



This will be a busy week in Washington, as the Obama administration winds down and preparations for the incoming Trump administration pick up. President-elect Trump will hold a news conference, the Senate will hold nine confirmation hearings on Trump cabinet nominations, and President Obama will give his farewell address.

Congressional Republicans will continue their preparations to repeal and replace Obamacare, enact major tax reform, and rollback significant portions of Dodd-Frank. The effort to scale back the Volcker Rule was given a boost by a new Federal Reserve study and a comment by Fed Governor Powell that Congress should take another look at the rule.

BORDER TAX

The incoming Trump administration and the Republican Congress could be heading for a confrontation over a border tax or tariff. President-elect Trump put out two tweets last week threatening both GM and Toyota to make their cars in the US "or pay a big border tax." In response, House Speaker Ryan said flatly that "we are not raising tariffs." One potential compromise is the border adjustment tax proposal that is a key feature (raising \$1.2 trillion over ten years) of the House Republican tax reform plan now under development. The plan would exempt exports from the proposed 20 percent corporate tax but apply it to all imports. While the tax rate is smaller than and more broad based than Trump's border tax idea, it could end up being a compromise solution embraced by both Trump and Ryan.

VOLCKER RULE

A little-noticed report released by the Federal Reserve on December 22 could provide new ammunition to the effort to rollback provisions of the Volcker Rule. The Fed study, a staff working paper, concluded that the Volcker Rule has "a deleterious effect on corporate bond liquidity and dealers subject to the Rule become less willing to provide liquidity during stress times." The staff paper is likely to boost the push by the new administration and Congressional Republicans to ease the regulatory burden of the Volcker Rule and other Dodd-Frank provisions. In response to a question about the paper, Fed Governor Jerome Powell told a conference that he believes Congress should look at the rule. Total repeal of the Volcker Rule is unlikely, since some Democratic support is necessary in the Senate to pass a regulatory reform bill. However, this study and Powell's support will provide political ammunition to the expected push to clarify and ease Volcker Rule language.

H-1B Visas

The outlook for the future of the H-1B visa program could become clearer this week. Confirmation hearings for the nomination of Sen. Jeff Sessions to be Attorney General will be held this week, and Sessions could provide his views on the program at his hearing. Sessions co-sponsored a bill last year to restrict H-1B visas. Rep. Darrell Issa (R-Calif) last week re-introduced similar legislation to "crack down on" H-1B visa abuses. Issa said his legislation was needed to prevent the visa program from being used to replace American workers with foreign workers from overseas. However, Trump told a group of tech CEOs that he would work with them on a compromise solution.

CFTC REG AT

The resignation of CFTC Chairman Tim Massad effective January 20 should end once and for all the CFTC attempt to force firms to submit source code information to the agency without a subpoena. Commissioner Christopher Giancarlo will be named acting Chairman and is thought to be the leading candidate to be nominated as Chairman in the Trump administration. Giancarlo has opposed the source code regulation and has called it a "non-starter." Massad had made an effort in recent months to finalize the proposed Reg AT before the end of the Obama administration, an effort that will now fall flat.

REGULATORY REVAMP

Without passing one piece of legislation, the new Trump administration will be able to totally reshape the regulatory agencies overseeing the financial industry, shifting the Washington regulatory focus from enforcement to encouraging investment. While Elizabeth Warren wants to ban anyone with Wall Street experience from Washington jobs, Trump is reaching out to Wall Street veterans to fill these jobs, and Warren can do little if anything to stop him. Over the coming months, the new administration will nominate new officials to run the SEC, the CFTC, the OCC, and the Federal Reserve. In addition to naming Jay Clayton to be Chairman of the SEC, Trump will be able to name two more commissioners to the five-person agency. He will be able to name three of the five commissioners at the CFTC, and a new head of the OCC. At the Federal Reserve, two of the seven board seats are vacant and can be filled right now. A third vacancy would occur if current board member Dan Tarullo were to leave, which is possible. Chairwoman Yellen is expected to leave when her term as chair expires in January 2018, as is vice-chair Stanley Fischer in June 2018. In all, Trump could appoint five of the seven members of the Fed board in the next eighteen months. In addition, Trump's new Treasury Secretary will take over the chairmanship of the Financial Stability Oversight Council, the council of financial regulators established by Dodd-Frank. These new regulatory officials will result in a sea change in the regulatory environment in Washington.

-- Bruce Thompson

DISCLAIMER: Options Group is not claiming any positions or political preferences.