Did the Dodd-Frank Wall Street Reform Act change the attitude of U.S. bank holding companies towards credit and interest derivatives?

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Abstract

This paper investigates the response of U.S. bank holding companies to the introduction of the Dodd-Frank Wall Street Reform Act (DFA). By examining 157 U.S. bank holding companies with total assets higher than 1 billion (USD), we find that in the post-DFA period, banks' contribution to systemic risk was substantially reduced. Moreover, we find the usage of credit and interest rate derivatives held for hedging has a weakened impact on systemic risk. On other hand, our scrutiny reveals that individual banks' risks increased and performance decreased. Finally, we show that in the regulatory environment defined by the DFA, the usage of interest and credit derivatives contributed less to systemic risk.

Keywords: U.S. bank holding companies; Systemic risk; Dodd-Frank Wall Street Reform Act (DFA); Credit derivatives; Interest derivatives; Hedging; Global financial crisis

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