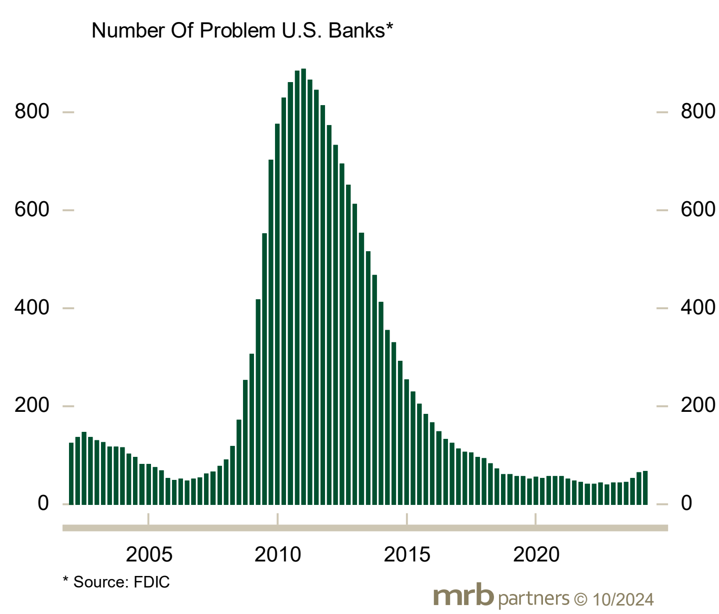
MacroResearchBoard
mrb partners
Independent Investment Strategy
RESEARCH HIGHLIGHT
POLITICS
October 10, 2024

U.S. Elections 2024: How Will The Vote Shape Financial Regulation?

- The financial sector will fare better if Trump wins the election, especially in a Republican-sweep scenario.
- Under Trump, banks would face an easier regulatory environment including a further watering down or even a possible withdrawal of the Basel III Endgame capital rules, as well as more industry-friendly regulatory agencies such as the CFPB.
- A more lenient regulatory apparatus would also benefit consumer finance companies (credit card issuers), broker-dealers, non-bank entities, and possibly alternative asset managers and crypto exchanges, depending on how quickly there is a change in leadership at the SEC.
- Conversely, a Harris win would bring stricter regulations and greater oversight of the financial industry.
- However, absent Democratic control of the Congress, a Harris Administration would be limited in passing significant new financial legislation.
- Moreover, many of the actions promulgated by regulatory agencies will be subject to legal challenges and could be delayed or overturned.

Financial regulation has not figured prominently in this year's election campaign, owing to the strong health and resiliency of the U.S. banking system (**chart 1**). Nevertheless, the outcome of the election will have important implications for the future of financial industry regulation. The regional bank failures in early-2023 re-surfaced the philosophical divide between the Democrats and Republicans when it comes to regulating the financial industry, which is also reflected in the policy positions of the two presidential candidates. Vice President Kamala Harris favors stricter oversight of the banking system to protect consumers and increase financial stability. In contrast, former President Donald Trump

Chart 1 **The Number Of Banks At Risk Of Failing Remains Very Low**



advocates a more hands-off approach that reduces compliance costs and boosts the industry's profitability, which he believes will help stimulate economic growth.

This report analyzes how the two presidential candidates differ in their approaches to financial industry regulation and the implications for the financial sector and its main sub-groups.

Policy Platforms

The Vice President has a record of voting against deregulation and being tough on banks

Below, we provide an overview of the main financial policy positions of each candidate.

Harris

While Harris has not specifically addressed how she would approach financial regulation, the Vice President has a record of voting against deregulation and being tough on banks. As California Attorney General, Harris successfully pressed big banks to offer a bigger settlement to compensate customers burned by the foreclosure crisis of 2008-2009. Many expect that she will maintain and potentially expand the regulatory framework of the Biden Administration including:

- Finalizing the proposed Basel III Endgame capital rules for banks, which seek to increase how much capital banks should hold to cushion against potential losses from trading activities, loans, and unexpected sources. The rules also require banks to use standardized models (instead of internal ones) to gauge risk and institutions with US$100 bn or more of assets must reflect gains and losses from their available-for-sale securities portfolios in their capital calculations.

Trump was able to enact significant changes to the financial industry during his tenure at the White House

- Continuing to advance the Biden Administration's regulatory agenda through the Consumer Financial Protection Bureau (CFPB) and other agencies charged with overseeing the financial industry. These agencies have implemented or proposed rules cracking down on "excessive" fees by major banks, curtailing the predatory lending practices of payday lenders, banning medical debt from people's credit history, requiring greater transparency from alternative asset managers, and reining in cryptocurrency firms and platforms.

Trump

In a second term, Trump would seek to reduce the power of financial regulators. He was able to enact significant changes to the financial industry during his tenure in the White House, including easing regulatory requirements for small and mid-sized banks. If he wins the election, Trump will likely renew his efforts to scale back financial industry regulations, with a focus on the following objectives:

- Delaying or shelving the finalization of the Basel III Endgame bank capital rule proposals put forward by the Biden Administration.

- Appointing industry-friendly individuals to head various financial regulatory agencies such as the CFPB, Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Security and Exchange Commission (SEC), who would loosen enforcement actions designed to protect consumers and investors.

- Decreasing government regulation of the cryptocurrency industry and supporting other pro-crypto policies such as creating a national Bitcoin reserve.

- Pushing anti-ESG measures that would attack the rights of pension funds and other fiduciaries to incorporate ESG policies into investments.

Trump supports pro-crypto policies and anti-ESG measures

Table 1 provides a summary of the major financial industry policies of Harris and Trump, and their potential impacts on the various components of the financial sector, which we examine in greater detail in the next section.

Table 1 Summary Of Financial Policy Proposals And Their Impact On The Financial Sector

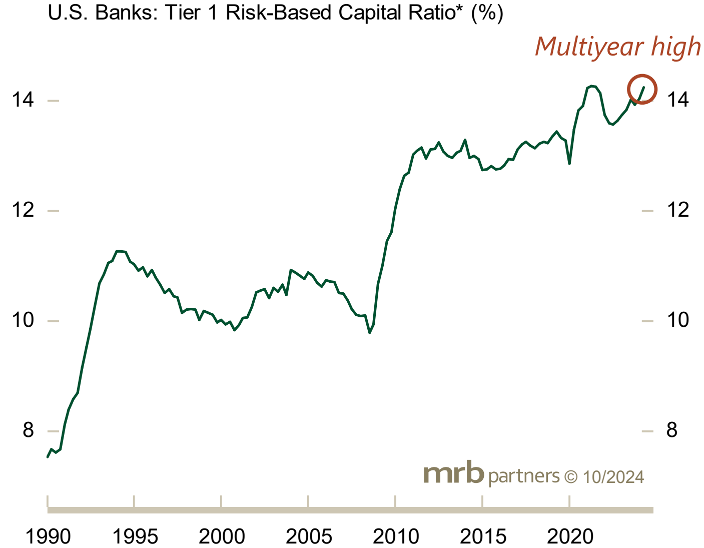
Proposal/Policy Stance	Candidate	Impact On Financial Sector	Comments
Finalize and implement Basel III Endgame bank capital rules and requirement that regional banks issue long-term debt	Harris	Negative for GSIBs, regional banks, broker-dealers	Ongoing disagreements among regulators and additional lobbying/possible litigation by the banks could delay implementation or result in a further softening of the rules
Greater regulatory oversight of financial industry; renewed pursuit of policy goals by the CFPB and other regulatory agencies such as the SEC	Harris	Negative for banks, credit card companies, alternative asset managers, crypto exchanges, non-bank entities	Rules by regulatory agencies will continue to be subject to litigation by the financial industry
Delay or possibly withdraw the revised Basel III Endgame bank capital rules	Trump	Positive for GSIBs, regional banks, broker-dealers	Republican control of the Senate will facilitate a further watering down or a shelving of the rules
Pursue deregulation by appointing new leadership at regulatory agencies; regulation of non-bank lenders a lower priority	Trump	Positive for banks, credit card companies, alternative asset managers, and non-bank entities	Impact depends on the timing of leadership changes at regulatory agencies
Ease regulatory crackdown on crypto industry; build a national strategic Bitcoin reserve	Trump	Positive for Bitcoin and crypto exchanges	Regulatory relief could take time, depending on changes in leadership at the SEC; national strategic Bitcoin reserve unlikely to gain traction
Pursue policies that discourage adherence to ESG principles	Trump	Negative for asset managers with large ESG businesses	Can be accomplished through executive orders

Outcomes And Implications

A Harris win would be a moderate negative for the financial sector. Under a Harris presidency, there would be higher odds that the Basel III Endgame capital rules will be completed and implemented, implying higher capital requirements and costs for banks, especially those with trading, market-making, and investment-banking operations.

After months of criticism, the Federal Reserve announced a re-proposal of the Basel III Endgame capital rules in September, which significantly scaled back the increase in capital requirements for banks. The new version calls for a more modest 9% average increase in tier 1 capital for globally systemically important banks (GSIBs) versus an earlier proposed hike of 19%. Other large banks that are not GSIBs would see their capital requirements increase by roughly 3-4%, mostly due to the requirement that they include unrealized gains and losses on their securities holdings in regulatory capital. Otherwise, they would be exempt from many of the initial proposals.

Chart 2 Banks Are Already Well Capitalized



* Source: FDIC

The original proposal was revamped in order to build a stronger consensus among regulators. However, it is not clear whether the revised plan will garner the broad-based support of officials at the Fed and regulatory agencies. The changes will be subject to more public comment and are likely to spark another round of lobbying from the banks, and could even invite litigation from the industry. As a result, there could be additional pressure to further water down the capital rules.

Under a Harris presidency, there would be higher odds that the Basel III Endgame capital rules for banks will be completed and implemented

Regardless of final outcomes, the U.S. banking industry is very well capitalized and should be able to comply with the new standards without much disruption (**chart 2**). Moreover, banks have already cut back on lending in the past year to preserve capital in an anticipation of much higher capital requirements (**chart 3**). Now that the original proposal has been significantly watered down, the banking industry has ample capacity to increase lending. It will also be in a better position to boost share buybacks and dividend payouts to shareholders.

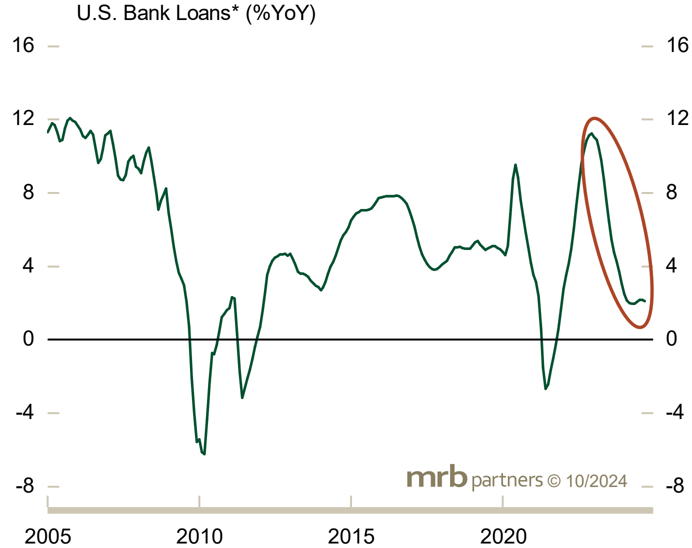
Under a Harris presidency, banks and other financial firms would continue to face a muscular CFPB. With the support of the Biden Administration, the CFPB has been waging a war on "excessive" bank fees. Earlier this year, it proposed a rule capping late credit card fees at US$8. If passed, the measure could reduce the non-interest income of banks and major credit card issuers. Industry groups are challenging the rule in the courts and credit card companies have signaled that they will take mitigating actions such as raising interest rates and increasing other fees. Credit card interest rates have soared in recent years and banks could push them even higher in anticipation of the cap on late fees (**chart 4**).

In addition, the CFPB has proposed substantial changes to the Fair Credit Reporting Act that would ban medical debts from being included in credit reports. The rule is subject to public comment and will likely not take effect until 2025, but if passed, it would mean that banks and other lenders would have to shoulder higher default risks.

Harris would also continue to ramp up oversight of alternative investment managers such as private equity firms and hedge funds. These firms have been subject to a slew of new regulations issued by the SEC that require them to be more transparent about the fees they charge and ban preferential redemption terms for some investors. The rules, which went into effect last year, will be phased in, meaning that if elected, Harris would complete their implementation.

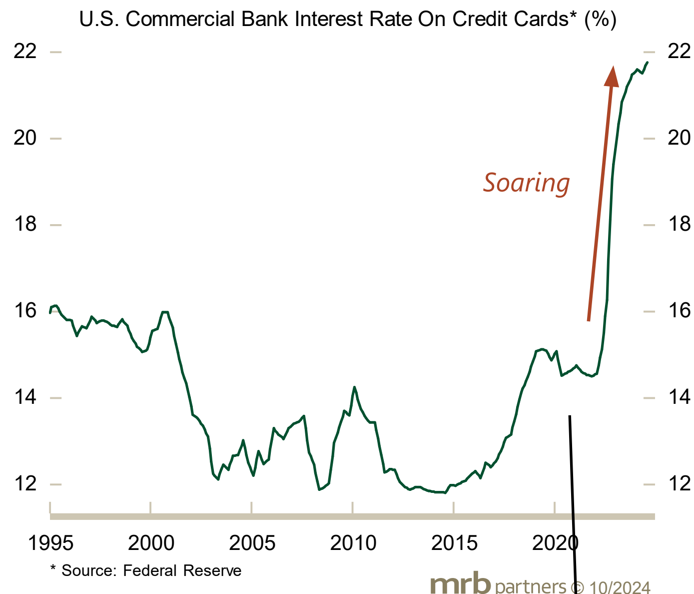
Over the years, lending outside of the traditional bank channels has expanded significantly. The Financial Stability Oversight Council has been assessing the systemic risks associated with the growth of the non-financial intermediation ecosystem (i.e. shadow banking). Under a Harris Administration, efforts to increase oversight of non-bank entities such as investment funds, insurance companies, non-bank mortgage originators, and other financial intermediaries would likely continue to move forward, which could result in some headline risk for these firms, although the design and implementation of new policies will take time and require coordination across jurisdictions.

Chart 3 **Loan Growth Has Slowed Considerably Since Early-2023**



* Smoothed; source: Federal Reserve

Chart 4 **Credit Card Interest Rates Have Risen Significantly In Recent Years**



* Source: Federal Reserve

lmao is this not USURY?!

Harris has recently signaled a friendlier stance towards cryptocurrencies, but what that entails is unclear. Under Biden, the SEC has brought various enforcement actions against the crypto industry, accusing crypto exchanges of offering unregistered crypto securities on their platforms. In addition, other regulators have tried to deter banks from dealing with crypto companies due to concerns about their safety. Given that Democratic lawmakers are sharply divided on the issue of crypto regulation, Harris is unlikely to prioritize exploring new approaches for the regulation of digital assets.

In contrast, a Trump presidency would bring regulatory relief to the broad financial sector. Given the timelines involved, the revised Basel III Endgame capital standards will likely not be finalized before a new administration takes over the White House in January 2025. Other rules for the banking industry designed to strengthen liquidity and provide buffers against potential losses will not move forward until the Basel draft is finalized. These include a proposal requiring banks with more than US$100 bn in assets, but not GSIBs, to issue long-term debt to absorb losses in the event of failure.

The lengthy process of finalizing the capital rules would give Trump an opportunity to delay, further weaken, or withdraw the regulations altogether

The lengthy process of finalizing the revised capital rules would give Trump an opportunity to delay, further weaken, or withdraw the regulations altogether by replacing the existing leadership at the OCC and CFPB with appointees that would carry out his agenda to ease regulations on the banking industry. Such an outcome would be facilitated if the Republicans regain control of the Senate.

Banks and credit card issuers would benefit from efforts by Trump to weaken the CFPB

Banks and credit card issuers would also benefit from efforts by Trump to weaken the CFPB. Trump would almost certainly fire the current CFPB director, Rohit Chopra, and replace him with a more industry-friendly consumer finance watchdog that would abandon efforts to cap credit card fees and ban medical debt from credit reports. While Trump has recently proposed a temporary cap of 10% on credit card interest rates, the measure is unlikely to be supported by a majority of Republican lawmakers who would fear that the cap will limit credit availability.

If elected, Trump has promised to fire SEC chair Gary Gensler and replace him with a new leader

If elected, Trump has promised to fire SEC chair Gary Gensler and replace him with a new leader that would roll back regulations on the financial industry. The change of leadership at the SEC would benefit crypto exchanges, as well as hedge funds and private equity firms. However, Trump does not have the legal authority to fire Gensler, whose term ends in June 2026. Typically, SEC chairs step down when there is a change in the White House, and another commissioner serves as the acting chair until the Senate confirms a permanent replacement.

Even if Gensler resigns as chairman, he may stay on as a commissioner, which would preserve the current 3-2 Democratic majority at the SEC[1]. If Gensler remains

[1] The SEC has 5 commissioners who are appointed by the President of the United States with the consent of the Senate. One of the commissioners is also designated as chairman by the President. Terms are staggered such that each commissioner's term ends on June 5 of each year. To ensure that the SEC remains non-partisan, no more than 3 commissioners may belong to the same political party.

as a commissioner, Trump will not have a Republican majority on the Commission before June 2026 when Gensler's term ends (i.e. the earliest that one of the other two Democratic commissioners can be replaced is June of 2027). This could delay regulatory relief for the crypto industry. Still, new enforcement actions would likely diminish with an acting Republican chairperson.

Trump's idea to build a strategic national Bitcoin reserve is unlikely to gain much traction

Trump's pledge to build a strategic national Bitcoin reserve similar to the U.S. government's gold reserves would benefit crypto assets. However, the idea is unlikely to gain much traction given that Bitcoin lacks the stability, transparency, and liquidity to be a reserve asset. Furthermore, unlike other reserve assets such as gold and oil, there are no uses for Bitcoin.

Barring a crisis in the shadow banking system, a Trump Administration is unlikely to push for or prioritize the regulation of non-bank lenders. These firms would still continue to face increased scrutiny by regulators, but the odds that a new regulatory framework will be developed to compliment the current monitoring regime for shadow banks are much lower under a Trump presidency.

Finally, to the extent that a Trump Administration would be more lenient towards M&A activity, the investment banking arms of broker-dealers and money center banks would benefit from the increased deal flow that would result from less scrutiny of corporate mergers. A less restrictive approach to bank mergers could also boost the valuations of regional or smaller banks, although large institutions would continue to face constraints on consolidation.

Asset managers with large ESG businesses would potentially fare less well if Trump wins the election

Asset managers with large ESG businesses would potentially fare less well if Trump were to win the election. These firms could see their asset growth weaken or contract as Trump increases pressure on asset owners to reduce their ESG investments and pursues policies that would slow the growth of clean industries.

Table 2 provides a full list of the potential winners and losers under each candidate based on the above discussion.

Table 2 **Potential Financial Sector Winners And Losers Under Each Candidate**

Harris Victory		Trump 2.0	
Winners	Losers	Winners	Losers
	GSIBs, regional banks Broker-dealers Consumer finance companies* Non-bank financials Alternative asset managers Crypto exchanges	GSIBs, regional banks Broker-dealers Consumer finance companies* Non-bank financials Alternative asset managers Crypto exchanges	ESG-focused asset managers

*Mostly credit card issuers

mrb partners © 10/2024

Final Word: *A win by Trump would be the better outcome for the financial sector. Under Trump, banks would face an easier regulatory environment including a further watering down and possible withdrawal of the Basel III Endgame capital rules, as well as more industry-friendly regulatory agencies such as the CFPB. A more lenient regulatory apparatus would also benefit consumer finance companies (credit card issuers), broker-dealers, non-bank entities, and possibly alternative asset managers and crypto exchanges, depending on whether and when there is a change in leadership at the SEC. Conversely, a Harris win would bring stricter regulations and greater oversight of the financial sector. However, absent Democratic control of Congress, a Harris Administration would be limited in passing new financial legislation. Moreover, many of the actions promulgated by regulatory agencies will be subject to legal challenges and may be delayed or overturned.*

The election is too close to call at this juncture and regulatory changes will take time to have an impact regardless of who wins, including the control of Congress. For now, we remain overweight the financial sector, with a focus on bank stocks, which should benefit from the ongoing economic expansion.

Salvatore Ruscitti
Strategist, U.S. Equities

MacroResearchBoard

mrb partners

Independent Investment Strategy

MRB - Macro Research Board is an independent top-down research firm that provides integrated, global, multi-asset investment strategy as well as actionable absolute and relative return ideas. Our views incorporate a long-term outlook based on in-depth thematic research, together with a rigorous set of frameworks and forecasting models/indicators that drive 6-12 month asset market performance. MRB's team of analysts and strategists leverage the firm's robust research engine and their extensive experience to form one cohesive house view and ensure that investment strategy is articulated in a client-friendly manner.

For more information, please contact:
Client Relations
clientrelations@mrbpartners.com

London
24 Old Bond Street, 3rd Floor,
London, W1S 4AP, United Kingdom
Tel (+)44 (0) 20 3523 9618

Montreal
1275 Ave. des Canadiens-de-Montréal, Suite 500
Montreal, Quebec H3B 0G4, Canada
Tel +1 514 558 1515

New York
1345 Avenue of the Americas, FL 2
New York, NY, 10105, United States
Tel +1 212 390 1148

MRB Research Coverage

- Weekly Macro Strategy
- Global Macro & Investment Themes
- Global Asset Allocation
- Absolute Return Strategy
- U.S. & Developed Market Strategy
- China & Emerging Market Strategy
- Regional Equity Strategy
- U.S. Equity Sectors Strategy
- Global Fixed Income Strategy
- Foreign Exchange Strategy
- Commodity Strategy
- Webcasts & Live Events