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Outlook 2017: Cliff Moyce, DataArt

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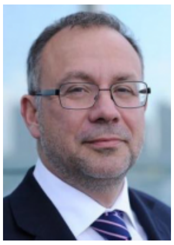
What does 2017 have in store for the Dodd-Frank Act?

I fully expect the Dodd-Frank Act, including the Volcker Rule, to start to be reviewed in 2017 with a view to possible revision over the next couple of years. But I do not expect to see the Act repealed as I think that would send an unpopular message to the wider public and media where concerns about Wall Street 'excesses' and the last crash continue. My belief is driven by seeing the act fail to achieve some of its main objectives and also seeing how it resulted in unintended consequences.



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One of the main objectives of the Act was to reduce systemic risk by bringing transparency to opaque OTC markets. For example, through the use of centralized trading facilities (SEFs, MTFs, and etc) and improved post-trade reporting. It also sought to reduce systemic risk through central clearing and full margining. Though those things undoubtedly reduce exposure to the decisions and actions of an individual firm on another individual firm, to claim that they reduce systemic risk to a significant degree is to fail to understand the nature and scale of systemic risk. Systemic risk is driven by the extreme cross-product / cross market / cross geographic (geopolitical) / cross currency / cross-regulatory regime nature of capital markets trading and investment management. Though that existed to a certain degree in previous decades, concerted efforts to exploit new communications technologies, protocols and paradigms to integrate markets, products and services and thus drive the free flow of capital worldwide has increased inter-connectedness in an exponential manner. I defy any global bank to have an accurate feel for their inter-firm exposures, let alone their intra-firms exposure, let alone the possible consequences of a shock to the system (eg a geopolitical shock) from truly systemic risk. In this light, Dodd-Frank and Volcker appear to be whistling in the wind.

But Dodd-Frank should not be revised or repealed because it is not fully achieving its aims of controlling systemic risk. That would be dumb. Revisions should be made to deal with the unintended consequences. They include some market participants being priced out of the market though increased costs (collateral and margining costs); the effect of making some markets near moribund; and, the loss of investment in customer service – including failing to address the desperate need to re-engineer legacy systems to give clients of financial institutions the levels of services to which we have become accustomed through ecommerce etc. Reducing and/or simplifying the regulatory requirements around capital margins, ability to trade / hedge, reporting etc (while fully understanding and reflecting the important role that derivatives play in world economies) would free up money and brainpower to concentrate on making banking better, which will be good for the economy and thus good for everyone. It would also help to slow the flow of disaffected top talent from capital markets into the independent fintech arena.

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