Committee(s)	Dated:
Policy & Resources Committee – To note	8 June 2017
Subject: Policy Chairman's visit to Washington DC. April 2017	**Public**
Report of: Damian Nussbaum	**For reference**
Report author: Duncan Richardson	

Summary

This report advises Members of the outcome of the recent visit by your Chairman to Washington DC from 3-5 April. The purpose was to meet with business and policy stakeholders to discuss regulatory and competitiveness issues affecting transatlantic financial markets, as well as gauge US views on the business and political landscape in the US, UK and Europe in the context of Brexit and the new US administration.

Overview:

- The new administration faces serious constraints, encapsulated by a recent failure to achieve healthcare reform and slowness in making appointments to key positions.
- Sweeping legislative changes to the Dodd-Frank Act are extremely unlikely. Reform will be driven at a regulatory level and will focus on the unintended consequences of the post-crisis response.
- Despite political will for a UK-US trade agreement, achieving this objective will be challenging. Discussions must shift from speed to content urgently.
- The US will not withdraw from international cooperation on financial services regulatory policy making. The principal concern of Congress is to ensure some political accountability of the regulators when policy that affects America is being made at the international level.

Recommendation(s)

Members are asked to note the report.

Background

1. Members previously approved that your Chairman should visit the USA twice a year prioritising Washington DC and New York. These visits play an important role in the City of London's programme of engagement with the US and the ongoing dialogue with US-headquartered financial services firms and senior US

policymakers on regulatory and competitiveness issues affecting transatlantic financial markets. The Chairman's last visit took place in November 2016.

2. Your Chairman visited Washington on Sunday 2 April to Wednesday 5 April. He was accompanied by Deputy Policy Chairman, Catherine McGuinness and the Director of the Economic Development Office, Damian Nussbaum. The purpose was to meet with business and policy stakeholders to discuss the economic and political environment in the UK and EU; to gauge views on the new administration's likely direction of travel regarding regulatory policy making and international cooperation; and to discuss the future UK-US trading relationship.

3. The programme included meetings with senior policy makers, representatives of financial institutions, the British Embassy, and policy and political advisors. Details of the individuals and organisations met during the visit are provided in the appendix.

Main Report

Internal political environment

4. The Policy Chairman's visit immediately followed the withdrawal of the American Healthcare Act (ACHA). The AHCA was intended to repeal the parts of the Affordable Care Act (known as 'Obamacare') within the scope of the federal budget. There was consensus that President Trump and the Republican Party's inability to execute healthcare reform encapsulated the challenges ahead.

5. The administration positioned the repeal of Obamacare as the necessary first step towards a wide-ranging reform agenda. Success was intended to generate momentum and provide budget headroom for future action. The fact that the House Freedom Caucus and some moderate Republicans opposed the bill indicates deep divisions within the GOP. Senate voting procedures mean that leaving healthcare reform to 2018 will require a 60% majority which the Republicans do not enjoy.

6. The administration has been slow to appoint senior officials. This is due to a general lack of preparation pre-election (in contrast to Clinton) and unwillingness among leading candidates to jeopardise business interests. The result is a government and civil service lacking expertise, experience and a policy steer in key areas.

7. Observers believe different power bases to have formed around leading individuals within the White House. Gary Cohn seems to be emerging as an influential figure.

8. In this environment, the Democratic Party is mounting sustained opposition.

Dodd-Frank reform: Personnel is policy

9. Since declaring his intention to "do a big number" on the Dodd-Frank Act in January, neither President Trump nor his administration has provided further

detail for reform. Both industry and the policy-making community recognise that post-crisis reforms were “passed in a fever” and contain flaws. Wholesale change, however, would neither be advisable nor popular. For large firms, the additional costs are largely sunk. Public opinion remains favourable to Dodd-Frank and resentment towards the financial services sector still runs high.

10. In meetings with the Chairman of the Commodity Futures Trading Commission (CFTC), the Acting Chair of the Securities Exchange Commission (SEC), senior staff of the Senate Banking Committee Chair, and senior US Treasury officials, all confirmed that comprehensive legislative changes to Dodd-Frank were extremely unlikely. The overarching principles of post-crisis reforms will remain intact. Change will happen “around the edges”, largely at a regulatory level.

11. An oft-repeated phrase was “Personnel is policy”. With limited scope for legislative change, independent regulatory agencies will determine the breadth of Dodd-Frank reform. Appointees to lead these agencies will have considerable freedom in determining policy direction.

12. SEC Acting Chair Piwowar underlined that his focus, and that of his permanent successor Jay Clayton, will shift away from Dodd-Frank implementation towards addressing the Act’s unintended consequences. Capital formation will be top of the SEC’s agenda in recognition that the regulatory costs associated with Dodd-Frank have seen a drastic fall in IPOs and increasing difficulties for smaller firms in accessing capital. CFTC Chair Giancarlo foresees changes to the Volcker Rule and resolution regulation, but nothing which would significantly impact European banks.

13. Going forward, the UK was advised to monitor activity in both the Treasury and Federal Reserve (Fed). The Treasury Secretary is currently engaged in a review of Dodd Frank, which includes consultation with regulators. This is the means by which the administration can influence regulators who seek to guard their independence. At the Fed, the position of Vice Chairman of Supervision is seen as a key determinant of policy direction.

US-UK trade: Political will meets reality

14. There is political will for a US-UK FTA. Philosophically, the new administration favours bilateralism over multilateralism. Prospects of a deal are enhanced by the UK’s strong reputation on issues ranging from employee rights to intellectual property. In financial services, the current UK-US interrelationship is strong, with the UK viewed as sharing a robust regulatory environment and a commitment to global standards. As a trading partner, the UK is not seen as a controversial bedfellow. The serious questions surround content and timing.

15. Content: Neither the US nor the UK is viewed as having deeply considered the substance of an accord. In the US administration, there remain broad unanswered meta-questions about the role of trade in general. Treasury officials described current US trade policy as “embryonic”. Several trade policy professionals questioned the administration’s apparent desire to run surpluses with every trading partner.

16. Despite political desire for an accord, any FTA would need congressional approval and Congress would need to see significant benefits for America.

17. Timing: Both the Treasury and business community recognised that no substantive agreement will be reached until the UK's new relationship with the EU is defined. The administration will begin renegotiating NAFTA very shortly. It was widely recognised that both the desire and bandwidth to negotiate multiple deals will be in short supply. The President does hold trade promotion authority (TPA), the legal ability to negotiate international agreements that Congress can approve or deny, but cannot amend or filibuster. He holds TPA only until 2018, however, and this does not circumvent the need to 'sell' the content of an agreement to Congress.

18. It was recognised that British Embassy Washington has been an active communicator post-June 24th. A number of people suggested a more systematic engagement programme with Congress, coupled with greater consistency on the content to be covered in future discussions.

19. Given the limitations, trade policy professionals underlined the opportunity to rethink FTAs radically. There is recognition that the old models have failed (TTIP, TPP) and should not be used as the basis for a future UK-US agreement.

International cooperation: Consistent with 'America First'

20. Congressman McHenry's letter to the Federal Reserve Chair of January 2017, in which he criticised the Fed's negotiation with international bodies, was a rebuke of the Fed's approach rather than of international cooperation in principle. It was described as having an entirely domestic audience. There was surprise and some embarrassment in the US at the attention the letter had received in other countries.

21. The majority view was that international regulatory coherence was both in the interests of a stable global financial system and of the US in terms of raising the regulatory tide. There is a common sense, for example, that European banks are undercapitalised compared with American institutions. Ensuring increased capitalisation in the current Basel negotiations would be welcomed as a victory consistent with the 'America First' narrative. As such, the US will remain at the forefront of international efforts.

22. There was concern in both the SEC and CFTC that engagement in international fora lacks transparency and is being used to bypass the US legislature through marginalising Congress. It is possible that the US explores mechanisms to increase transparency of decision making in international organisations. Both regulators also identified the need to achieve more efficient engagement in the international space.

Brexit: Interest and concern

23. The US is following Brexit very closely. Both regulators and the IMF are concerned about resulting market instability and a perceived lack of scenario planning. Many serious trade bodies, businesses, regulators and government officials are actively engaging with UK stakeholders. They have developed a strong sense of the complexity of the process.

24. CFTC Chair Giancarlo raised concerns at the potential for market fragmentation should countries adopt territorial approaches to clearing. CFTC Commissioner Bowen recently made the same comments at a European conference.

25. Access to talent is another serious concern. The sector recognises the need to both obtain skilled labour from and move skilled labour between European countries. Early assurances on future migration policy would be welcome as industry develops long-term plans.

Conclusion:

26. The visit provided valuable insights into the priority issues facing US and international financial services institutions engaged in transatlantic business. Your Chairman was able to deliver the priority positions of the City in relation to the government's preparations for Brexit and share insights with a range of senior stakeholders. In return, your Chairman received valuable insights into the new administration's priorities in terms of regulation and trade, and the likelihood of affecting change.

27. The visit allowed your Chairman to deepen relations with established contacts and build new connections at a transformational time in US politics. These relationships can be developed to enhance the Corporation's engagement with US stakeholders on both sides of the Atlantic, with scope to continue these discussions with a further visit to the US in the autumn of 2017.

28. The City Corporation will continue to engage with business and policymakers on both sides of the Atlantic, via the International Regulatory Strategy Group (IRSG) and continued activity with US policymakers to address the regulatory and competiveness issues raised by the Brexit vote and new US administration, with particular emphasis on improving regulatory coherence and cooperation.

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Appendix: Meeting attendees

Monday 3 April

- Paul Atkins, CEO Patomak Partners. Ben Brown, Managing Director Patomak Partners.
- Greg Babyak, Head of Government and Regulatory Affairs, Bloomberg.
- Michael Piwowar, Acting Chair, Securities and Exchange Commission.
- Senior Counsel to Kara Stein, Commissioner, Securities and Exchange Commission.
- Roundtable hosted by Peter Matheson, Managing Director, Securities Industry and Financial Markets Association (SIFMA).
  Attendees:
  - John Van Etten (New York Life)
  - Monique Frazier (HSBC)
  - Simon Winn (US Bank)
  - Matt Niemeyer (Goldman Sachs)
  - Michael Mclean (Barclays)
  - Janelle Thibau (Bank of America)
  - Rick Johnston (Citi)
  - Jack Bartling (JP Morgan)
  - Mark Schuerman (Nomura)
- HSBC Government Affairs team.
- Tobias Adrian. Financial Counsellor and Director of the Monetary and Capital Markets Department, International Monetary Fund.

Tuesday 4 April

- Adam Behsudi, International Trade Correspondent, Politico.
- Senior counsellors, Senator Mike Crapo, Chair of the Senate Banking Committee.
- Paul Schott Stevens, President & CEO, Investment Company Institute.
- Christopher Giancarlo, Chairman, Commodity Futures Trading Commission.
- Senator Richard Shelby.
- Gary Hufbauer, Senior Fellow, and Jacob Kirkegaard, Senior Fellow, the Peterson Institute for International Economics.
- Walt Lukken, President and CEO, and Jackie Mesa, Director of International Relations and Strategy, Futures Industry Association.

Wednesday 5 April

- Douglas Bell, Deputy Assistant Secretary, and Jeff Siegel, Lead Negotiator for Financial Services, US Department of the Treasury.
- Daniel Pearson, Senior Fellow, CATO Institute.
- Senior counsel. Congressman Patrick McHenry.
- Marjorie Chorlins. VP, European Affairs and selected members.