Back to the Future: Trump's Planned Rollback of Wall Street Regulation

While many of the Obama-era financial regulations aimed to curtail the activities of America's largest financial institutions, President Trump's anti-regulatory views could brighten prospects for financial services institutions.

While it will take more than an executive order to undo Dodd-Frank, the president's overall approach to regulation sends a clear message to the SEC and other regulatory agencies charged with enforcing the laws.

Following are some key regulatory actions that the Trump administration has indicated it is interested in pursuing along with some potential repercussions for Wall Street.

The Fiduciary Rule

This set of guidelines put forth by the Department of Labor (DOL) defines the obligations financial professionals who provide retirement investment advice have to their clients. The fiduciary rule was initially proposed in 2010, but at that time faced stiff opposition from the financial services industry regarding regulatory and liability costs.

Fast-forward to today, and the DOL's overall goal is the same -- to require retirement investment advice to be in the clients' best interest. The current rule expands the scope of what constitutes investment advice in order to broaden the range of fiduciary protections for investors.

On February 3, 2017, President Trump issued a memorandum directing that the fiduciary rule be reviewed to determine whether it may "adversely affect" retirement investors' ability to gain access to financial advice, and if it does, to move forward with "rescinding or revising" the rule. In response, on March 1, 2017, the DOL announced that it was seeking a 60-day delay in the applicability of the new rule, currently set to go into effect on April 10, 2017.[1]

Supporters of the rule view it as a necessary and basic consumer protection, while those opposed argue that the rule could initiate a flood of lawsuits that would likely increase costs to financial firms who may then pass those costs on to clients.

The pros and cons aside, for those following the fate of the rule, the DOL's requested delay in implementation is seen by some as the first step in eliminating the rule as it currently exists and preserving the status quo in the financial services industry, which could spell good news for Wall Street.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

Established in the wake of the 2008 financial collapse, the Dodd-Frank Act represented a new regulatory regime for banks and other financial services institutions. The sprawling legislation established an oversight council to monitor and address risks to financial stability. It also included measures that permit regulators to seize and break up troubled financial firms whose collapse might cause widespread damage to the economy.

The Volcker Rule, a centerpiece of the Dodd-Frank Act, prohibited -- with some exceptions -- commercial banks and their affiliates from proprietary trading and sponsoring or investing in hedge funds and private equity funds. The Rule also required "systemically important" non-bank financial companies to carry more capital and be subject to other quantitative limits.[2]

Trump has said that he plans to dismantle the Dodd-Frank Act, and on February 3, 2017, signed a directive giving the Treasury the authority to restructure major provisions of the legislation and to ensure that, in general, existing laws are aligned with the goals of the new administration.[3]

In terms of financial implications, some equity analysts suggest that repealing the Volcker Rule in particular would potentially free up billions in additional revenue for large investment banks.[4]

Another aspect of the Dodd-Frank Act imposed a slew of more stringent lending rules on banks. These rules were put in place to help prevent the types of risky lending practices that, for example, led to nearly eight million U.S. homes falling into foreclosure during the housing crisis.[5] The rules require additional paperwork and cost lenders millions to attain and maintain compliance.[5]

Treasury Secretary Steve Mnuchin has vowed to simplify parts of the Dodd-Frank Act that, he said, "prevent banks from lending."[6]

The Consumer Financial Protection Bureau (CFPB)

The CFPB, created by the Dodd-Frank Act, is also being eyed for reform by the Trump administration as well as GOP lawmakers.

The national consumer watchdog agency has been lauded by some for its independent approach to investigating and holding accountable banks and other financial institutions. Others view the agency as a roadblock that has restricted lending and reduced consumer choices.

While it will take more than an executive order to undo the Dodd-Frank Act, the president's overall approach to regulation sends a clear message to the SEC and other regulatory agencies charged with enforcing the laws.

[1]Forbes, "Under President Trump's Direction DOL Moves to Delay Fiduciary Rule," March 1, 2017.

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[2]Harvard Law School Forum on Corporate Governance and Financial Regulation, "The Financial Panic of 2008 and Financial Regulatory Reform," November 20, 2010.

[3]The New York Times, "Trump Moves to Roll Back Obama-Era Financial Regulations," February 3, 2017.

[4]Business Insider, "$25 Billion: Trump's plan to cut Wall Street regulation is going to have a big impact," January 21, 2017.

[5]CNBC, "How Dodd-Frank changed housing, for good and bad," July 16, 2015.

[6]CNBC, "Parts of Dodd-Frank affecting small businesses will be rolled back under Trump, Steve Mnuchin says," November 30, 2016.

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