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**TO: Angel Capital Association**

**FROM: Eris Group**

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**RE: Election 2016 Update and impact on Financial Services**

### **Presidential Election**

**Results: Donald Trump wins with at least 279 electoral votes**

#### **What this means:**

This is an unexpected victory for Donald Trump and the Republican party. It will take weeks to determine the full extent of the election's impact. However, there are several key takeaways we know immediately.

- 1) Until January 20, we should expect the Obama Administration to continue their priorities.
- 2) President Trump will appoint three new members to the Securities and Exchange Commission including the new Chair.
- 3) It is expected that under President Trump and his SEC, they will be less focused on consumer/investment protection and more focused on capital formation with the ultimate goal of increasing jobs.
- 4) It is anticipated that a Trump SEC will look to expand the role of accredited investors allowing for additional entrants into the Regulation D investment space.
- 5) On Capitol Hill, legislation such as HALOS Act, 99 Investors, and changes to the accredited investor definition will find broad based support among House and Senate Democrats and with a Trump Administration and not be subject to opposition.
- 6) Donald Trump will have at least one appointment to the Supreme Court, and potentially more given the longevity of the existing Justices. This means the Court will have a conservative lean for some time to come.
- 7) The Trump administration will have the ability to appoint a number of key regulators, including a large number of Federal Reserve Board members, FDIC Board Members, SIPC Board Members, the majority of the SEC and a new CFPB director. This will have a

significant impact on financial policy, particularly “fintech” policy as that has largely been driven by regulators.

- 8) One of the first legislative items to pass will be a budget with reconciliations instructions to allow for a repeal of Obamacare. Reconciliation, a word you will be hearing a lot more about, protects key policy initiatives from Senate rules and the potential for the minority to filibuster. Items considered under reconciliation such as 2010’s Obamacare can pass with a simple majority vote and are not subject to a filibuster. Senate rules, though, limit provisions that can be included. We would expect the first budget reconciliation package of the new congress to look very much like the Senate curative amendment which passed both chambers for FY 2016 and was vetoed by the President.
- 9) The Trans Pacific Partnership (TPP) trade deal is likely done, and future multilateral trade deals are going to be hard to find. We would expect a focus on bilateral deals and renegotiating existing deals – particularly one with Mexico that includes a focus on border security and remittances. In addition, with the United Kingdom in the throes of an exit from the European Union (Brexit), as a candidate Donald Trump supported expedited negotiations with the United States on a new US-UK trade and investment agreement recognizing our unique partnership. As Brexit unfolds, a Trump Administration will likely be supportive in ensuring reciprocal market access.
- 10) A large part of the early Trump administration will be dedicated to rolling back the Obama regulatory push. Aside from a few very large and significant pieces of legislation (Obamacare, Stimulus, Dodd-Frank etc.) the bulk of the Obama administration’s actions have been conducted through regulation and executive order. A great deal of this focus will be on the energy and environmental sector where a President Trump will want to reward and recognize coal producing states with a loosening of requirements on clean energy production.
- 11) Some sort of tax reform is likely to happen. The stars have aligned with Speaker Paul Ryan, Chairman Hatch, Chairman Brady and Democratic Leader Chuck Schumer to work on a bi-partisan tax reform.
- 12) Something will happen with immigration. While Trump pledged to build a wall, and have Mexico pay for it, we know that a Republican majority along with Democrats up in 2018 in blue states will provide the votes for changes in immigration from more border security to Trump’s still not defined “extreme vetting” expect immigration to be on the top of the agenda in 2017.

## **Senate Elections**

**Results: Republicans retain the majority, likely 52-48, pending the Louisiana runoff**

**Key Losses: Mark Kirk – R Illinois, Kelley Ayotte, R – New Hampshire**

### **What This Means:**

A Republican Senate means that Donald Trump will have a body that can quickly move his nominees to key posts. It also means that he will have a Republican Congress to advance his

agenda. Of note, expect the Congress to attempt to pass major reforms to the Dodd-Frank Act, including CFPB and FSOC reforms. In addition, look for efforts to pass regulatory relief for small and mid-sized financial institutions. The outstanding question is whether this legislation would require inclusion of provisions that increase regulation on the largest financial institutions in order to circumvent criticism from the progressive Democrats in the Senate and gain 60 votes.

For Republicans, Senator Mike Crapo will take over as Chairman of the Senate Banking Committee. Expect a much more active agenda than that pursued by Chairman Shelby, including an effort to tackle housing finance reform, regulatory relief and promoting capital formation. However, the first quarter of 2017 will likely be consumed by the need to consider a slew of Trump appointees, including back logged SEC appointments.

The elevation of Senator Chuck Schumer (D-NY) to Democratic Leader traditionally opens up a seat at the Committee. Names being talked about to replace Senator Schumer include centrist Gary Peters (Michigan) and Mazie Hirono (Hawaii).

The Senate Finance Committee will continue to be chaired by Senator Orrin Hatch. Senator Hatch will be a leader on efforts to pass tax reform and to craft critical “budget reconciliation” language, which is legislation the Senate can consider by a simple majority vote.

### **2018 Senate Democrats**

The results of Tuesday night are being felt most acutely with the Senate Democrats such as Senators Jon Tester (MT), Claire McCaskill (MO), Joe Donnelly (IN), Heidi Heitkamp (ND), Tammy Baldwin (WI) and others who will face a state-wide electorate in states that voted for Trump.

While many point to the ascendance of Elizabeth Warren and Bernie Sander’s style messaging and the way Trump used a similar populist appeal to win, we caution to remember that each Senator and Senate race is individual. A successful candidate will have to pick and choose from a number of various issues and messaging strands to be successful in this turbulent environment and there is not a one-size fits all approach. We expect moderate Democrats to continue to be the focal point cutting the deals necessary to get key legislation across the finish line.

### **House Elections**

**Results: Republicans retain the majority by a likely margin of 239-193, with several races still to be decided.**

#### **Key Losses:**

**Congressman Scott Garrett (NJ-5)**

**Congressman John Mica (FL-7)**  
**Congressman Guinta (NH-1)**  
**Congressman Robert Dold (IL-10)**

**What This Means:**

Republicans were expected to win the House, and with the Republican Senate and Administration, this means we can expect a continuation of the agenda that we saw in the 114<sup>th</sup> Congress, where there are broad attacks on the Dodd-Frank Act, and its children, the CFPB and FSOC.

Harder lifts such as elimination of the CFPB, repeal of FSOC and other key Republican initiatives may die in a narrowly controlled GOP Senate because of the Democratic minority. What we can expect though is a raft of small measures previously passed on a bipartisan basis to foster economic growth and capital formation to move quickly through the House and Senate and to the President's desk as part of a job creating, regulation cutting agenda.

Finally, the National Flood Insurance Program is due for reauthorization, and while we can expect efforts to scale it back in the House, there is already a group of bipartisan Senators with experience in putting together compromise legislation that strengthens the program through long term reauthorization. This group will be aided by previously seen fault lines within the Republican party where coastal and riverine Republicans with experiences in flood disasters clash with fiscal conservatives who have ideological objections to a federal insurance program.

Jeb Hensarling is expected to retain his gavel on the House Financial Services Committee, though the loss of Scott Garrett and retirement of Randy Neugebauer will reshuffle the subcommittee chairs. Blain Luetkemeyer (R-MO) is expected to chair the Financial Institutions Subcommittee, and Sean Duffy (R-WI) and Bill Huizenga (R-MI) are expected to take the gavels for the Capital Markets and GSE and the Housing and Insurance Subcommittees, though it is unclear who will chair which Subcommittee.

On the Democratic side, there will be little change among the leadership and top tier. Freshman-elect Josh Gottheimer who defeated Scott Garrett is hoping to join the Committee. Gottheimer who was broadly supported by Wall Street models himself as fiscally conservative and socially liberal and will align well with the current block of New Democrats who are on the Committee.

At the Energy and Commerce Committee Fred Upton (R-MI) is term limited with John Shimkus (IL) and Greg Walden (OR) battling for the gavel. It is unclear who will win, but both candidates will represent a more conservative shift in the Committee leadership.

The Ways and Means Committee will continue to be chaired by Kevin Brady (TX). Tax reform will gain more speed and acceptance in a Trump Administration along with Brady, Speaker Ryan, and Minority Leader Schumer.

## **2018 House Democrats:**

A sizable number of Democrats serving in the next Congress either came in the last two years of the Bush Presidency or have never served with a Republican in the White House. House Democrats will have to re-tool their messaging and appeal and analyze why they only achieved a net gain of six seats.

Returning to the House of Representative is Congressman-elect Brad Schneider (D-IL) who was the lead Democratic sponsor of the HALOS Act in the 113<sup>th</sup> Congress.

Nancy Pelosi has expressed her desire to continue serving as Democratic leader and as the strongest fundraiser in the Democratic Caucus and a proven unifier in the minority against House Republicans she is likely to continue in that role. Democratic Caucus Vice Chairman Joe Crowley will ascend to Caucus Chair.

Moderate New Dems which did grow on Tuesday with newly elected Members not only from Republican held seats, but also replacing incumbent Democrats, will continue to be a potent factor in promoting bi-partisan consensus. Under President George W. Bush this cohort helped achieve some of his most important accomplishments such as FSC-ETI and Trade. The Trump Administration will also seek to leverage them wisely. Smart advocates who want to see their legislation become law will have to gain support among a bloc of House Democrats to overcome any potential Senate filibuster.

## **Conclusion:**

What this election cycle has shown is whatever you expect to happen, it probably won't. As Winston Churchill said, "Never let a good crisis go to waste". While our country isn't facing the economic crisis of 2008 that President Obama faced, we are facing a crisis of the role of government, income insecurity, the role of non-college educated workers in a changing global economy, rising healthcare costs, foreign threats and a myriad of other issues.

In 2017 clients, will have to be post pro-active and re-active, defense and offense to get their message heard. Pro-active in educating a brand-new Administration, potentially filled with a lot of new faces, on the challenges that need fixing. Reactive on quickly assembling what will be a multi-dimensional chess board of allies and advocates that will make Machiavelli's head spin, to get legislation passed and regulation reformed.

The results of Tuesday provide a unique opportunity not seen since 2006 for a receptive environment for pro-active regulatory and legislative changes. We are working with clients to urge them to think of ways a Trump Administration along with a Republican Senate and House can address regulatory challenges facing their business.

Major change which happened on Tuesday can be scary and disruptive. No one deals well with change, especially the status-quo.

While it will take a while for America to un-pack what happened on Tuesday, we stand ready to help our clients navigate 2017 and beyond to create the allies and alignment to achieve results.