10 Years of the Dodd-Frank Act

FINANCIAL SERVICES FORUM

BACKGROUND

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Dodd-Frank, which spans **more than 2,300 pages** and created **more than 400 new rules and mandates**, established the financial regulatory framework that sets the guideposts within which banks of all sizes, particularly large financial institutions, operate.

Ten years after the massive financial regulatory overhaul, ***the post-crisis regulatory framework remains intact.*** The strength and resilience of the American banking system today is the result of the substantial efforts and investment by policymakers, regulators and financial institutions across the country to achieve the shared goal of financial stability.

THE LASTING LEGACY OF THE DODD-FRANK ACT

Dodd-Frank established a number of important measures to promote financial stability. Some of the most impactful include **measures to promote resolvability, limit proprietary trading and create central clearing for certain financial instruments.**

1. Resolvability

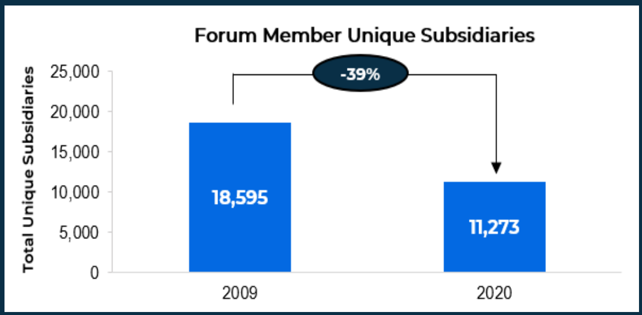
Dodd-Frank led to significant enhancements to the resolvability of financial institutions, improving stability within the U.S. financial system.

LIVING WILLS

Large banks now engage in an ongoing resolution planning process. Through the regular submission to the Federal Reserve and the FDIC of resolution plans, also known as living wills, large banks explain how they would undergo an orderly resolution in bankruptcy.

As of the most recent review in *December 2019*, Forum members' resolution plans were without deficiencies.

The resolution plan process has led banks to decrease their organizational complexity. Total subsidiaries at U.S. GSIBs have declined by roughly 40% since 2009.



The Financial Services Forum is an economic policy and advocacy organization whose members are the chief executive officers of the eight largest and most diversified financial institutions headquartered in the United States.

Learn more about the Financial Services Forum and how our members' more than 755,000 employees serve our economy and our communities at www.fsforum.com, and follow us on Twitter: @fsforum.

BANK OF AMERICA | BNY MELLON | citi | Goldman Sachs | JPMORGAN CHASE & CO. | Morgan Stanley | STATE STREET | WELLS FARGO

BACKUP RESOLUTION REGIME

Dodd-Frank also created a backup resolution regime that is designed to facilitate the resolution of a large financial firm without taxpayer support, if bankruptcy were deemed not viable.

The creation of this backup resolution regime means a large financial institution would be allowed to fail without resulting in significant spillover costs to the rest of the economy.

To date, Forum member firms - alone among U.S. banks - have issued in excess of $845 billion in long-term debt to support the backup resolution authority.

There is broad recognition that, taken together, the living wills and backup resolution regime created by Dodd-Frank help ensure that all large banks, including Forum members, are no longer too big to fail.

> "Options and tools now exist that provide a path far better than existed in 2008 to help ensure that a systemic firm can fail, that shareholders, creditors, and management of the firm bear the consequences of their decisions, and that financial stability can be preserved during times of stress without taxpayer bailouts."
>
> *- FDIC Director Martin J. Gruenberg in remarks at The Wharton School University of Pennsylvania on February 16, 2018*

2. Proprietary Trading

Dodd-Frank created the Volcker Rule **to ban banks from proprietary trading and limit investments in and relationships with certain funds**. Under the regulation, proprietary trading occurs when a bank trades in the short term for its own benefit without facilitating customer activities or hedging its own risks.

To this day, **the original intent of the rule has been preserved**, with only minor modifications made to streamline the rule and reduce complexity:

2019

Federal regulators finalized targeted revisions to simplify **compliance requirements** with the Volcker Rule and provide much-needed clarity.

2020

Federal regulators took steps to simplify, tailor, and clarify the **covered funds provisions** included in the Volcker Rule while still preserving the rule's intent.

> "There are areas where I think the case for change has become fairly strong. **The Volcker rule is one.**"
>
> *– Former Federal Reserve Gov. Daniel K. Tarullo in remarks at Princeton University's Woodrow Wilson School on April 4, 2017*

These updates helped to address longstanding, bipartisan concerns that the Volcker Rule was **too complicated** and **too difficult to supervise**, making it more difficult for banks to serve the needs of savers and investors.

3. Derivatives Markets Reforms

The structure and regulation of the derivatives market importantly have been transformed in the past decade.

TWO KEY CHANGES

the substantial increase in central clearing of over-the-counter (OTC) derivatives

the mandated exchange of initial and variation margin on all OTC derivatives that are not centrally cleared.

Central clearing is an important reform because clearing brings **transparency** and **strict risk-management standards** to derivative trading. As a result, the rise in central clearing has measurably reduced the scope for systemic risk to emanate from derivative markets.

RECENT REGULATORY REFORMS ENACTED BY CONGRESS TARGETED SMALLER BANKS

In 2018, Congress enacted a bipartisan regulatory reform package (S.2155) that sought to **ease the burden for smaller banks**, such as exempting the smallest banks from the Volcker and Qualified Mortgage rules, and **left regulations for the largest banks intact**.

> "[S. 2155] does not in any way weaken the regulations we put in there for the largest banks or that were there to prevent the kind of crisis we had 10 years ago."
>
> *- Former Chairman of the House Financial Services Committee Barney Frank (D-MA), co-author of the Dodd-Frank Act, in May 2018 CNBC interview*

> The new law does not "...reduce oversight on the big banks ..."
>
> *– U.S. Senator Mark Warner (D-Va.) in a May 2018 op-ed*

FORUM MEMBERS ARE SAFE, SOUND & SUPPORTING THE ECONOMY

In addition to the reforms put in place by the Dodd-Frank Act, other advances, such as **enhanced capital requirements** and **heightened supervision**, have laid a solid foundation for the safety of the nation's largest banks in the past decade.

These changes have led to a significant reduction in the expectation that large banks would receive taxpayer support if faced with severe financial distress.

The Federal Reserve in its May 2020 Supervision and Regulation report said against the backdrop of the pandemic, indicators in financial markets pointed to "the belief by investors that **banks are more resilient and better positioned today than during the 2008 financial crisis**."

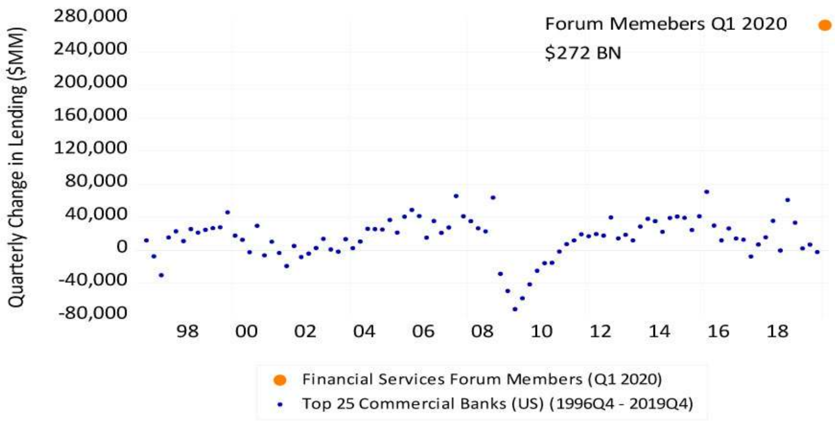
FORUM MEMBERS AS A SOURCE OF STRENGTH DURING COVID-19

Building on their position of strength, **Forum members have been a tremendous source of support this year for consumers, customers and businesses** weathering the economic impact of a global health pandemic.

1. Forum members have increased lending during the pandemic.

During the first quarter, they **increased lending to businesses of all sizes by more than 15 percent** from the prior quarter, an unprecedented increase.

Figure 1: Quarterly Change in Business Lending: 1996 - 2020



2. Forum members are supporting small business.

As of June 10, Forum banks made or approved **more than 773,000 PPP loans** to small businesses, totaling nearly **$70 billion**.

A closer look reveals that these loans are reaching the small businesses Congress intended the program to help: **More than half of the loans (55%) by Forum members support small businesses with four employees or less and nearly 80 percent are for less than $100,000.**

3. Forum firms are supporting the economy by providing safe, secure places for businesses and consumers to deposit their money.

In the first quarter, total **deposits at Forum institutions rose more than 13 percent**, an $818 billion increase, providing an important service to individuals and businesses in these uncertain times.