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2008 Global Financial Crisis and The Dodd-Frank Act

2008 Küresel Finansal Krizi ve Dodd-Frank Yasası

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Abstract

The 2008 Global Financial Crisis exposed fundamental weaknesses in the modern financial system, resulting in widespread economic instability and catalyzing regulatory reforms worldwide. In response, the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in 2010, sought to enhance financial stability, mitigate systemic risks, and strengthen consumer protections. This study examines the Act's pivotal provisions, including its emphasis on transparency in derivatives markets, the establishment of the Consumer Financial Protection Bureau (CFPB), and the implementation of the Volcker Rule, which restricts speculative banking activities. While the Dodd-Frank Act made significant strides in addressing financial vulnerabilities, it has faced criticism for its high compliance costs and limited success in resolving the "Too Big to Fail" problem. Furthermore, challenges in harmonizing the Act with global regulatory frameworks, such as Basel III, have highlighted its limitations in addressing the complexities of an interconnected financial system. This research also underscores the difficulties faced by developing economies in adopting such comprehensive reforms due to resource and capacity constraints. By analyzing the successes and shortcomings of the Dodd-Frank Act, this paper contributes to the discourse on financial reform, emphasizing the need for adaptive, harmonized, and globally coordinated regulatory frameworks to ensure long-term financial stability and resilience in an ever-evolving global economy.

Keywords: Dodd-Frank Act, Financial Stability, Financial Crisis, Consumer Protection, Regulatory Reforms

Öz

2008 küresel finansal krizi, modern finansal sistemdeki temel zayıflıkları ortaya çıkardı, bu da genel bir ekonomik istikrarsızlığa yol açtı ve dünya genelinde bir dizi düzenleyici reformun katalizörü oldu. Buna yanıt olarak, 2010 yılında yürürlüğe giren Dodd-Frank Wall Street Reformu ve Tüketici Koruma Yasası, finansal istikrarı artırmayı, sistemik riskleri azaltmayı ve tüketici korumalarını güçlendirmeyi amaçladı. Bu çalışma, Yasanın ana hükümlerini, türev piyasalarında şeffaflığa vurgu yapmasını, Tüketici Finansal Koruma Bürosu'nun (CFPB) kurulmasını ve spekülatif bankacılık faaliyetlerini kısıtlayan Volcker Kuralı'nın uygulanmasını incelemektedir. Dodd-Frank Yasası, finansal zayıflıklara yönelik önemli ilerlemeler kaydetmiş olsa da, yüksek uyum maliyetleri ve "Çok Büyük Başarısız Olmak İçin" sorununu çözmedeki sınırlı başarısı nedeniyle eleştirilerle karşılaşmıştır. Ayrıca, Yasanın Basel III gibi küresel düzenleyici çerçevelerle uyumlu hale getirilmesi konusundaki zorluklar, birbirine bağlı bir finansal sistemin karmaşıklıklarını ele alma konusundaki sınırlamalarını ortaya koymuştur. Bu araştırma ayrıca, gelişmekte olan ekonomilerin kaynak ve kapasite sınırlamaları nedeniyle bu kadar kapsamlı reformları benimsemedeki zorluklarını vurgulamaktadır. Dodd-Frank Yasası'nın hem başarılarını hem de eksikliklerini analiz ederek, bu makale finansal reform konusuna katkıda bulunmakta ve sürekli değişen küresel bir ekonomide uzun vadeli finansal istikrar ve dayanıklılığı sağlamak için küresel düzeyde uyumlu, koordineli ve uyarlanabilir düzenleyici çerçevelerin gerekliliğini vurgulamaktadır.

Anahtar Kelimeler: *Dodd-Frank Yasası, Finansal İstikrar, Finansal Kriz, Tüketici Koruması, Düzenleyici Reformlar*

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INTRODUCTION

The 2008 Global Financial Crisis was a turning point that revealed the structural weaknesses of the modern financial system, which deeply affected both global economic stability and international regulatory systems. International financial institutions and academic literature have thoroughly addressed the financial system's fundamental issues before the crisis. In these analyses, factors such as the lack of transparency, inadequacies in financial reporting mechanisms, the proliferation of risky mortgage loans, deterioration in credit quality, bubbles in the housing market, and the global expansion in derivative products and securitization processes are listed among the leading causes of the crisis (IMF, 2009; G20, 2008; Demir et. al., 2008; Durmuş, 2010; Eğilmez, 2011; Özsoylu et al., 2010; Roubini and Mihm, 2012).

When these factors are evaluated together, it is seen that the structural weaknesses of the financial system and the deficiencies accompanying these weaknesses played a decisive role in the crisis's development process. Although these issues did not intentionally arise to cause a crisis, the fragile structure of the system has fed the crisis dynamics, and these fragilities have made the crisis inevitable. These inadequacies in the fundamental elements of the financial system, combined with misguided economic policies and the decisions and actions of economic actors operating by these policies, have led to the shaping and deepening of the crisis process. In this context, the crisis points not only to the internal problems of the system but also to the negative consequences of the economic policies adopted during this process.

After the 2008 Crisis, comprehensive regulations were implemented to restructure the financial system and prevent similar crises. One of the most important of these regulations is the Dodd-Frank Wall Street Reform and Consumer Protection Act (HR 4173). This law, which was enacted on July 21, 2010, is named after its congressional sponsors, Senator Christopher J. Dodd (D-Connecticut) and Representative Barney Frank (D-Massachusetts). The law aimed to address the fundamental issues observed in the financial system before the crisis and to implement reforms to tackle them. Lack of transparency, uncontrolled proliferation of risky financial products, and deficiencies in financial reporting mechanisms have been the main areas the law has aimed to regulate. Especially the uncontrolled growth in securitization and derivatives markets, as well as the systemic vulnerabilities caused by high-risk mortgage loans, have been among the primary focus points of the law.

The Dodd-Frank Act has provided a comprehensive regulatory package to increase transparency in financial markets, reduce systemic risks, and protect consumers. However, discussions about the implementation and effects of the law have continued. In 2018, with a new law signed by then-President of the United States, Donald Trump, some provisions of the Dodd-Frank Act were rolled back, leading to a limitation of the law's scope and effects. This development has necessitated a reevaluation of the Dodd-Frank Act's impact on financial stability and the sustainability of the reforms.

In conclusion, the 2008 Global Financial Crisis offers important lessons about the structural problems of the modern financial system and how the convergence of misguided economic policies can lead to a deep economic downturn. Regulations such as the Dodd-Frank Act, although designed in response to these issues, continue to be significant in discussions about their long-term effects and sustainability in terms of the evolution of the financial system.

This situation highlights the need for careful evaluation of the effectiveness of financial reforms in their implementation process and their role in the behavior of economic actors.

In this study, the causes of the 2008 Global Financial Crisis and the effects of the Dodd-Frank Act, implemented in the aftermath of the crisis, on the financial system were examined. The analysis of the fundamental causes of the crisis is important for understanding the structural weaknesses of the global financial system and contributing to the design of measures to prevent similar crises. The evaluation of the scope and implementation processes of the Dodd-Frank Act reveals the role of regulatory reforms in maintaining financial stability. The study is valuable in that it demonstrates that crises are influenced not only by the internal issues of the financial system but also by policy choices and the decisions of economic actors. For these reasons, this study, which delves into the origins of crises and analyzes solution-oriented regulations, aims to contribute to the literature and shed light on the development of policies to make the financial system more secure.

LITERATURE REVIEW

The 2008 Global Financial Crisis exposed the structural deficiencies and regulatory gaps in the financial system, and therefore, the need for financial reforms in the post-crisis period has been intensely debated among academic circles and policymakers. Reinhart and Rogoff (2011) noted that financial crises exhibit a recurring structure throughout history and that the primary triggers of crises are generally excessive borrowing and asset bubbles. Claessens and Kose (2013) highlighted the multilayered nature of crises, stating that the lack of transparency in the financial system and inadequacies in regulations are factors that deepen crises.

Kindleberger (2007) emphasized that financial crises have serious effects not only on economic systems but also on socio-political balances and discussed the central role of regulatory policies in preventing crises. In this context, Kibritçioğlu (2001) pointed out that deregulation policies, especially in developing countries, increase financial fragility.

Studies on the Dodd-Frank Act have addressed the law's aim to enhance financial stability by offering comprehensive reforms. Wilmarth (2010) argued that the law was partially unsuccessful in addressing the "Too Big to Fail" issue, while Schwarcz and Zaring (2016) suggested that the shortcomings in regulating non-bank financial institutions persisted. In contrast, Johnson (2017) noted that the Consumer Financial Protection Bureau (CFPB) has made significant progress in protecting consumer rights and enhancing financial transparency.

Regarding regulations on derivative markets, Duffie (2012) stated that the provisions of the Dodd-Frank Act requiring derivatives to be cleared through a central counterparty are critical in terms of transparency and risk management, but these regulations could have adverse effects on liquidity. Pellerin and Walter (2012), on the other hand, stated that the Orderly Liquidation Authority (OLA) mechanism was designed to manage the bankruptcies of systemically important financial institutions in an orderly manner and is an important tool in maintaining financial stability. However, Massman (2015) highlighted the challenges in the international applicability of the OLA.

Studies on the Volcker Rule show that this regulation aims to reduce systemic risks by limiting banks' speculative transactions. Chen (2022) states that the Volcker Rule is particularly effective in distancing banks from risky investments, while Duffie (2012) notes that the impact of this rule on market-making activities could lead to a loss of liquidity and increase capital costs.

In terms of global impacts, Claessens and Kodres (2014) emphasized that the failure to integrate the Dodd-Frank Act into international regulatory efforts entirely has led to coordination issues in practice. Karadağ (2015), stating that the international cooperation mechanisms developed by the G20 after the 2008 crisis parallel some elements of the Dodd-Frank Act, emphasized the capacity deficiencies regarding the law's applicability, especially in developing countries.

Compared to the Basel III regulations, Baily, Klein, and Schardin (2017) noted that the Dodd-Frank Act offered reforms across a broader spectrum rather than being limited to the banking sector. However, this scope caused complexity in the implementation processes. In this context, Allayannis and Risell (2017) stated that Basel III adopts a more focused approach on issues such as capital adequacy and liquidity management and, therefore, has gained broader international acceptance.

Finally, Gupta (2013) noted that the Dodd-Frank Act achieved significant success in regulating derivative markets and enhancing consumer protection, while Prasch (2012) highlighted the potential negative impacts of the law on economic growth. In particular, issues such as high compliance costs and the contraction of banks' lending capacities highlight the law's limitations on economic growth.

These studies in the literature acknowledge the contributions of the Dodd-Frank Act to enhancing financial stability but emphasize the need for further research on the challenges in implementation processes, the lack of international harmonization, and the impacts on economic growth.

THE FUNDAMENTAL STRUCTURE OF THE CRISIS CONCEPT

With the increase in global capital mobility and the gradual disappearance of economic borders, the speed and scope of the spread of crises have also significantly expanded. When the underlying factors of this situation are examined, it is seen that the increase in economic uncertainties and the erosion of the sense of security are decisive. Financial crises, by their very nature, have a multilayered structure, making it generally quite difficult to explain them with a single model or to detect their signals in the early stages (Claessens & Kose, 2013, s. 4). Financial crises and their subtype, banking crises, have increasingly become a global problem in recent years. These crises are not limited to developed economies such as the USA, Japan, and Northern Europe but also create significant economic and social impacts in developing countries. In the post-World War II period, financial markets transcended national borders and gained a global dimension. The trading of currencies at the international level and the acceleration of securities trading contributed to establishing the foundations of the modern international financial system in Europe. The Bretton Woods system, established in 1944,

played an important role as a structure guiding the international monetary order. With the increase in global capital mobility and the gradual disappearance of economic borders, the speed and scope of the spread of crises have also significantly expanded. When the underlying factors of this situation are examined, it is seen that the increase in economic uncertainties and the erosion of the sense of security are decisive. By their very nature, financial crises have a multilayered structure, making it generally quite difficult to explain them with a single model or detect their signals in the early stages.

However, this system effectively ended in 1971 when the U.S. removed the dollar's convertibility into gold. After the 1973 Oil Crisis, the flexible exchange rate regime became widespread, and the paper money system became dominant in the global financial system. This change has allowed for the emergence of new dynamics in the global economy and for financial markets to achieve a more integrated structure at the international level (Barişik, 2024, s. 71). The global financial system becoming more integrated in this way has caused the impacts of crises to cross borders and spread to a broader geography. Throughout history, financial crises that have emerged for various reasons, although evaluated under their unique conditions, have all caused profound upheavals in global markets. Some of the financial crises (bubbles) that have occurred in history are as follows (Aktan & Şen, 2001, s. 17);

- Dutch Tulip Bulb Market Bubble (1636),
- South Sea Balloon (1720),
- Mississippi Balloon (1720),
- The Stock Price Bubble of the Late 1920s (1927-1929),
- The Escalation of Bank Debts in Mexico and Other Developing Countries (1970s),
- Japan Real Estate and Stock Market Bubble (1985-1989),
- The Real Estate and Stock Market Bubble in Finland, Norway, and Sweden (1985-1989).

Capitalism has inherently internalized crises. At this point, it would be beneficial to address the concept of crisis and the factors that give rise to it. In his study, Kibritçioğlu (2001) defines crises as phenomena that arise from sudden and unexpected changes in the prices or quantities of any goods, services, production factors, or foreign exchange markets, leading to severe fluctuations beyond acceptable limits in the economic system (Kibritçioğlu, 2001, ss. 1-2). Such fluctuations can cause severe structural problems, market collapses, and loss of confidence in national economies. Crises are generally divided into two main groups: real crises and financial crises. Financial crises can be categorized into different groups based on their causes. Among these, currency crises involve significant fluctuations and devaluations in a country's exchange rate system. In contrast, banking crises refer to situations where financial institutions face a high risk of liquidity loss or bankruptcy. Systemic crises encompass structural disruptions that threaten the entire financial system. Additionally, external debt crises are related to situations where countries are unable to repay their external debts or are forced to restructure them (Ural, 2003, s. 12). These classifications are important for understanding the complex structure of financial crises, which create a wide range of effects and threaten different aspects of economies. Aydın (2024), on the other hand, generally associates financial crises with the emergence of one or several of the following elements: sharp and significant fluctuations in asset prices and credit volume; disruptions in financial intermediation processes;

financing problems experienced by actors such as firms, financial institutions, households, or the state in the economy; large-scale balance sheet problems; and significant interventions by the government, such as liquidity support or recapitalization. These types of crises are complex processes that profoundly affect the functioning of the economic system and can disrupt market mechanisms (Aydın, 2024, s. 65). Reinhart & Rogoff (2011) classify economic crises under five headings: inability to repay external debts, failure to meet domestic obligations, banking crises, currency crises, and high inflation. Bishop (2013) defined crises as prolonged economic stagnation; he explained recession as a decline in production over two consecutive quarters. He stated that sudden declines are defined as a decrease of more than 10% and that depressions are more profound and longer-lasting downturns. In social sciences, the concepts of "crisis" and "depression" are sometimes used synonymously. The toxic expansion of the crisis, which takes on a spiral form, prevents the formation of a standard definition. Kindleberger (2007) defines a financial crisis as a period of deep recession following periods of economic growth and states that this crisis is closely related to economic fluctuations. The devastation of financial crises on the economic system is not limited to large-scale economic losses but also creates severe impacts at the international level (Kindleberger, 2007, p. 6).

Therefore, without distinguishing between financial and economic crises in general, the following definition can be provided: It is a process characterized by a sudden and rapid decline in a country's national income, marked by a significant deterioration in fundamental economic indicators such as employment, production, and inflation, disruption in market operations, and a severe decline in the standard of living of the people. The disruption of economic stability and confidence also creates negative impacts on socio-political balances. In the event of an extended process, the crisis is defined as a "recession," which is a more profound and longer-lasting economic downturn.

In the literature and evaluations of international financial institutions, it is stated that the factors leading to crises stem from deficiencies, wrong decisions, inadequacies, neglect, and weak practices. These issues, although not directly aimed at creating a crisis, have supported the fragile structure of the economic system and have prepared a suitable ground for the formation of crisis conditions. These negative dynamics that came together in the economy caused the crisis to emerge unavoidably. Kırcı (2016) listed the leading causes of the crisis as follows (Kırcı, 2016, pp. 468-477);

- Liberalization,
- Deregulation,
- Lack of global cooperation,
- Global imbalances,
- Political mistakes,
- Legal-administrative structure errors,
- The mistakes of financial institutions,
- The mistakes of credit rating agencies,
- Legal and administrative structure errors,
- Investor mistakes,
- Debtor errors.

Due to the economic problems and costs caused by financial crises, it is of great importance to be able to predict such crises in advance. Among the economic indicators used to predict crises, variables such as the real exchange rate, domestic credit expansion, and the M2/international reserves ratio stand out. In addition, indicators such as international reserves, interest rate differentials, trade terms, budget deficit/GDP, and current account deficit also play an important role in understanding crisis dynamics. Especially these indicators, which have provided consistent results in past crises, are frequently used in studies aimed at predicting currency and banking crises (Ural, 2003, p. 13). In general, the best indicators determined for currency and banking crises are shown in Table 1;

Table 1: Monetary and Banking Crises: Key Indicators

Financial Crises	Banking Crises
High-Frequency Indicators	
- Real Exchange Rate	- Real Exchange Rate
- Banking Crisis	- Stock Prices
- Stock Prices	- M2 Multiplier
- Export	- Production (GDP)
- M2/International Reserves	- Export
Low-Frequency Indicators	
- Current Account Deficit / GDP	- Short-Term Capital
- Current Account Deficit / Investments	- Capital Inflows / GDP
	- Current Account Deficit / Investments

Source: (Reinhart, 2002, s. 20).

The global financial crisis that began in the United States in 2008 also affected developing countries. When looking at the effects of the crisis on global economies, the U.S. economy contracted by 2.5% in 2009. During the same period, approximately 8.6 million people became unemployed, which accounted for 6.3% of total employment. The contraction rate in OECD countries was recorded as 3.4% in 2009. In Turkey, according to TÜİK data, the economy contracted by 4.8% in 2009 but entered a period of strong growth in 2010 and 2011. However, this growth process has been associated with credit growth alongside increasing balance of payments deficits. The Central Bank of the Republic of Turkey (CBRT) cut interest rates early during the crisis (Başçı & Kara, 2011, p. 2). In the post-2010 period, it developed an exit strategy aiming for a soft-landing scenario, with the current account deficit/GDP ratio at 3.1% during the 2000-2008 period, which increased to 5.7% in 2010 and 8.9% in 2011 (Barişik, 2024, p. 75). While the figures in the financial indicators were like this, countries resorted to various economic measures in response to the crisis. Some of these included palliative measures, while others solidified their place in the literature;

Table 2: Categories of Measures Taken by Countries

Monetary Policy Instruments	Interest Rate Changes, Changes in Required Reserve Ratios, Currency Intervention.
Crisis Prevention Tools for the Financial System	Increasing Deposit Guarantees, Recapitalization of Banks, Liquidity Injection, Providing State Guarantee for Bank Loans/Debts, Expropriation/Transfer to Funds, Allocation of Funds for the Purchase of Commercial Bonds, Purchase of Mortgage-Backed Securities, Prohibition of Short Selling, Acquisition of Toxic Assets.

International Organizations	Swap Channel, IMF.
Other	Employment, Increasing Infrastructure Investments, Assistance to SMEs and Low-Income Households, etc.

Source: (Erdönmez, 2009).

The 2008 Global Financial Crisis exposed the structural weaknesses and regulatory shortcomings of the modern economic system, highlighting the necessity for comprehensive reforms to maintain global financial stability. The depth and widespread impact of the crisis have shaken the economies of individual countries and the international financial markets. In this context, the U.S. government has taken a series of regulatory measures to make the financial system safer and prevent the recurrence of crises. The Dodd-Frank Wall Street Reform and Consumer Protection Act is the most comprehensive of these reforms, which came into effect in 2010.

DODD-FRANK ACT REGULATIONS

The 2008 global financial crisis, one of the most profound economic downturns in modern history, has brought significant regulatory needs to the forefront of the financial system. In this context, the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in the United States, has offered comprehensive reforms aimed at preventing the recurrence of the crisis and ensuring the stability of the financial system (Baily, Klein, & Schardin, 2017, p. 20). This law aimed to increase financial institutions' supervision, strengthen risk management, and protect consumer rights (Allayannis & Risell, 2017, p. 153). However, the effectiveness and applicability of the law have been frequently debated in the literature, and different viewpoints have been presented. For example, Wilmarth Jr. (2011) argues that the Dodd-Frank Act does not provide an adequate solution to the "too big to fail" problem (Wilmarth, 2010, p. 201). These discussions indicate that the law's impact on both the U.S. financial system and global markets needs to be examined in depth. This study aims to comprehensively address the key features of the Dodd-Frank Act and the impact of this regulation on the financial system.

The Role of the Dodd-Frank Act in Ensuring Financial Stability

The Dodd-Frank Act aims to make the financial system more robust and transparent, prevent crises like the 2008 Global Financial Crisis from recurring, and enhance financial stability. The law's objectives are consumer protection, regulation of derivative markets, improving risk management in financial institutions, and reducing systemic risks. One of the main objectives specified by the law is to prevent the failure of large financial institutions from spreading to the economy and to ensure the proper functioning of financial markets. In addition, implementing the law aims to limit the risky activities of banks and other financial institutions and strengthen regulatory mechanisms. More specifically, the law aims to increase the transparency of financial products aimed at consumers and reduce fraud and manipulation in financial markets. This also includes creating a more accessible environment for financial services for small businesses and individuals (Congress, 2010).

The Dodd-Frank Act introduced comprehensive reforms aimed at reducing risks in the financial system and increasing transparency following the 2008 financial crisis. Among the important provisions of the law are the regulation of derivative products, the restriction of risky

activities by banks, and the strengthening of consumer protection measures. These regulations aimed to enhance financial stability. However, some research suggests that the complexity of the law and compliance costs impose additional burdens on financial institutions, which could negatively affect lending activities and slow economic growth. For example, Prasch (2012) argues that the fundamental assumptions of the Dodd-Frank Act are flawed and, therefore, do not provide a basis for meaningful reform (Prasch, 2012, p. 553). Additionally, Schwarcz and Zaring (2016) examine the regulatory effects of the law on non-bank financial institutions, highlighting the potential risks these institutions pose to the financial system. In this context, despite the Dodd-Frank Act's efforts to enhance financial stability, the literature has differing views regarding its impact on economic growth.

The general provisions of the Dodd-Frank Act aim to enhance financial stability, strengthen consumer protection, and improve regulations in financial markets. The law includes a series of reforms to regulate the activities of financial institutions more effectively. Here are some of the general provisions.

Establishment of the Consumer Financial Protection Bureau (CFPB)

The law established the Consumer Financial Protection Bureau (CFPB) to protect consumers regarding financial products and services. CFPB works to oversee financial service providers and provide consumers with more information. The Consumer Financial Protection Bureau (CFPB) is an independent agency established under the Dodd-Frank Act, aimed at protecting consumers of financial products and services. The primary duty of the CFPB is to advocate for consumers' rights against financial institutions, enhance the transparency of financial services, and provide protection against malpractices such as fraud (Congress, 2010; Gupta, 2013). The primary duties and authorities of the CFPB are as follows;

- conducts oversight and regulation to ensure that financial products such as credit cards, mortgages, and student loans are consumer-friendly (Johnson, 2017),
- collects, examines, and takes the necessary steps to resolve complaints from consumers,
- develops financial literacy programs and provides information resources so that consumers can make more informed decisions (Barboza, Smith, & Pesek, 2016, p. 207),
- It audits whether financial institutions comply with the laws and imposes penalties when necessary.

The establishment of the CFPB has ensured the protection of consumers against powerful actors in the financial market and has been considered an important step in this context. For example, it has mandated providing more transparent and more understandable information to reduce the complexity of credit card contracts. Additionally, it has played a significant role in assisting millions of consumers affected by the mortgage crisis (Willis, 2017). In addition to these, some criticisms have also been made regarding the institutional structure of the CFPB. Although the establishment of the CFPB is seen as a positive step for consumers, some critics argue that the scope of this institution is too broad and imposes an unnecessary burden on financial institutions. Small-scale banks have claimed that the compliance costs

imposed by the CFPB have been burdensome. As a result, the CFPB constitutes an important cornerstone in achieving the consumer protection goals of the Dodd-Frank Act.

Volcker Rule

This rule aims to prevent excessive risk-taking by limiting banks' speculative transactions on their own accounts. Banks' investments in hedge and private equity funds have also been restricted (Congress, 2010). The Volcker Rule was enacted as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act to limit excessive risk-taking by banks following the 2008 global financial crisis. Developed at the suggestion of former Federal Reserve Chairman Paul Volcker, this rule aims to restrict banks' speculative transactions on their accounts and their investments in hedge funds and private equity funds. The Volcker Rule prohibits banks from making profits through short-term trading on their accounts, that is, proprietary trading. This regulation prevents banks from using depositors' funds in high-risk transactions.

Additionally, the investments made by banks in risky investment vehicles such as hedge funds and private equity funds have been limited. These restrictions prevent potential losses from spreading to the banking system by reducing banks' relationships with such funds. In conclusion, the Volcker Rule is considered a regulation aimed at increasing the financial system's stability by preventing banks from taking excessive risks (Chen, 2022).

With this regulation, significant prohibitions and restrictions have been imposed on banks and non-bank financial institutions, specifically regarding their dealings and transactions with hedge funds and venture capital funds, except for certain exceptions, about "proprietary trading," which is generally defined as trades conducted in their name for short-term and speculative purposes. The Volcker Rule, which is Article 619 of the Dodd-Frank Act, was jointly prepared by five different authorities in the U.S. (CFTC: Commodity Futures Trading Commission; FDIC: Federal Deposit Insurance Corporation; FED: The Federal Reserve Board; OCC: The Office of the Comptroller of the Currency; SEC: Securities and Exchange Commission) and was presented for public consultation on November 7, 2011 (Cangürel, 2012).

The Volcker Rule has been subject to various criticisms during its implementation. First, the rule's limitation on market makers' risk-taking capacities could decrease market liquidity, which could increase transaction costs for investors and cause fluctuations in market pricing. Additionally, restricting banks from acting as market makers could lead to these services shifting to less regulated non-financial institutions, weakening the overall stability of the financial system. In addition, the rule may increase the costs of raising capital and obtaining liquidity for investors and issuers of securities; small and medium-sized enterprises, in particular, may be adversely affected by this situation. Finally, uncertainties regarding the scope and applicability of the rule increase compliance costs for financial institutions and create additional complexity for market participants. These criticisms highlight the challenges in the implementation processes despite the rule's objectives of enhancing financial stability (Duffie, 2012).

Reduction of Systemic Risk

The Financial Stability Oversight Council (FSOC) was established to monitor the systemic risks of large financial institutions and take regulatory measures when necessary (Congress, 2010). The Financial Stability Oversight Council (FSOC) was established after the 2008 global financial crisis to monitor the systemic risks of large financial institutions and take regulatory measures when necessary. FSOC is responsible for identifying risks that could threaten the stability of the financial system and developing policy recommendations to mitigate these risks. In this context, identifying and supervising systemically important financial institutions is among the core responsibilities of the FSOC. Additionally, FSOC promotes implementing macroprudential policies to ensure the effective functioning of financial markets and prevent potential crises (Karadağ, 2015).

Regulation of Derivative Products

Over-the-counter derivative transactions are another important area of the law. The central clearing of derivative transactions and introducing stricter reporting requirements have been implemented (Congress, 2010).

Orderly Liquidation Authority

The law has established a new mechanism to regulate the bankruptcy of systemically important financial institutions. This mechanism ensures the orderly liquidation of institutions that threaten financial stability (Congress, 2010).

Regulated under the Dodd-Frank Act, the "Orderly Liquidation Authority" (OLA) is designed as a mechanism to mitigate the impact of the failure of systemically important financial institutions (SIFIs) on the financial system. The Federal Deposit Insurance Corporation (FDIC) is granted the authority to take over the financial and operational control of failing financial institutions. In this context, the FDIC can sell or transfer the company's assets or create a temporary "bridge company" to manage specific parts of the company. This regulation is designed to prevent a failing institution's uncontrolled collapse and maintain financial stability. One of the primary goals of the OLA is to minimize moral hazards while liquidating failing financial institutions and reducing systemic risks. In this regard, the FDIC's principle ensures that creditors do not receive payments exceeding the amounts they could collect in the event of bankruptcy while also establishing market discipline. However, the FDIC can obtain loans from the Treasury and use these funds to mitigate the negative economic consequences of such liquidations. However, these debts are repaid from the liquidated company's assets or through additional taxes imposed on large financial institutions (Pellerin & Walter, 2012).

Although OLA was created to regulate the bankruptcy processes of systemically important financial institutions, it has been subject to various criticisms. First, the issue of moral hazard stands out; the mechanisms introduced by OLA may not provide sufficient market discipline over shareholders and managers, potentially encouraging risky behavior. Additionally, the shortcomings in the international applicability of OLA can lead to coordination issues in the bankruptcy processes of globally operating financial institutions. In addition, the uncertainties in the implementation process of the broad powers of regulatory

authorities can create distrust among market participants. For these reasons, the OLA's effectiveness and long-term success continue to be debated (JIN, 2015; Massman, 2015).

Investor Protection

Regulations have been implemented to protect investors and increase their access to information, and measures have been taken against securities fraud (Congress, 2010).

Comparison Of the Dodd Frank Act with Global Financial Regulations

The 2008 Global Financial Crisis highlighted the necessity of financial regulations in the U.S. economy and worldwide. In this context, the Dodd-Frank Act, enacted in the United States, was implemented to enhance financial stability and reduce systemic risks (Congress, 2010). However, this law has some similarities and differences compared to international financial regulations. This situation necessitates both the evaluation of the global impacts of the measures taken under the law and their comparison with the reforms implemented in other countries.

While the Dodd-Frank Act offers comprehensive regulations to reduce risks in financial markets and strengthen consumer protection, the European Union's Basel III regulations have focused more on the banking sector (Banking Supervision, 2011). Basel III aims to enhance the financial system's resilience by tightening elements such as banks' capital adequacy, liquidity management, and leverage ratios. In contrast, the Dodd-Frank Act has taken a more comprehensive approach by regulating derivative markets and addressing the "Too Big to Fail" issue (Wilmarth, 2010). However, Basel III has found a broader application internationally and has been adopted by more countries compared to the Dodd-Frank Act (International Monetary Fund, 2012).

Another important aspect of global financial reform efforts is the international cooperation initiatives developed by G20 countries following the 2008 crisis. The G20 has developed international standards to increase the level of transparency and accountability in the financial system (G20 Leaders Statement, 2009). Regulations such as the central clearing of derivative products included in the Dodd-Frank Act align with G20's recommendations. However, since the G20 reforms provide a broader international framework, they have facilitated implementation in countries with different economic systems (Claessens & Kodres, 2014). This situation shows that while the US-centric Dodd-Frank Act is compatible with global standards, it has a more localized context.

The effects of the Dodd-Frank Act on the international financial system have been mainly felt through the activities of U.S.-based financial institutions in international markets. For example, regulations regarding derivative products have also contributed to the development of similar standards in international markets (Schwarcz & Zaring, 2016). However, some criticisms argue that the Dodd-Frank Act lacks international coordination, and this situation limits its impact on global financial stability (Massman, 2015). These criticisms indicate that the law's focus on the U.S. financial system makes it challenging to develop a model compatible with regulatory frameworks in other countries.

Finally, the indirect effects of the Dodd-Frank Act on developing countries are also worth discussing. Developing countries have faced difficulties implementing comprehensive

regulations like Dodd-Frank due to lacking resources and capacity (Karadağ, 2015). However, specific regulations, such as provisions on the transparency of derivative markets, have supported efforts to enhance financial transparency and market confidence in these countries (Ural, 2003). This situation reveals the limited and potentially beneficial aspects of the law's indirect global effects.

In light of all these evaluations, the impact of the Dodd-Frank Act on global financial regulations has a complex structure. Although some of the reforms related to the law have contributed to the formation of international standards, its locally focused structure has limited its adoption as a global financial reform model. However, the law provides an important reference point for understanding the United States' role in enhancing global financial stability (Prasch, 2012).

CONCLUSION

The 2008 Global Financial Crisis had a profound impact not only on the U.S. financial system but also on economies at the global level. This crisis was triggered by a combination of lack of transparency, inadequate management of systemic risks, and the uncontrolled risk-taking behavior of financial institutions. The U.S. government enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act to prevent the recurrence of these vulnerabilities. The law has brought comprehensive reforms in critical areas, such as reducing systemic risks, increasing the transparency of financial markets, regulating derivative markets, and consumer protection.

Although the implementations of the Dodd-Frank Act have had significant effects on the U.S. financial system, the law's global impacts have been limited. The main reasons for this are the law's lack of full compatibility with international regulations and its failure to provide a model suitable for the financial structures of countries outside the United States. For example, while the European Union's Basel III regulations focus more on the banking sector, the Dodd-Frank Act encompasses a broader range of financial regulatory efforts. However, this broad scope has led to complexity and coordination issues during implementation. Developing countries, especially, have faced difficulties implementing comprehensive reforms like Dodd-Frank due to a lack of resources and capacity.

In the literature, while the effects of the Dodd-Frank Act on the U.S. financial system are positive, some criticisms are also noted. In particular, it is stated that the law does not fully address the "Too Big to Fail" problem and that its regulatory impact on non-bank financial institutions is limited. Additionally, the law has created potential risks that could negatively impact economic growth by narrowing the credit-giving capacities of banks due to high compliance costs. However, significant gains have been made in areas such as increasing the transparency of derivative markets, regulating systemically important financial institutions, and protecting consumers.

On a global scale, while the Dodd-Frank Act has shown some parallelism with the reform efforts of G20 countries in certain areas, it has not been fully integrated into the dynamics of the international financial system. The law's regulations on derivative products have contributed to the formation of specific standards in international markets but have also

caused implementation difficulties in countries outside the United States. This situation highlights the importance of designing and implementing financial regulations not only at the local level but also on a global scale.

In conclusion, the Dodd-Frank Act is an important step toward making the financial system more secure and transparent. However, considering that the global financial system is becoming increasingly integrated, it is clear that reforms at the national level alone will not be sufficient. In this context, it is of great importance that efforts to enhance financial stability are supported by international cooperation and coordination mechanisms. Future regulatory reforms should not only focus on the supervision of financial institutions but also include incentive policies aimed at changing the behavior of economic actors.

Although the Dodd-Frank Act has provided a comprehensive framework for preventing financial crises, criticisms in the literature and challenges encountered in practice highlight the need for continuous updates and greater international consistency in financial reforms. This study aims to contribute to the literature on the effectiveness and sustainability of financial reforms, providing a perspective that includes discussions on implementations outside the United States.

Ethics Committee Statement

The research is not a study of the ethics committee parts.

Authorship Contribution

The research was conducted by a single author.

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