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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Challenges Facing Post-deflation Monetary Policies, etc.

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2. Overview of Development in Financial Regulations (Trends & Topics)

The U.S. Presidential Executive Order and Global Financial Regulation (Yuri Nakano, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

On February 3rd, President Trump has signed an executive order to review the existing financial regulations. The order proposes seven core principles to comply with in order for regulating the American financial system. Further, he has requested the Treasury Secretary to submit a report to review and identify existent restrictions that conflict with implementation of proposed regulation based on the seven principles.

The seven principles are conceptual and high-level policy, such as “advance American interests in international financial regulatory negotiations and meetings” and “enable American companies to be competitive with foreign firms in domestic and foreign markets,” which can influence the Basel Accords and other international regulations. Moreover, the principle to “empower Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth” seemingly intends to soften the consumer protection rules of Dodd-Frank. The seven principles give an impression to promote deregulation for large international financial institutions, rather than protection of smaller, domestic community banks as the Republican Party has advocated. If the U.S. regulations are judged more austere in the international comparison, they may be subject to deregulation on the claim that they compromise competitive edge of domestic corporations against foreign firms. The Volcker Rule to prohibit banks from proprietary trading can also be targeted, saying it undermines market liquidity and development of vibrant financial markets.

In accordance with the executive order, the FSOC (Financial Stability Oversight Council) members will identify regulations that contradict the seven principles and report to the President within 120 days. A deregulation bill is

likely to be drafted based on this report., Although not much information are available to assess the degree of potential deregulation, as legislation requires approval from the Senate, extreme deregulation that provoke the Democrats' objection may be difficult. In either case, the direction toward deregulation in the U.S. is clear, thereby likely to have certain impact on international regulation like Basel Accords. Upon the birth of the Trump administration, Finance Ministers in 28 EU states agreed to suspend the discussion over Basel Accords until the new regime clarifies its standpoint. DG FISMA (The Directorate-General for Financial Stability, Financial Services and Capital Markets Union) Oliver Guersent stated that the Trump government needs time to decide on priorities and Europe needs to wait." Additionally FRB Governor Tarullo, who has led the U.S. and international regulation tightening, has announced his resignation. The Trump administration's movement continues to require close monitoring, including key personnel appointment within the U.S. financial regulatory authorities.

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