WASHINGTON – Congressman Spencer Bachus (AL-6), Ranking Member on the House Financial Services Committee, today delivered the following opening statement at a committee hearing where Treasury Secretary Timothy Geithner testified on financial regulatory reform.

Bachus specifically questioned Secretary Geithner on the disparity of treatment between foreign banks and US banks in regard to counterparty payments made by the American Insurance Group (AIG).

Bachus has written to Financial Services Committee Chairman Barney Frank urging a hearing on the issue.

Secretary Geithner, earlier this week we had a hearing on AIG's bailout. At that hearing, you acknowledged that AIG "fully met its obligations" to foreign banks and certain US banks. In fact at that time you said, "throughout that period of time, and this was critically important to the stability of the financial system, we wanted to make sure AIG was able to meet its commitments." I said to you, to pensioners and retirees? And your response was also to municipalities and banks and that you considered they had met a full range of their obligations.

Since that time, I have been informed that AIG is now attempting to force many of its creditors that are US banks to accept severe reductions of more than 70 percent on the total debt owed to them. This disparity in the treatment between foreign banks and US banks is very concerning to me. This morning I sent a letter to the Chairman regarding this development and hope a hearing will be scheduled so that the Committee can get to the bottom of this. The Chairman has assured me he will fully cooperate and agrees with my concerns.

In the last year we have witnessed unprecedented interventions by the government to commit trillions of taxpayer dollars to save “too big to fail” institutions. The taxpayer continues to be given the bill as the government continues this cycle of bailouts.

One way to end the cycle would be to allow for the orderly liquidation of complex financial institutions that are not subject to the statutory regime for resolving banks administered by the FDIC. At a hearing last July, I stated that our regulators must strive for a system where financial firms can succeed and fail without threatening the whole financial system and placing taxpayers at risk.

By creating a process in which non-banks whose failure would have systemic consequences could be unwound in an orderly fashion, we would restore balance and force firms to face the consequences of their actions. However, it is essential that any new regime for resolving or liquidating non-banks not rely upon taxpayer funding.

The Treasury legislative proposal released yesterday suggests that the Administration is considering using taxpayer funding to pay the costs of resolving failed financial firms. This is unacceptable and would serve only to promote moral hazard and perpetuate a “too big to fail” doctrine that the American people have squarely rejected.

The proposal also leaves it to the Secretary and the FDIC to decide whether the firm will receive financial assistance or be placed in conservatorship. This empowers with incredible discretion; and past experience has indicated this discretion is not always administered fairly or even handedly. If the goal of the resolution process is to end the “too big to fail” premise, why is a potential taxpayer subsidy part of the Administration’s solution?

Mr. Chairman, there are many more unanswered questions, like which firms will be designated as systemically important and why? When will a liquidation be triggered? What happens if there is a disagreement among regulators on the need for a conservatorship? How will the regulators determine whether to provide financial assistance or place a firm into conservatorship?

The details will be important. Even more important is that we develop the right solution and not rush into poorly vetted legislation. The modernization of our regulatory structure will be the most important task the Committee will undertake this Congress. The complex and interconnected nature of our financial markets require us to engage in a thorough analysis with all the major stakeholders. I hope that the committee will have additional hearings on this proposal so that we can hear from other stakeholders and regulators on their views, and identify any unintended consequences in advance.