

## **Regulatory: Simplicity is not so simple**

*Why the Consumer Financial Protection Bureau needs to break from the Rule of Threes.*

September 21, 2011

By [Martin Bishop](#)

*This column is part of a series of articles on the new Consumer Financial Protection Bureau and the upcoming wave of regulations affecting the consumer financial industry.*

What does the Consumer Financial Protection Bureau have in common with the Three Little Pigs, the Three Musketeers, the Three Blind Mice and the Three Stooges? Tempted as I am to draw out a punch line, this is not a comedic setup. The architects of all these institutions use a common tool to communicate their message: the Rule of Threes.

The Rule of Threes is not a principle of numerology (at least as far as I know; law school was my attempt at escaping numbers). Rather, the rule posits that breaking messages into three components leads to inherently more effective communication. It is, at its most basic distillation, a rule of simplification. Some of the more famous examples include “veni, vidi, vici,” by Julius Caesar, “government of the people, by the people, and for the people,” in Abraham Lincoln’s Gettysburg Address, and “location, location, location,” by some wise and long-forgotten real-estate mogul. Plays are commonly separated into three acts—a beginning, middle and end. The rule is prolific in all forms of modern communication.

Like many other modern, prolific ideas (e.g., blogging, the use of YouTube video, etc.), the bureau liberally uses the Rule of Threes in its policy development and messaging.

On July 18, the bureau released “Building the CFPB: A Progress Report.” You needn’t look any further than pages two through four of that report to find the Rule of Threes at work. The bureau asserts that its mission is to help consumer financial markets work by:

1. making rules more effective,
2. consistently and fairly enforcing those rules, and
3. empowering consumers to take more economic control over their economic lives.

The bureau intends to achieve its mission through:

1. data-driven analysis,
2. innovative use of technology and
3. valuing the best people and great teamwork.

Finally, the bureau envisions a consumer financial market place in which:

1. customers can see prices and risks upfront and can easily make product comparisons,
2. no one can build a business model around unfair, deceptive, or abusive practices, and
3. American consumers, responsible providers and the economy as a whole are prioritized.

Even more recently, Raj Date, special advisor to the Secretary of the Treasury who is working as the de facto leader of the bureau, gave a speech in Philadelphia on the three-year anniversary (maybe it is numerology) of the Lehman Brothers collapse. Consistent with the bureau’s approach to date, Date followed the Rule of Threes. Among other things, Date set out the “three basic themes of [the bureau’s]

work” (know before you owe, “common-sense” regulation and universal regulatory application) and “three consumer markets that impact a lot of Americans (credit cards, student lending and checking accounts).”

The bureau is beating the drum of transparency, and the industry is screaming out for more information and insight. You would think that the intersection of these concepts would lead to more than disclosure by the Rule of Threes. Simple? Yes. Coherent? Yes. Comprehensive? No.

There are exceptions to every rule. Or, if you prefer, every rule is meant to be broken. The bureau needs to make exceptions to the Rule of Threes, or to break it altogether. Simplicity belies transparency. While it is helpful to know that the bureau is focusing on, for example, markets involving credit cards, student lending and checking accounts, there are many other components of the industry that are subject to the bureau and thirst for more information about what the bureau’s intentions are with respect to those markets.

The consumer finance industry is a \$20 trillion industry. There is nothing simple about regulating it. But if you are going to undertake the challenge, move beyond the Rule of Threes and move quickly to a point of comprehensive substantive disclosure.

## About the Author



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**Article Link:** <http://www.insidecounsel.com/2011/09/21/regulatory-simplicity-is-not-so-simple>

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