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Dodd-Frank Derivatives Debate Reopens on Proposed Delay of Rules

By Phil Mattingly - May 11, 2011

U.S. House lawmakers are battling over rules to expand oversight of the $583 trillion swaps market as Republicans aim to delay the measures required by the Dodd- Frank Act until the end of next year.

The House Financial Services Committee is scheduled to take up a proposal to push back deadlines for derivatives rules under the regulatory overhaul, measures designed to govern a market dominated by big banks including Goldman Sachs Group Inc. (GS) and JPMorgan Chase & Co. (JPM) The House Agriculture Committee approved the measure last week on a party-line vote.

"It's still hard for me to understand what they are doing," Representative Collin Peterson of Minnesota, the top Democrat on the Agriculture Committee, said today at a news conference in Washington. "They say this bill will give more time and more certainty, but I think this will actually create more uncertainty."

Republicans, who took control of the House in January after Dodd-Frank was passed by a Democrat-led Congress, say the delay would give U.S. regulators time to align their rules with European standards. Democrats say the proposal is a political maneuver that is part of a broader effort to overturn the law, which Republicans were nearly unanimous in opposing last year.

U.S. regulators have said they will miss some deadlines for rulemaking under Dodd-Frank, which calls for most derivatives measures to be completed by mid-July. Republicans say their bill will help agencies like the Commodity Futures Trading Commission and the Securities and Exchange Commission avoid mistakes.

'Restore Order'

"This bill will restore order to the rulemaking process to implement the Dodd-Frank derivatives title," Representative Spencer Bachus, the chairman of the Financial Services Committee, said in a statement when the bill was introduced last month. "There is no need to rush and meet arbitrary deadlines when the rest of the world is at least 18 months behind the United States."

The 2008 financial crisis and particularly the collapse of American International Group Inc. (AIG), the New York-based insured that had to be bailed out after making losing bets in swap deals with banks including Goldman Sachs, is cited by Democrats as they defend Dodd-Frank.

"This bill will put on hold until 2012 any regulation of the kind of activity we saw between AIG and Goldman Sachs," said Representative Barney Frank of Massachusetts, who co-wrote the regulatory overhaul, referring to the Republican measure today. The proposal represents the "re-deregulation of derivatives," said Frank, the top Democrat on the Financial Services panel.

'No Penalty'

The delay would effectively prohibit any regulations from going into place until December 2012, opening the door for another crisis, Frank said, adding that the current law doesn't force regulators to meet the deadlines.

"There is no penalty for missing the deadline," he said.

Even if the proposal is approved by the House, it would likely face opposition from the Democrat-controlled Senate and President Barack Obama, who initially proposed the overhaul.

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