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Regulation with Limited Information

The Problem

Limited Information

- Limited data and lack of precedents
- Large uncertainty
- Unintended outcomes go unmeasured

Faulty Assumptions

- Agencies assume low/zero costs to avoid pushback

Failed Oversight System

- Section 610 reviews have largely failed
- Congressional Review Act (CRA) forces binary choices

Why Limited Information Rules Persist

Political Pressure

- Intense political pressure inhibits data driven decisions

Constraining Timelines

- Electoral timelines force rushed decisions

Case Studies: Examples of Limited Information

01 EPA Ozone Regulation

- Failed to estimate economic costs with limited information, leading to unmeasured burdens

02 Leverage Ratio Regulation

- Assumed effects with inaccurate information, leading to unknown outcomes

EPA Ozone Regulation

EPA lowered ozone emission safety levels while underestimating regulatory costs:

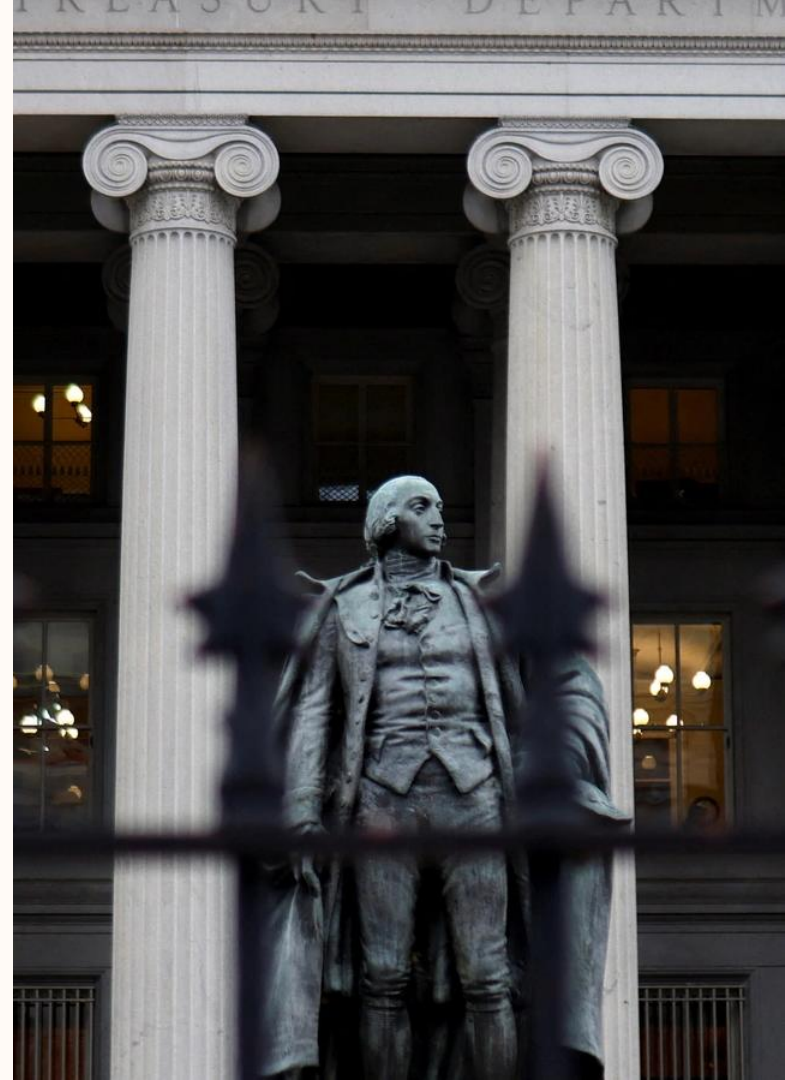
- EPA impact analysis quantified engineering costs, but not economic costs
- Claimed economic costs “not possible” to derive, due to limited information
- Significant production costs and industry spillover effects emerged anyway



Leverage Ratio Deregulation

Banking regulators proposed lowering leverage ratios, to help relieve stresses on the treasury market:

- Proved leverage ratios constrain intermediation, but also relieves constraints on other operations
- Evidence from treasury exemptions may not apply to leverage ratio (eSLR) reductions, yet agencies assume equivalent effects
- Analysis suggests banks will use capital for higher-yield activities instead, leading to unintended consequences



Better Approaches to Regulatory Uncertainty

Phased Implementation

- Roll out regulations in phases to observe effects and contain problems to pilot groups

Reviews Conducted by GAO

- GAO conducts reviews for external objectivity and analytical capacity

Periodic Reviews

- Assess effectiveness after each phase to decide whether to continue, pause, or revise

OIRA Receives Reports

- Agencies submit revised frameworks to Office of Information and Regulatory Affairs (OIRA) based on GAO feedback

Adaptive Regulation Framework

- Agency proposes rule, submits to OIRA
- OIRA reviews, phased implementation?
- Agency plans regulatory implementation phases
- GAO reviews rule after each phase
- GAO makes relevant review suggestions
- Implementation is paused at GAO request
- Agency revises rule, submits to OIRA/Congress

Questions?