The Don, the Dems and Dodd-Frank

Blog post by Adviser Leo Ringer, 17 June 2016

We now have two all-but-certain US Presidential candidates. For all their manifest differences, they have one thing in common: neither has warmly endorsed the Dodd-Frank post-crisis framework for banks. So we might ask where either candidate might go for ideas on what to do to it. Three possible answers this week.

On the republican side, House Speaker Paul Ryan's election-oriented proposal this week is the second Republican plan in a fortnight. Ryan's plan echoes much of Representative Jeb Hensarling's bill, also announced last week, to repeal and replace Dodd-Frank. The "Financial CHOICE Act" would relax and unwind rules linked to SIFI designations, anti-concentration rules, resolution rules and the Volcker rule, among others. In return, banks would have to agree to a 10% T1 capital adequacy ratio.

Paul Ryan's proposals lend wider Republican support to the Hensarling bill and build on it in some areas, such as relaxing requirements on mortgage brokers. The argument underpinning both is that capital adequacy should be the major line of defence against disorderly bank failure and that the plethora of other rules which have sprung up around it are surplus to requirements and bad for economic growth. This includes the totemic Volcker rule that separates proprietary trading from client business. Donald Trump has talked about "[coming] close to dismantling Dodd-Frank". Both Ryan and Hensarling's proposals might fit the bill.

The Democratic side of the picture is less clear. Clinton's campaign plan leads on a promise to veto Republican efforts to repeal or weaken Dodd-Frank. But with the possible exception of a "risk fee" levy on the largest financial institutions, her banking reform platform doesn't go much further. However, a platform capable of bringing on board Sanders' voters may need to go further than this. Putting Elizabeth Warren on the ticket would all but guarantee it.

One perhaps unlikely source of inspiration is Neel Kashkari, President of the Minneapolis Fed, who has brought regulatory credibility to the idea of breaking up the largest banks. Despite Kashkari being a Republican, his break-up narrative largely matches that of Bernie Sanders.

A less radical outlet could be to reform the SEC's treatment of big banks. In a hearing of the US Senate Banking Committee earlier this week, SEC head Mary Jo White faced scathing criticism from senior Democrats. They focused their fire on the SEC's propensity to reach settlements with rule-breakers and its failure to enact key rules within Dodd-Frank on securitisation. In a Clinton White House won with Sanders votes, these are arguments certain to be revisited.