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Acceptance Speech - John F. Kennedy Profiles in Courage Award



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Thank you so much. I would like to thank the John F. Kennedy Library Foundation for this wonderful and unanticipated award. President Kennedy has been one of my heroes for more than 50 years, and to receive an award for courage in his name is truly thrilling and truly humbling.

I would also like to thank a number of my colleagues at the U.S. Commodity Futures Trading Commission -- some of whom I see here today -- who served with me there. Their assistance and support at the CFTC was invaluable to me, and indeed essential to my efforts.

When I spoke out a decade ago about the dangers posed by the rapidly growing and unregulated over-the-counter derivatives market, I did not do so in expectation of award or praise. On the contrary, I knew that powerful interests in the financial community were opposed to any examination of that market. Yet I spoke out because I felt a duty to let the public, the Congress, and the other financial regulators know that that market endangered our financial stability. And I also felt a duty to make every effort I could to address that problem.

My voice was not popular. The financial markets had been expanding, innovation was thriving, and the country was prosperous. The financial services industry argued that markets had proven themselves to be self-regulatory and that the role of government in market oversight and regulation should be reduced or even eliminated. All of us have now paid a large price for that fallacious argument. We're in the midst of the most significant financial crisis since the



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Great Depression, and regulatory gaps, including the failure to regulate over-the-counter derivatives, have played an important role in that crisis.

It is now critically important to identify and eliminate those regulatory gaps and to strengthen our financial regulatory structure. Without significant regulatory reform, our financial system will be exposed to continuing dangers and repeated crises.

No federal or state regulator had market oversight, or even now has market oversight, or regulatory responsibility over-the-counter derivatives market -- or even has sufficient information to understand the operations of that market.

The market is totally opaque and is now popularly referred to as "the dark market." It's enormous. The reported size of the market as of last June exceeded 800 -- 680 trillion dollars of notional value, more than ten times the gross national product of all the countries of the world.

While over-the-counter derivatives have been justified as vehicles to manage financial risk, they have in practice spread and multiplied risk throughout the economy and caused great financial harm. They include the credit default swaps disastrously sold by AIG and many of the toxic assets held by our largest banks. Warren Buffett has dubbed them "financial weapons of mass destruction."

We now have a unique opportunity -- a narrow window of time -- to fashion and implement a comprehensive regulatory scheme for these instruments. Existing U.S. laws governing the futures and option[s] markets provide a model for regulating the closely related instruments traded in the over-the -- over-the-counter derivatives market.

The new regulatory scheme should provide that the instruments must be traded on regulated derivatives exchanges and must be cleared by regulated derivatives clearing houses to the extent feasible. This would allow government oversight and enforcement, insure price discovery transparency and openness, reduce leverage and speculation, and limit counterparty risk. If any residual over-the-counter market is to be permitted, it must also be subject to robust federal regulation.

These measures would go far toward bringing this enormous and dangerous market under control. They must be adopted and implemented if we hope to avoid future financial crises caused by the market. Special interests in the financial services industry are beginning to advocate a return to business as usual and to argue against the need for any serious reform. We have to muster the political will to overcome these special interests. If we fail now to take the remedial steps to close the regulatory gap, we will be haunted by our failure for years to come.

Thank you very much.