Americans for Financial Reform

Dodd-Frank And 'Hyper-Charged' Finance

Where Have We Come in Five Years?

Around The Year 2000 – A ‘Hyper-Charging’ Of Finance

--*Exponential* growth in a variety of unsustainable trends

--Financial globalization

--Unregulated over-the-counter derivatives

--Bank securities inventories and market exposure

--Structured product markets

--Enormous growth in complexity and fragility of finance.

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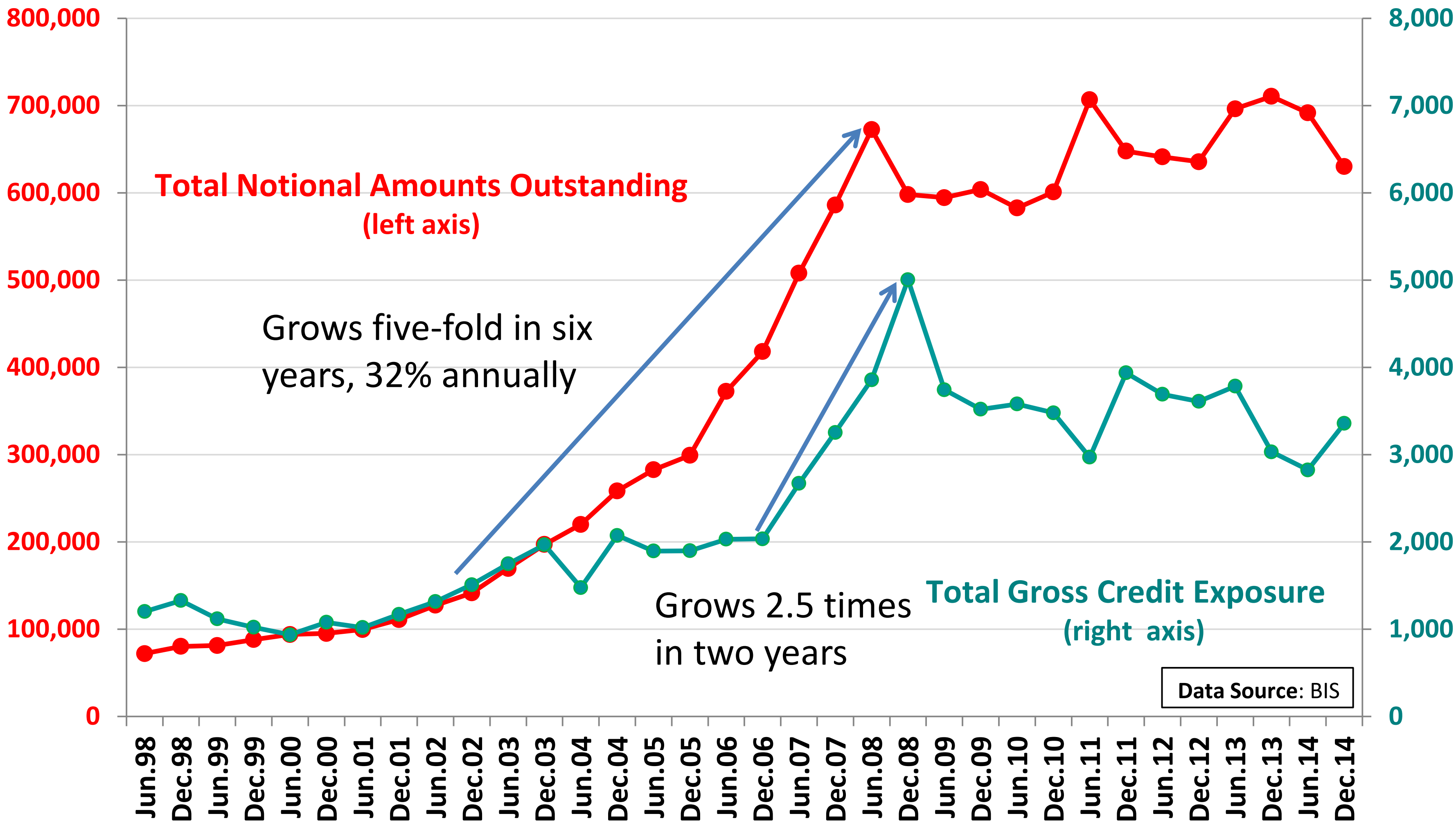
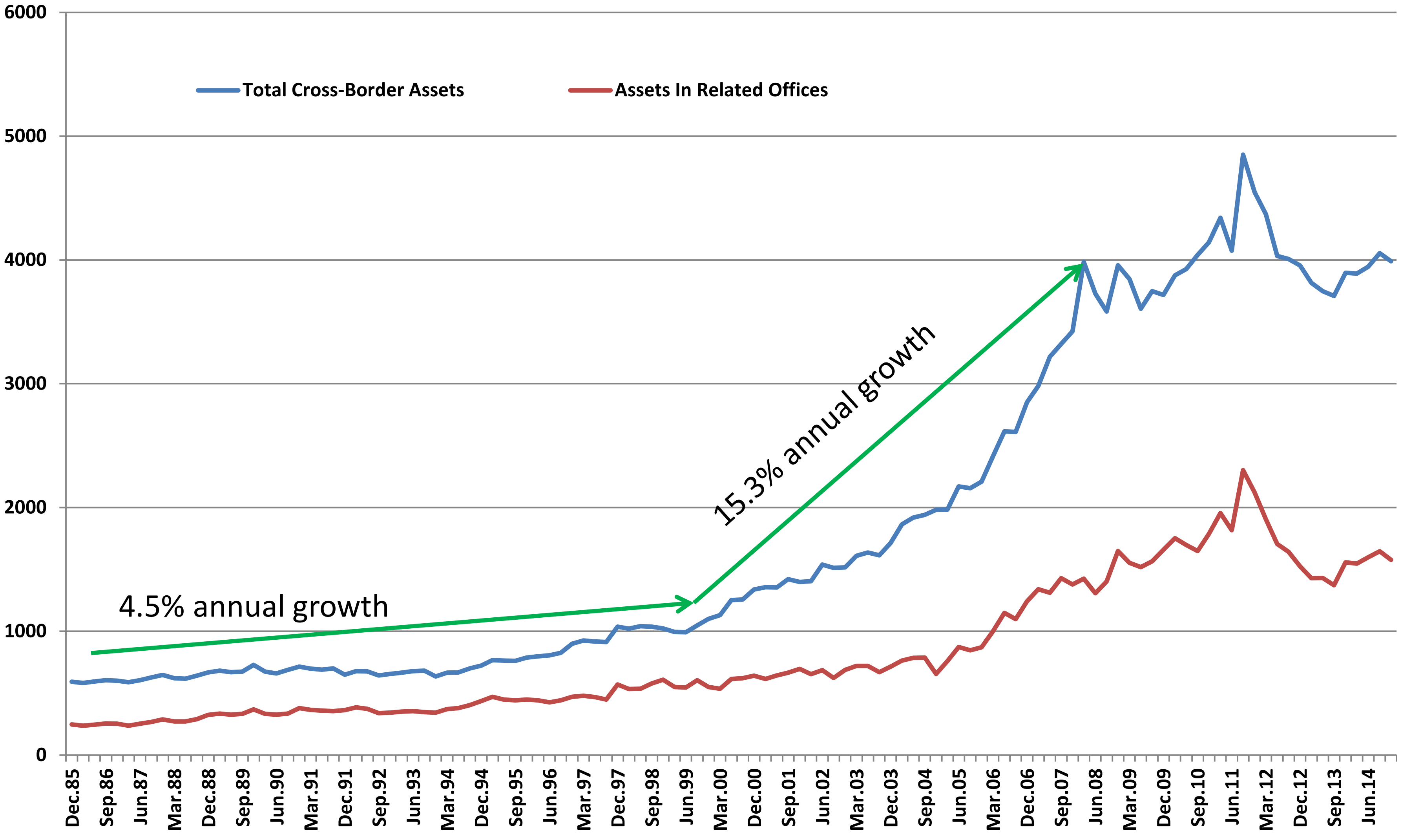
Over The Counter Derivatives (In Billions)



Foreign Assets of US Banks (In Billions)



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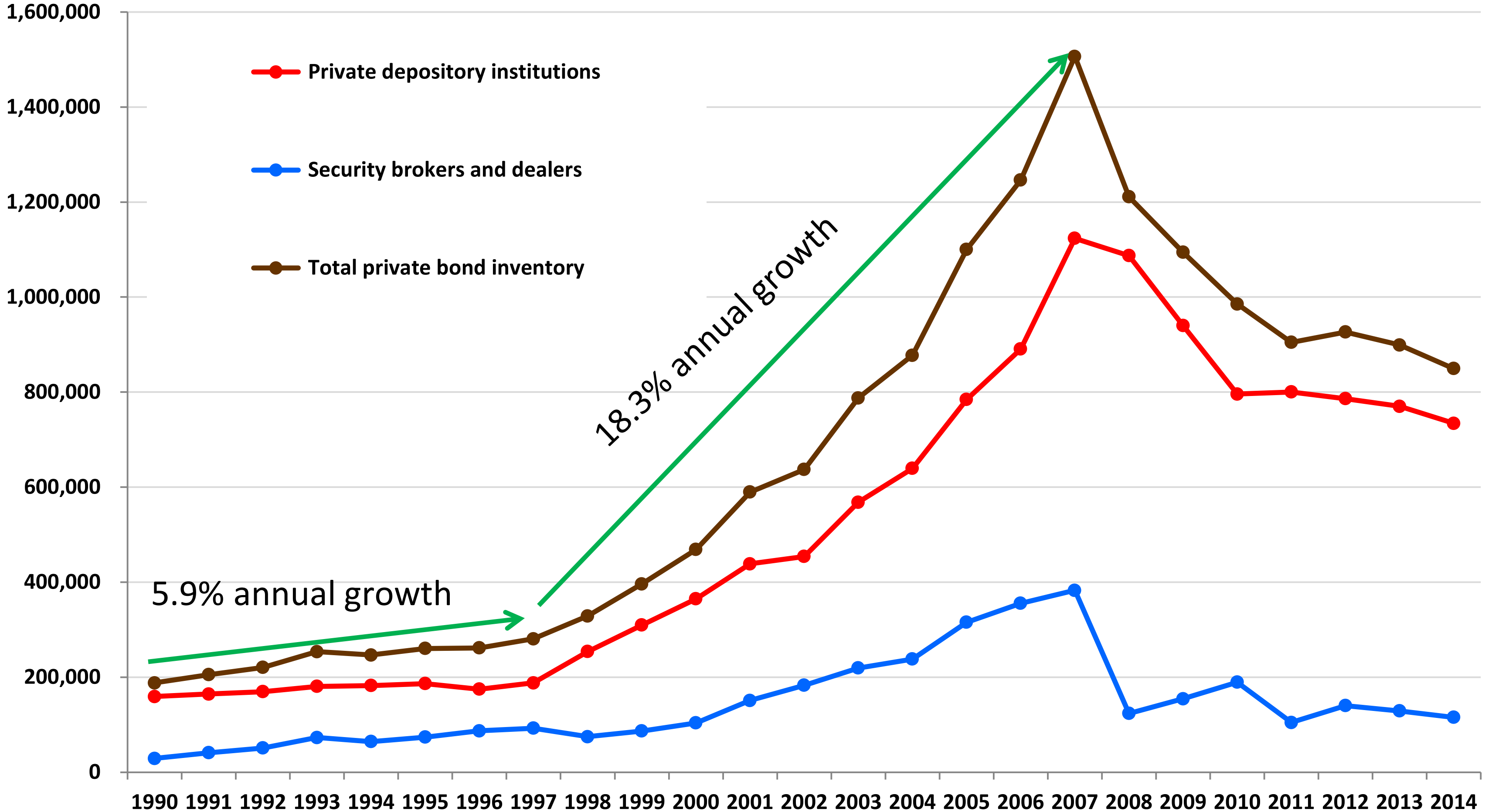
Inventory of Bonds Not Backed by US Government
Includes non-GSE MBS, CDOs, Corporate & Foreign Bonds. Millions of $



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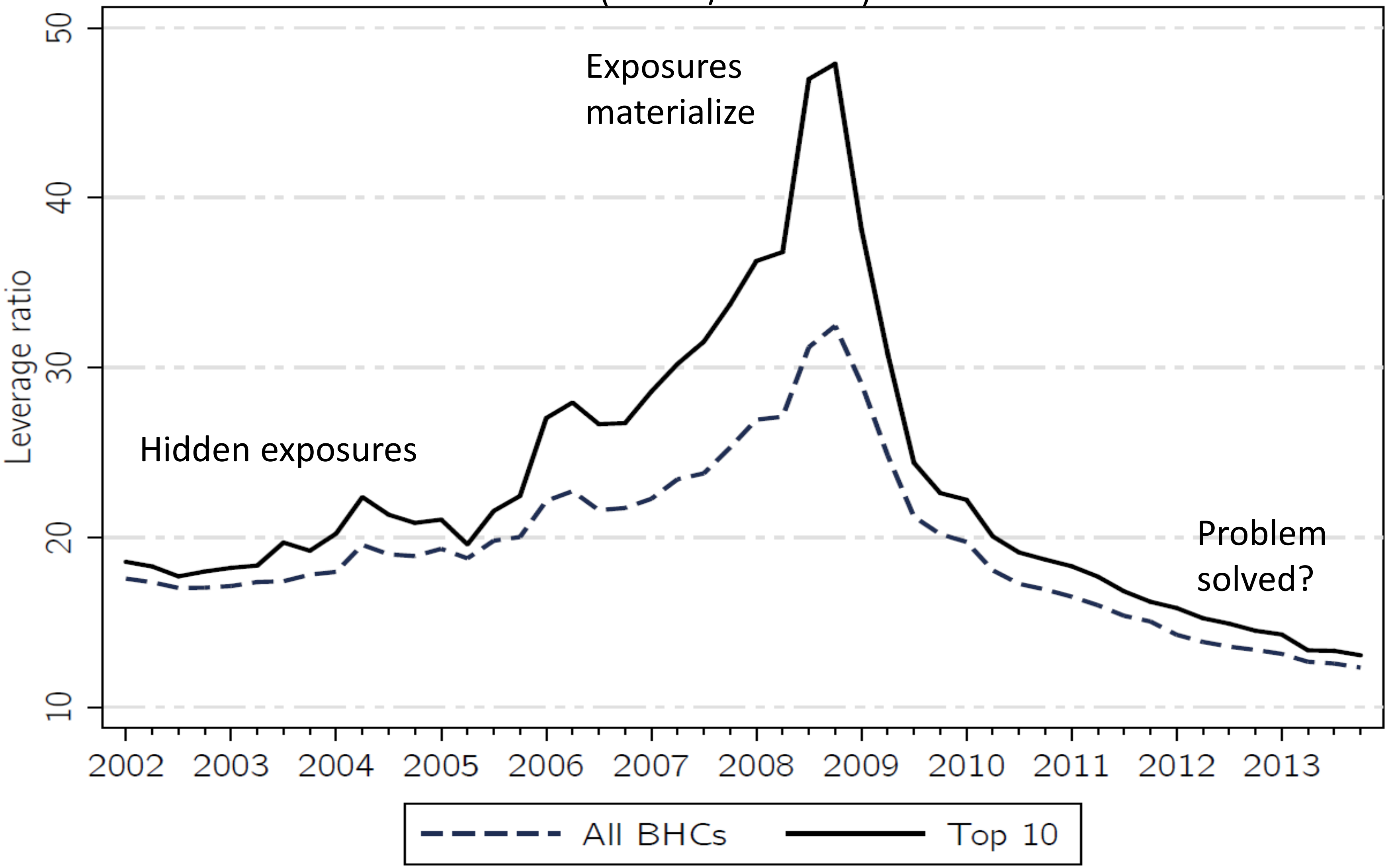
Bank Leverage: 2002 – 2014
(Assets/TCE ratio)



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Some Observations

- The hyper-charged growth has stopped, but many relatively recent change in business models has not been reversed.

- Many developments leading to financial crisis still loom much larger than they did even in late 1990s (the exception is areas related to mortgage finance).

- Many industry criticisms of Dodd-Frank have a ‘Back to the future’ quality, as if rules should *preserve* qualities of failed status quo:

  - US banks must be highly globalized.
  - Derivatives markets must be enormous.
  - Liquidity conditions should approximate pre-crisis period.
  - Inventories have fallen, but still higher than 1990s norm.
  - Where is the evidence this model helped real economy growth?

The Regulatory Challenge

In the absence of a deeper change in business models, must keep pace with complex and fragile system

- Stress testing is crucial, but under attack and hard to maintain.
- Massive IT and implementation challenge.
- Constant lobbying pressure on fine details of system.
- If the commitment to a heavily globalized system remains, then the desire to coordinate regulation across all major jurisdictions can become an impediment to progress.