Dodd-Frank Act is Three: Treasury Secretary — No Changes

Jacob Lew

The Wall Street reforming Dodd-Frank Act is three-years old. Critics are already screaming for changes. Not so fast says Treasury Secretary Jacob Lew. He said he's speeding up implementation of the law and is asking Congress for patience.

"Members of Congress who want to alter financial reform before it is fully in place should carefully consider implementation efforts that are approaching completion. Major change is under way and will continue as the powerful tools created in Dodd-Frank are implemented fully," Lew said.

Massachusetts Democratic Sen. Elizabeth Warren and Republican Sen. John McCain and others in their bipartisan group have introduced a bill that essentially restores the Glass-Steagall Act. The original law separated commercial banks from investment banks. Some say its repeal helped lead to the Great Recession.

Another proposal floating around is one sponsored by Ohio Democrat Sen. Sherrod Brown and Louisiana Republican Sen. David Vitter. It cuts down the legal size of banks.

Lew says neither are necessary because he'll have most of the main parts of Dodd-Frank working by the end of the year. One of interest to traders and Wall Street — in particular — is the Volcker Rule. It bans proprietary trading.

The goal of Dodd-Frank is to make the financial industry more responsible and keep investments safer. Concepts are one thing. Reality is another.

The 2013 Makovsky Wall Street Reputation Study — done by Echo Research in May of this year — says 68% of the financial services firms asked think it has done very little to keep anything safe. The study notes these companies think their industry is now as risky or even more risky than in 2007 when the Great Recession was kicking off.

Scott Tangney heads up Makovsky. He said, "Despite Dodd-Frank and other federal reforms, communications and marketing executives at financial services companies believe that risk has actually increased on Wall Street compared to the headier and perilous days of six years ago. They also told us that the perception of unchecked risk is dragging on their company's and the industry's reputation, with a clear negative impact on profitability. It is clear that reputation is caught in the middle of the tug-of-war between risk and regulation."

Reputation and customer satisfaction issues have cost financial service firms 9% of their business in the past year. Or so says the study. “While a lot of the discussion and worry about new reforms have focused on the restriction of business and its impact on profits, no one is addressing its bottom-line impact of continued reputation damage,” Tangney said.

- 66% of the financial executives surveyed think increased actions by regulators have made it harder for the industry to rebuild its reputation.
- Just 33% say those government actions have helped.

Tangney said, “We could be seeing a watershed change in attitude toward regulation and how it impacts reputation in the financial services industry. Just one year ago, most executives were welcoming regulation as a reputation savior. Today, we are witnessing a rising ambivalence about the impact of financial reform.”

A year ago 74% of those surveyed thought more regulation would help restore trust on a much faster scale. Today 52% aren’t sure it’s helping at all.

“We also found a strong trepidation at financial services companies about potential sanctions with 70% telling us they are concerned about an increase of consumer complaints about their company in the Consumer Financial Protection Bureau’s database. This explains the significant shift in how increased government regulation is perceived and its impact on reputation, as well as efforts to mitigate risk through greater governance and management and trying to influence rule making.”

One of the biggest drawbacks to improving the reputation of Dodd-Frank Act regulated businesses is executive compensation with 65% of those surveyed worried about public opinion on the topic.