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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

**Brian Gardner**  
Chief Washington Policy Strategist  
[bgardner@stifel.com](mailto:bgardner@stifel.com)



**A recent speech by Scott Bessent confirmed our expectations that the Trump administration will try to consolidate bank regulatory policy. The consolidation of power over banking regulation is a short-term positive for banks but poses a longer-term risk. In the future, a progressive, anti-bank administration will be able to utilize this same playbook and more easily implement policies that negatively impact the industry. The Trump administration's proposals continue a trend in which there are big swings in policies when the White House changes. We see this as a negative for the sector.**

Earlier this month, Treasury Secretary Scott Bessent gave a speech to the Economic Club of New York, in which he laid out the Trump administration's agenda for bank regulation and supervision. The Bessent speech established a road map for the direction of banking regulation under the Trump administration. Here are the key takeaways:

- **Regulatory coordination with Treasury and Office of Management and Budget (OMB)** – Secretary Bessent said the Office of the Comptroller the Currency (the OCC), the Federal Deposit Insurance Corporation (the FDIC), and the Federal Reserve will submit regulatory actions for review to the OMB in an attempt to make financial regulation “efficient, effective, and appropriately tailored.” Involving OMB will increase the politicization of banking regulation by subjecting rules to the review of an entity that is part of a president's executive office. This can be a positive when an administration is seen as pro-bank, but it could be a negative for the sector when an administration is anti-bank. Whether involving OMB will make regulations more efficient and effective remains to be seen. While OMB has deep experience in economic policy analysis, it has limited experience with banking regulation. Also, adding another level of bureaucracy could potentially slow down the regulatory process rather than making it more efficient.
- **Supervision** – In his speech, Secretary Bessent said he intends to use the Financial Stability Oversight Council (FSOC) to “drive change in our regulatory environment.” This comment was included in a section of the speech in which he discussed supervision, which is different from regulation. The latter is the process of writing the rules under which banks operate. The former is the oversight process through which bank examiners actually enforce the rules. A big part of the Trump agenda is its approach to deregulation, which can be implemented behind the scenes in the manner by which bank examiners supervise individual banks. There are differences in how banking regulators approach supervision under different political parties, but Treasury typically keeps the process at arm's length. Opening the door to more Treasury involvement in this process could lead to more political influence over how examiners and supervisors treat individual banks.
- **Agency consolidation** – Mr. Bessent's speech was clear on the point that the administration is not seeking to consolidate the regulators. Consolidation would require an act of Congress, and the chances of that happening are quite low.
- **Supplementary Leverage Ratio (SLR)** – It has been rare for a Treasury Secretary to opine on specific policy proposal, but Bessent is clearly pushing for changes to the SLR, which has been seen as a binding constraint on banks regardless of their risk profile. It also disincentivizes banks from holding U.S. Treasury securities at a time when it appears the Trump

administration wants lower yields on government bonds. Changing or eliminating the SLR could increase demand for Treasuries by freeing up banks to buy more of them.

- **Bank M&A** – Bessent did not directly comment on bank M&A, but we continue to believe the administration is supportive of mergers, including mergers of large regional banks, but there are questions about how large a size of a bank merger the administration will allow. The pending merger between Capital One Financial and Discover Financial will be seen by investors as a proxy for the administration’s appetite for big bank consolidation.

**Bottom-line:** Secretary Bessent’s recent speech and related press articles about the Trump administration’s banking regulation agenda are near-term positives for the sector. As the agenda is implemented, we expect investors and the industry will react favorably to deregulatory initiatives. There are, however, longer-term risks for the sector. Over time a progressive administration could use the proposed playbook to consolidate oversight of the industry in ways that negatively impact it. Political risk for the industry is growing as the policy swings that result from the change in power are likely to become more pronounced.

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