



POLITICAL AND REGULATORY CHALLENGES FACING FINANCIAL SERVICES

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"The Future of Banking and Financial Services"
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THE POLITICAL DILEMMA FACING FINANCIAL SERVICES...AND OTHERS

“President Trump’s candidacy and early months in office reflect confounding paradoxes. Trump is a fire-breathing absolutist and a pragmatic dealmaker. He is a populist rebel and a super-rich power broker beholden to the Goldman Sachs establishment. Ultimately, how these contradictory personae are resolved will determine if he can transition from a campaign fueled by grievance to the generative work of governing.”

President and Founder Jason Grumet
Bipartisan Policy Center
Comments on President Trump’s First 100 Days
May 1, 2017

PRESIDENT TRUMP ON DODD-FRANK ACT REFORM

“...[W]e're going to do a very major haircut on Dodd-Frank. We want strong restrictions, we want strong regulation, but not regulation that makes it impossible for the banks to loan to people that are going to create jobs.”

President Trump, CEO Town Hall meeting on
Unleashing American Business, April 4, 2017

“Community banks are the backbone of small business in America...You provide critical access to capital, especially for the rural communities. That's why, in the first 100 days, I have taken action to roll back burdensome regulations that undermine community banks, especially -- I know you're going to be very disappointed at this -- Dodd-Frank, right? (Applause.) No, it's out of control.”

President Trump, ICBA Remarks, May 1, 2017

PRESIDENT TRUMP DEREGULATION EXECUTIVE ORDERS AND MEMOS

- January 30 – Reducing Regulation and Controlling Regulatory Costs (2-for-1), E. O.
- February 3 – Core Principles for Regulating the U.S. Financial System, E. O.
- February 3 – Fiduciary Duty Rule Review, Labor, Memo
- February 24 – Enforcing Regulatory Reform Agenda (Regulatory Reform Officers and Task Forces), E. O.
- April 21 – Identifying and Reducing Tax Regulatory Burdens, E. O.
- April 21 – Orderly Liquidation Authority Review, Treasury, Memo
- April 21 – Financial Stability Oversight Committee, Treasury, Memo

<https://www.whitehouse.gov/briefing-room/presidential-actions/executive-orders>

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TRUMP'S CORE PRINCIPLES – A GOOD STARTING POINT

- **Section 1. Policy.** It shall be the policy of my Administration to regulate the United States financial system in a manner consistent with the following principles of regulation, which shall be known as the Core Principles:
 - (a) empower Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth;
 - (b) prevent taxpayer-funded bailouts;
 - (c) foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry;
 - (d) enable American companies to be competitive with foreign firms in domestic and foreign markets;
 - (e) advance American interests in international financial regulatory negotiations and meetings;
 - (f) make regulation efficient, effective, and appropriately tailored; and
 - (g) restore public accountability within Federal financial regulatory agencies and rationalize the Federal financial regulatory framework

<https://www.whitehouse.gov/the-press-office/2017/02/03/presidential-executive-order-core-principles-regulating-united-states>

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TREASURY SECRETARY MNUCHIN'S COMMENTS ON HIS FIRST REPORT

“Properly structuring regulation of the U.S. financial system is critical to achieve the administration’s goal of sustained economic growth and to create opportunities for all Americans to benefit from a stronger economy. We are focused on encouraging a market environment where consumers have more choices, access to capital and safe loan products – while ensuring taxpayer-funded bailouts are truly a thing of the past.”

Hon. Steven T. Mnuchin
Secretary of the Treasury
June 12, 2017

<https://www.treasury.gov/press-center/press-releases/Pages/sm0106.aspx>

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NEW TREASURY “CORE PRINCIPLES” STUDY IS TRUMP BLUEPRINT FOR FUTURE

- No Dodd-Frank repeal – not even a “very major haircut,” but series of refinements recommended for Congress and regulators
- No 21st Century Glass-Steagall Act included, but major Volcker rule reforms recommended
- Focused on economic growth and job creation; e.g., lifting regulatory burdens for smaller and regional banks and reducing U.S. gold-plating of international standards for G-SIBs
- Heavy deference to Congress and regulators to take next steps to implement Treasury recommendations (e.g., FBOs)
- More Treasury reports coming – markets, liquidity, innovation, asset management, insurance, cyber-security, AML-BSA, fintech

<https://www.treasury.gov/press-center/press-releases/Documents/A%20Financial%20System.pdf>

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FBO PROPOSALS – WELCOMED RELIEF, BUT MUST BE IMPLEMENTED

Treasury Department Recommendation	Responsible Party
1. <u>FBO “enhance prudential standards” and living wills should be based on US risk profile (using same thresholds for US BHCs TBD), not global consolidated assets</u>	Congress, FRB
2. <u>IHC CCAR thresholds raised from \$50 billion to revised thresholds for US BHCs TBD, subject to where higher risk at smaller IHCs justifies higher requirements by Federal Reserve</u>	FRB
3. <u>Other IHC requirements (e.g., resolution planning, liquidity) should be recalibrated, with greater emphasis on comparable home country regulation for similar US BHCs and meeting US compliance through home country rules where sufficiently comparable</u>	FRB
4. <u>Internal TLAC requirements should be recalibrated, with consideration of foreign parent’s ability to provide capital and liquidity to US IHC</u>	FRB

U.S. TREASURY COUNSELOR CRAIG PHILLIPS STRESSES THREE THEMES IN NEW TREASURY BLUEPRINT

- Tailoring regulation to fit the risk profile of the financial institution
- Simplifying complex regulations and overlapping supervision
- Harmonizing regulation – domestically and internationally

Source: Craig Phillips, U.S. Treasury Department, Remarks to Financial Services Roundtable, June 21, 2017

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PRESIDENT TRUMP DEREGULATION – MODEST IMPACT SO FAR

- Clearly states direction, goals, tone, and principles of Trump Administration, overseen by U.S. Treasury Department
- Mandates helpful reviews of recent reforms for further potential legislative and regulatory action
- Binds Cabinet Departments (e.g., U.S. Treasury), but not independent agencies (e.g., Federal Reserve)
- Does not preempt existing law or rules
- No private rights of action
- **IMPACT** - U.S. Treasury Core Principles Study and recommendations are the Trump Administration's "Blueprint" for further recalibration and realignment of past – and future – reforms with focus on economic growth and job creation

OTHER TRUMP INITIATIVES HAVE HIGHER POLITICAL PRIORITY

Initiative	Status
Affordable Care Act (Obama Care)	Reform passed House of Representatives; pending Senate business; TBD
Tax cuts and reform	House acts first; Treasury Department working on Administration position; TBD
Budget, reconciliation; appropriations	Appropriations continued until Sept. 30; all else TBD
Debt ceiling extension	Must be done by August/ September; TBD
Infrastructure repairs/spending	TBD
Trade renegotiations (e.g., NAFTA)	TBD
National security/foreign policy (e.g., North Korea, Syria, Iran)	TBD
Financial services reform (i.e., Dodd-Frank, Basel)	CHOICE Act passed US House of Representatives June 8; Senate action TBD
Housing finance reform (Fannie Mae, Freddie Mac, FHA)	TBD

BUT IMPACT OF FIVE COMPETING RUSSIA PROBES THREATEN PRESIDENT TRUMP'S REFORM AGENDA

Date	Agency	Investigation Purpose
Oct. 2016	Department of Homeland Security and Director of National Intelligence	Statement on Election Security
Jan. 2017	Senate Select Committee on Intelligence	Russian intelligence activities
March 2017	House Permanent Select Committee on Intelligence	Russian intelligence activities
May 2017	Department of Justice - Appointment of Special Counsel, Robert S. Mueller, III	Russian interference with U.S. elections
May 2017	Senate Judiciary Committee	Russian interference with U.S. elections
May 2017	House Oversight Committee	FBI Independence
June 2017	Senate Select Committee on Intelligence	Oversight hearings

WHITE HOUSE DYSFUNCTION ALSO AFFECTS PROSPECTS FOR TRUMP FUTURE REFORMS



DESPITE TRUMP DYSFUNCTION, OTHER FINANCIAL REFORM REVIEWS CONTINUE

- **European Commission** – Call for Evidence: EU Framework for Financial Services – 2015
- **Financial Stability Board** – Proposed “Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms” and Chairman Mark Carney’s call for dynamic implementation at IIF Spring Meeting - 2017
- **U.S. Senate Banking Committee** – Bipartisan Solicitation for Legislative Proposals To Foster Economic Growth (Chairman Mike Crapo (R-ID) and Ranking Member Sherrod Brown (D-OH)) – 2017
- **Federal Reserve Board** – Gov. Jay Powell call to simplify rules to support regulatory goals and improve the efficiency of regulation – April 2017
- **Bipartisan Policy Center** – Phase II, “Did Policymakers Get Financial Reform Right?” – 2016-2018

EUROPEAN COMMISSION “CALL FOR EVIDENCE” SET THE BAR IN 2015

- Rules affecting the ability of the economy to finance itself and growth;
- Unnecessary regulatory burden;
- Interactions, inconsistencies, and gaps; and
- Rules giving rise to unintended consequences.

Source: http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/index_en.htm

FSB CHAIR MARK CARNEY'S PRIORITIES FOR GLOBAL STANDARDS IN 2017

- Dynamic and efficient implementation of intended consequences of reforms, while preserving core resiliency of the financial system (e.g., capital, liquidity, ending TBTF)
- Resisting fragmentation and reform fatigue (i.e., maintain the “high road”); and
- Working together to take full advantage of progress made to date.

Source: <http://www.bankofengland.co.uk/publications/Documents/speeches/2017/speech976.pdf>

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GOP “CHOICE ACT” HAS PASSED U.S. HOUSE OF REPRESENTATIVES

- H.R. 10 - “Creating Hope and Opportunity for Investors, Consumers, and Entrepreneurs” Act passed U.S. House of Representatives, June 8 – 233 yeas, 186 nays, 11 not voting
- Repeals parts of Dodd-Frank: Volcker rule; Durbin amendment; Title II Orderly Liquidation Authority (OLA) in favor of bankruptcy reform; FSOC nonbank SIFI designations; Department of Labor fiduciary rule; executive compensation rules; and Office of Financial Research (OFR)
- Creates regulatory off-ramp: 10% average leverage ratio, or continue “heightened prudential standards” under Dodd-Frank Title I with all current capital and liquidity rules
- Creates Consumer Law Enforcement Agency to replace Consumer Financial Protection Bureau (CFPB)

Source: <https://financialservices.house.gov/uploadedfiles/crpt-115-hr10-h001036-amdt-001.pdf>

SENATE BANKING COMMITTEE – BIPARTISAN CALL FOR GROWTH PROPOSALS

“Ranking Member Brown and I have designed an orderly process for consideration of proposals that will help consumers, market participants, and financial companies responsibly participate in the economy in a more effective and efficient manner. We welcome input from all interested stakeholders to that end.”

Chairman Mike Crapo (R-ID)

“After seeing the impact of the financial crisis on Americans, I look forward to proposals that will create real economic growth and jobs, and help reverse years of stagnant wages and widening inequality.”

Ranking Member Sherrod Brown (D-OH)

Source: <https://www.banking.senate.gov/public/index.cfm/republican-press-releases?ID=00BA7965-1713-4E65-AC3C-8C0CB5A374FE>; March 20, 2017

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WHAT IS 21ST CENTURY GLASS-STEAGALL ACT?

SEN. WARREN'S VIEWS

Break-up big banks and impose restrictions on activities



TREASURY SECRETARY MNUCHIN'S VIEWS

Spur more lending for economic growth and job creation

21ST CENTURY GLASS-STEAGALL ACT (WARREN (D/MA)/MCCAIN (R/AZ))

- Prohibits affiliations and management interlocks between insured depository institutions and insurance companies, securities firms, and swaps entities
- Narrows “business of banking” powers for national banks to a defined list of activities
- Authorizes OCC, FRB, and FDIC jointly to define “investment securities” permissible for national banks
- Narrows nonbanking activities permissible for BHCs



Probability of
enactment =
1%

Source: James C. Sivon, “The Outlook for Financial Regulatory Reform,” Squire, Patton, Boggs, May 4, 2017;
<https://www.govtrack.us/congress/bills/115/s881>

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PRESIDENT TRUMP - A NEW 21ST CENTURY GLASS-STEAGALL ACT?

"I'm looking at that right now [breaking up large banks with a 21st century Glass-Steagall Act]. There's some people that want to go back to the old system, right? So we're going to look at that."

President Donald J. Trump
Comments to Bloomberg News
May 1, 2017

Source: <http://www.politico.com/story/2017/05/01/trump-break-big-banks-237836>

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TREASURY SECRETARY MNUCHIN'S VIEWS ON GLASS-STEAGALL REFORM

“We do not support a separation of [commercial] banking from investment banking. [Doing so would create problems for] financial markets, and the economy, and liquidity.”

Hon. Steven Mnuchin
Secretary, U.S. Treasury Department
May 19, 2017

NAVIGATING U.S. LEGISLATIVE PROCESS TO ACHIEVE FINANCIAL REFORM IS DIFFICULT

House of Representatives

- CHOICE Act passed, June 8, 2017
- No filibuster possible
- Simple majority to pass (218/435 votes required to pass; 238 Rep., 193 Dems., 4 vacancies)
- Partisan approach

VS.

Senate

- Review of economic growth proposals underway; path forward unclear
- Filibuster is possible
- 60 votes required to proceed with legislation (52 Republicans, plus 8 Democrats/Independents)
- Bipartisanship required

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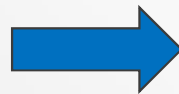
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BUDGET RECONCILIATION OFFERS FOR SOME DODD-FRANK CHANGES

If Congress passes a FY 2018 budget resolution - [?] - then reconciliation process could serve as a vehicle for repealing parts of the Dodd-Frank Act with budget implications with just 51 votes

CBO estimates H.R.10 (CHOICE Act) deficit reduction of \$24 billion [2017-2017]

Examples include:

- Eliminate Orderly Liquidation Authority (OLA)
- Change Consumer Financial Protection Bureau (CFPB) funding
- Eliminate Office of Financial Research (OFR)

Source: <https://www.cbo.gov/system/files/115th-congress-2017-2018/costestimate/hr10.pdf>

BIPARTISAN BILLS TO HELP ECONOMY HAVE PASSED HOUSE COMMITTEE

House Financial Services Committee passed six capital formation bills to help small businesses and entrepreneurs, March 9, 2017:

- Fair Access to Investment Research Act – passed 56-2
- Supporting America's Innovators Act – passed 54-2
- Small Business Capital Formation Enhancement Act – passed 58-0
- SEC Overpayment Credit Act – passed 59-0
- US Territory Investor Protection Act – passed 58-0
- Encouraging Employee Ownership Act – passed 48-11

Source: <http://financialservices.house.gov/news/documentsingle.aspx?DocumentID=401581>

POTENTIAL FOR MORE BIPARTISAN LEGISLATION ALSO IS POSSIBLE

Illustrative

- Community/small bank regulatory relief – “tailoring” rules to fit size and risk profile, particularly to assist small business and ensure financial inclusion
- Raised systemic threshold for noncomplex regional banks from \$50 billion in assets to \$250 billion in assets for “heightened prudential standards
- Other changes to either stimulate - or not repress - economic growth and job creation (e.g., Volcker rule amendment to ensure market liquidity and ability to create markets; better economic impact assessments of new rules)

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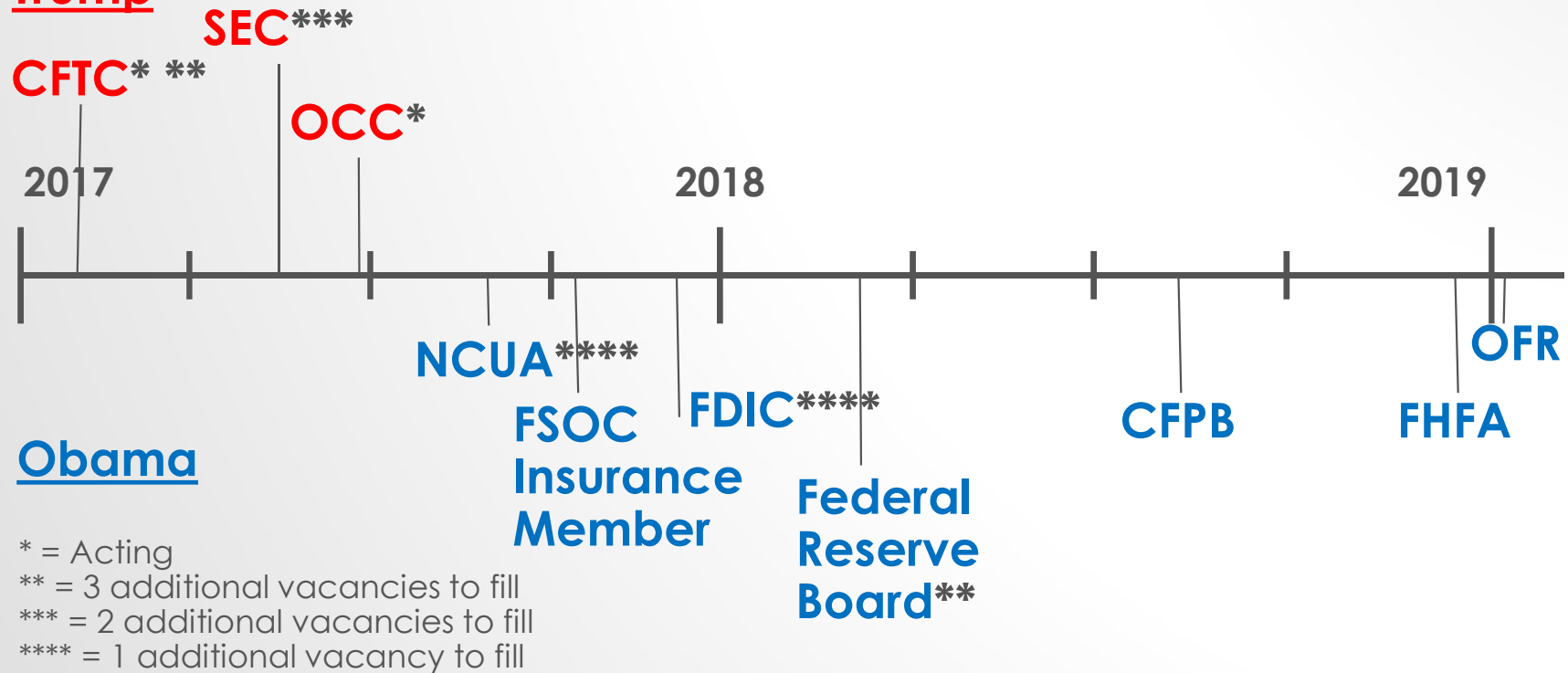
CRITICAL REGULATORY AGENCY VACANCIES STILL EXIST TODAY

Agency	Position	Name	Status
CFTC	Chairman	J. Christopher Giancarlo	Acting; pending confirmation
	Commissioner (2)	TBD	TBD
SEC	Chairman	Jay Clayton	Confirmed; term expires 2021
	Commissioners (2)	TBD	TBD
OCC	Comptroller	Keith A. Noreika	Acting, temporary;
		Joseph Otting	Nomination
FDIC	Director/Chairman	James Clinger	Nomination
Federal Reserve	Governor and Vice Chairman for Supervision	TBD	TBD
	Governors (2)	TBD	TBD
NCUA	Director	TBD	TBD

Source: <https://cdn.bipartisanpolicy.org/wp-content/uploads/2017/03/BPC-Financial-Regulatory-Vacancies.pdf>
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BUT PRESIDENT TRUMP SHOULD CONTROL MOST AGENCIES BY YE 2018

Trump



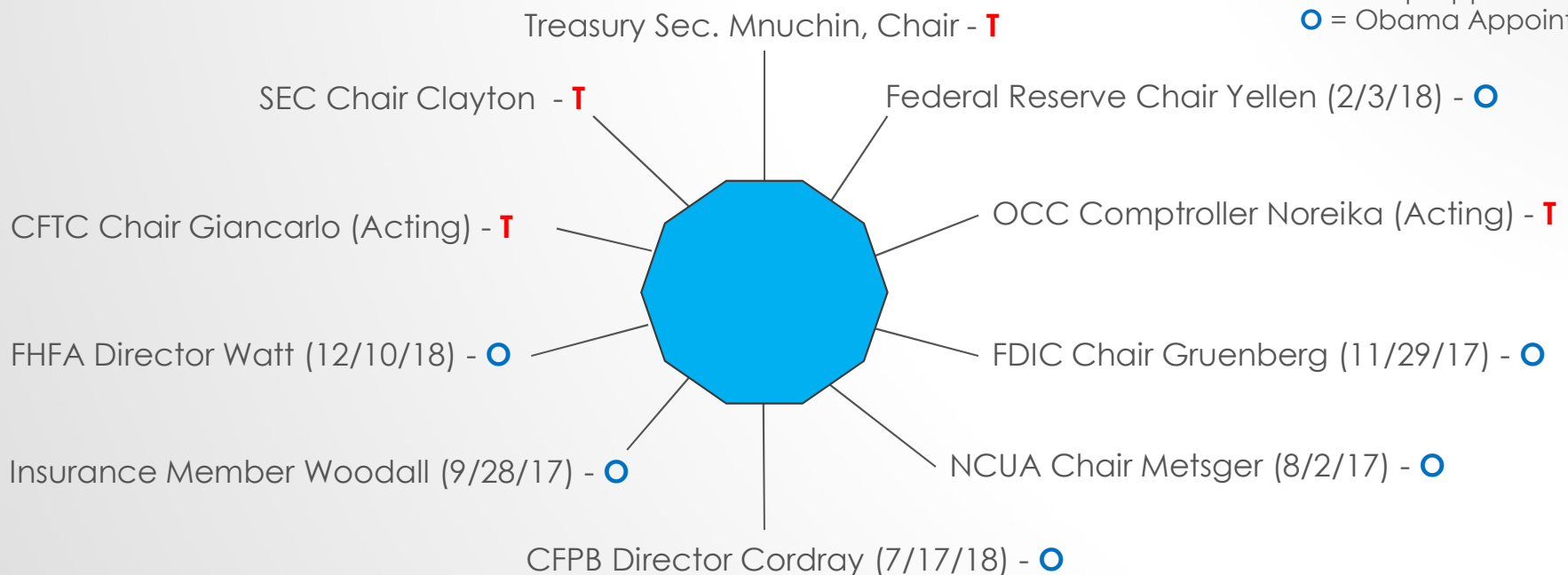
Obama

Source: <https://cdn.bipartisanpolicy.org/wp-content/uploads/2017/03/BPC-Financial-Regulatory-Vacancies.pdf>

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FSOC PERSONNEL CHANGES WILL AFFECT FUTURE FINANCIAL STABILITY POLICIES AND REFORMS

T = Trump Appointee
O = Obama Appointee



Source: <https://cdn.bipartisanpolicy.org/wp-content/uploads/2017/03/BPC-Financial-Regulatory-Vacancies.pdf>
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POTENTIAL FOR REGULATORY CHANGE IS REAL, BUT DETAILS STILL UNCLEAR

FEDERAL RESERVE GOV. JEROME POWELL

“I WOULD SAY THAT THE POST CRISIS REFORM PROGRAM HAS BEEN MOSTLY COMPLETED AND HAS MOSTLY BEEN SUCCESSFUL. I THINK IT'S OUR OBLIGATION NOW...TO LOOK BACK OVER IT, AND ASK WHAT ASPECTS OF IT MAY BE REDUNDANT OR INEFFICIENT, OR UTTERLY ESSENTIAL AND SHOULD BE PROTECTED DOWN TO EVERY LETTER. BUT THERE ARE GOING TO BE SOME ADJUSTMENTS... IT WOULD BE VERY SURPRISING IF WE GOT IT ALL EXACTLY RIGHT THE FIRST TIME.”

CHANGES THE FEDERAL RESERVE CAN MAKE WITHOUT LEGISLATION

- More transparent, effective stress tests – with public comment
- More supervisory guidance on CCAR qualitative requirements
- Less burdensome way to implement Volcker Rule
- Reset how bank supervisors interact with boards of directors – more “principles-based” vs. “checking the box”

Source: CNBC, “Squawk on the Street,” June 1, 2017
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FEDERAL RESERVE GOVERNOR POWELL REAFFIRMS U.S. INTERNATIONAL COMMITMENTS

"I BELIEVE THAT WE WILL REMAIN A COMMITTED AND COLLABORATIVE PARTICIPANT IN INTERNATIONAL FORUMS, INCLUDING BASEL. I THINK THAT THE CHANGES WE ARE MAKING WILL BE IN HARMONY WITH WHAT WE HAVE AGREED AT BASEL, AND WILL BE ABOUT MAKING BANK REGULATION MORE EFFICIENT AND MORE EFFECTIVE, AND WILL NOT FUNDAMENTALLY CHANGE WHAT WE HAVE DONE."

Federal Reserve Governor Jerome Powell
Chairman, Committee on Banking Supervision
June 1, 2017

Source: CNBC, "Squawk on the Street," June 1, 2017

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ADVOCACY AND ENGAGEMENT IS EVEN MORE CRITICAL GIVEN POLITICAL TURMOIL

- Have a good story to tell – with facts, data, and logic targeted at helping customers and consumers, job creation, and economic growth, *not* reducing regulatory burdens for financial institutions; numerous reviews underway to keep dialogue going and create opportunities for continuing advocacy;
- Build consensus, form coalitions of like-minded stakeholders (e.g., in U.S., Institute of International Bankers, Financial Services Roundtable, Bipartisan Policy Center); and
- Leverage bilateral diplomatic relationships and other international/ governmental channels if necessary (e.g., U.S. State Department, U.S. Treasury; Federal Reserve).

Source: Gregory P. Wilson, *Managing to the New Regulatory Reality: Doing Business Under the Dodd-Frank Act* (Wiley Finance, 2011).

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CONCLUDING THOUGHTS

- U.S. and international regulatory reform reviews are underway and should be encouraged.
- President Trump may be squandering a unique opportunity for regulatory reform, despite commendable first steps by his Administration:
 - Probability of meaningful U.S. *legislative reform* is low, but probability of marginal *regulatory reform* and *supervisory relief* should be higher; however,
 - Future changes in most cases are likely to have minimal impact on financial institution profitability and valuations, with some exceptions (e.g., community/small regional banks, custody banks), and will take time.
- Consequently, engagement and advocacy with policymakers to achieve legislative and regulatory goals remains critical given the current political environment and slow economic growth.