Good evening.

Thank you Mr. Lin for that generous introduction.

On behalf of the Governor of California, Jerry Brown, and the California Department of Financial Institutions, congratulations to the National Association of Chinese American Bankers in the celebration of your 25th Anniversary. The Department of Financial Institutions is proud to support NACAB in our shared commitment to promoting the welfare and growth of Chinese American banks and Chinese American bankers in meeting the needs of your institutions, your customers and the communities you serve in California.

At year-end 2011, the FDIC listed 47 minority depository institutions in California with $56.3 billion in assets. I am pleased to report that 37 of those 47 were state-chartered institutions holding $54.1 billion in assets. Twenty-eight of the 47 institutions, almost 60%, are Asian or Pacific Islander American banks.

California has had a vital interest in the Chinese community and the Pacific Rim, as an important trading partner, for many, many years. While numerous economists have talked about a world economy for several decades, the rapidly expanding activities of the Asian economies in world trade, and the expansion of the internet and telecommunications, provide *instant access across the globe. Today, we truly have interdependent economies. A problem in Ireland, Italy, Greece, or Spain, or a slowdown in the Chinese or Indian market has repercussions in the United States and directly affect California's financial system.*

Trade has become a fundamental endeavor for the success of a nation, the success of a region and the success of a state, and forms the life blood of California's economic health and growth.

Seeking to strengthen California's economic ties with China, Governor Jerry Brown announced in February 2012 his plans to reopen California's Shanghai trade office and to set up a new trade and investment office in Beijing. Governor Brown noted "the office will encourage direct investment and further strengthen the existing ties between the world's second and ninth-largest economies. The Pacific Rim has become a center of the world economy, presenting California with countless opportunities to grow alongside our neighbors across the ocean."

China is California's third-largest export market, behind Mexico and Canada. Last year the state exported $14.2 billion worth of goods and services to China, which is a major customer of computers, electronics, and agricultural products. China in turn exported nearly $400 billion worth of goods to the United States *last year, much of which went through California's Los Angeles and Long Beach ports.*

Taiwan is California's seventh-largest export market. Last year the state exported $6.3 billion worth of goods and services to Taiwan, with the largest export categories being machinery, computer and electronic products, and transportation equipment. Taiwan exported $31.5 billion worth of goods to the United States last year, making the United States its second largest export market, and imported $25.4 billion of goods from the United States, its third largest import market.

California's international trade efforts are also being coordinated with the California State Trade and Export Promotion program, STEP.

The STEP Program is a three-year pilot trade and export initiative authorized by the Small Business Jobs Act of 2010. Funded by federal grants and matching funds from the states, the STEP Program is designed to help increase the number of small businesses that are exporting and to raise the value of exports for those small businesses. STEP coordinates a network of state, federal, private and non-profit trade organizations in California to facilitate export promotion activities and to drive *exports for small businesses, including many of your most valued customers, so that they can grow and create jobs.*

STEP grants may help many of your small business customers by providing:

- *Support for small business participation in foreign trade missions and foreign market sales trips;*
- *International marketing media;*
- *Trade show exhibitions;*
- *Training workshops; and*
- *Financial support for training to become "export ready".*

The STEP program serves the following industries:

- *Information and communications technologies;*
- *Green Technologies;*
- *Food and agricultural producers and growers;*
- *Industrial machinery;*
- *Building and infrastructure products and services; and*
- *that interesting category … California lifestyle products;*

As the prudential regulator of state chartered depository financial institutions in California, I would be remiss if I did not discuss a couple of the more significant regulations and oversight facing banks in California.

First, the duties and function of the Financial Stability Oversight Council. Title I of the "Dodd Frank Wall Street Reform and Consumer Protection Act" outlines two new agencies tasked with monitoring systemic risk, researching the state of the economy and clarifying the comprehensive supervision of bank holding companies by the Federal Reserve - The Financial Stability Oversight Council (FSOC) and the Office of Financial Research.

FSOC is charged with:

- *Identifying threats to the financial stability of the United States;*
- *Promoting market discipline; and*
- *Responding to emerging risks to the stability of the United States' financial system.*

There are three purposes assigned to FSOC:

- *Under specific circumstances, the Chairman of the Council (who is also the Secretary of the Treasury), with the concurrence of 2/3 voting members, may place nonbank* *financial companies or domestic subsidiaries of international banks under the supervision of the Federal Reserve, if it is determined that these companies could pose a threat to the financial stability of the United States;*

- *The Federal Reserve may promulgate safe harbor regulations to exempt certain types of foreign banks from regulation, with the approval of the Council; and*
- *Under certain circumstances, the Council may provide for more stringent regulation of a financial activity by issuing recommendations to the primary financial regulatory agency, which the primary financial agency is obliged to implement – the Council reports to Congress on the implementation or the failure to implement such recommendations.*

<u>Second–Living Wills.</u> Section 165 of the Dodd-Frank Act titled "Enhanced Supervision and Prudential Standards for Nonbank Financial Companies Supervised by the Board of Governors and Certain Bank Holding Companies" requires certain large bank holding companies and nonbank financial companies supervised by the FRB, collectively called "covered companies", to develop resolution plans that detail how such companies could be sold, broken up, or wound down quickly and in a manner that mitigates any adverse effect to the U.S. financial system. There

are currently 124 Covered Companies, the vast majority of which are foreign banking organizations. A Covered Company that is domiciled in the United States is required to provide information in its Dodd-Frank resolution plan with regard to both its U.S. operations and its foreign operations. For a U.S.-based Covered Company with foreign operations, the Dodd-Frank plan is required to evaluate the extent of the risks to the U.S. operations posed by its foreign operations, and is required to present a plan for addressing such risks. These Dodd-Frank resolution plans are further complicated by differing national laws, regulations, and policies.

You may be more familiar with the FDIC's rule regarding Living Wills. The FDIC approved a separate rule regarding resolution planning affecting large banks and other insured depository institutions with $50 billion or more in consolidated assets which will, in most cases, require covered bank holding companies to simultaneously file plans with both the FRB and the FDIC.

The plans have extensive requirements. For instance, the FDIC resolution plan requires, to name only a few:

- *Organizational structure; legal entities core business lines and branches;*

- *Critical Services;*
- *Strategy for the sale or disposition of its deposit franchise, business lines and assets;*
- *Asset valuation and sales;*
- *Major counterparties;*
- *Trading, derivatives and hedges;*
- *Capital structure, funding sources;*
- *Systemically Important functions;*
- *Management Information systems; software licenses, intellectual property;*
- *Corporate governance;*
- *AND*
- *Any Other Material Factor.*

Perhaps the most important consideration is how cross-border operations would be handled in a crisis. Such issues as what assets can be moved and under what circumstances are critical to the successful resolution of a financial crisis. International banks may book various businesses in numerous jurisdictions based upon regulatory requirements, tax considerations and accounting issues, among others. In a crisis, we can expect that countries will grab assets first and deal with policies later. As demonstrated by MF Global.

Finally, TAG. *Currently, there is a question about the continuation of the Transaction Account Guarantee program ("TAG") for at least two years beyond the set expiration date of December 31, 2012. Many banks in California are showing signs of recovery and growth; however, many others continue to face significant challenges. In California, we remain cautiously optimistic in the face of a tough economy. Even so, the community banks have asked Congress to keep the life line available with the extension of the TAG program. John Ryan, President and C.E.O of the Conference of State Bank Supervisors, wrote in his letter to Congress on August 3, 2012, "A challenging economy with a very uncertain outlook that has smaller community-based institutions operating in a competitive environment that seems tilted towards larger institutions. Domestic and international economic events could have a significant impact on industry liquidity and stability, two elements that the TAG program has supported. State regulators benefit from an up-close perspective on local economies and on the needs of community-based financial institutions. … the stability provided by the TAG program is still necessary. … It is important for policy makers to listen to and respect the views of those who understand the economic pressures and depositor anxiety at the local level. Recent events in the United States and abroad have returned the discussion of "too big to fail"* *institutions to the forefront. … As efforts to address the systemic risk posed by the largest financial firms remains a work in progress and as such firms continue to derive advantages smaller institutions should continue to have access to programs such as TAG which support liquidity across the banking industry."*

Only time will tell the outcome of this debate. In the meantime, smaller banks should have contingency plans to prepare for the very real possibility that TAG will not be extended beyond the December 31, 2012 deadline.

During my first weeks as the new Commissioner for California's Department of Financial Institutions, I was often asked by bankers what is my vision for banking in California. My answer is always the same. My vision is to restore the public's trust and confidence in the banking system by ensuring the safety and soundness of the state's chartered depository institutions.

I truly want to return to the days when the public viewed bankers as the good guys, pillars in the community. I have been working in the banking industry for almost 35 years. I know banks. I know bankers. I have worked with majority banks and *minority banks, including banks that serve Chinese communities throughout the state and abroad.*

I know all of the bankers that I have worked with to be good people.

On one occasion when I shared my vision to restore the public's trust and confidence in the banking system in California, the response I received was "Good luck with that".

At the time, I was surprised with the sentiment that my vision might be impossible to achieve. However, since that day, I have come to believe that the realization of my vision might not be so far off, as long as each bank's leadership lives and breathes the vision and the means to achieve it.

I have met with many bankers and many bank customers. Everyone is concerned about the new rules, regulations, reforms and agencies. Regardless of whether it is the Dodd-Frank Act, FSOC, CFPB, the Volcker Rule, Living Wills, Securitization Reform, Derivatives Regulation, Rating Agency Reform, Compensation and Corporate Governance, Capital Requirements, Basel III, OFAC, Bank Secrecy Act or the extension of TAG, the question for the banker is the same. How is this going to affect my bank, my customers, my employees, my investors, my business, my family and my community?

Will we be better off?

And as the prudential regulator, I must ask, will these rules and regulations contribute to the safety and soundness of the depository financial institutions in California?

It is difficult to make the argument today that additional oversight of financial institutions is unnecessary.

There are still too many cracks in the laws and regulations that major institutions continue to fall through.

MF Global's missing customers' funds, Barclays manipulating LIBOR, ING Bank intentionally violating OFAC rules, JP Morgan's $9 billion trading loss, and just this week, Standard Chartered Bank is accused in an Order issued by the Superintendent of the New York Department of Financial Services of scheming with Iranian banks, corporations and other entities to allegedly hide 60,000 transactions, worth at least $250 billion, in violation of OFAC, BSA and AML regulations.

In a statement released on August 7th, Standard Chartered Bank strongly rejected the allegations of the New York Superintendent of Financial Services.

The most disturbing part of the Order for me is footnote 7, which reads in part:

"According to SCB, its success as a bank is due in part because it is 'trusted worldwide for upholding high standards of corporate governance.' SCB prides itself for having a 'distinctive culture and values [that] act as a moral compass.' It boasts 'openness' as one of its 'core values' and claims to aspire to be 'trustworthy.'"

These are words that I know many of you use to describe the corporate culture at your bank and your personal moral compass. In time, the world hopefully will have a better understanding of what Standard Chartered Bank did or did not do, and whether or not it violated any laws.

The question for all of us is whether or not the leaders in the banks in California are "walking the talk". Are the actions of the bank leaders in the financial institutions in California that espouse these words consistent and supportive of the promises made to their customers, employees, investors and community? If the actions of the bank leaders are inconsistent with or contrary to the vision to restore the public trust and confidence in bankers and banks, those leaders do you and your customers a disservice. They undermine your good work and your goodwill.

How do the banks and the bank regulators restore the public's trust and confidence in the banking system in the face of *violations of the public's trust? How can we ask the public to have confidence in our banking system?*

The answer lies in the culture of each financial institution and the character of its leadership.

Public confidence in our financial institutions will be restored, truly restored, when strength of character and strength of balance sheet are one.

When past errors serve as lessons learned, not to be repeated … ever.

When fairness to customers, employees and investors is paramount.

When prudent enterprise risk management is overriding and vital to success.

When the practice of constant exceptions to policy, procedures and proper governance is not tolerated.

When the safety and soundness of the financial institution is a fundamental principal.

When the rule of law is sacrosanct.

Only then will the general public again hold bankers in high esteem, as pillars in the community.

I know that the bankers and banks of the National Association of Chinese American Bankers agree with my vision, and that, as we celebrate NACAB's 25th Anniversary, a quarter of a century of being esteemed pillars in the community, we are well on our way to demonstrating that the banks in the Golden State are deserving of the public's trust and confidence.

I look forward to working with each of you towards our common vision.

Thank you and good evening.