The US reviews its banking regulation

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Trump’s arrival has meant a change of tone in the discourse around financial regulation. The severe restrictions imposed by Obama on the banking sector in response to the profound international financial crisis are now a thing of the past. Trump’s message is very different and has been broadcast by means of his famous tweets and speeches. “Dodd-Frank is a disaster. We’re going to be doing a big number on Dodd-Frank.” This was the president's message to small business owners at a function in the White House in January 2017.

His priorities are clear: growth and Americans. With these objectives, Trump ordered a review of the financial regulatory framework. The recently published report of the US Treasury is the response to this order. It includes more than 100 recommendations aimed at conforming to a number of principles such as seeking more efficient, effective and proportionate regulation, supporting economic growth and promoting US companies’ competitiveness.

The Treasury retains many of the pillars of the framework introduced in response to the crisis, but also proposes the revision of numerous elements of the reform: simplification of the Volcker rule, stress tests, recalibration of the definition of the leverage ratio and liquidity ratios and more favourable treatment for foreign banks. All this is aimed at simplifying the regulatory burden for both small banks and systemic banks, with an eye on their international competitiveness.

One of the major unknowns in this review is the impact on international agreements. The Treasury explicitly demands an end to the revision of Basel III, but it remains to be seen whether the other parties are prepared to sign with a partner that is reviewing much of the reform and seeking postponement of aspects that have already been agreed.

Many of the recommendations concern amendments that do not require approval by Congress. However, some more structural issues, such as curtailing the independence of the Consumer Finance Protection Bureau (CFPB) or uncoupling the Federal Deposit Insurance Corporation (FDIC) from banking resolution plans, require changes in the law. This will be difficult to bring about in the current political situation in the United States.

We are about to see a far-reaching recalibration of the regulatory framework. It remains to be seen whether, after the political negotiations, it takes the form of a new stage in regulatory relaxation in the US that might become a global trend. For now, the most likely outcome is recalibration without repeal of the key laws. The quest for efficiency in regulation is positive and welcome, providing the protective mechanisms put in place against a new crisis are not neglected.