Runaway risk-taking on Wall Street will face new barriers under a much tougher financial rule book outlined by the Obama administration today, including broader government powers and mandatory regulation for the $1.4tn (£1tn) hedge fund industry.

The US treasury secretary, Timothy Geithner, told Congress that he wanted "sweeping" changes that range from stringent capital requirements for banks to authority for the government to seize struggling financial institutions.

He said there had been a "great loss of confidence in the basic fabric of our financial system", which needed "comprehensive reform… Not modest repairs at the margin, but new rules of the game".

Geithner, who is anxious to shake off political criticism of slow progress in stabilising the US economy, said the changes amounted to "smarter, tougher, better-designed restraints on risk-taking".

He said there was a "deep moral obligation" to protect consumers in choosing mortgages, investing savings and planning for retirement. "We won't be able to save all people from making bad judgments about their finances but we can try to do a better job in making sure they're not taken advantage of through predatory behaviour," he said.

Addressing the House of Representatives financial services committee, Geithner set out a six-point plan consisting of:

• A single regulator with responsibility for systemic stability to supervise major financial institutions.

• More conservative capital requirements for firms big enough to pose a systemic risk to the economy.

• A requirement for hedge funds to register with the securities and exchange commission and to disclose financial information.

• A comprehensive framework of oversight for derivatives including hitherto unregulated credit default swaps.

• Stronger supervision of money market funds to avert the risk of failure due to rapid withdrawals.

• Tools for the government to seize control of troubled non-bank financial institutions including insurers, fund management firms and savings organisations.

The credit crunch has generated a consensus across the political spectrum of a need for tighter controls over Wall Street, although the shape of the new regime is subject to rigorous debate on Capitol Hill.

Al Green, a Democratic congressman from Texas, warned that Washington must not "analyse to the point of being paralysed" but said sprawling financial enterprises needed to be controlled: "Too big to fail is the right size to regulate."

A Republican congressman, **John Campbell**, cautiously welcomed the concept of a broad new regulatory framework but said: **"There's universal agreement that we want it but there's not universal agreement on what it should look like."**

Among the most significant developments will be mandatory supervision of the once-booming hedge fund industry, which has traditionally flown below the regulatory radar. The industry's multibillion-pound "short" positions in financial stocks have been blamed for undermining struggling banks.

Without supervision, Geithner said there would be "no reliable, comprehensive data available to assess whether such funds individually or comprehensively pose a threat to financial stability". He added that the exposure of the fraudster Bernard Madoff underlined the need to look for rogue firms.

Meanwhile, the proposal for powers to seize non-bank financial institutions arose from the collapse of AIG. The treasury and the Federal Reserve have argued that their hands were tied in handling the insurer because they did not have the authority to force it into state conservatorship.

Another target will be derivatives, such as the largely unregulated market in credit default swaps that were instrumental in AIG's demise. A Democratic congressman, Joe Donnelly, called these "simple bets" with no real "product" behind them.

"The American people have been required to take money out of truck drivers' pockets, out of waitresses' pockets, to pay off these bets on Wall Street," said Donnelly.

The US business community has largely thrown its weight behind reform. The US Chamber of Commerce said it "strongly supports reforms that will close regulatory gaps, eliminate duplication and provide effective regulation of our capital markets".