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Obama: Regulatory Reform Plan Seeks 'Careful Balance'

President Barack Obama, officially kicking off a drive to rewrite the playbook guiding U.S. financial institutions, markets, and consumers, said his plan seeks a "careful balance" that doesn't stifle the power of the free market.

In remarks prepared for delivery later Wednesday, Obama detailed the reform proposals the White House says are necessary to avoid another financial crisis. Obama confirmed that the overhaul, which he wants to complete this year, includes giving more power to the Federal Reserve to police large, systematically important institutions, allowing the government to break firms apart, implementing new rules for complex instruments and creating a new federal agency to oversee consumer products such as mortgages and credit cards.

"With the reforms we are proposing today, we seek to put in place rules that will allow our markets to promote innovation while discouraging abuse," Obama said. "We seek to create a framework in which markets can function freely and fairly, without the fragility in which normal business cycles bring the risk of financial collapse; a system that works for businesses and consumers."

The White House released a copy of the president's remarks, which he will deliver at 12:50 p.m. EDT.

Obama, whose economic team has been crafting the overhaul for months, said inadequate regulations, coupled with a vast culture of greed and an explosion of complicated financial instruments, induced excessive risk taking and helped trigger the economic crisis. The remedy, he said, is a "sweeping overhaul of the financial regulatory system" on a scale that hasn't been seen since the Great Depression.

Obama said large financial companies will be held to higher standards, with more stringent capital and liquidity requirements to boost their resiliency. The Fed's new authority will be complemented by an oversight council of regulators to "tackle issues that don't fit neatly in an organizational chart."

To close gaps in regulation and keep banks from seeking the lightest-possible agency regulator, Obama confirmed that the Office of Thrift Supervision will be dismantled and said only one federal banking charter will be offered. He said derivative instruments such as credit default swaps will be subject to greater regulation and hedge-fund advisers will be forced to register with the Securities and Exchange Commission.

"We are called upon to put in place those reforms that allow our best qualities to flourish - while keeping those worst traits in check," Obama said. "We are called upon to recognize that the free market is the most powerful generative force for our prosperity - but it is not a free license to ignore the consequences of our actions."

But moving his plans through Congress as they are currently written is far from assured, given turf battles among lawmakers and what is sure to be heavy resistance from the financial sector. The Bush administration's attempt to rewrite the rules of financial regulation, which also would have heightened the Fed's supervisory powers, never got off the ground, despite a push last year by then-Treasury Secretary Henry Paulson.

And Obama acknowledged earlier this week that his revamp will be "a heavy lift."

Criticism of the plan intensified as details emerged late Tuesday and early Wednesday, with critics accusing Obama of an expensive overreach.

"We don't necessarily need more regulation," House Republican Whip Eric Cantor, R-Va., told the CBS Early Show. "And, in fact, I believe that we've had much too much emphasis on government lately and not as much emphasis on people."

Obama addressed critics who say his revamp goes too far, as well as those who complain it doesn't go far enough.

He said it would be a "mistake" to scrap the old system entirely, opting instead to "pinpoint the structural weaknesses" behind the current crisis. At the same time, he said "significant changes" are still needed.

"The absence of a working regulatory regime over many parts of the financial system - and over the system as a whole - led us to near catastrophe," he said. "We do not want to stifle innovation. But I'm convinced that, by setting out clear rules of the road and ensuring transparency and fair dealings, we will actually promote a more vibrant market."

Other reaction foreshadowed the long battle ahead.

The Financial Services Roundtable said it backs many of the White House's ideas, including creation of a systemic risk oversight authority, but opposes the new Consumer Financial Protection Agency.

Mark Calabria, director of financial regulation studies at the libertarian Cato Institute, criticized the proposed overhaul for focusing on "convenient targets" rather than "real flaws" in the current structure, such as the cost to taxpayers of Fannie Mae (FNM) and Freddie Mac (FRE).

Calabria called Obama's plans "a misguided, ill-informed remake of our financial regulatory system that will likely increase the frequency and severity of future financial crises."

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