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Global Risk Watch Newsletter

Would the normalized Trump regime be able to hold back rewinding of the Trump rally?, etc.

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

 # Restoring the Glass-Steagall Act (Yuri Nakano, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

Based on the executive order in February to review the existing financial regulations, a report to identify regulations that prevent fostering of economic growth and vibrant financial market will be submitted to the president in early June. However, actions on regulatory reforms are being taken ahead of the submission of this report. On the day after the National Economic Council (NEC) Director Gary Cohn made a comment to support the Glass-Steagall Act, Democrat Elizabeth Warren submitted the 21st Century Glass-Steagall Act to the Senate. The Trump administration is struggling to achieve support from the congress as seen in the call off of the Obamacare replacement bill, it is possible for the government to proceed to reinstate the Glass-Steagall Act which gathers bipartisan support. On the other hand, Republican Hensarling referred to the re-submission of the Financial Choice Act. This act, approved at the House Financial Service Committee last September, proposes to require banks a high leverage ratio while implementing drastic deregulation on rules around the Dodd-Frank Act. In addition, the Federal Deposit Insurance Corporation (FDIC) Vice Chairman Thomas Hoenig presented a regulatory proposal, which incorporates elements from both the Glass-Steagall Act and Financial Choice Act.

The Republican platform published last July advocates to dismantle the Dodd-Frank Act and support the Glass-Steagall Act. In considering the restoration of the Glass-Steagall Act, we need to contemplate on the causes for the Global Financial Crisis. The root cause of the crisis was not the repeal of the Glass Steagall Act which prohibited commercial banks from engaging in investment banking activities, but in systemic risks induced by the failure of large-scale, globally interconnected financial institutions like Lehman Brothers Holdings Inc. Since Lehman

Brothers was not a bank, it was not covered by deposit insurance, nor had access to central bank funding. After the Lehman's bankruptcy, investment banks such as Goldman Sachs have established bank holding companies, placing themselves under FRB supervision, aiming for authorities' assistance in case of financial crisis. The Dodd-Frank Act is a legislation to address "too big to fail" across the financial sector. It mandates systemically important financial institutions to submit resolution plans, comply with more stringent prudential regulation, and implement extensive stress testing. By contrast, the capacity of the Glass-Steagall Act is limited to prohibiting investment banking-related operations by commercial banks, and does not provide solutions to systemic risks associated with bankruptcy of large investment banks. Therefore, if the Dodd-Frank Act is repealed and the Glass-Steagall Act is restored, a financial crisis triggered by investment banking operations, like the one with Lehman, cannot be avoided. The Republican platform points out that the Dodd Frank Act crushes small-scale community banks and other lenders. While it is considered appropriate to deregulate small-scale financial institutions since relevant systemic risks are limited, restoring the Glass-Steagall Act and repealing the Dodd Frank Act that targets large-scale financial institutions could have more disadvantages than benefits.