On Regulatory Reform and Restoring Trust in Our Financial System and Markets

A message to investors from John Taft, CEO of RBC U.S. Wealth Management

Achieving a major recovery milestone

The historic financial regulatory reform bill signed into law by President Obama last summer represents an important and necessary first step towards restoring public confidence in capital markets and in the U.S. financial system as a whole.

Investors who were shaken by the market free fall of 2008 and 2009 — and who still haven't recovered from seeing their accumulated wealth take a nosedive in just a few agonizing months — should be encouraged by the progress that policy-makers have made in modernizing our financial regulatory infrastructure. As a result of this law, I believe our financial system will be safer, sounder and more secure than it was before the crisis.

Indeed, financial regulatory reform consists of the most extensive delegation of rule-making authority by Congress to regulators in modern history. It includes more than 250 mandates to draft new rules, create new entities, collect information, and produce reports and recommendations.

It will involve more than a dozen regulatory agencies and will unfold over the next one to two years. As a result, we are now just at the beginning of an extended, deliberate rule-making process and, until that process is completed, we won't know precisely what the "new normal" will be for financial markets and the U.S. financial system.

What you can expect

But we can be certain about a few things.

We know, for example, that investors for the first time will all benefit from having a newly created systemic risk oversight council charged with monitoring the health of our entire financial system — including not just banks, but large, important non-bank financial institutions such as hedge funds. Plus, regulators will have new powers and new tools for dealing with failing financial firms that threaten the integrity of the financial system.

Former U.S. Treasury Secretary Henry Paulson — who was in the eye of the storm in 2008 and 2009 — has said publicly he thinks the systemic oversight council, had it been in place, might have detected the excesses that policy-makers missed. He also said he would have appreciated having had the powers contained in financial reform legislation when dealing with AIG and Lehman Brothers, two firms whose difficulties helped escalate the severity of the crisis.

Add to that the expanded authority regulators will now have to impose more conservative capital, leverage and liquidity requirements on financial institutions, along with a new federal fiduciary standard for advisors who provide personalized investment advice to individual clients, and it all works together to promote a safer, sounder, more stable financial system — which is good news for investors.

Responsible reform

As CEO of RBC U.S. Wealth Management, and as Chairman-Elect of the Securities Industry and Financial Markets Association (SIFMA), I was honored to play a leadership role in advocating for, and helping to shape, responsible reform, including the development of a new fiduciary standard. By responsible reform, I mean reform that strikes a balance between stability and economic growth, between protecting investors and preserving their ability to access a broad range of products, services and advice. It is also essential that the new rules continue to allow clients to choose how they work with their advisors and how they pay for their services.

Beyond legislation, a stewardship tradition

One of the lessons we learned from the financial crisis is that we cannot prevent the storms that occasionally sweep through our financial system (much as we cannot prevent them in the natural world). Another lesson we learned is how well our firm's daily practice of behaving as a responsible steward of our clients' wealth — carefully managing the assets they have entrusted to us and putting their interests first — helped our clients take appropriate shelter when economic skies darkened and markets became volatile.

At RBC Wealth Management, we see our duty as responsible stewards of your wealth as not only making sure investors have access to the extraordinary opportunities available in today's global economy and interconnected financial system — but also doing everything we can to prevent potential problems from spreading as broadly, quickly and deeply as they did during the economic crisis of 2008 and 2009.

Our work in support of responsible financial regulatory reform was motivated by the same steadfast commitment to stewardship that always has been — and always will be — core to our mission, the foundation of our brand promise and an essential part of the experience we create for all clients.

Create your path forward

Financial regulatory reform isn't perfect. And there is still an enormous amount of work that has to be done to implement the framework Congress has created. Still, it represents a good, solid first step toward a stronger financial system — and that should hearten and bolster the confidence of you, our investor client.

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