG and other major financial players. As well, the bill's supporters argue that greater transparency provided by moving most trades to regulated exchanges or clearing houses, with all transactions and prices reported, will increase competition and lower hedgers' costs for using derivatives.

Following the bill's "fine-tuning" Wednesday to tighten bill language on exemptions, Assistant Treasury Secretary Michael Barr commented that "The House has taken major steps toward enactment of this bill and is well on the path toward comprehensive financial reform."

House Speaker Nancy Pelosi (D-CA) commented that "Today's House Financial Services Committee vote to reform regulation of the over-the-counter derivatives market is a critical step forward in Congress' efforts to pass comprehensive financial regulatory

reform. The House Agriculture Committee will now have the opportunity to add its input and expertise to this legislation.”

In fact, the House Agriculture Committee begins work next Wednesday, Oct. 21 at 2 PM on its own draft derivatives regulation bill introduced last week by Committee Chair Collin Peterson (D-MN). This will subsequently be merged with the Frank bill to be part of the final comprehensive package for consideration by the full House.

“The House is taking action to restore transparency, accountability, and investor confidence to our financial markets,” Pelosi explained. “In July, we passed legislation to give shareholders of public companies a say on executive pay, and this week, the Financial Services Committee continued consideration of a bill to create a Consumer Financial Protection Agency. Working with the Chairmen and our Members, we look forward to scheduling a vote by the full House on a comprehensive financial regulatory reform package.”

For coverage of the Financial Services Committee’s Wednesday markup session, go to: <http://www.agri-pulse.com/uploaded/20091014H.pdf>.

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