Future of Dodd-Frank uncertain if Republicans win

By Eric Garcia
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WASHINGTON (MarketWatch) — Republicans will likely target the Consumer Financial Protection Bureau and capital requirements on insurance companies if they take the Senate.

Any changes the Republicans seek will be tempered by the fact they won't have a veto-proof hold of the U.S. Senate. Democrats also would have the ability to filibuster, points out Ed Groshans, financial advisor to Height Analytics LLC.

But analysts do see room for the Republicans to temper the Dodd-Frank Act, the 2010 law passed in the wake of the financial crisis.

One of the pieces of Dodd-Frank law that Republicans have criticized is the Consumer Financial Protection Bureau, having blocked the confirmation of its director. Eventually, after a rules change in the Senate, Richard Cordray was confirmed to the role.

Aaron Klein, director of Financial Regulatory Reform Initiative at the Bipartisan Policy Center, said there might be more oversight of the bureau by having an inspector general.

Another potential change would be the revision of capital requirements under the law. Earlier this year, the House of Representatives passed a bill that said federal regulators would not to include insurance regulators for capital requirements.

Michael Barr, professor at University of Michigan Law School and the previous assistant secretary of Treasury, said there could be attempts to weaken rules on derivatives and to prevent the Financial Services Oversight Committee from regulating insurance firms. American International Group AIG, +0.35% has fallen under FSOC oversight, and FSOC is looking to extend that to MetLife MET, +0.16%

Another possible change to the law could come with changing the amount in assets for systemically important financial institution threshold, which requires banks and bank-holding companies with at least $50 billion in consolidated assets to have more prudential supervision. Federal Reserve Governor Daniel Tarullo has shown openness to changing the requirement, as has former Rep. Barney Frank, who co-authored the law.

Other parts of the law like the Volcker Rule, which prohibited banks from proprietary trading and limited banks' ability to own hedge funds and private equity, will likely remain intact.

Klein said that there might be some slight changes with how the Volcker Rule applies to having banks sell legacy assets like collateralized loan obligations.

Mark Calabria, a former staffer for Sen. Richard Shelby and director for financial regulation at the Cato Institute, said it is possible to see changes to the impact of Dodd-Frank through the appropriations process. Calabria explains this way, the Senate could change funding of various aspects — where only 51 votes are needed — without modifying the underlying law.

Calabria said funding could be used to target the Securities Exchange Commission and the Commodities Futures Trading Commission.