ANGELA GREILING KEANE: (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Angela Greiling Keane. I’m a reporter for Bloomberg News and the 106th president of the National Press Club. We are the world’s leading professional organization for journalists committed to our profession’s future by hosting events such as this while fostering a free press worldwide. For more information about the National Press Club, please visit our website at www.press.org. To donate to programs offered to the public through the National Press Club Journalism Institute, please visit Press.org/institute.

On behalf of our members worldwide, I'd like to welcome our speaker and those of you in the audience today. Our head table includes guests of our speaker as well as working journalists who are Club members. And if you hear applause from our audience, I’d note that members of the general public are also attending, so it’s not necessarily evidence of a lack of journalistic objectivity.

I'd also like to welcome our C-SPAN and Public Radio audiences. You can follow the action today on Twitter today using the hashtag NPClunch. After our guest’s speech concludes, I’ll have a question and answer period. I will ask as many questions as time permits. Now it’s time to introduce our head table guests. I'd ask each of you to stand briefly as your name is announced.

From your right, Mike DeSenne, senior editor of Kiplinger.com; James McTague, Washington editor of Barron’s magazine; Marc Scheff, staff writer at Crain’s Investment News; Michael Lindenberger, Washington correspondent for the Dallas Morning News;
Paul Merrion, Washington bureau chief for Crain Chicago Business; Chet Helck, SIFMA chair and CEO of global private client group for Raymond James Financial; Alison Fitzgerald, finance and investigative reporter at the Center for Public Integrity and the Chairwoman of the National Press Club Speakers Committee.

Skipping over our speaker for just a minute, Kasia Klimasinska, a U.S. economy and Treasury reporter for Bloomberg News; Kenneth E. Benson, Jr., president of SIFMA; Molly McCluskey, a freelance journalist and the vice chair of the National Press Club Freelance Committee; and Cheyenne Hopkins, a reporter for Bloomberg News covering banking legislation. (Applause)

Our guest today is a longtime member of the Republican establishment in Washington, a former leader on Capitol Hill and a respected voice in the movement to rein in federal spending and reduce the U.S. debt. So it came as a bit of a surprise earlier this fall when former U.S. Senator Judd Gregg became a commentary in *The Hill* newspaper with these words. “Most Americans these days are simply ignoring Republicans and they should.” (Laughter) Gregg was lamenting the strategy of some in his own party to threaten a government shutdown and default on the U.S. debt in their effort to kill President Obama's healthcare reform law. He later called the 16 day government shutdown a “tactical fiasco.”

Judd Gregg came to Washington for the first time in 1981 representing New Hampshire in the U.S. House for nine years. He then went back to the Granite State and as governor, he was champion of environmental conservation and helped preserve more than 337,000 acres of sensitive land. After four years in the statehouse, he returned to Washington to begin the first of three terms in the U.S. Senate. His political career was marked by contradictions. He was known to be a staunch fiscal conservative, yet he didn’t hesitate to work with Democrats in Congress and in the White House to push policies he believed in.

During the financial panic in 2008, Senator Gregg was the top Republican negotiator for the Troubled Assets Relief program which set aside $700 million to bail out Wall Street and commercial banks. Just four months later, however, he withdrew his name from consideration to become President Obama's first Commerce Secretary saying he was opposed to the President’s economic stimulus plan because he is a budget hawk.

Senator Gregg left the Senate in 2010 and joined with former Senator Alan Simpson and New York Mayor Michael Bloomberg to become a leader of a bipartisan group called Fix the Debt. The group is urging elected officials to cut the federal deficit. As a former Senator, Gregg hasn’t been shy about criticizing Republicans and Democrats alike. His columns in *The Hill* have touched on everything from tax policy to immigration to healthcare.

Today, Senator Gregg is here as the CEO of the Securities Industry and Financial Markets Association, a trade group that represents the interests of the investment industry. Its members include the securities arms of J. P. Morgan, Citigroup and Fidelity.
SIFMA spent more than ten million lobbying Congress in the last two years. Senator Gregg is here today to discuss an initiative to insure investor interests are protected. Please help me give a warm National Press Club welcome to SIFMA CEO and former U.S. Senator, Judd Gregg. (Applause)

SENATOR GREGG: Very nice of you, thank you. Thank you very much, Angela and members of the Press Club. Thank you for the opportunity to have this forum. Very much appreciated by myself and folks at SIFMA. It's a pleasure to be joined here by so many of the SIFMA team and family and especially by our chairman, Chet Helck, and by our president Ken Benson, by Abby Helck and by my wife, Kathy, and to have a chance to talk to you a little bit today.

Kathy said I should begin by telling you one of our New Hampshire stories. Now, I hesitate to do this in Washington because the punch lines are very subtle. But I notice that we have these flags here that are New Hampshire flags. I hope nobody's bitten into the flag because that would be a violation of protocol, by the way, speaking as the former governor.

But Ken, of course, is from Texas and he was the Congressman for Texas, an excellent member of Congress and has a very distinguished career. And, of course, his family is equally distinguished. But whenever I talk to Ken and see Ken, I'm reminded of a story from our town in New Hampshire. We lived in Greenfield, New Hampshire, which is a town of 600 people, okay? And in this town, it was a beautiful town up in the foothills. And in the fall, a lot of people used to drive through the town.

Down the road from us was a fellow named Oscar Paine. Oscar was in his late 70s, but he was still farming, ran a little dairy farm. He was out working on his fences one day and this great, big, huge black SUV pulls up with Texas plates. And this fellow gets out and he’s got this huge hat, I mean this big hat, big cowboy hat. And he walks up to Oscar, who isn't that big, and he says, “Sir?” Oscar says, “Yep?” “This your farm?” “Yup,” Oscar says. Says, “Well, have you lived here all your life?” Oscar says, “Not yet.” He says to him, “Well, how big is your farm?” Oscar says, “Well, that's a good question.” He takes his pipe out of his mouth, he says, “If you go down the road here, you'll see a birch tree. When you see that birch tree, you go up that little ridge there and you'll find a stone wall. You go across, follow that stone wall over there to a bunch of oak trees and come down there and get to the road again. You come up here, that's my farm.”

Fellows says, “Well, I'm from Texas and I can get in my car and I can drive all day, all day, and only be halfway across my farm.” Oscar says, “Yup, used to have a car like that myself.” (Laughter and Applause) Is applause from the press allowed? I'm amazed.

Well, since Kathy told me to tell that story, I'll tell one more story. That way I'll use up all your questioning time. So Oscar also ran the county store and Mildred Perkins and Mabel Austin had lived in town all their lives. But Mildred and Mabel had fallen out
of sorts with each other after about 35 years because they’d gone to a church social and Mabel had made a pie that Mildred thought was her recipe, and so forth, and so on. So they didn’t speak to each other for, like, 40 years. And Mildred dies.

Ethel (sic) goes down to the town store and Oscar’s down there and Oscar says to her, “Ethel, did you hear that Mildred died?” “Yeah, heard that.” “Well, Ethel, you're going to go to Mildred’s funeral?” “Nope, she's not coming to mine, I'm not going to hers.” I can go all day like this. I'm making a lot more progress than I am in addressing some of the issues before us.

But I did want to talk today about the role of financial markets, and specifically our role in helping Americans succeed and Main Street prosper. We take this very seriously as an industry. And I think to understand where we are, you need to actually go back to the last century. A lot was decided in the last century and it’s carried into the second decade of this century, of course, because life is a continuum.

But two things were clearly decided in the last century, the 20th century. The first was this: that democracy wins out over totalitarianism. Democracy defeated fascism, democracy defeated totalitarian communism, and by the end of the last century most of the western world was democratic. And people moved to democracy as a way to govern.

The second thing that was decided was that free markets create a great deal more prosperity for the people than collectivist markets. And as a result, again, free markets have become the way especially of the western world. And America is uniquely positioned as the representative of democracy, being the world’s oldest democracy after Switzerland, and as the representative of free markets, being the most prosperous nation in the world.

And the financial markets play a critical role in the success of those financial markets. This point, I think, was made uniquely by Joseph Shiller, who is an economist at Yale who just recently won the Nobel Prize for economics when he said this in his book Finance and the Good Society. “The essential challenge for leaders to contemplate in coming to terms with the future of finance is to understand that it can be used to help broaden the prosperity across an increasingly wide range of social classes.

“Imagine the development of a new laboratory, the funding of a new medical research center, the building of a new university or the construction of a new subway system. Finance provides the structure to these and other enterprises and institutions throughout society. If finance succeeds for all of us, it will help build a good society.”

But we're not sure it will succeed, a market economy. There are issues which make it a challenge. And, in fact, interestingly enough, it was Adam Smith who over 200 years ago developed a concept of a free market society, who caught this issue and he said, and I'm paraphrasing here, he said essentially great nations are not impoverished by their people. Great nations are impoverished by their governments acting badly. He used the term prodigality, which only you folks in the press would understand, so I replaced with
badly. But basically, it means governments acting inappropriately, wastefully mismanaged.

Milton Friedman, a more recent economist of rather note, said it another way. He said if you put the federal government in charge of the Sahara Desert, there’d be a shortage of sand in five years. (Laughter) A simple fact is that there are forces which negatively impact a free market economy and democracy’s path. And I would like to mention three of them that I think are really of concern today.

The first, of course, is our federal debt and deficit. You simply cannot run a country if you run up a deficit and a debt which you can't sustain. We have doubled our debt in the last five years, we will triple it by 2020. We are on a pathway which basically puts us in a debt situation where our debt to our gross national product will equal or exceed other nations who have had extraordinary problems such as Greece, Italy, Ireland, Iceland, France. We have the advantage, of course, of being the world’s strongest economy and the world’s currency and therefore we have more running room.

But the simple fact is that if we continue on our present plan. At some point, there is going to be a challenge to our currency and its viability. And when that challenge occurs, it will lead to either significant inflation or some other financial event which will inevitably lead to a diminution in the standard of living of the American people. And it will impact our democracy and our markets. And we need to address it. And hopefully, we’ll see our Congress come together. They’ve got the folks together in a room now, I guess, to try to do some part of this over the next few months.

The second issue that we have, which is a concern in my opinion, is the piling on of federal regulation. We in the financial markets business totally support appropriate regulatory activity, embrace it, want to work with regulatory agencies to create constructive regulatory activity. But we're getting a few more regulations than I think anybody expected.

Every 2.8 days, a new regulation comes out dealing with the financial markets, every 2.8 days, on average. We've received now 15 million words, 15 million words, under Dodd-Frank. That represents 22 volumes of War and Peace, which would be about this high if they were placed on this table. And we're only 39 percent of the way through Dodd-Frank. So we got another 20 million words to come. This type of excess is driven, in large part, by an attitude which essentially says to folks, “Listen, we the regulators know better how to deal with your life than you do. We want to take risk out of your life, you shouldn’t have risk in your life. We are basically going to be in charge of your life through regulations.”

It’s a bureaucratic excess in many ways. There is no question that an appropriate regulation is needed in a market economy. But that at some point, if you go too far, you end up constraining that economy because the energy instead of going to creating economic activity, goes to responding to basically the issues raised by the regulators.
The third area is what I call sort of a galloping populism which we've seen. Again, at its core are folks who generally don't believe in market economies, free market economies especially. It's a belief, again, that doesn’t trust the ability of individuals to make decisions on their own, for their own betterment. But, rather, says that a collective group of folks should do it in the name of a better society. It has become reflected in statements like those made by Michael Moore, who I'm sure would not turn down the title of spokesman for the progressive left, I think he probably would be attracted to that title, where he said, “I don’t own a single share of stock.” He’s made this statement outside the New York Stock Exchange during some sort of an event there that he was sponsoring. “And I have never owned a single share of stock. I don’t support this,” and he was pointing at the New York Stock Exchange, “this rigged casino. I don’t know why anybody would put their hard-earned money into this, the New York Stock Exchange.”

Well, I would refer those folks to Twitter. Today, the Twitter company issued, I think it was 70 million shares of stock, in the interest of purchasing of those stocks by people from all walks of lives was extraordinary, so extraordinary, of course, that the value of that stock went up dramatically from its original issue. And what does that reflect? That reflects the core element of a free market society. That people want to have the right to go out and participate with other people who are trying to create economic activity in businesses which they deem and feel will be successful.

That is the way this economy works. And to reject that is a mistake. I think to reject that also reflects a certain discomfort that you see amongst populism with the concept of free markets, obviously. I think Milton Friedman got this right, again, Milton Friedman, the great economist. He said, “A major source of the objection to a free economy is precisely that. It gives people what they want instead of what a particular group thinks they ought to want. Underlying most arguments against the free market is a lack of belief in freedom itself.” And who's harmed by that, by this? Who’s going to be harmed by a government that's not fiscally responsible, by people just going way too far in the area of dampening down economic activity through an attempt to address risk through regulation? Or, by a galloping populism that basically rejects free markets as a concept?

Well, I have to tell you, it's not going to be the folks on Wall Street. It’s going to be the folks on Main Street. It’s Main Street where the jobs aren’t created or where the opportunity doesn’t exist if you don’t have a vibrant economic engine driving this country. And if you have these retarding events. That's why it's our intention in the financial markets industry, through SIFMA, to make the case for a free market economy that is properly regulated, that has as its most basic elements individual initiatives, supported by readily available capital and reasonably priced credit.

To promote the importance of the role of vibrant capital markets and a financial system in the everyday lives of Americans and their ability to pass on to their children a more prosperous life. We intend to essentially reconnect with the American people by reinforcing the fact that the financial markets’ basic purpose is to help Americans succeed and to allow Main Street to prosper.
We intend to do this by basically concentrating on four major areas. The effort will be primarily an attempt to make it clear to folks in a very personal way how important it is to their day to day life that the financial markets participate in our economy in an aggressive and positive way. The job they go to probably is a function of somebody having invested capital in a business. When a person sends their kids to school, it's probably being supported by market activities which allow a loan to be made.

When a person goes to an emergency room, that emergency room was probably built with bonds that came from the financial market, somebody in the financial market taking a risk on building that hospital by supporting it with bonds. When you drive down a good road, or even a bad road for that matter, it was probably built by bonds where somebody took a risk in order to create that.

Last year, in the last five years, business has accessed over $6.3 trillion in capital through the financial markets. Bonds have been issued which have built eight million miles of road, 1 ½ million bridges, and 500,000 miles of water pipes, all to the benefit of making a stronger and more prosperous society. Over 3.3 million people have received small business loans representing $178 billion of investment.

And these are real folks. They're folks like Carmine and Marcus Montevalins [?] who started in their garage a food distribution business, but working with their financial advisor were able to expand that into a major business in southern California. Or Jill Brown, who when her husband died, was helped by financial advisor to get back on her feet and she began a small business of home furnishings, which she then built into the Brown Home Goods stores in Houston, Texas. Stories that created jobs, stories about real people whose lives were improved by investments made.

As a very practical matter, we've done a lot of great things as a capital markets industry. We even brought back the Twinkie. Well, I guess the Twinkie never went anywhere because it’s not biodegradable. But as a very practical matter, had it gone somewhere, we brought it back. (Laughter)

The second thing we're going to concentrate on is the lessons we've learned. We know that too big to fail should not exist. And as an industry, we're committed to ending it. We've done this through basically having living wills, by having stress tests, by having resolution authority. Furthermore, the capital of the banking industry and the investment industry has been increased dramatically, dramatically, in the last five years from $400 billion to over $800 billion. And that gives it much more safety and soundness. And even the taxpayers have benefited a fair amount from the financials industry's distress in that all the money that was paid out under TARP to the financial side of the ledger has been paid back and there was a $20 billion profit to taxpayers that can be used for other things. Going forward, we intend to work for strong and effective regulations that will create transparency and will make for a safer and sounder system.
The third thing we're going to focus on is education because we believe firmly that a well educated population, about the importance of finance in their daily life is going to be a population which can more effectively succeed and prosper. We're going to talk about the importance of capitalism, markets, entrepreneurship and yes, even profit, and how our system works and how it creates prosperity. And we're going to talk about financial literacy and how people should invest and how they can invest to make and prepare for their future; how they deal with their retirement savings or their investments that are coming through their pension funds in a way that communicates and touches folks in their day to day life. We're not going to do this from Washington or from New York, we're going to do it in the local Rotary Clubs, in the local Boys and Girls Clubs, hopefully, in the local school systems where we basically one on one talk about the importance of the financial industry in the day to day lives of people and how we work with them to try to help them succeed.

And that's the fourth and most important initiative, which is our commitment to put our customers first. Our commitment to protect our customers rights to choice, our commitment to protect our customers rights to get the information they need to make good choices, our commitment to protect our customers savings, whether they're being used for investment or whether they're being used for planning for their retirement.

And in that role and as part of that effort, as a lot of energy has been put into this, we have created a document called our partnership with you. And essentially, this is a statement of rights that our customers have and should have, and that we are committed to as an industry. This was not written up by one or two folks sitting down one afternoon and thinking it through. This spent-- John Morello over here and his group at SIFMA, worked with hundreds, actually thousands, of members of the industry to try to make this work and come together with this partnership of use so that people were committed to it and bought into it in a way that made it clear we do put our customers first.

Let me just read a few of the points in this. I have to put on my glasses to do this, assuming I brought them, which I may have not brought them. Yeah, Kathy, you got an extra pair of glasses? Okay, I'm all set. I buy these at Reagan Airport, by the way. It’s the best place to buy your glasses, they’re 12 for 5 bucks, really good. (Laughter)

Let me just read from this. “As an investor you have some important rights. We are committed to providing you with educational resources, forms, tools, to better understand the products and services you are investing in and how they work to help you achieve your objectives. It’s about the consumer. Our industry continues to embrace the implementation of high standards for interacting with our individual clients including putting the clients’ best interests first when we provide personalized investment advice about securities. Our customers have the right to work with an investment professional of their choosing who will help them clarify their investment goals and risk tolerance and help them achieve their stated objectives.

“Further, they have the right to receive personalized investment advice, to be informed of material conflicts of interest, to receive reliable information from their
financial assistant and to be presented with reasonable investment alternatives. They have the right to receive clear and accurate descriptions of all their transactions, and they have the right to be clearly informed about the fees associated with their accounts, to be clearly informed about the risks associated with individual investments, to receive accurate and timely and periodic statements and to receive clear descriptions of their financial services firms’ policies and practices as they would relate to the individual.

“Further, they have the right to be treated in a fair and ethical way at all times and to be treated in a respectful manner. And to receive competent and courteous service and advice at reasonable prices. And to choose products that are suitable for their investment goals in line with their stated risks. And to be able to move their accounts if they wish to do so. And to receive prompt responses from their assistant in the investment community. And to have clearly defined process for resolving any issues that might arise. This is a commitment that we’re making to our customers because we put our customers first.”

Joseph Shiller, again, makes the point that “the better aligned a society’s financial institutions are with its goals and ideals, the stronger and more successful that society will be. If its mechanisms fail, finance has the power to subvert such goals as it did in the sub prime mortgage market of the past decade. But if it is functioning properly, it has the unique potential to promote great levels, great levels of prosperity.”

This is a direction we are going to go. We are going to align our efforts with the purposes of the people who we serve and of a good society. We know that Main Street is the engine of the American economy, but it’s the financial markets and the resources they bring to Main Street that is the fuel of that engine.

This is the American advantage; that people who are willing to go out and take a risk and put their sweat equity into pursuing their dreams are able to find other people who are willing to support them with capital and credit at a reasonable price. We have this advantage as a nation and we as an industry are totally committed to it. The financial industry is going to work to be an extraordinarily strong and positive force for helping our customers pursue their dreams. We are going to work to make sure that we can help Americans succeed and Main Street prosper. Thank you very much. (Applause)

All right, ask my question first, Angela.

**MS. GREILING KEANE:** That'll be last. Tell us, why should consumers, individual consumers, trust the industry for advice on their protection?

**SENATOR GREGG:** Well, first they should go and meet their advisor. And people like Chet who came up through the system, and get to know them and get comfortable with them so that they develop a rapport because the advisor is there to be their assistant. Much as you would go to a doctor or you would go to a dentist, your financial advisor is there to help you out in an area where you may not have the expertise to do the job.
And so that’s the opportunity that exists for a person, to go to someone who’s a true professional and who is committed to standards which I just outlined to be on the side of the customer as the customer has questions about how they're going to invest their money and save for their retirement.

**MS. GREILING KEANE:** Were there any consumer advocates that helped design the program?

**SENATOR GREGG:** Yes, we had a lot of consumer input on this proposal and we basically rely on our customers to tell us what they wanted as we tried to develop this proposal.

**MS. GREILING KEANE:** As part of the effort, do you have any plans to make SIFMA any more of a consumer organization? A questioner says there's no consumer affairs office or hotline or anything like that. Do you plan to do any consumer facing work as an association?

**SENATOR GREGG:** Actually, it's our members who do that and it really should be with our members. We're very obviously sensitive to any issues that are raised, and if anybody wants to call me up, they can call me up. But as a practical matter, if a consumer has an issue that deals with how they should invest or whether their investments are being handled properly, the first opportunity is to talk to their financial advisor or their broker.

**MS. GREILING KEANE:** You talked about there being what you consider too much regulation of the financial services industry, but we all lived through 2008. And at that time, there was a concern that there was too much regulation back then. What is the right answer if we saw the failures of banks and many mortgages then with that level of regulation? Why should there be less now and what is appropriate?

**SENATOR GREGG:** We're not talking about less, we're 15 million words in, we got another 20 million words coming, so we're not talking about less; we're talking about rational. Regulation that accomplishes the purpose; first to find the purpose, then try to accomplish it through regulation. And we totally embrace the idea of a strong regulatory environment. It’s very important, in fact, for transparency, for integrity, for having confidence in the system.

But there are a variety of regulations that have already come down which are a little more than confusing and some, in our opinion, counterproductive to the basic goals of what the regulation was supposedly going to pursue. And I think that we're in an atmosphere now where so much energy is being put in to responding to the regulatory regime that resources that should be going out to try to help the person who’s got the idea, the dream, that they're trying to succeed in are not being used there because they're being used for response to regulatory regime.
We will get through this, obviously, as a government. But as we move towards resolving all the issues raised out of 2008, and there were some very legitimate and serious ones, we just have to be sensitive that we don’t want the pendulum to swing so far that we undermine the basic strength of the American economy, which is that it is a free market where people do take risks in order for it to succeed and where you basically want the financial sector to be properly regulated and where the financial sector is willing to be constructed in that regulation without overwhelming the ability of the financial sector to be an effective player, an aggressive player in promoting the opportunities for prosperity that individuals find and want to pursue.

**MS. GREILING KEANE:** Pointing the finger in a different direction, this questioner asks how can an investor protection be advanced while investors themselves increasingly demand high risk, high return investment products in this low interest rate environment?

**SENATOR GREGG:** Well, I'm not speaking as the head of SIFMA. I don't think it’s our job to tell people what risks they take and what risks they don’t take. The financial industry as a whole must participate in the efforts of the government and our regulators to make sure that systemic risks are muted to the fullest extent possible. Individuals in our society invest and when they invest, they take risk. And if somebody wants to invest in a more risky way to get a higher return, that's their right. If they want to invest in a more conservative way in order to protect their resources and not have any potential downside that might come from more risk, that's their right, too. But that's an individual choice.

**MS. GREILING KEANE:** Back to regulations, can you give us some specifics of regulations that you think have gone too far? And what is SIFMA doing, what are you looking to change, precisely?

**SENATOR GREGG:** Well, the original proposal from DOL on the issue of fiduciary, would have basically forced out of the business of giving advice a lot of the industry. And the loser in that would have been the consumer because the consumer, especially the consumer who does not have a huge IRA or a huge 401(k), people who have IRAs or 401(k)s in, let's say, the under $100,000 level, would have found themselves not being able to use advisors in order to determine how they wanted to invest their retirement funds.

That's counterproductive. That would have undermined and harmed, in my opinion, a lot of folks’ ability to get ready for retirement. That would be an example of one area where we think regulation simply was misdirected and would have produced the opposite result of what we expected and what we would want as a society.

**MS. GREILING KEANE:** On that, are you supportive of a House bill to delay the Labor Department rules until the SEC acts?
SENATOR GREGG: Yes, that's the proper approach. Basically, Dodd-Frank made it clear that the SEC should take primary responsibility in this area of establishing fiduciary rule. We as an industry totally support the concept of a fiduciary rule put forward, which should be put forward by the SEC. And clearly, the DOL role here should be secondary to the SEC moving forward, and certainly not move before the SEC moved, which under the Dodd-Frank has primary responsibility.

MS. GREILING KEANE: Why is the relationship of financial advisor to the consumer not consistently a fiduciary relationship?

SENATOR GREGG: Well, because fiduciary relationships have all sorts of legal implications which would limit, in many ways, the ability of people to give advice in a constructive way, or maybe not even allow it at all depending on how the term fiduciary is interpreted under the advice being given. For example, in the DOL case, the DOL fiduciary language would have essentially barred people from giving effective advice to folks who wanted to use it who had smaller accounts. We've got another situation like this in the area of municipal bonds where advisors, if they're subjected to a fiduciary rule that basically bars them from giving the type of advice that the community might want or that the bond issuer might want, whether it's a college or a hospital, will find themselves unable to give the advice which would allow that issuer the most and best opportunity to get the return they want and pursue the course they want because of the limitations that arbitrarily follow the fiduciary language.

MS. GREILING KEANE: A prominent blogger this week opined that the derivatives business is dead due to increasing regulation. Do you think that's an overstatement and/or derivatives disproportionately overburdened by regulations now given their role in the financial crisis?

SENATOR GREGG: No, I don't agree with that statement. There's obviously still a very vibrant derivatives market. And what you're seeing is the derivatives market is moving to much more clarity, transparency, moving much more into an open arena and that's the way it should evolve. There are obviously some derivatives that don't naturally lend themselves to that type of an approach but as a practical matter, I think the derivatives market is adjusting to the new regulations. We weren't all that comfortable with some of them, but the adjustment’s occurring.

MS. GREILING KEANE: You used the example of the Twitter IPO as a way of illustrating benefits of a free market. But, of course, most of us individuals couldn’t buy the Twitter stock at the IPO price. How do you reconcile that disparity?

SENATOR GREGG: Well, you'll have to ask the folks at Twitter because they're the ones who chose the amount of stock they were going to put out, and it was a very narrow amount of stock that they decided to issue compared to the value of the company. And that was a legitimate business decision that they made. They did not want to put the entire company into the marketplace and you can understand why. However, if you want to buy Twitter stock, you can go right now and buy some Twitter stock. The
price will be a lot higher than what the original offering price was, but that's called a market economy.

**MS. GREILING KEANE:** You talked about capitalization of banks. Alan Greenspan was here at the National Press Club last night and talked about this topic, saying he thinks banks need even more capitalization. Do you think progress that's been made so far is enough?

**SENATOR GREGG:** No, I think that you need to turn to this question constantly and obviously the regulators who have responsibility in this area are. The issue of what is the proper capital is a very legitimate question because at a certain level, if you require too much capital, you basically contract dramatically economic activity because money that's being used for capital can't be used to be put out through investment or lending. But there's no question the issue of capital is at the core of a sound banking system. So it should be constantly looked at. But there has been huge progress on the issue of capital, huge progress. And the American banking system especially is very well capitalized relative to the rest of the world right now.

**MS. GREILING KEANE:** You talked about the importance of confidence in our public markets. This questioner says the growing threat and risk of cyber attacks could undermine that confidence. Is there a role for the financial industry to address cyber security and information privacy?

**SENATOR GREGG:** Well, that's a great question. We consider this to be one of the truly big issues that we confront as an industry. I know that Chet’s firm spends a tremendous amount of time on this question, as do all firms. Cyber attacks can be for the purposes of gaining proprietary information which could then be used in a criminal activity, or it can be for the purposes of shutting down the industry and disrupting the commerce of the country.

The industry fully recognizes the seriousness of this and is moving in all sorts of fronts to try to address it. Let me just tell you about one that Ken Benson essentially oversaw with Tom Price in our office. And basically, that is we set up what amounted to- - we've done it twice now-- a test case of a variety of attacks on the investment community and on the exchanges. That was called Quantum Dawn 1 and now it’s called Quantum Dawn 2, and it was a very successful, highly intensive exercise. It involved a tremendous number of business entities and banks and investment houses. It involved the entire relevant part of the federal government including the Treasury and Homeland Security and the Fed and other agencies.

And the attacks were structured by independent groups which we hired basically to figure out what would be the most vulnerable places and where the attacks would come from without us knowing about them. And there was a basically-- a process of replicating what might happen in an attack and we learned a great deal from this. And the Quantum Dawn exercise occurred last July. We expect to do it again but I will say this. The systems which were in place to try to respond held up fairly well. We know there are
gaps, we know there are problems, but on balance, we were reasonably comfortable with the fact that the industry is doing a good job of trying to get ready for this type of a threat, which we consider to be an extraordinary threat.

**MS. GREILING KEANE:** Is there anything you think regulators should do on the cyber security front?

**SENATOR GREGG:** Well, I think Congress should do something. Congress has the responsibility to come up with decent cyber language which creates a proper sharing of information across agencies. This was a problem when I was there. I tried to correct it, Barbara Mikulski and I spent a fair amount of time on this when we chaired a committee together; I was chairman, she was ranking. Those were the good old days. That's the way it should be today. No, I'm just kidding. Barbara, I didn’t say that, Barbara. She's really a good member of the Senate and she's very aggressive on this issue.

But breaking down the stove pipes is hard and getting the cross fertilization is difficult, but we all know it needs to occur and we need to know there has to be proper sharing and Congress has had a couple of good bills that have not made it all the way through and we need to get something done.

**MS. GREILING KEANE:** It's a good segue into the political questions. You've called Senator Ted Cruz incredibly self destructive for the GOP. What can and should the GOP leadership do to limit his influence given that he does have a powerful base of supporters outside of the Senate?

**SENATOR GREGG:** Well, obviously I'm not speaking here as CEO of SIFMA, but speaking as a Republican and a former Republican officeholder from New Hampshire. You can't do anything about a member of the Senate’s right to say things, and you shouldn’t be able to. I think it was Dick Lugar who used to describe the Senate as 100 carrier taskforce moving around the halls of Congress. Everybody has their own power center in the Senate and Senator Cruz has decided that he has these issues he’s going to pursue.

But unfortunately, the manner in which he pursued them, especially the attempt to shut down-- make the condition of opening the government and passing the debt ceiling conditioned on full repeal of Obamacare or the Affordable Care Act, had no chance. It had no chance from the beginning. And therefore, there was never an opportunity that was going to lead to governance. And what the American people want today, and what the Republican Party in my opinion has to do in the near term is govern. It has to participate in the governance of this country. It has to work across the aisles to solve our deficit problem, to solve our immigration problem, to solve the GFC problem, and move forward as a nation that is actually addressing the issues that are critical to the everyday lives of Americans.

And you just can't stand in the corner and shout out phrases, you got to be willing to come up with ideas that can go across the aisle and work. It doesn't mean you have to
give up your philosophy in any way, or your commitment to your basic goals. There are a lot of places where you can cross the aisle and still maintain your basic philosophies. And there are a lot of good folks on the other side of the aisle, at least I found this when I was in the Senate, who are willing to work with you and who are willing to try to govern. And if the Republican Party wants to do something that reestablishes its credibility with the American people, I would say it should start governing. And as should the President, by the way.

**MS. GREILING KEANE:** Will SIFMA support moderate Republican candidates in 2014 primaries if they find themselves running against Tea Party backed candidates?

**SENATOR GREGG:** I don't think we're going to get involved in that issue.

**MS. GREILING KEANE:** Why not?

**SENATOR GREGG:** I just don’t think that's a role for us as an entity. We're going to support people who support the free market, who understand the importance of the financial markets to improving the lifestyle of Americans in their everyday life and will be there to help Americans have a more prosperous lifestyle.

**MS. GREILING KEANE:** Does the U.S. deserve to have a lower debt rating now that many members of Congress have shown themselves willing to default?

**SENATOR GREGG:** Of course not. Of course not. You know, we are not a government that moves linearly to solving problems. We move back and forth, up and down, two steps forward, one step back, across and forth, all over the place. We're not a parliamentary system where the government can do whatever it wants for the period that the party that has control-- controls it. We are a Madisonian created constitutional government built off of checks and balances where both parties have to be consulted to move forward and there has to be some consensus and almost all major issues have to be addressed in a bipartisan way.

It takes a much longer time to accomplish that than if you're running a parliamentary system. What I think the more sophisticated rating agencies see is that we are making progress on this road. And, in fact, there has been progress made on the issue of getting the deficit and debt under control. The 2011 budget agreement was a $900 billion down payment on the discretionary side. The fiscal cliff was a $600 billion down payment on the tax side, and now we have the sequester in place which is technically a $1.2 trillion payment, again on the discretionary side. Not the right way to approach it, but that's a forcing mechanism to hopefully cause the Congress and the President to return to the table and reach an agreement on the entitlement accounts which is where the real problems are.

And the process is going on now with the budget committee negotiations chaired by Senator Murray and Congressman Ryan. It is an opportunity to move the ball further.
down the field, to continue the process of resolving our fiscal issues. And I think most rating agencies are sophisticated enough to understand this isn't going to happen overnight, but that there is progress and we are hopefully moving in the right direction. In fact, I think we are moving in the right direction.

**MS. GREILING KEANE:** You talk about the importance of both sides of the aisle working together. Yet, of course, you're here speaking to us today as SIFMA CEO and not as the Commerce Secretary. Why did you turn down that invitation from President Obama?

**SENATOR GREGG:** Well, I've explained this before. Kathy and I thought about it a lot. I like President Obama, he was a friend in the Senate; not a close friend, but certainly somebody I dealt with. He was on the committee that I was ranking on, or chairman of, I can't remember which I was at the time. And when he was elected President, like all Americans, I thought it was a great statement that we'd elected him and I wanted to try to be helpful. And when he came to me and asked me if I would be willing to serve in his cabinet, I was caught up in the moment and was very appreciative. But Kathy and I talked about it and, you know, when you get up, I should have realized this immediately but I didn't, my philosophy on fiscal policy was a long way from the President's philosophy on fiscal policy. You know, the number one job of a member of the cabinet is to be 100 percent with the President 100 percent of the time. That's a member of the cabinet's job. And it would have been very difficult for me to do that and maintain my values, or my commitment to my values on fiscal policy.

So, I should have recognized it earlier and I didn't and I've always regretted that because I put him in a difficult position. But I will say this, he was extraordinarily gracious in the way he handled it, and I've always appreciated that fact, as was Rahm Emanuel, by the way. Nobody ever talks about Rahm Emanuel as gracious, but he was. And he was the President's Chief of Staff at the time, and so I was very appreciative of that. But it just simply wasn't a good fit.

**MS. GREILING KEANE:** How do you see the differences in the Republican Party playing out? Will things get worse before they get better?

**SENATOR GREGG:** Again, I'm not speaking here as SIFMA CEO, okay Chet? (Laughter) The way I see it playing out is this. I think this country’s built on the two party system, the two party system's absolutely critical to our success as a nation. We are 330 million people. You can't govern a nation of this size, of this complexity, of this energy, unless you have a process for what we in New Hampshire call sugar off, getting to conclusion. And the first step in that exercise in politics is gathering people under the big tents of the parties, a multiparty system would be incredibly destructive to our nation because everybody would go to their own corner and you'd never have anybody working together.
The two party system forces people of very large philosophical beliefs under one tent. Over here is the Democratic tent, over here is the Republican tent. We have different philosophies, but the folks under those tents also have lots of different philosophies. It's a process of building into an agreement which then folds into the federal government system of checks and balances in the Congress.

I think the Republican Party is still a-- is the right force for good governance in this country on the issue of fiscal responsibility, and I think we have to get back to those themes that have always been at the center of our policies, which is that we believe that this country must live within its means and that we have to have a nation which cares for those who are less fortunate. But in the process, we also have to recognize that we can't have a nation that lives beyond its means for an extended period of time and pass onto our kids a more prosperous nation.

So I do think our party will be a very strong voice as we go forward in the next bi-election and into the next presidential election.

MS. GREILING KEANE: Treasury Secretary Lew previously said we would solve too big to fail by the end of this year. Is it solved? And if not, how can it be solved?

SENATOR GREGG: Well, great progress has been made on that, as I've said. The capital, which is really the core of safety and soundness, is up by almost 100 percent. We have the living wills, we have the restitution authority, we have the stress test. All of this works together in tandem to basically lead towards making sure that we never have a situation like occurred in 2008. And there are other things that may still be thought of that can be done, tweaks possibly to the capital structures. But as a practical matter, I think we're well down the road to putting an end to, as we should, the concept of too big to fail.

MS. GREILING KEANE: We are almost out of time, but before asking the last question, I've got a couple of housekeeping matters to take care of. First of all, I'd like to remind you about our upcoming speakers. On Monday, November 11th, we have Walt Bettinger, President and CEO of the Charles Schwab Corporation. He’ll discuss 401(k) plans, when will we put hardworking Americans first? On November 18th, we will have Gloria Steinem, the feminist activist and founder of Ms. Magazine.

Next, I would like to present our guest with the traditional National Press Club coffee mug. There you go.

SENATOR GREGG: All right, thank you. (Applause)

MS. GREILING KEANE: And one last question. Here at the National Press Club, we do have our tradition of the last question usually being somewhat lighthearted, but we don’t usually have the speaker as it of themselves. But, Senator Gregg has asked himself a question.

SENATOR GREGG: Putting a lot of pressure on me, by the way.
**MS. GREILING KEANE:** He wants to know who won the World Series.
(Laughter)

**SENATOR GREGG:** Nobody knows here? Big Papi and the Red Sox won the World Series. Hey! Go Red Sox! (Applause)

**MS. GREILING KEANE:** Thank you for coming today. I'd also like to thank the National Press Club staff including our Journalism Institute and Broadcast Center for helping organize today's event. Finally, here's a reminder. You can find more information about the National Press Club on our website and if you'd like a copy of today’s program, you can find it there as well at [www.press.org](http://www.press.org). Thank you, we are adjourned. (Sounds gavel.)

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