

Why GAO Did This Study

The Dodd-Frank Act requires or authorizes various federal agencies to issue hundreds of rules to implement reforms intended to strengthen the financial services industry. GAO is statutorily mandated to annually study financial services regulations. This report examines (1) the regulatory analyses federal financial regulators conducted in Dodd-Frank rulemakings; (2) interagency coordination on rulemakings by federal financial regulators; and (3) the impact of selected Dodd-Frank provisions and related rules.

GAO reviewed 54 Dodd-Frank rules (effective July 23, 2013–July 22, 2014) to determine if required regulatory analyses and coordination were conducted; developed indicators on the impact of systemic risk-related provisions and rules; and conducted an economic analysis to assess the act's impact on large bank holding companies. GAO also examined the regulatory analyses and coordination efforts for two rules in depth: the Volcker rule and swaps rules. These rules were chosen because the former required interagency coordination in drafting, while the latter is of interest to domestic and foreign regulators. Finally, GAO interviewed staff from domestic and foreign regulators, financial services businesses, industry associations, and academics.

GAO is not making any recommendations in this report. Regulators provided written and technical comments, and neither agreed nor disagreed with the report's findings.

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DODD-FRANK REGULATIONS

Regulators' Analytical and Coordination Efforts

What GAO Found

Federal financial regulators—Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, National Credit Union Administration, Consumer Financial Protection Bureau, Commodity Futures Trading Commission, and the Securities and Exchange Commission—have continued to conduct required regulatory analyses for rules issued pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). While financial regulators must consider costs and benefits of their rulemakings in certain circumstances, they are not required to formally analyze them. Regulators face data and modeling challenges in their consideration of the costs and benefits of their rulemakings, particularly for more complex rulemakings intended to address systemic risk or market stability. GAO and others have recommended strategies to address these challenges.

Regulators coordinated, as required or voluntarily, on 34 of the 54 Dodd-Frank rulemakings GAO reviewed. The Dodd-Frank Act and rulemaking process did not require regulators to coordinate on the remaining rulemakings. GAO focused particularly on coordination efforts involving two rulemaking efforts: (1) the Volcker rule, a rule prohibiting and restricting banking entities from, among other things, trading certain financial instruments using their own funds to profit from short-term price changes; and (2) rules related to regulation of the swaps (derivatives) market. For the Volcker rule, interagency coordination led regulators to adopt a common rule and regulators voluntarily have continued coordination efforts during rule implementation. For swaps rulemakings, regulators coordinated domestically and internationally. However, such coordination did not always result in harmonized rules, and key differences among some rules have raised compliance and market efficiency concerns among market participants, industry associations, and foreign regulators with whom GAO spoke. GAO will continue to monitor these issues in future work.

The full impact of the Dodd-Frank Act remains uncertain because many of its rules have not been finalized or insufficient time has passed to assess the impacts of final rules. Using recently released data, GAO updated indicators from its prior reports that monitor certain risk characteristics of large U.S. bank holding companies. Although changes in the indicators are not evidence of causal links to the act's provisions, some indicators suggest these companies' leverage generally decreased and their liquidity generally improved since the act's passage. GAO's updated regression analysis suggests that the act continued to have little effect on the funding costs of these companies and may be associated with improvements in some indicators of their safety and soundness. GAO also updated its indicators of the extent to which the act's swap reforms have been associated with increases in margins posted in over-the-counter derivatives transactions. Although margin rules for uncleared swaps have not been finalized, the indicators suggest that holding companies have been requiring their counterparties to post a greater amount of collateral against derivatives contracts. Finally, GAO discusses potential future indicators for nonbank financial companies designated for supervision by the Board of Governors of the Federal Reserve System.