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DODD-FRANK AT 5:
A CONVERSATION WITH TREASURY SECRETARY JACOB J. LEW

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P R O C E E D I N G S

MR. GAYER: Good morning everybody. I'm Ted Gayer, the vice president and director of the Economic Studies program here at Brookings. I'd like to welcome you all to this event today featuring Secretary Jack Lew who's here today about the fifth anniversary of the Dodd-Frank Act.

I'm delighted to introduce Secretary Lew this morning. As many of you already know, he was confirmed by the U.S. Senate as the 76th Treasury secretary in February of 2013. Before that he was President Obama's White House chief of staff. Previously he directed the Office of Management and Budget under the Clinton and Obama Administrations. So it's a pleasure to host Secretary Lew at Brookings. We're particularly excited today to hear his perspective on the Dodd-Frank Act.

The Act was signed into law on July 21, 2010 in response to the great recession. Among other important provisions, it created the Financial Services Oversight Council and a Consumer Financial Protection Bureau. It established protocols for winding down distressed, systemically important institutions, and it attempt to streamline the regulatory system.

In the five years since the Act was signed into law, it has inspire some controversy, to put it mildly. Some have said that it makes the financial system safer and fairer. Others think it's too restrictive and overly complicated. Some have even gone so far as to call for its repeal. Even their biggest proponents have pointed to provisions that may need to be revisited or amended. Five years isn't quite long enough for us to understand all the implications of the Act. Some of the provisions, such as the Orderly Liquidation Authority, remain untested. Many of the rules have not yet been implemented or have not yet started to take effect. Even so, today we do have a much better understanding than we did, obviously, five years ago about the Act's successes, its setbacks, and its economy-wide ramifications.

We're all eager to hear from Secretary Lew on these issues, so I'll turn to him in a moment. After his remarks, my colleague David Wessel, who is the Director of the Hutchins Center on Fiscal and Monetary Policy, will lead a discussion from the Secretary, and then we'll take questions from the crowd following that discussion. Just as an announcement, at the end of the event we ask that you please stay in your seats at the Secretary departs the auditorium.

So with that, please join me in welcoming Secretary Lew to the podium. Thank you.

MR. LEW: Thank you, Ted. It's great to be back at Brookings, and I appreciate you hosting this session this morning. Five years ago this month, the President signed Wall Street reform into law. It's the most far-reaching financial reform since the Great Depression. Before Dave and I begin our conversation I want to say a few words about why this historic legislation was put in place and what it's meant for our nation.

In 2010 when the Dodd-Frank Wall Street Reform and Consumer Protection Act were passed we were living in a different time. Back then, our economy was still struggling. It was struggling to recover from the worse recession of our lifetimes. During the darkest moments of that severe recession our economy was contracting at its fastest rate in 50 years, and unemployment hit 10%. Credit markets were frozen, retirement accounts were wiped out, the American auto mobile industry nearly collapsed, and millions of families lost their homes.

As soon as he came into office, President Obama moved swiftly to help reignited economic growth, get businesses hiring again, unlock credit, heal the housing market, and revive the auto industry. Because of his decisive action, and the steps taken by Congress and the Federal Reserve, our economy found its footing and started to move in the right direction. Avoiding a depression and steering our economy out of the recession were essential.

But the President was also determined to put our economy on a strong foundation, and part of doing that was to make sure that financial crisis like the one that took place in 2008 could never happen again. So the President worked with Congress to pass Wall Street reform and accomplished three things. Make our financial system more stable, increase transparency across the financial sector, and establish far-reaching protections for consumers, investors, and tax payers. Over the past five years we've made tremendous progress on these three fronts as the provisions of the law have taken effect. It's clear that Wall Street reform is working.

I'd like to touch briefly on some of the results that we've seen on each. First, stability. A safer financial system has made the foundations for economic growth more stable, and now our system is, once again, channeling the savings of Americans and investors to support growth. As we learned last week, our economy added 223,000 jobs in June, extending the longest stretch of sustain private sector job growth in our nation's history. Overall, our economy has added 12.8 million private sector jobs for 64 straight months of job creation, and the unemployment rate is now at 5.3%.

At the same time, our economy has expanded steadily. Households have repaired their balance sheets, the housing market has approved, and we've seen a resurgence in the auto industry. Corporations have excess capital markets in record amounts to finance investment in our economy, and small business lending has increased. As the IMF stated in its recent report on the U.S. economy, the underpinnings for a continued expansion remain in place.

As the financial system has become more stable, financial institutions have become more stable too. For one thing, with new capital rules in place we've seen banks add $600 billion in new capital which lowers leverage and gives them a more reliable base for their lending. We've seen banks increase their liquid assets and decrease their reliance on the kinds of unstable funding that nearly toppled our largest and most complex firms during the crisis.

The Volker Rule, which prohibits risky speculative trading, backed by tax payer insured deposits, has also led to important rebalancing among financial institutions. Though we saw several years of efforts to repeal or severely weaken the measure, many firms have now adjusted their business models towards lower risk and more customer oriented activities.

The second area where reform is making a difference is transparency. Because of Wall Street reform, firms are required to undergo annual stress tests, large financial institutions provide living wills explaining how they could be resolved if they fail, and regulators can monitor and prevent excessive risk-taking in new and more effective ways. Look at the derivatives' market. During 2008 when Lehman Brothers went under and AIG nearly collapsed, the complex web of bilateral derivative contracts was a critical driver of the financial meltdown, but there was no statutory authority to set standards for this market.

Wall Street reform changed that. Thanks to the tireless efforts of the Commodity Futures Trading Commission and the Securities and Exchange Commission to implement new rules derivatives are now required to be backed by capital and margin. Opaque bilateral trading is being replaced by central clearing and transparent trading, and all trades must be reported.

Wall Street reform also established the Financial Stability Oversight Council to make sure the regulators were looking at the financial system as a whole, and watching out for significant threats to the financial system. We've continued to build on that important foundation by increasing the transparency of our designations' process, and strengthening the council overall.

The transparency requirements of Wall Street reform are at work in other ways as well, such as the requirement that hedge funds register and report data to the Securities and Exchange Commission. Finally, Wall Street reform ushers in groundbreaking protections for tax payers, consumers, and investors. To keep tax payers from ever having to step in to save a financial firm again Wall Street reform ended too big to fail as a matter of law.

In addition, regulators now have modern, common sense tools to predict tax payers. For example, the FSOC can designated large institutions as systemically important and hold them to higher standards. Also, in the event of a crisis or a bankruptcy, regulators can seize large financial institutions and wind them down in an orderly way. We know the financial crisis was not only the result of antiquated oversight and excessive risk-taking on Wall Street. It was also the result of deceptive and harmful practices that took advantage of millions of hardworking Americans.

Wall Street reform created the Consumer Financial Protection Bureau. For the first time ever, consumers of financial products have a federal watchdog looking out for them. In just a few short years, the CFPB has made a noticeable difference for consumers in a range of markets. Students taking out loans to pay for school now have a financial aid shopping sheet that helps them evaluate the cost of college, and helps them to compare the different options. Credit card borrowers can now rely on a simpler, easier to understand agreement, and mortgage servicers are now required to provide homeowners with clear monthly statements, warnings about adjustments in interest rates, and information about modification and foreclosure alternatives.

The CFPB is also holding companies accountable, and when companies fail to fulfill their obligations the CFPB has seen to it that consumers get their money back. In all, the CFPB has already returned more than $5.3 billion to more than 15 million Americans who have been harmed by violations of consumer protection laws. For example, the Bureau stopped a sub-prime credit card company from charging some of its customers as much as $50 just to receive paper statements.

Stability, transparency, and protection for consumers, investors, and tax payers, those were the goals of Wall Street reform when it was signed into law five years ago, and we're meeting those goals today. But if the crisis has taught us anything, it's taught us that we must remain vigilant. We cannot predict when the next crisis will be, but based on our experience, we can be certain that we will see financial instability at some point in the future.

We can also be certain that as the memories of the 2008 crisis fade, the temptations to roll back regulations, weaken the rules of the road, and ease up on oversight is bound to increase. We're already hearing those calls today. For example, there have been calls to roll back reforms out of concern that they're adversely affecting liquidity in some markets. Our markets must function well, but our conclusions must be based on rigorous analysis or market dynamics. We should now be lulled into thinking that we can return to the pre-crisis way of doing things, which we learned the hard way, did not serve the American people well during the financial crisis.

It's a mark of progress that we now have to remind ourselves of the lessons we've learned. But it would be a grave mistake to assume that banks can self-regulate, that excessive risk-taking is a thing of the past, and that Wall Street cannot harm Main Street. Instead of slowing down our work, we must sustain and build on the progress we've made. We must fund our regulators so they can keep pace with changing markets. We must protect the ability of FSOC to ask the hard questions, and shine a light on potential risks to the financial system wherever those risks reside.

We must finish important rules like the ones that raise standards on people who provide retirement and investment advice, and the ones that reform compensation practices to align incentives between executives, shareholders, credits, tax payers, and customers. The safer and strong financial system built by Wall Street reform is something that we can all be proud of, but we must face the tasks ahead with the same sense of urgency we felt five years ago. Because Wall Street reform is more than a law on the books. It's a commitment. It's a commitment to playing by the rules, doing what's right, and to making sure our economy works for all Americans. Thank you very much.

MR. WESSEL: Thank you very much for that, Secretary Lew. I guess it's going to be a series of birthday parties for Dodd-Frank over the next few weeks. The Bipartisan Policy Center is doing one tomorrow. I'm tempted to ask you, how do you say Dodd-Frank in Greek and we can get right to the reason why so many people are here. I never thought that so many people would be interested in Dodd-Frank.

MR. GAYER: We're delighted.

MR. WESSEL: But, to be fair, I do want to start with Dodd-Frank. You mentioned briefly in your remarks, the concerns about market liquidity. It seems to be at the top of the worry list of a lot of macro prudential regulators at some financial institutions. To what extent do you think that tougher capital and liquidity requirements have contributed to this? Do you ever think that maybe we went a little bit too far and have created a little bit too much constraint in the system?

MR. LEW: David, I think there are a number of things that are going on in the markets that bear our scrutiny. Obviously, liquidity in our markets is very important. We have the deepest, more liquid capital markets in the world, and it's a source of great strength to our economy. I think it's a mistake to jump to a conclusion that points right to regulation.

I think we've seen a change in the structure of our markets in terms of who the players are, who the participants are, and a shift from the traditional broker/dealers to electronic trading. We've seen, because we're at the point in the business cycle where we're going from low volatility to high volatility, a change in behavior. We're also at a period when we've had a record amount of issuance of corporate bonds. So there are a lot of things changing in the market.

I think when you look at Dodd-Frank and you look at financial regulation. You have to start with how much safer it's made the system. That safety is something that leads to more confidence in our economy, more confidence in our markets. That's something that is a real positive.

We have to ask the question, you know, you're asking, are there some things that may have an impact? What I think is a mistake is to jump right there because it's not clear to me that it is the first place we ought to look. Now, a lot of people have looked at October 15th and said, well, there's, kind of, evidence that there's a problem with liquidity and they trace it to regulation. We're going to be very soon issuing our own analysis of that which we've done with all the regulators that actually shows that what was happening on October 15th really is not tied to regulation. It was tied to many other factors. The kinds of things that I've just described. So I think it takes a thoughtful review of this issue. I think it's a mistake to jump to a conclusion.

MR. WESSEL: Okay. But I'm not asking you to jump to conclusions, based on the evidence that you have now, is it your belief, based on the evidence you have, that regulation and all the new requirements are not a factor in the liquidity situation?

MR. LEW: I think that the factors that I described are things that we know are issues that are real. I think that there's a question to be asked about regulation, and I don't think the answer is clear. So I'm not afraid to ask the question. I think we should ask the question, but I don't think the answer is straightforward, and I don't think it's necessarily going to be that it is a significant factor.

So I think that we have to look at the structure of the market. We have to look at where we are in the economic cycle. We also have to look at what kind of behavior financial reform was really meant to curtail. If it curtails the kind of risk-taking that helped cause the collapse of our system just a few years ago that is something that is enormously important to the soundness of our markets.

MR. WESSEL: But is that anywhere when you look over the work in progress that is Dodd-Frank where you have questions about whether we went too far and are constricting credit or doing more than is needed to preserve the safety of the system?

MR. LEW: It is a large piece of legislation. It was written by human beings in a political progress where there were compromises, so I can't sit here and say that it is somehow holy writ. But we've been in an environment where, for most of the short life of Dodd-Frank, there has been an aggressive campaign to repeal it. We're seeing proposed changes that are in the name of simplifying it that would actually go at the heart of some of the protections that we've put in place.

I mean, I'll give you an example. There was a bill that was introduced by a senior member of the Senate that would raise to $500 billion the cut-off in terms of what kinds of banks get some enhanced supervision. That would take some of the very largest financial institutions in our country out of the heightened scrutiny. That's not a Main Street bank. So we have to be very careful about changes that are really designed to gut the heart of Dodd-Frank from issues where -- I am not of the view that there's a clear path of what the issues are, if any, in terms of regulations that relate to liquidity.

Though, as I've indicated in comments before, we're certainly open to asking that question. I just ask that others not jump to that conclusion because that conclusion would lead to some very damaging policy decisions in terms of the future financial stability of our system and of our economy.

MR. WESSEL: In your remarks, you said that we had ended too big to fail, "as a matter of law." So I want to make sure I understand what you're saying there. You said two years ago, at this time, that if we get to the end of 2013 and we cannot, with an honest, straight face say that we have ended too big to fail we're going to have to look at other options. So is it clear to you that we have ended, once and for all, the too big to fail problem?

MR. LEW: Let me --

MR. WESSEL: It's a yes or no question.

MR. LEW: I have a well-established policy of never answering yes or no questions.

MR. WESSEL: Clearly accounts for your success so far.

MR. LEW: Changing the law actually makes a difference. I would ask anyone who thinks that we could walk up the street to Capitol Hill and get legislation that would permit the bailout of financial institutions how they would assess the likely success of such an undertaking. So the fact that it was changed as a matter of law is a significant fact, so that's point number one.

Number two, the things that I was noting in my remarks are very real. We have moved from a place where we had opaque, complex, high-risk institutions to a place where they're most transparent, they have more capital. There is a system in place to resolve them, and there's much more consumer protection. At some level, you know -- and we're looking towards the future towards risks that were not necessarily the cause of the financial crisis, but may well be the risks in the future. Looking at questions related to assets managers, looking at questions related to money market funds.

I hope we don't get the ultimate test, which is a financial crisis, in seeing how the system works. But I think if you look at where we were before the financial crisis, where we are not after the passage of Dodd-Frank and implementation of Dodd-Frank, we have made a world of progress, and I think we have done the things that we need to do to protect our financial system.

MR. WESSEL: So is there anything else you think we need to do to avoid a too big to fail problem?

MR. LEW: I think we have to finish implementing. Obviously, I spent a lot of time as Chairman of the FSOC making sure that all the agencies that have responsibilities stay on and finish that work. Sometimes it gets harder as you get more distance from the moment of crisis and we can't forget the urgency to finish.

Secondly, I think we have to add questions about the future. I mentioned assets managers and money market funds because globally there's a lot of attention now on the attention of has activity moved from regulated financial institutions to unregulated entities, and is there risk building up there that we need to pay attention to?

MR. WESSEL: And do you think there is?

MR. LEW: Look, I think that these are issues that deserve our very serious attention. I think it's a mistake to start out with a conclusion. You know, there ends up being a kind of anti-intellectualism that sets in. If you ask a question --

MR. WESSEL: Not at Brookings.

MR. LEW: -- you know the answer.

MR. WESSEL: That's why I can say it here.

MR. LEW: I welcome a place where that is not the case. Questions that we're not sure of the answers to, and we have to be willing to change course as we learn more. That's exactly what FSOC has been doing in its review of things like asset managers. We need to keep on it. We need to finish the work. So I think, yes, there is more to do, but that will always be the case because the financial system will constantly be evolving.

MR. WESSEL: So when you look at, I would call them friendly criticisms of Dodd-Frank, the IMF, the Bipartisan Policy Center report that my colleague Martin Bailey worked on, there seems to be a sense that maybe this is not the ideal organizational structure. Do you think that the regulatory system is prepared to monitor and mitigate risks across markets? Doesn't it require more buy in and coordination among multiple agencies who have different mandates then we have now?

MR. LEW: You know, if I got to start all over again with a white board I would not create the kind of spaghetti that we have in any of our regulatory structures. They emerged over 100 years of responding to different problems, different challenges. I think we learned in the response to the financial crisis, in Dodd-Frank, that there was a lot of resistance in our system to consolidating those authorities. But I think we should continue asking the questions. We have continued to ask those questions in the Administration. We have raised the desirability of accomplishing more streamlining.

But realistically, I do think we have to say the moment when it was most likely to take that on was right at the moment of the financial crisis and it didn't happen though. So it has to do with the institutional structures both in Congress, and in the independent agencies, and in the executive branch. I, for a long time, have believed we should be willing to ask those kind of questions, but I'm also a realist in terms of the challenges of getting those kinds of changes done.

MR. WESSEL: Okay. So we sit here today five years after Dodd-Frank and the U.S. economy seems to be increasingly healthy, as you pointed out in your remarks, but we seem to have these -- every day a new set of threats from abroad. So as you sit here today and you look at the stock market meltdown in China and the authorities' reaction to it, and the series of deadlines and summits in Europe over Greece, I wonder which of these, if either one, do you think is a bigger threat to our continued prosperity?

MR. LEW: Well, I think right now I don't think any immediate threat to the continued growth in the U.S. economy. We keep our eye on developments around the world constantly, and I've been spending an enormous amount of time with my European colleagues these last couple of weeks. We're paying very close attention to developments in China.

But I think it's important in each case to ask what is the direct effect on the U.S. economy if things go one way or another? In the case of Europe, I think that the risk is very different than it was in 2010 and 2012. You saw actions taken which shifted the risk of Greek debt from bank balance sheets to sovereign balance sheets. The risk of contagion, in a technical way, has been contained greatly since then. I have continued to believe that it is in the best interest of all parties to find a resolution. Greece needs to have a path towards a sustainable debt path, and towards a growth path in their future, and a good agreement would give them a better shot at that.

I think it's a mistake for the European economy, the global economy to take the risks that are involved with an uncontrolled crisis in Greece. That's different from saying there's an immediate impact. You know, you look at the differences between Greece and the European partners and the institutions, before things broke down and they went to a referendum, they were within a couple billion euros of closing the gap. There are hundreds of billions of risk, and a couple of billion dollars of space.

For any of us who've participated in, you know, budget and fiscal policy discussions, you know, you wouldn't usually buy hundreds of billions of dollars of risk for a couple of billion dollar gap. I believe there's still a solution available here. It's not entirely clear, as anyone following the situation knows, that they will find that solution. I think it's very important in terms of the economic and geopolitical stability of Europe, but it's something that Europe will have to do. They have to solve it. We have been very much engaged offering our advice and trying to help the parties to understand the options they have. But I don't see it as an immediate risk to the U.S. economy.

MR. WESSEL: Before we turn to China, you have some responsibility in your current job for being on the board of the Executive, whatever they call it, of the IMF. Do you think the IMF has handled this thing well over the last five years?

MR. LEW: I think that, you know, the IMF has had enormous challenges in terms of both the policy and working with a set of partners who don't have the same view both in terms of either the definition of the problem or the solution. I think that they were part of a solution that helped prevent a complete meltdown of the European economy in 2010, 2012, and that would have been a risk to the U.S. economy. So at that point in time, if things had gone into an uncontrolled economic meltdown of European financial institutions or of Greece it would have been a direct threat.

I think that, in the current situation, different parties are approaching it in ways that kind of reflect philosophical views of economic policy, but also political realities. I think the IMF has been very correct in focusing on debt sustainability. Greece's debt is not sustainable. It was not a surprise to any of us who were following it closely that the IMF reached that conclusion. They've been making that argument over and over again.

The reluctance to restructure European debt is deep on the part of many European players. I think it's a combination of an economic view, and also the level of trust. I think that in the next few days what we'll see is can the parties come together and build enough trust that Greece will take the actions that it needs to take so that Europe will restructure the debt in a way that is more sustainable, and can you time those things so they happen so that the political realities of both Greece and Europe these actions can be taken simultaneously?

I certainly have ideas about how you could do that, but it's going to be a lot to do in a short period of time. I have said over and over again that the risk of an accident goes up dramatically when you create more of these, kind of, life and death deadlines. I think we're facing a situation, now Greece is facing a situation now, where it's not some externally imposed deadline that's really driving things. It's when do they run out of cash in their economy, and, you know, there are different estimates about how many days it is. But I think once you're measuring it in days it's time to get the, you know, deal done.

MR. WESSEL: All right, China. Do we have something to fear from the meltdown of the Chinese stock market and the slowdown of their economy?

MR. LEW: I think, you know, if you look at China you have to separate what's happening in their stock market from the core economy of China. I'm not going to comment on market movements on a day to day basis either in the United States or China. But I will say that China's markets are pretty much still separated from world markets. They're, obviously, moving towards being more integrated, but right now they're not. So you're not going to, I don't think, see the direct linkage there.

I think the concern, that is a real one, is what does it mean about long term growth in China. I think that I would break into two pieces. One is, how do China's policymakers respond to this, and what does it mean in terms of the core condition of the economy? I think the first is quite critical. I think that what we've seen over the last several years, really the last two years, is that quite determined commitment to reform agenda in China where they have very clearly set forth a plan to move towards having much more market forces in China's economy.

What I've said repeatedly is the question isn't their commitment to the goal, the question is the pace at which they implement it, and do they do it fast enough for it to be effective? I hope this is not something that slows down the pace of reform. So that's something we will continue to look at. We will monitor the situation directly. They've got a set of policies that they've outlined which, if they implement them, I think will make China's economy much stronger in the future.

MR. WESSEL: But there is a substantial risk that this will slow down the pace of reform in China?

MR. LEW: Well, I think the question is, is it a cause or an effect? I mean, is the core economy -- there is a restructuring going on in China's economy. They're moving from a heavily, centralized industrial economy, slowly, to a more market-oriented consumer-oriented economy. It will lead to, you know, slower, but hopefully, sustainable level of growth. Which will also improve the economic conditions for Chinese people and be a boost to the global economy.

If the reaction is to put the brakes on reforms that will slow that process. So I don't think it has to be the result. Obviously, there are difficult, kind of, turbulent moments in markets in lots of economies. I think you have to separate what the market is doing, and markets will, kind of, often correct themselves, to what are governments doing? You know, I think I'll leave it at that.

MR. WESSEL: Do we know anything about -- I mean, have you had any indications from the Chinese government at all?

MR. LEW: We maintain regular dialogue with the Chinese government, so we just spent a similar amount of time with our Chinese counterparts at the strategic and economic dialogues the week before last. They were good discussions. They were discussions that didn't alter our view of their commitment to the reform agenda. We spend enough time with each other that we don't have to tell them they need to move faster. They tell us, we know you think we need to move faster.

MR. WESSEL: Okay. So finally, I can't turn to the audience without asking you about the Alexander Hamilton and the $10 bill. Now, Ben Bernanke here has criticized you for demoting Alexander Hamilton on the $10 bill. Hilary Clinton, the other day, said it's outrageous that a woman should have to share the $10 bill with a man. Andrew Jackson seems to be the villain of the moment, among most people. Are you doing any reconsideration of this decision?

MR. LEW: Well, I will say that what we meant to do is to trigger a broad public debate, and we have triggered a broad --

MR. WESSEL: Well done.

MR. LEW: -- public debate. As a student of history, I'm very pleased that more people are paying attention to our history then they often do. It's an important thing. Our current ought to be something that reflects that kind of consideration of our history.

We are committed, as I have been from the beginning in this process, to making a decision that will put a woman on our currency, and it will do it as soon as possible. That's why the $10 bill was chosen because we have a sequence that's based on, really the security of our currency, to make sure that our currency is safe as possible from counterfeiting. So the next bill up is the $10. I think we've waited long enough. We have every intention of honoring Alexander Hamilton. We have every intention of honoring a woman, and we are looking forward to making a decision very soon.

MR. WESSEL: So I think that's as close as a yes or not that I'm going to get out of you. Let me turn to the audience. Nick Timiraos.

MR. TIMIRAOS: Thanks. Nick Timiraos for the Wall Street Journal. A number of commentators on Greece seem to be suggesting that a Greek exit from the euro isn't as unthinkable as it was a few years ago. I wonder if you share that view, and what you would say to people who are making those statements, particularly those who may be more opposed to further Greek debt relief?

MR. LEW: I think that there's a number of parts that I want to address. One is, what happened in Greece? You know, one can do the economic analysis of how much more or less competitive Greece would be if it left the euro. What I think everybody agrees on is that there will be a very painful adjustment as they get from here to there. What nobody knows is how long it is or how deep it is, and that's a big price for the Greek people to pay.

I think from a European perspective, you know, there is a strong interest in maintaining the Euro Zone and maintaining the euro. I think all the leaders have said the best solution is one where Greece makes the necessary changes and stays in. I think the consequences are not just a question of what does it mean for Greece, but what does it mean in terms of the future view of what the nature of the European project is? Is it a peg? Is the euro a peg or is it really a currency unit? So I think it's better for Greece to stay, and that's why we have been so engaged in trying to help both parties look for a reasonable resolution of this, and to ask, you know, what can be done to satisfy both sets of concerns.

I don't hear a broad view when I talk to Europeans that is different from what I just described. There are certainly some who have a different view. But the broad view is the best outcome is for Greece to stay in. The real question is can they make the policy changes that will satisfy Europe to put in place the kind of debt restructuring that needs to be there. As a policy matter, there is a solution to this problem. As a political matter, the question is, on both sides, can they move to the place where they can do it in a way that reflects the political reality both in Greece and in Europe.

I don't think any prime minister of Greece could sell all of the additional fiscal measures, plus the structural reforms that are needed without some sense of what the debt sustainability looks like. I don't think that there are a lot of European governments that could sell any kind of new package without some sense that there's going to be a reliable implementation of the agreements. Those kinds of things can be coordinated.

You know, we have debates in the United States where we talk about triggers. We say if you do X, we do Y. You can put this together in a way where the things only happen dependent on the prior actions being completed. I hope that's where the discussion over the next few days goes because that's the space where I see the possibility of a resolution. I think that, to some extent, this comes down to ones' appetite for risk. There's a lot of unknown if this goes to a place that completely melts down in Greece. I think that unknown is a risk that the European, the global economy don't need. I think it's geopolitically a mistake. I think that the space between the parties can be closed through policies that have been discussed and discussed and discussed. It's not as if there's a lot of new ground to be turned over.

At some point you just have to make the hard decisions. I would say that when you're on the verge of running out of money, and having the issue presented in its darkest form is the moment when you better make the decisions if you're going to.

MR. WESSEL: Paul Suttle?

MR. SUTTON: Secretary Lew, Paul Suttle from Cheetah Investment Corporation. Moving back to China, could you give us an update on progress in your thinking with respect to the Chinese currency entry into the SDR?

MR. LEW: Our view has been, for some time, that, you know, China's interest in entering the SDR is a powerful incentive to make the kinds of reforms that they need to make to open their capital accounts, to have their currency be a truly convertible currency. They're on a path where they've committed to making those kinds of changes.

When we met with them just the week before last they seemed quite committed to that. It's a technical process at the IMF. The IMF needs to be given the space to do its technical review. I don't think any of the members should prejudge the outcome to a technical review. It's not a technical review if you do that. But I do think that you have an alignment of interest where, you know, there's an interest on a part of many on the world stage, particularly the United States, for the reforms in China to move ahead, and China has an interest in having the SDR review be successful. So these kinds of processes can actually have a very useful, you know, kind of push/pull effect.

I would say on currency generally, you know, we have seen substantial movement in China on its policy in the last several years. Just a year ago China made an important agreement to refrain from intervention except in very limited circumstances. We saw them keep to that commitment. They have agreed to participate in the IMF's transparency regime, so that the world will see what their interventions are in real time. This year in the strategic and economic dialogue they even tightened their commitment to limit their interventions to period of extreme market volatility. So I think in a world where just a few years ago China didn't even admit that it intervened we have gone to a place where they are moving very much in the direction that we have said.

I don't think they're all the way there. There's a debate about whether or not the RMB is, you know, in equilibrium or not. We still think it's undervalued, others say not. But I think there's no question about the direction. I think that's an important thing. You look at the dollar movement over the last year, and the fact that they've stuck to their policy notwithstanding that. That shows significant change of policy. I don't feel like it's the moment to declare victory, but I do think it's a moment where if you look back over the last, more than 10 years of dialogue between the United States and China, over the last couple of years we have seen substantial change.

MR. WESSEL: The woman on the aisle here.

MS. CHEN: Thanks for your discussion. Jennifer Chen, reporter with Shen Zen Media Group, China. We know the BRICS development bank is about to run end of this year, and as far as your concern, what's the role of those emerging economies like BRICS development bank or AIIB in a current global government system? What's your take on the relations between those emerging economies and the U.S. led world economic system? Thanks.

MR. LEW: Thank you. I think it's a very important development that the emerging economies are entering into the space where they put resources into development objectives, like the Asian Infrastructure Bank. We totally agree that there's a need for more infrastructure financing. We're delighted to see China and the others entering in, committing resource to it.

The issue that we have raised is that as these new institutions were formed they need to set out in a way where their government structure and where their practices that they use support a stronger economy in the places where they invest, are respectful of the kinds of labor and environmental protections that the world community has come to embrace. In my conversations with our Chinese partners I have heard significant expressions of support for that being the philosophy.

Our view is that the more there's partnership between the new institutions and the existing institutions the better. So co-financing projects is a good thing, learning from the experience of the existing institutions which have 70 years of experience, and not all of it has worked, so there's no reason to make the same -- learn the same lessons a second time. The more there's cooperation the better.

I think those relationships are evolving. We look forward to those institutions meeting the kinds of high standards that they aspire to. If they do, it will be a very good thing.

MR. WESSEL: I think we have time for one more, the gentleman standing in the back. If you could keep it short, I'd be grateful.

MR. CLARK: Charlie Clark with Government Executive. What is the state, in your view, of the movement to abolish the Consumer Financial Protection Bureau in Congress or in industry?

MR. LEW: I think we've been very clear. We think that is has done enormously important work in its short life. We think that it was set up in a way that gave it the funding and the independence to take actions in effective and efficient ways. I will say, for all of the concerns that a lot of people had early in its history, as they've taken action there's been broad, overwhelming support for the fact that they've done things in a careful and sensible way, listening to all sides. So I think if you kind of step away from the debate that took place before the CFPB was created and look at the track record, it should put to rest a lot of that controversy.

MR. WESSEL: Thank you very much. Please join me in thanking the Secretary. If you could remember Ted's request to stay in your seats until the Secretary leaves the auditorium we'd be grateful.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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