Economic Policy Program

Financial Regulatory Reform Initiative

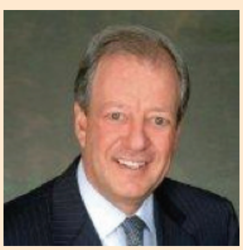
Dodd-Frank's Missed Opportunity:

A Road Map for a More Effective Regulatory Architecture

An Overview

These co-chairs of the Regulatory Architecture Task Force within BPC's Financial Regulatory Reform Initiative have made a series of recommendations to improve the effectiveness of the U.S. financial regulatory system.

WHO



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Mark Olson is chairman of Treliant Risk Advisors. Prior to joining Treliant, he was chairman of the Public Company Accounting Oversight Board, a member of the Federal Reserve Board of Governors and the Federal Open Market Committee, president of the American Bankers Association, partner with Ernst & Young LLP, and staff director of the Securities Subcommittee of the U.S. Senate Committee on Banking, Housing and Urban Affairs.

WHY

Dodd-Frank responded to several issues highlighted by the most recent financial crisis, but left certain structural weaknesses within the U.S. regulatory architecture unaddressed.

WHAT

Guided by five overarching principles,[1] this report makes recommendations in six areas. Below is a sampling of key recommendations:

1. IMPROVE THE QUALITY OF EXAMINATIONS

- Create a **pilot program for a consolidated examiner force** for insured depository institutions. Over time, this approach would enhance supervision and improve the caliber of examiners through continuing specialized training and higher compensation.
- **Launch new degree and training programs of specialized undergraduate and master's degree programs for bank examiners** to raise the profile and skill level of bank examiners as a profession.
- Set standards to **improve the compensation of bank examiners**.

2. BUILD A CLEARER, MORE EFFECTIVE PRUDENTIAL REGULATORY STRUCTURE

- Create a new **Prudential Regulatory Authority (PRA)** to be the primary micro-prudential safety-and-soundness regulator and supervisor, including setting basic capital, liquidity, and risk management standards. The PRA would consolidate the supervisory and examination authority of the OCC, FDIC, and Federal Reserve into a unified prudential regulator for all banks and thrifts, and their holding companies.
- Make the Federal Reserve Board (FRB) **the primary macro-prudential supervisor**, responsible for overseeing financial market trends, activities, products, and practices that might pose a systemic risk to financial stability. The FRB would also be the **unified, financial-stability regulator for systemically important non-bank non-insurer financial institutions**, including retaining its role as the primary supervisor for financial market utilities (FMUs).
- Create a new **Federal Insurance Regulator (FIR)** to improve the regulation and supervision of insurance companies that elect to hold a new national insurance charter, which would be mandatory for insurance companies that are designated as SIFIs and optional for other companies.

3. GIVE THE FSOC AND OFR THE INDEPENDENCE AND AUTHORITY THEY NEED TO BE EFFECTIVE.

- Provide the FSOC with the **authority to set minimum heightened standards and safeguards** on systemically risky activities and practices for member agencies.
- Make joint rule-writing more efficient and timely by **empowering the FSOC to override member agencies** in unresolved rulemaking disputes.
- Focus regulators on the most systemically important institutions by **raising the threshold for SIFI designation to $250 billion and making the threshold presumptive**.
- Make the OFR truly independent and capable of providing objective, timely research and analysis on systemic risk issues to all stakeholders by **removing it from the Treasury Department** and establishing it as an independent entity.

4. CREATE A SINGLE, MODERN CAPITAL MARKETS AUTHORITY (CMA) to oversee the fair and efficient functioning and competitiveness of U.S. capital markets. The CMA would be established through the merger of the Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC).

5. FUNDING. Give all agencies **independent and equitable funding** by removing their funding from the congressional appropriations process.

6. CROSS-BORDER IMPACT ASSESSMENTS. Mandate that the **FSOC study all rulemakings with cross-border impacts** and then make recommendations to Congress and the regulators that would address impacts on financial stability.

WANT MORE?

Read the full report at http://bipartisanpolicy.org/projects/financial-regulatory-reform-initiative or join the conversation on Twitter using @BPC_Bipartisan, #BPCFinReg.

1. The five guiding principles include: clarifying the U.S. regulatory architecture to close gaps that could contribute to a future crisis or financial stress event; improving the quality of regulation and regulatory outcomes; better allocating, coordinating, and efficiently using scarce regulatory resources; ensuring the independence and authority of financial regulators to allow them to anticipate and appropriately act on threats to financial stability; and increasing the transparency and accountability of the regulatory structure.