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September Outlook

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OVERVIEW	<p>After nothing short of an eventful summer, the Senate returns to Washington today after a briefer-than-expected August recess, and with a growing list of key legislative items to address in an alarmingly condensed time frame. The House of Representatives will join them next week, and Democratic lawmakers will face a frenzied few weeks as they work to finalize legislative text for their massive reconciliation package, so they can move to pass the \$1T bipartisan infrastructure bill by the end of September. While late September remains the target goal, we expect this timeline may prove to be ambitious given the slew of other upcoming deadlines Congress faces this month (the debt ceiling and government funding to name two) and the political hurdles faced by Democratic leadership as they work to corral their caucus on both infrastructure measures. And despite a packed to-do list, the House is only scheduled to be in for nine days in September.</p>
INFRASTRUCTURE/ RECONCILIATION	<p>President Biden’s economic plan took a step forward last week as House Democrats advanced several significant parts of the reconciliation bill through committee. We saw five key House panels markup their respective portions of the reconciliation bill, while the House Financial Services Committee will kick-off their process this week. All House committees are scheduled to be finished by September 15th.</p> <p>Late last week, the House Ways & Means Committee voted to approve 12 weeks of paid family leave for American workers, a mandate to enroll employees in tax-deferred retirement accounts, and grants to states to expand access to childcare by improving buildings and raising wages. Late Friday night, Chairman Neal (D-MA) released a host of new tax credits including clean energy incentives and expansion of the child tax credit. The next tranche of tax-related revenue proposals is expected to be released as early as today (following leaks over the weekend), as Ways & Means continues its markup, and will touch on more controversial policies like corporate and individual income tax hikes, changes to the international tax code, including GILTI, FDII and BEAT, and other tax reforms related to carried interest, capital gains, and stock buybacks.</p> <p>While the House continues this process, attention will soon shift to the Senate where the ultimate fate of the reconciliation measure lies. That said, we do not expect the Senate to undergo a committee process like we saw in the House given the 50-50 seat dynamics and greater process constraints. Meanwhile, House Committee chairs are working in close coordination with the Senate to “preconference” the legislation, to the extent possible.</p> <p>As Congress continues to advance bills through committees, there are a few things to keep an eye on. Moderates, including Sens. Manchin (D-WV) and Sinema (D-AZ) continue to vocalize concerns over the size, scope, and sequencing of the package and have publicly stated they won’t vote for a reconciliation bill coming in at \$3.5T. Many believe Manchin won’t support a package over \$1.5T, (clearly a significant difference) leaving substantial gray area around what will ultimately pass the Senate – we think the final number falls somewhere between the \$1.5T cap proposed by Manchin and the \$3.5T wanted by progressives. Keep in mind that the Senate will also have to navigate process constraints not enforced in the House, like limited debate time and the “Byrd Rule.”</p> <p>Similar political challenges have presented themselves in the House, as moderates want to see the bill “fully paid for” and have questioned some of the proposed tax increases. Once committee</p>

	<p>work is finished, their efforts will be combined by the Budget Committee into a bill that the House intends to pass later this month (currently planned for action before September 27th).</p> <p>We can't forget the \$1T bipartisan infrastructure bill, whose victory was seemingly cut short as attention was almost immediately shifted away from the major compromise, including \$550B in new spending towards roads, bridges, rail, broadband, etc., to the second spending bill. The timing for ultimate passage of each measure remains unclear given ongoing tensions around the scope and size of the reconciliation bill among some moderate Democrats, and the potential for progressive members to delay consideration of the bipartisan bill if the reconciliation package isn't finalized before the September 27th target date. Needless to say, September will be interesting...</p>
APPROPRIATIONS /GOVERNMENT FUNDING	<p>The end of the fiscal year is quickly approaching, and, with attention spread thin, Congress has made little progress on the government funding process. A continuing resolution (CR) will need to pass before September 30th (the end of the fiscal year) in order to prevent a government shutdown and to give the appropriators more time to negotiate a longer-term spending deal. While we don't think either party wants a shutdown, in typical DC fashion, there are a number of obstacles that could make the process difficult.</p> <ul style="list-style-type: none"> • There are several items the Administration would like included in the CR, including emergency relief funds to states in the wake of Hurricane Ida, an extension of the National Flood Insurance Program (which is set to expire on September 30th), and a suspension of the debt limit (the most politically challenging). Treasury Secretary Yellen gave Members of Congress another push last week to address the debt ceiling, emphasizing that Treasury's "extraordinary measures," or efforts to temporarily finance the government, would run out at some point in October or early November. • Minority Leader McConnell (R-KY) has vowed that his caucus will vote against a debt limit increase - they argue that given the significant amount of spending they're supporting, Democrats should include it in their reconciliation package. Democrats, on the other hand, may attempt to sway Republicans by pairing the debt ceiling hike with aid to states struck by Hurricane Ida, which could be more challenging for them to oppose. • While we believe that a debt limit extension will likely be included and passed as part of the CR, it is unclear whether it will be a short- or long-term extension, meaning this policy fight could be punted down the road, creating the potential for a serious political battle over this towards the end of the year. <p>Fiscal Year 2022 National Defense Authorization Act (NDAA)</p> <ul style="list-style-type: none"> • Another item to keep in mind is the FY 2022 NDAA, which is expected to receive a vote on the House floor the week of September 20th. We expect the must-pass annual legislation will include provisions to address the series of recent cyber and ransomware attacks, a key priority for the Biden Administration, and could also serve as a vehicle for legislation to address competitiveness with China. As we're seeing with the reconciliation package, progressive Democrats in the House presented a hurdle in efforts to pass the historically bipartisan legislation, by vocally opposing the increased top-line number towards defense spending (around \$24B). However, the boosts to the defense budget attracted Republican members and is expected to do the same on the full House vote later this month.
SENATE BANKING & HOUSE FINANCIAL SERVICES COMMITTEES	<p>Despite all eyes on the infrastructure and reconciliation debate, Congressional Committees still plan to carry on with committee work and hearings outside of these policy areas. This includes Senate Banking (SBC) and House Financial Services Committees (HFSC), who each have a line-up of hearings for the month focused on regulatory oversight and priority issues of Chairs Brown (D-OH) and Waters (D-CA).</p> <ul style="list-style-type: none"> • SBC's agenda is still forming, with a hearing with SEC Chair Gary Gensler this week to kick off the month. We understand Gensler plans to release a statement on crypto lending products in advance of the hearing and expect he will be grilled on a number of issues including cryptocurrencies, payment-for-order-flow, and ESG disclosures. He will also likely be questioned by both parties on the SEC's climate change disclosure rule that he has hinted will be released in October. SBC is expected to hold a quarterly CARES Act

	<p>oversight hearing later in the month with Federal Reserve Chair Powell and Treasury Secretary Yellen, and we may see another hearing focused on housing. It is also likely the Committee will vote on nominees for FHA (Julia Gordon) and Terrorist Financing and Intelligence positions at Treasury.</p> <ul style="list-style-type: none"> • HFSC has a long line-up of hearings this month, which it kicked off late last week with one focused on emergency rental assistance. The Committee reconvenes today to markup their portion of the reconciliation bill, where affordable housing initiatives will be the primary focus. Fed Chair Powell and Secretary Yellen will appear for their CARES Act oversight hearing later in the month, although we expect the pandemic-related discussion to take a backseat. Members are likely to raise the outstanding legislative items (infrastructure, reconciliation, debt limit) and voice their positioning on reappointing Chair Powell (we expect similar questioning in SBC hearing). Chair Powell will also likely be questioned on the Fed's upcoming paper on central bank digital currency, which is expected this month. • The remainder of the month for HFSC consists of Subcommittee-level hearings spotlighting a variety of consumer-focused issues. First on the docket is a hearing focused on personal financial data, in which members will likely discuss issues like the CFPB's proposal to implement Section 1033 of Dodd-Frank, artificial intelligence, blockchain technology, algorithmic bias, cybersecurity, and data privacy. Other notable hearings include one on Chinese stocks listed on U.S. exchanges and the risks they pose to U.S. investors, and a hearing on the future of banking, which will focus on topics such as banking consolidation and technology in banking.
REGULATORY UPDATE	<p>Federal Reserve The Biden Administration will soon be given the unique opportunity to reshape the Federal Reserve Board, with multiple upcoming term expirations for three Trump appointees, including Chairman Powell. Progressive lawmakers have pushed for Powell's ousting in favor of a candidate that will more narrowly focus on issues like climate change and income inequality, but his reappointment is still one of the main options for President Biden. Powell has allies, such as with more centrist Democrats like Sen. Tester (D-MT), who publicly called for his reappointment. Not to mention that Powell has also been backed by Treasury Secretary Yellen. While Powell's term doesn't end until early 2022, Biden's pick to replace Vice Chair for Supervision Quarles (whose term ends next month), will shed some light into whether he may replace or reappoint Powell. We expect an announcement regarding Quarles' replacement as Vice Chair for Supervision in the coming weeks, although he has indicated plans to stay on as Fed governor until at least the end of 2021. In addition, Vice Chair Clarida's term also expires in January 2022.</p> <p>Consumer Financial Protection Bureau (CFPB) While we believe Rohit Chopra's confirmation to be CFPB Director remains a priority for SBC Chair Brown and Democratic leaders, given limited floor time in the month of September, his confirmation may likely see a further delay. That said, we still expect Chopra's nomination to advance on a party-line vote in the coming months. Although the CFPB does not have a permanent Director, we expect to continue to see the agency work to implement Biden Administration priorities such as the small business lending data collection under ECOA (Sec. 1071), and aggressively pursuing enforcement actions for violations of consumer protection laws through its Unfair, Deceptive, Abusive Acts and Practices authority.</p> <p>Commodity Futures Trading Commission (CFTC) The CFTC endured a shakeup in the past few weeks with Commissioner Quintenz (R) departing at the end of August, and Commissioner Berkovitz (D) announcing his intent to depart by October 15th. President Biden is expected to officially name Acting Chairman Benham to lead the agency this month, but this leaves the five-person commission with only one Republican (Commissioner Stump) and one Democrat (Behnam), heightening pressure on the Biden Administration to fill the many vacancies.</p>