Dud-Frank?

A quick guide to the US Financial Reform Bill

Popularly known as the Dodd-Frank bill, this was approved by the US Senate. Now it's over to President Obama to sign it into law. But what does it mean for banks and investors? And is it the dud that some are making it out to be?

At 2,319 pages and 533 new regulations, it's somewhat longer than the 1931 Federal Reserve Act (31 pages) and 1933 Glass-Steagall Act (37 pages). It's also considered to be the most radical reform of the US financial sector since the Great Depression. Its high-level intention was to deliver on President Obama's honourable promise that 'The American people will never again be asked to foot the bill for Wall Street's mistakes'.

So what does the bill do? A new federal agency will oversee consumer lending. It will have powers to clamp down on abusive practices by credit card companies and mortgage lenders.

Large banks will also have to increase the amount of capital they hold in reserve against bad loans. But this will only kick in five years from now to ensure banks don't stop lending and choke off the economic recovery. Banks will also be stopped from proprietary trading – effectively taking positions in markets using its own money. They will also be limited to investing a maximum of 3 per cent of their capital in speculative businesses such as hedge funds or private equity funds.

So who are the winners and losers? Losers include big banks like Bank of America and Goldman Sachs will see their interests in proprietary trading, hedge funds and private equity funds diminished. Large firms will also face tougher standards on setting aside capital for future losses, and will sell some of their derivatives business or risk losing access to the Federal Reserve's emergency funds. Credit rating agencies will face greater liability and scrutiny and may be sued for providing misleading information in the future.

Small banks, meanwhile, will benefit from continued supervision by the Fed, while consumers should also benefit from greater supervision of mortgages and credit cards. But the biggest winners – given the 2,000 plus pages of laws and 500 plus new rules – will be lawyers, who will no doubt score hundreds of billable hours helping their financial services clients implement the new rules.

Not a stunning revelation to end with, admittedly. But surely not a dud one either.

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