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July 2023 Outlook

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<p>OVERVIEW</p>	<p>Congress returns from the Fourth of July recess today with a short window of time to address several looming priorities before August. This month, the House is in session for twelve days while the Senate is in session for thirteen. Congress will move to make meaningful progress on must-pass end of year items, such as the Fiscal Year 2024 (FY24) appropriations bills and the FY24 National Defense Authorization Act (NDAA). Other pressing items we are monitoring this month include the House Financial Services Committee’s expected markup of digital asset market structure legislation, a House GOP tax bill, and potential Senate floor consideration of the RECOUP Act (bank executive compensation clawback legislation) and the FEND off Fentanyl Act, which may culminate into a broader financial services package with an amendment process. All the while, Congress will resume its regular cadence of hearings this month and regulators will continue pursuing their agendas. Below, RFA provides our take on notable legislative, regulatory, and administrative activity for the upcoming July work period.</p>
<p>CONGRESSIONAL ACTIVITY</p>	<p>Congressional activity will be in full swing this month before the legislative branch departs for the lengthy August recess. To start off the week, the Senate will invoke cloture on the nomination of Xochitl Torres Small to be Deputy Secretary of Agriculture, as well as on two district judge nominations for the state of Washington. Former Congresswoman Torres Small previously served as the Under Secretary of Agriculture for Rural Development and was confirmed by voice vote in the Senate in October 2021. Senate Majority Leader Schumer (D-NY) also may look to bring the RECOUP Act and the FEND off Fentanyl Act to the Senate floor for consideration this month, with the potential for an amendment process. Both pieces of legislation advanced from the Senate Banking Committee before the Fourth of July recess with broad bipartisan support. <i>(Note – RFA is monitoring this development closely and will release a state of play document on the issue later this week.)</i> In a Dear Colleague letter over the weekend, Schumer mentioned these bipartisan bills and others such as SAFE Banking in a laundry list of issues he hopes to make progress on during the upcoming work period. Meanwhile, the House of Representatives will consider suspension bills including one to amend the Investment Advisers Act of 1940 to codify certain SEC no-action letters that exclude brokers and dealers compensated for certain research services from the definition of an investment adviser and the Improving Access to Small Business Information Act, among others. Additionally, the House and Senate Agriculture Committees will continue to work on the farm bill in earnest, which is set to expire on September 30th.</p> <p>Aside from robust House Financial Services, Senate Banking, House Ways and Means, and Senate Finance Committee agendas, we expect July to feature ample congressional hearings on several policy fronts. In the House, the Judiciary Committee will hold an FTC oversight hearing featuring FTC Chair Lina Khan. Khan will likely face Republican scrutiny on how she is running the Commission, especially given complaints from former FTC Commissioner Christine Wilson about abuse of power. She will also likely receive backlash on the FTC’s more aggressive enforcement actions and investigations. The House Select Committee on the Strategic Competition between the US and Chinese Community Party will also hold a hearing this week on the “growing peril” for American companies that operate in China. This will be the Select Committee’s first hearing focused on American companies and will also likely feature topics such</p>

as investing in China and outbound investment. Additionally, the House Science, Space, and Technology Committee will hold a full committee hearing on enhancing fire weather prediction, which could include topics such as wildfire insurance. In the Senate, the Judiciary Committee will have an Executive Business meeting to consider a slew of District Judges and a nomination hearing to consider other judicial nominees. The Committee is also slated to hold its second hearing on Artificial Intelligence (AI) and Intellectual Property this week. In a recent Dear Colleague, Schumer also focused on AI, specifically noting a classified all-senators briefing on national security and AI planned for tomorrow. The Senate Commerce, Science, and Transportation Committee will hold an executive session to consider the nominations of Anna Gomez, Geoffrey Starks, and Brendan Carr to be Commissioners on the Federal Communications Commission (FCC). Starks and Carr were renominated by President Biden to serve another term, while Gomez will fill the open Democratic FCC seat. Additionally, the Homeland Security and Governmental Affairs Subcommittee on Investigations will hold a hearing on the PGA-LIV deal, focusing on Saudi Arabia's influence in the US and the implications of the deal on golf more broadly.

FY24 NDAA

We expect both the House and Senate to vote on their respective versions of the NDAA this month and as early as the end of this week for the House. The NDAA amendment process is already in full swing for both chambers. In the House, the Rules Committee will meet today to begin considering amendments and is expected to finish processing the bill by Friday. The Senate will likely begin consideration of their version of the bill next week. We expect the two chambers will begin negotiating the differences between the two bills shortly after the August recess.

FY24 Appropriations Bill

House GOP leaders are discussing the possibility of moving a stopgap spending bill on the floor this month as a fail-safe option while Speaker McCarthy (R-CA) and his Republican allies work to build support for passing the FY24 appropriations bills. Despite Speaker McCarthy and Republican leadership making concessions to the more conservative factions last month by setting spending allocations below the topline levels agreed to in last month's debt limit suspension agreement, members of the Freedom Caucus and others are threatening to withhold their support as they seek deeper cuts. As of now, the House Appropriations Committee has not scheduled its next markup.

The Senate Appropriations Committee will convene on July 13th to markup the FY24 Legislative Branch; Commerce, Justice, Science, and Related Agencies; and Financial Services and General Government appropriations bills. We also anticipate the panel to hold a markup of the Transportation-HUD; Energy-Water; and State-Foreign Operations measures during the week of July 17th and for Labor-HHS-Education; Defense; and Homeland Security to be considered the following week, but this could be pushed back due to lingering policy disagreements. Last month, the Senate Appropriations Committee advanced spending levels for the coming fiscal year along party lines, which represents a setback since the appropriations bill will ultimately require 60 votes to advance from the Senate. Despite this obstacle, lawmakers are still optimistic that a deal can be reached on spending prior to January 1st, when all agencies will incur an across-the-board 1% cut if Congress has not passed an appropriations bill in accordance with the debt limit suspension agreement.

GOP Tax Bill

No further action has been taken on the economic tax bill since the June Ways and Means Committee markup. Chairman Smith (R-MO) and House GOP leadership are working to whip votes for the legislation, with a focus on lobbying New York and California Members concerned about the SALT Deduction Cap. That said, given the remaining legislative days in July, passage of this legislation in the House this work period looks dim.

	<p>Nominations</p> <p>The Senate Banking Committee will vote to advance the Federal Reserve Board (FRB) nominees on Wednesday afternoon. We expect Phillip Jefferson to receive widespread bipartisan support from the Committee to be Vice Chair of the FRB, including from Ranking Member Scott (R-SC). Meanwhile, Adriana Kugler’s nomination will also likely garner bipartisan support, although less support than Governor Jefferson’s. Conversely, we expect Governor Cook’s renomination vote to fall along party lines, like her last confirmation vote. While these nominees could be considered by the full Senate this month, it is more likely that they will be confirmed after the August recess. Other nominations we are following include the nomination of Acting Labor Secretary Julie Su to serve as Labor Secretary. Key Democratic and Independent Senators have yet to say whether they support her nomination, which has now dragged on for more than four months. Leader Schumer has yet to schedule a vote on Su, and the White House has not indicated that they will withdraw the nomination, even with notable skepticism and hesitancy from a growing list of Senators, including Joe Manchin (D-WV), Jon Tester (D-WV), Mark Kelly (D-AZ), Angus King (I-ME), and Kyrsten Sinema (I-AZ). We believe that Su’s nomination is more likely to fail the longer the confirmation process drags on.</p>
<p>SENATE BANKING & HOUSE FINANCIAL SERVICES COMMITTEE</p>	<p>House Financial Services Committee</p> <p>The House Financial Services Committee has another busy month on tap, with a significant focus on ESG related hearings and the potential passage of crypto legislation. The full committee will hold a broad ESG hearing, followed by hearings in the Oversight, Capital Markets, Financial Institutions, and Housing and Insurance subcommittees. They also intend to markup ESG related bills at the end of the month. This action follows a report released by the committee Republicans ESG working group last month. We also expect the Committee will markup stablecoin and crypto market structure bills, with the stablecoin bill possibly receiving significant bipartisan support. In addition, we expect hearings with the Director of the SEC’s Division of Corporate Finance, and a hearing on the implementation of FinCEN’s beneficial ownership rule with industry witnesses. The Committee will also look to markup flood insurance legislation, a CRA overturning the CFPB’s 1071 rule related to small business data collection, and national security related legislation. The current schedule is below, though as always it is subject to change.</p> <ul style="list-style-type: none"> • July 12th: Full Committee hearing entitled, “Protecting Investor Interests: Examining Environmental and Social Policy in Financial Regulation” • July 13th: Capital Markets Subcommittee hearing entitled, “Reforming the Proxy Process to Safeguard Investor Interests” • July 13th: Oversight and Investigations Subcommittee hearing entitled, “Oversight of the Proxy Advisory Industry” • July 14th: Housing and Insurance Subcommittee hearing entitled, “How Mandates Like ESG Distort Markets and Drive Up Costs for Insurance and Housing” • July 18th: Capital Markets Subcommittee hearing entitled, “Oversight of the SEC’s Division of Corporation Finance” • July 18th: National Security Subcommittee hearing entitled, “Potential Consequences of FinCEN’s Beneficial Ownership Rulemaking” • July 18th: Financial Institutions Subcommittee hearing entitled, “Climate-Risk: Are Financial Regulators Politically Independent?” • July 19th: Digital Assets, 1071 CRA, and Flood Insurance Markup (this date could be impacted by a joint session of Congress) • July 26th: ESG Markup • July 27th: National Security Markup <p>Senate Banking Committee</p> <p>As mentioned above, the focus for Chair Brown this month will be on working to have the RECOUP and FEND Off Fentanyl bills considered on the Senate Floor. With the short work period and floor time hard to come by, it remains unclear whether and how these bills could</p>

	<p>move. Additionally, Brown still hopes to mark up the SAFE Banking Act, but unless there's more progress than has been made over the past few months, this is looking more like an exercise for after the August break. Along with moving the Fed noms (also mentioned above), the Committee has two hearings scheduled for this week- one in the Housing Subcommittee on abusive land contracts and another in the Economic Policy Subcommittee on concerns about mergers and consolidation in banking.</p>
<p>SENATE FINANCE AND WAYS AND MEANS COMMITTEE</p>	<p>Ways and Means Committee Chair Smith has announced another field hearing this week in Minnesota focused on trade and the American economy, with further emphasis on agriculture and critical supply chains. We also expect the Committee to engage in more action related to the Hunter Biden Whistleblower testimony from June's executive session. The House GOP will continue to pursue oversight of agencies that are involved with the criminal charges against President Biden's youngest son. Additionally, the Subcommittee on Work and Welfare will have an oversight hearing regarding the Temporary Assistance for Needy Families (TANF) program.</p> <p>Finance Committee Chair Wyden's (D-OR) legislative agenda for the Senate Finance Committee remains in flux this month. It is worth highlighting that Ann Cammack of Ernst & Young recently joined the majority tax staff. She has an expansive background in insurance and financial products, so we would expect her to be involved in Wyden's ongoing investigation into the taxation of insurance companies. Regarding hearings, the Subcommittee on Taxation and IRS Oversight will hold a hearing on assessing the 25 years of the Child Tax Credit. The hearing will feature academic witnesses and testimony from Sens. Bennet (D-CO) and Thune (R-SD).</p>
<p>ADMIN AND REGULATORY</p>	<p>The President's domestic agenda has faced several challenges recently, and this is not likely to change anytime soon. In addition to the recent Louisiana federal court decision preventing the administration from communicating with social media networks regarding the removal, deletion, suppression, or reduction of content containing protected free speech, as well as recent Supreme Court rulings regarding affirmative action and student loan forgiveness, the administration is facing several challenges. Over the next year, we expect the President to fight these battles very publicly, hoping to motivate important demographics of his voting base. The administration will also continue emphasizing a crackdown on junk fees and other measures to lower healthcare costs.</p> <p>Bidenomics Biden's 2024 re-election campaign has kicked into high gear with the introduction of his "Bidenomics" strategy around growing the economy from the "middle out and the bottom up," emphasizing the investments in clean energy and manufacturing resulting from the Inflation Reduction Act (IRA) and the bipartisan infrastructure legislation passed last year.</p> <p>Biden's Europe trip During his visit to Europe this week, President Biden is scheduled to travel to Lithuania to attend the 74th NATO Summit. He is also scheduled to travel to Finland for the U.S.-Nordic Leaders' Summit. Along the way, he will stop in London, where he will meet with King Charles at Windsor Castle and engage in a forum focusing on mobilizing climate finance, especially bringing private finance off the sidelines for clean energy deployment and adaptation in developing countries.</p> <p>Yellen's China trip During her trip to China last week, Secretary Yellen criticized the Chinese government for its punitive measures against foreign firms and suggested that such actions justified the Biden administration's efforts to make U.S. manufacturers less reliant on China. That said, Yellen's trip is part of an effort to repair badly damaged economic relations between the U.S. and China. The administration is still preparing an executive order to curtail U.S. foreign investment in China.</p>

The order could be issued by the end of this month and covers certain investments in sensitive areas such as semiconductors, artificial intelligence, and quantum computing.

Prudential Regulators

On June 28, 2023, the FRB released the results of its annual stress tests. All 23 banks tested remained above their minimum capital requirements during the hypothetical recession. This year's stress test centered on a decline in commercial real estate prices. Notably, as part of this year's stress test, the FRB conducted an exploratory market shock on the trading books of the largest banks, testing them against greater inflationary pressures and rising interest rates. The results demonstrated the resiliency of the trading books of these firms in a rising rate environment. Additionally, on June 29th, the FRB announced 57 financial institutions and service providers that had completed formal testing and certification in advance of FedNow's launch in late July.

Looking forward, we continue to await the release of Vice Chair Barr's holistic capital review as well as the Basel III endgame package by the FRB and other prudential regulators. On the latter, we continue to hear that the joint agencies are close to an agreed upon proposal. Our view is that the prudential regulators may wait until August to release the package when there will be less Congressional scrutiny. Moreover, recall that in the Barr-led report on the supervision and regulation of Silicon Valley Bank (SVB), the FRB stated it will pursue implementation of three rules – Basel III endgame rules; the use of multiple scenarios in stress testing; and a long-term debt rule) *before* any new regulatory requirements resulting from SVB's failure. Even though there has been less discussion of the long-term debt rule and multiple scenarios in stress testing, we continue to watch for the issuance of these rules.

Finally, the fact that Powell mentioned regulatory responses to SVB during a recent speech in Madrid and Governor Bowman's recent speech in Austria pushed back on certain policy changes – including changes to capital – regulatory reforms for banks above \$100B are most certainly underway at the FRB and will likely follow these other rules in short succession.

Securities and Exchange Commission

The SEC is expected to finalize two substantive rulemakings this Wednesday, July 12th: (1) money market fund (MMF) reform; and (2) amendments to Form PF for large liquidity fund advisers. MMF reform, in particular, will be one of the first major reforms that the SEC has finalized under Chairman Gensler. The proposed rule for MMF reform would require institutional prime MMFs and institutional municipal MMFs to adopt swing pricing, which many in the industry have argued is unworkable. In addition, the SEC is expected to propose a major amendment to how broker-dealers calculate their reserve requirements at the same open meeting Wednesday. The rest of July could see a number of additional final rules, including the private fund advisers rule and the cybersecurity rule for public companies. A significant portion of the SEC staff typically takes vacation in August, so we expect Chairman Gensler to push to finish as many rulemakings as possible before mid-August. It's worth remembering that last year, the SEC held four open meetings between July 13th and August 10th.

Commodity Futures Trading Commission

All the CFTC's different Committees are set to meet this month. The CFTC's Market Risk Advisory Committee (MRAC) is set to meet today to share updates from the various subcommittee workstreams, which include the CCP Risk and Governance Subcommittee, the Market Structure Subcommittee, the Interest Rate Benchmark Reform Subcommittee, and the Climate-Related Markets Risks subcommittee. The meeting will also feature a roundtable on the future of finance, which is likely to touch upon issues such as digital assets. Additionally, the CFTC's Global Markets Advisory Committee is set to meet later this month on July 17th to focus on topics like Treasury market reforms and the Technology Advisory Committee will meet the following day to discuss AI in the financial sector, as well as Decentralized Finance models like decentralized autonomous organizations (DAOs).

Consumer Financial Protection Bureau

Since our last update, the Bureau has continued its aggressive enforcement agenda with actions against companies around deceptive sales practices, medical collections practices, and processing unauthorized mortgage payments. The Bureau also added a new item to its Spring 2023 rulemaking agenda, a proposed larger participant rule focused on consumer payments markets, with a potential date of July 2023. This month would be extremely fast for the Bureau to propose a rule on a new topic added to its regulatory agenda just two weeks ago, and so far, we have seen no indication the Bureau could actually propose a rule this month. Instead, it appears the agency is still trying to scope what would qualify as a larger participant. One seemingly obvious market could be P2P. PayPal and Block were two of the six technology companies that received data requests from the Bureau in October 2021. To date, there has been no report as a result of those data requests, and some have speculated whether a larger participant rule would take its place. Nonetheless, the July date indicates the Bureau is prioritizing the development of such a rule and that the industry should expect movement on a proposal as the year progresses. Other major items still on the docket include credit card late fees (October 2023), personal financial data rights – 1033 (October 2023), overdraft (November 2023), and nonsufficient funds (NSF) fees (November 2023).

Treasury/FSOC

Treasury/FSOC recently extended the comment period for its proposed analytical framework guidance and proposed guidance on entity designation. Comments are now due July 27th. We anticipate robust comments from various nonbank sectors, and some common themes including criticism of failure to consider cost and benefits and failure to consider “likelihood of material financial distress”. We still believe FSOC has a lengthy process to finalize the proposed guidance and expect completion very late 2023 or early 2024.

Treasury/FIO released its long-awaited report on climate related risk in the insurance market. The report found that the work of state insurance commissioners to incorporate climate-related risks into supervision and regulation is fragmented across states and at a preliminary implementation stage. Additionally, the report encouraged the NAIC to adopt new risk tools such as scenario analysis to monitor climate-related risk. We anticipate Congressional Republicans will continue their criticism of FIO’s efforts related to climate risk.