

President Trump to Repeal Dodd-Frank

By Laura Tobon, LL.M. Candidate 2017 | March 7, 2017

President Trump Scales Back Dodd-Frank

The Dodd-Frank Wall Street Reform and Consumer Protection Act, better known as the [Dodd-Frank Act](#) (the “Act”), is a financial reform package passed during the Obama administration as a response to the financial crisis of 2008. The Act, signed into law in 2010, re-designed Wall Street and the American financial industry. Banks and other financial institutions were forced to undergo a series of new regulatory exams and cut back on their lucrative, but illiquid, private equity and hedge fund investments. The Act created new governmental agencies and strategies to oversee mid-sized banks all the way up to multi-billion-dollar firms. Now, seven years after its enactment, President Donald Trump has pledged to significantly reduce and repeal the Act.

At the beginning of February, President Trump signed an [executive order](#) that intended to dramatically scale back the Act and the strict financial regulatory enforcement regime created by it. According to President Trump, the strict financial regulations and the specific way that the Securities and Exchange Commission (the “SEC”) had targeted financial institutions had significantly slowed economic growth. The President also stated that due to such strict policies, banks had not been lending money as easily as before the Act. However, [data](#) shows that it was a lack of demand, not supply, that decreased the borrowing by U.S. companies.

It is true that the Obama-era financial rules increased the cost of doing business in the United States for financial entities. This caused them to hold back from giving certain products and loans. Whether those changes were worthwhile in exchange for a more secure and stable financial system seems to be the doubt of President Trump and those in favor of repealing the Act.

The Future of Securities Regulation under the Trump Administration

The SEC has recently revealed its first [step](#) towards the new enforcement environment created by the Trump administration. The SEC is changing the procedure by which it can begin a formal investigation. Before, investigations could be initiated by *any* senior enforcement official. Now, *only* the Director of the Enforcement Division is able to commence a formal investigation. This means that all requests will be processed through a single, centralized system—potentially significantly slowing down the process of launching formal investigations in its entirety.

Another change that might be potentially implemented is in the area related to whistleblowers that provide information to the SEC about possible violations. A [memorandum from Representative Jeb Hensarling](#), a Republican from Texas and the Chairman of the U.S. House of Representatives Financial Services Committee, stated that there is a chance that rewards to whistleblowers that took part in the misconduct would be eliminated under the new regime. A major consequence of such a measure would be the reduction in the possible sources of information about corporate

violations. Accordingly, this would decrease the likelihood that the SEC will future open investigations into such misconduct.

In conclusion, it appears that President Trump's actions constitute a large effort to loosen regulations on banks and other major financial companies. If he is successful in changing the current law and pushing it through Congress, then it could eventually lead to a replacement of the Dodd-Frank Act. In turn, this means that reduced enforcement could open the door for a potential increase in risk-taking by financial entities.