

INDUSTRY COMPLIANCE COSTS

The Estimated Cost of Complying with 3 of 385 Dodd-Frank Rules

The financial services industry will need to divert significant resources to comply with the 385 new rules mandated in the Dodd-Frank Act. In this specific analysis, we examine the costs of complying with just three of these new rules - capital plans¹, stress testing² and resolution plans.³

According to the estimates provided by the rule-issuing agencies,⁴ in the first year these three rules are implemented, the industry will need to spend 2,249,884 hours to comply with regulations. This cost includes an initial sunk cost of setting up the reporting systems to comply with the regulations and the actual reporting cost that will be required annually to comply with the regulations thereafter. The estimated annual cost for the industry in the second year of these regulations and beyond is 759,604 hours.

These hours represent real people and resources. Assuming a 40 hour workweek, the hours required to comply with these regulations translates to 1,125 full-time employees for the first year alone. These full-time employees may be new hires or diverted from other areas of the organization. If we estimate that these employees earn \$75,000 annually, this will impose an industry-wide annual cost of \$84,375,000.

Each rule carries its own unique compliance structure:

1) Capital Plans: To satisfy the terms of the new capital plans, the selected banks will undergo a multi-step process. When the initial capital plans are completed, the industry will have allocated a total of 862,364 hours, which

¹ Not mandated by Dodd-Frank Act but proposed pursuant to authority in Section 165 - Enhanced Prudential Standards

² Proposed guidance related to Section 165(i) of Dodd-Frank Act.

³ Pursuant to Dodd-Frank Act Section 165(d)

⁴ The Federal Reserve, Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

includes initial development and maintenance of capital plans (420,000 hours), review and revision before submission (3500 hours), as well as additional monthly data to supplement these plans (437,640 hours). The banks must continue to allocate 442,140 hours each year thereafter to maintain compliance with regulation.

2) Stress Tests: To collect the information that is necessary to conduct the mandated stress-testing will require 49,920 hours from the industry in both the first year and all subsequent years thereafter.

3) Resolution Plans: To comply with the resolution plan requirements, the industry will need to spend an initial total of 1,337,600 hours, with the bulk of that being resourced to the initial resolution plan. The annual industry-wide compliance cost to maintain these plans will require an additional 267,544 hours per year thereafter.

The chart (attached) provides an overview of the costs of these rules. However, sheer compliance is only the beginning. To the extent banks need to make structural changes to the business—to expand capital or liquidity, simplify their structures, put new testing systems in place—this will involve significant additional costs.

For a detailed cost breakdown, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at abby@fsround.org.

Industry Compliance Costs*

Estimated Cost of Implementing 3 of 385 Dodd-Frank Rules

Dodd-Frank Rule	HOURS TO COMPLY	
	Year 1 (setup and reporting)	Year 2 and Subsequent Years (ongoing reporting)
Capital Plans ¹	862,364	442,140
Stress Testing ²	49,920	49,920
Resolution Plans ³	1,337,600	267,544
Total	2,249,884	759,604

*Provided by each respective regulatory agency in the associated Federal Register notice.

RESOURCES REQUIRED FOR COMPLIANCE IN YEAR 1

2,249,884 Hours / 2,000 Hours Annually = **1,125 Full Time Employees**

1,125 Full Time Employees X \$75,000 Annual Salary = **\$84,375,000 Annually**

For Year 2 and subsequent years, 380 full-time employees are required, amounting to a total cost of \$28,500,000 annually.

¹ See 76 Fed. Reg. 35351, 35358 (June 17, 2011).

² See 76 Fed. Reg. 35072, 35076 (June. 15, 2011).

³ See 76 Fed. Reg. 22648, 22654 (Apr. 22, 2011).