DODD-FRANK REFORM; WHAT COMES NEXT?

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On June 8, the House passed H.R. 10, the "Financial CHOICE Act" ("FCA"), by a party-line vote of 233-186. The votes in opposition to the FCA consisted of all Democrats and one Republican, while only Republicans voted in favor of the legislation. The House Rules Committee made in order six amendments (summarized here), all of which passed the House. Introduced by House Financial Services Committee ("HFSC") Chairman Jeb Hensarling (R-TX), the FCA would comprehensively reform the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). A "section-by-section" summary of the FCA, as reported by the HFSC, is available here. For additional details about the key provisions of the legislation, please see the K&L Gates Alert entitled "Financial Choice Act Is Expected to Move to the House Floor."

WHAT HAPPENS NEXT?

Senate Banking Committee

At this stage, it appears that the Senate will likely consider its own financial regulatory reform bill, rather than start with the FCA. Their effort will be informed at least in part by the responses that Senate Banking Committee ("SBC") Chairman Mike Crapo (R-ID) and Ranking Member Sherrod Brown (D-OH) received to their request for legislative proposals to promote economic growth. The SBC requested that the proposals focus on "help[ing] consumers, market participants, and financial companies [to] responsibly participate in the economy in a more effective and efficient manner." The legislative proposals were due by April 14, 2017, and are available here.

The SBC is currently reviewing these proposals, and Chairman Crapo has signaled an interest in continuing to work with Democrats and the Trump Administration to craft bipartisan reform legislation. Chairman Crapo's approach is in recognition of the fact that any significant Dodd-Frank reform effort in the Senate, other than discrete measures that might be considered under reconciliation procedures, will require some support from Democrats, as eight Democratic votes will likely be necessary to overcome a potential filibuster. On June 22, the SBC held the first in what we expect to be a series of hearings on these issues.

Trump Administration

As required by President Trump's February 3, 2017 Executive Order 13772 on Core Principles for Regulating the U.S. Financial System (the "Core Principles"), the U.S. Department of the Treasury recently released its much-anticipated report entitled "A Financial System That Creates Economic Opportunities," the first in a series of reports that recommends possible ways to legislatively and administratively reform the U.S. financial system, consistent with the Core Principles.

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Among other objectives, the proposed reforms are designed to try to enhance coordination among financial regulators; modify capital, liquidity and leverage standards for financial institutions; increase the use of cost-benefit analysis of financial regulations; broaden access to credit for consumers and small businesses; promote market liquidity by making significant revisions to, though not repeal of, the Volcker Rule; and provide regulatory relief for community banks and credit unions.

This report and the anticipated future reports issued by Treasury can be expected to contribute substantially to reform efforts in the Senate. It also remains possible that certain elements of the Treasury report and/or the FCA could be advanced as stand-alone measures.

ASSESSMENT

At this point, it appears that a bipartisan consensus could be emerging to support targeted regulatory relief for small- to medium-sized financial institutions. Ultimately, we believe that Dodd-Frank reform will prove to be an incremental, multi-year process that will produce both winners and losers. As the financial regulatory reform debate intensifies and legislative proposals continue to take shape, interested stakeholders must work diligently to meaningfully influence the discussion in furtherance of their specific policy objectives.

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