President Trump's Administration :

The Impact on Financial Services and Regulation

GLOBAL RISK INSTITUTE

On Feb 2, Global Risk Institute and the Rotman School of Management hosted a panel of distinguished experts to discuss the possible impact the administration of President Trump will have on the regulation of financial services. The panel was moderated by Richard Nesbitt, CEO of GRI, and included:

- **Mark Hughes**, *Group Chief Risk Officer, RBC; Director, Global Risk Institute for Financial Services*
- **John Hull**, *Maple Financial Group Chair in Derivatives & Risk Management, University Professor of Finance and Co-Director, Rotman Master of Finance and Rotman Master of Financial Risk Programs, Rotman School of Management, University of Toronto; Author*
- **Sheryl Kennedy,** *Chief Executive Officer, Promontory Financial Group Canada ULC; former Deputy Governor, Bank of Canada*
- **Gregory Wilson**, *Founder of his own consulting firm specializing in financial policy and regulatory issues; former Deputy Assistant Secretary for Financial Institutions Policy, U.S. Treasury Department; Author.*

RICHARD NESBITT BEGAN WITH TWO FACTS:

1. PRESIDENT TRUMP HAS SAID AS RECENTLY AS MONDAY JANUARY 30TH

"Dodd-Frank is a disaster"

"We're going to be doing a big number on Dodd-Frank... The American dream is back."

2. PRESIDENT TRUMPS ELECTION HAS ALSO HAD A MAJOR IMPACT ON BANKS SHARE PRICES.

"JPMorgan Chase (JPM) and Morgan Stanley (MS) have soared more than 20%, while Goldman Sachs (GS) is up nearly 30%, as investors bet on higher interest rates and less regulation under Trump"

What follows is a synthesis of the views of the panelists, and does not necessarily reflect the views of GRI, the Rotman School of Management or the affiliations of the panel members.

> Uncertainty remains the main theme for the time being.

- *What direction will change in regulatory environment take?*
- *Is it reduction in regulation or a more significant path towards a 21st century "Glass Steagall" act defining what banks can and cannot do?*

> There is a practical limit to what the administration can unilaterally accomplish in this area.

> Any reforms will be considered in the context of how they might translate to gains in the real economy, particularly allowing banks to lend more, and thereby support broader priority objectives around growth and jobs.

> Insurance is expected to continue to be largely regulated at the state level.

> Insurance companies and Asset Managers could also see changes in their regulatory environment however there is no clarity on the future direction.

> Changes at the top of the CFTC may allow for more flexibility in how rules are interpreted and enforced particularly in the way swap execution facilities operate.

> There will be a pause by regulators in the creation of more regulations unless they can be clearly shown to improve the financial system.

> As already seen with the Fed's CCAR tailoring rule last week, any relaxation of rules are more likely to benefit smaller, regional banks than the GSIB banks.

> Dodd Frank will remain at least in some form.

- *Higher capital levels, stronger liquidity reserves, greater transparency, stronger consumer protection are here to stay.*

> The enforcement and interpretation of existing regulations, particularly the ones that are qualitative may change.

> Rules that have added cost but little value will have to go. Special attention will be paid to the Volker rule.

> An interesting development is the ongoing discussion of the proposed "Choice Act 2.0" permitting some US banks to choose a less intrusive form of regulation provided they have met a certain leverage ratio target.

> President Trump's appointees to key positions come with significant experience on Wall Street and this will play an important role in the way they develop future policies.

> Watch carefully what is happening in Europe as Brexit, the growth in the economy, the strength of Europe's banks and future political events affect the regulatory environment. On a global basis, the letter from the Vice Chair of the Financial Services Committee to Fed Chair Janet Yellen recommending the US cease further Basel negotiations was viewed as possibly increasing the "balkanization" of global regulatory rules.

> If policy objectives around jobs and economic growth are met, then Canadian financial institutions should be net beneficiaries both with respect to their US in-market operations, and the spin off effects to their Canadian operations as US growth transmits positive real economic growth to global economy, and Canada in particular as a major trading partner.

Global Risk Institute and Ivey Business School will be offering a full day conference on June 23, 2017 in Toronto titled "**The Future of Financial Services - Management in a New Technological Age"** which will carry on the discussion of these and other issues.

POSTSCRIPT

NY Times, February 3, 2017 –

"President Trump on Friday moved to chisel away at the Obama administration's legacy on financial regulation, announcing steps to revisit the rules enacted after the 2008 financial crisis and to back away from a measure intended to protect consumers from bad investment advice.

After a White House meeting with executives from Wall Street, Mr. Trump signed a directive aimed at the Dodd-Frank Act, crafted by the

Obama administration and passed by Congress in response to the 2008 meltdown. He also signed a memorandum that paves the way for reversing a policy, known as the fiduciary rule, that requires brokers to act in a client's best interest, rather than seek the highest profits for themselves, when providing retirement advice.

The executive order affecting Dodd-Frank is vague in its wording and expansive in its reach. It never mentions the law by name, instead laying out "core principles" for regulations that include empowering American investors and enhancing the competitiveness of American companies. Even so, it gives the Treasury the authority to restructure major provisions of Dodd-Frank, and it directs the Treasury secretary to make sure existing laws align with administration goals."