Three years after the Dodd-Frank Act was approved, its practical implications are coming into focus. At the same time, we can see the unmet challenges of the transformation of the financial system into one that is safer, more accountable, and truly designed to serve the economy and society as a whole.

In this report, we outline the key developments so far — both the steps taken, and some not taken, down the bumpy road of the Dodd-Frank Act implementation. As well, we take a hard, deep look at the crucial problems and big decisions that remain.

The first several chapters examine important parts of the Dodd-Frank Act. What have the relevant regulators done to carry out the reforms mandated by the law? What impact are those reforms having or likely to have? What more will need to be done to address the problems the reforms were meant to solve?

The first chapter, by the MIT financial economist John Parsons, deals with the world of derivatives. It lays out the three major goals of Dodd-Frank derivatives reform—universal supervision, transparency and clearing with capital—and assesses the progress made in each case.

The next chapter, by Seton Hall law professor Stephen Lubben, discusses the new legal process of “resolution authority” that was designed to allow for the safe dismantling of “too big to fail” financial firms. Professor Lubben examines the Federal Deposit Insurance Corporation’s proposal for a resolution process with a “single point of entry,” and analyzes what it will take for such a system to work as intended.

Mike Konczal of the Roosevelt Institute follows with a chapter on capital requirements as a lynchpin of a safer financial system, an idea that has gained support recently at the Federal Reserve and among other influential policymakers and opinion leaders. The right kind of capital requirements, Konczal argues, can support a number of the important goals of financial reform.

Mike Calhoun of the Center for Responsible Lending follows with a chapter on changes to mortgage origination rules sanctioned by the Consumer Financial Protection Bureau. He takes stock of the significant changes now in regulation, those about to go into effect in January, and the unresolved risks in the mortgage market.

The remaining chapters concentrate on the more elusive problems revealed by the 2008 financial crisis, which lack comprehensive legislative remedies. Some of these could be addressed through the Dodd-Frank Act, while others will require further measures.
Jennifer Taub of Vermont Law School writes about the issue of so-called “sophisticated investors.” Legislators and regulators, she argues, have relied too heavily on the supposed ability of sophisticated investors to police the market. After explaining some of the practical weaknesses of this approach, Professor Taub outlines several more promising avenues of reform.

Alfred State College professor Ron Rhoades takes up the important topic of fiduciary requirements. Debate over fiduciary duties has heated up in recent months in the context of rulemaking by both the Department of Labor and the Securities and Exchange Commission. Professor Rhoades retraces the history and evolution of this standard, and underscores its importance.

University of Denver law professor Jay Brown explores the issue of runaway executive pay. Focusing on both the financial sector and the corporate world in general, he identifies a set of additional reforms needed to ensure that compensation is based on sustainable performance and does not drive excessive risk-taking.

Brad Miller of the Center for American Progress writes about regulatory enforcement. A former Congressman, Miller has been on the front lines of the effort to make our financial watchdogs accountable. He explains why it is important that rules and laws are actually enforced, and lays out a number of strategies for ensuring that they are.

The final chapters turn to issues of reform that, although central to the crisis and to the Dodd-Frank Act, will not be settled even in the lengthy time frame of this law’s implementation. These are the questions that will dominate the financial reform conversation for the rest of the decade.

Marcus Stanley of Americans for Financial Reform writes about the policy paradox of shadow banking. What is shadow banking, and what kind of regulatory regime and safety net is necessary for it? How does it compare and contrast with the older banking sector? Crucially, Stanley outlines the way in which the Dodd-Frank Act tries to regulate this new sector, and explains the conflicts and debates regulators will continue to have as they negotiate how banking works in the early 21st century.

Wallace Turbeville of Demos explains the systemic overuse and abuse of derivatives in the financial and commodity markets. He argues that the use of derivatives has far exceeded their economically useful potential and their often-invisible costs undermine the efficient intermediation of capital.

Saule Omarova of the University of North Carolina at Chapel Hill and Cornell concludes the report with a discussion of the proper scope of banking activities. Over the past 30 years, regulators have greatly expanded the scope of activities in which banks are allowed to engage, weakening the walls that once existed between finance and
the real economy. Omarova recounts the history and reasons for those barriers, and explains how they might be reengineered in the future.

These chapters do not tell the whole story of needed financial reforms. We hope, however, that they provide useful insight into important problems. This report calls our attention to a crucial question: how do we have a financial sector that is first and foremost a tool for the benefit of the real economy, promoting broad-based prosperity, useful innovation, and productive private and public investments? We hope that the ideas sketched out here will move that conversation forward.