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# THE FINANCIAL SERVICES ROUNDTABLE



## *Financing America's Economy*

On June 7, 2011, Federal Reserve Chairman Ben Bernanke was asked if anyone had studied the cumulative effect of new rules. He responded, "I can't pretend that anybody really has. You know, it's just too complicated."

The safety and soundness of our financial system undoubtedly has improved as the result of recent changes made by Congress, supervisors, and financial institutions themselves. In particular, risk has been reduced, capital and liquidity have improved, and failed firms can be resolved without imposing loss on taxpayers. These are positive developments for the U.S. and the future of financial services.

However, as hundreds of new rules are written – both here and abroad – it is critically important for the sake of our economy, consumers, and the competitiveness of the financial services industry that the cumulative weight of new rules is understood.

The Roundtable has collected [over 65 independent reports, testimonies, speeches, and statements](#) about the cumulative weight of new rules. Over the next four weeks, we will send out weekly notices about themes that emerge from this research.

If you have questions or comments, please don't hesitate to contact Abby McCloskey, Director of Research, at [abby@fsround.org](mailto:abby@fsround.org).

### *Special Edition Fast Facts - Week 4 of 4*

## **Cumulative Weight: COST OF FINANCIAL SERVICES**

Many studies claim that the cumulative weight of new rules will increase the cost of basic financial services. Quantitative estimates include:

- **Require 2,260,631 labor hours per year for compliance;**
- **Reduce earnings by roughly \$20 billion annually for largest banks;**
- **Increase compliance costs for small property-casualty insurance companies by 36%;**
- **Cost \$1.8 billion in technology requirements alone; and**
- **Cost \$5 to \$10 million per company per year to meet trading guidelines.**

- “The breadth of Dodd-Frank makes it increasingly important that policymakers stay mindful of the costs and effects that the regulation in its totality will have on our markets. The costs of Dodd-Frank will be enormous, and we will have no idea of the actual total costs for years to come. Given prior experience, such as original estimates about the cost of Sarbanes Oxley, those actual costs will prove substantially more significant than legislators and regulators predicted.” **SEC Commissioner, Kathleen Casey**, [Speech: Regulatory Implementation and Implications of Dodd-Frank](#), January 2011.
- “A survey of the Federal Register shows that complying with these new rules will require an estimated 2,260,631 labor hours every year. To put this number in perspective, to meet the burden of only 10% of the new rules required by the Dodd-Frank Act, it will take 56,516 work weeks devoted solely to this administrative burden, or more than 1,100 work years. If 1,000 Americans worked full time all year, every year, with no vacations or holidays, they would still be unable to complete all the work that the rules require.” **House Financial Services Committee**, [One Year Later: The Consequences of the Dodd-Frank Act. Authored by Chairman Spencer Bachus and Vice-Chairman Jeb Hensarling](#). July 2011
- “In the first year these three rules (capital plans, stress tests and resolution plans) are implemented, the industry will need to spend 2,249,884 hours to comply with regulations. The estimated annual cost for the industry in the second year of these regulations and beyond is 759,604 hours. If we estimate that these employees earn \$75,000 annually, this will impose an industry-wide annual cost of \$84,375,000.” **The Financial Services Roundtable**, [Hourly Analysis for Three of the Dodd-Frank Act Rulemakings](#). July 2011.
- “We estimate that the effects of Dodd-Frank will likely lead to a reduction in aggregate pretax earnings at the eight large, complex U.S. banks by roughly \$19.5 billion to \$22.0 billion annually before offsets, based on our projections for 2010 business activity. This loss represents roughly 18% to 21% of our forecast of 2010 complex-bank adjusted pretax earnings... The full impact on earnings from the Dodd-Frank legislation will likely be realized in 2012-2013.” **Standard & Poors Report**, [What Financial Reform Could Cost The Largest U.S. Banks](#). November 2010
- “Smaller <property and casualty insurance> companies continue to face the most significant challenges due to increased regulatory requirements – from 2008 to 2010, the cost of compliance grew 36 percent for small companies and 14 percent for large companies. **Andrew Furgatch, Chairman of the Board at Magna Carta Insurance Companies**, [Testimony before the House Financial Services Committee](#), July 2011.
- “CBO estimates that the cost of the mandates on private-sector entities would significantly exceed the annual threshold established in UMRA for such mandates (\$141 million in 2010, adjusted annually for inflation) because the amount of fees collected would be more than that amount.” **Congressional Budget Office**, [Review of](#)

[CBO's Cost Estimate for the Dodd-Frank Wall Street Reform and Consumer Protection Act. June 2010](#)

- “To the extent that firms are then obliged to make changes to the business—to simplify structures, develop new IT and reporting, or to put in place additional assured sources of liquidity or capital, this will involve significant additional costs, including higher tax burdens, on the institutions concerned.” *Institute for International Finance*, [Interim Report on the Cumulative Impact on the Global Economy of Proposed Changes in the Banking Regulatory Framework. June 2010](#)
- “Past episodes such as the passage of the Sarbanes-Oxley legislation suggest that these can be substantially larger than anticipated. SOX compliance for one provision of the Act was estimated at under \$100,000; the reality for most firms is easily 10 to 40 times greater.” *Dr. Douglas Holtz-Eakin, President, American Action Forum*, [Testimony at the House Financial Services Hearing: "The Costs of Implementing the Dodd-Frank Act: Budgetary and Economic." March 30, 2011](#)
- “One study by Foley and Lardner found that the average cost of being public for a firm with less than \$1 billion in revenue jumped from \$1.05 million before Sarbanes-Oxley to \$2.88 million by 2005 – a 171% increase.” *Dr. James J. Angel, Associate Professor of Finance, McDonough School of Business, Georgetown University*, [Testimony at the House Financial Services Hearing: "The Costs of Implementing the Dodd-Frank Act: Budgetary and Economic." March 30, 2011](#)
- “Historically, the cost of regulatory compliance as a share of operating expenses is two and a half times greater for small banks than for large banks.” *Albert C. Kelly Jr., American Bankers Association*, [Testimony at the House Subcommittee on Financial Institutions and Consumer Credit: "The Effect of Dodd-Frank on Small Financial Institutions and Small Businesses." March 2, 2011](#)
- “The caps on debit-card transaction fees alone may cost the Minneapolis-based bank \$400 million in annual revenue.” *Richard Davis, President and CEO, U.S. Bank*, [U.S. Bancorp Says Regulations May Cost More than \\$1 Billion. June 2011](#)
- “At this juncture we believe that initial compliance with the Proposed Regulations will cost each such entity approximately \$5-10 million.” *International Swaps and Derivatives Association*, [Letter filed February 28, 2011 in response to the notice of proposed rulemaking: "Confirmation, Portfolio Reconciliation, and Portfolio Compression Requirements for Swap Dealers and Major Swap Participants." 75 FR 81519. February 2011](#)
- “The capital need is equivalent to almost 60 percent of all European and US Tier 1 capital outstanding, and the liquidity gap equivalent to roughly 50 percent of all outstanding short-term liquidity. Closing these gaps will have a substantial impact on profitability.” *McKinsey Report*, [Basel III and European banking: Its impact, how banks might respond, and the challenges of implementation. November 2010](#)

- “At that meeting, the Commission was presented with a \$1.8 billion cost estimate to implement compliance with information technology requirements necessitated under Dodd-Frank, for the top 15 large dealers.” *Office of the Inspector General, [An Investigation Regarding Cost-Benefit Analyses Performed by the Commodity Futures Trading Commission in Connection with Rulemakings Undertaken Pursuant to the Dodd-Frank Act. April 2011](#)*
- “My view is that we are in danger of trying to squeeze too much risk and complexity out of banking as we institute reforms to address problems and abuses stemming from the last crisis.” *John Walsh, Acting Comptroller of the Currency, [Warning on Bank Rules Reform. June 2011](#)*
- “At any given time, we at JPMorgan Chase have 75-135 on-site, full-time examiners from the OCC, Federal Reserve and FDIC; the U.K. FSA and other regulators have still more examiners overseeing our overseas operations. We underwent 218 examinations in 2010, and will see more this year. It is difficult to overstate the increase in supervisory oversight for large financial firms.” *Mr. Barry L. Zubrow, Executive Vice President and Chief Risk Officer, JPMorgan Chase & Co., [Testimony at the House Financial Services Hearing: “Financial Regulatory Reform: The International Context.” June 2011](#)*
- “Citigroup will have to divest its interest in various hedge funds, such as its Mortgage/Credit Opportunity Fund, which climbed 16% in the first four months of 2011, almost doubling its pace last year. About 90% of the \$395 million invested in the fund is the bank’s own capital.” *Professor Hal S. Scott, Director of the Committee on Capital Markets Regulation, Nomura Professor and Director of the Program on International Financial Systems at Harvard Law School, [Testimony at the House Financial Services Hearing: “Financial Regulatory Reform: The International Context.” June 2011](#)*
- Small business comments as collected by the *House Financial Services Committee, [One Year Later: The Consequences of the Dodd-Frank Act. Authored by Chairman Spencer Bachus and Vice-Chairman Jeb Hensarling. July 2011:](#)*
  - *Tommy Whittaker, president of The Farmers Bank (Tennessee):* "The cumulative burden of hundreds of new or revised regulations may be a weight too great for many smaller banks to bear."
  - *Daryl Byrd, president and chief executive, IberiaBank:* "I think you're going to see a lot of consolidation."
  - *Wes Sturges, chief executive, Charlotte's Bank of Commerce:* "The other thing we'll have to deal with - and we're not sure how - is the Dodd-Frank bill. For a little bank like ours with 19 people, that could be a full-time job for somebody to make sure we comply with the provisions of the bill."

- **Thomas Boyle, Vice Chairman, State Bank of Countryside (Illinois):** “Each new regulation... adds another layer of complexity and cost of doing business. The Dodd-Frank Act will add an additional, enormous burden, has stimulated an environment of uncertainty, and has added new risks that will inevitably translate into fewer loans to small businesses.”
- **Brad Quade, regional president, Johnson Bank (Milwaukee branch):** “We are going to have to invest a lot more money into people and resources to manage the heavier compliance load. Right now it’s requiring a great deal of additional resources to get our arms around what the expense will be going forward.”
- **Greg Ohlendorf, President and CEO, First Community Bank and Trust (Illinois):** “Many community banks complain that the required capital level goalpost is unpredictable and regulators simply keep moving it further, making it nearly impossible to satisfy capital demands in a difficult economy and capital market place. As a result, bankers are forced to pull in their horns and pass up sound loan opportunities in order to preserve capital. This is not helpful for their communities and for overall economic growth.”

View the entire cumulative weight database here:

<http://www.fsround.org/fsr/fsic/files/EconomicImpactRegulatoryReform.xls>

If you have questions, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at [Abby@fsround.org](mailto:Abby@fsround.org) or Scott Talbott, Senior Vice President of Government Affairs, at [Scott@fsround.org](mailto:Scott@fsround.org).