

OPENING STATEMENT OF CONGRESSMAN PAUL E. KANJORSKI
COMMITTEE ON FINANCIAL SERVICES
HEARING ON SYSTEMIC RISK AND THE FINANCIAL MARKETS
JULY 24, 2008

Good morning. Mr. Chairman, today we continue our review of systemic risk in financial markets. Although we passed the housing reform package yesterday, tremendous economic anxiety and uncertainty remain. Finding an effective regulatory regime to keep pace with increasingly complex financial products and markets remains our goal. Striking an appropriate balance to enhance protection against systemic risk is also a difficult task. For just as the markets continue to change and evolve, so must regulation.

The explosive growth of complex financial instruments is well documented. Credit default swaps and collateralized debt obligations are just two examples of comparatively new exotic products flooding our markets. Warren Buffett famously labeled credit derivatives “financial weapons of mass destruction.” Some may view his characterization as extreme, but allowing these highly risky creations to thrive in a thinly regulated or unregulated market is a recipe for disaster.

So, in order to better understand these instruments, I sent two days ago a request to the Government Accountability Office that it begin a study on structured financial products. This study will examine the nature of these instruments and the degree of transparency and market regulation surrounding them. From this study, we should obtain a clearer picture of how to improve regulation in this sector of our financial system.

Another area of regulation we should consider is the consolidation of the regulation of our securities and commodities markets. The Treasury’s recommendation to merge the Securities and Exchange Commission and the Commodity Futures Trading Commission is something that ought to be discussed today. Such a merger illustrates the kind of streamlined regulatory system to which we should aspire.

Additionally, last week’s emergency order on naked short selling has received much attention. This Committee is due explanations as to the reason for the order; its effect to date on the market; its possible extension; and whether it will be expanded to broader market segments. Even to those of us who view short selling as a necessary provider of liquidity and market efficiency, naked short selling is worthy of closer scrutiny. People enter into trades with the expectation to complete them.

In closing, both the Commission and the New York Federal Reserve have played crucial roles throughout the current financial crisis. I very much appreciate Chairman Cox and Mr. Geithner being here today, and I look forward to their testimony.
