Trump Candidate for Top Regulatory Post Eyes Big Bank Breakup

Ronald Orol

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Tom Hoenig, a potential Trump candidate for a key banking regulation job, said Monday he supports reinstating a law that would effectively break up the largest financial institutions by separating their investment and commercial divisions.

Hoenig, currently vice chairman at the Federal Deposit Insurance Corp., told a conference organized by former **Federal Reserve** Chairman Paul Volcker that Congress's 1999 dismantling of the 1933 Depression-era Glass-Steagall Act created a host of risks that led to the 2008 financial crisis.

"When we took away Glass-Steagall, it was a choice we made, but I do want to think about the consequences," Hoenig said. "You allowed the commercial banks with the government safety net to engage in these other activities. When you did that, you provided them an expanded subsidy to do trading, whatever it is, etc. And those other institutions were now at a disadvantage, so they had to change their model."

Hoenig is one of three possible candidates to fill the Fed's post of vice chairman for banking supervision, according to a person familiar with the situation. Other potential candidates include two libertarians -- Paul Atkins, a former commissioner at the Securities and Exchange Commission, and John Allison, a member of the Cato Institute's board and former CEO of regional bank **BB&T Corp.** (**BBT**) , the person said. The Wall Street Journal first **reported** that the three individuals were potential candidates.

Currently, Fed Governor Daniel Tarullo effectively fills the Fed's bank supervision role even though he has not been confirmed by the Senate for that specific position. Many people believe he will be replaced, or sidelined, in the coming months.

Even if Hoenig becomes the Fed's banking supervision chief, it's unclear whether he would have any success in driving reinstatement of Glass-Steagall. At the very least, he would face long odds on Capitol Hill.

Hoenig, who was president of the Kansas City Fed for 20 years and a former member of the central bank's monetary policy committee, declined to comment during an interview with reporters on whether he was being considered. He reiterated, however, his proposal to require more capital reserves at the largest financial institutions and simplify regulations for small and regional banks. Hoenig has argued that the biggest banks aren't actually as well capitalized as their reporting suggests.

The Federal Reserve with Hoenig as vice-chairman of bank supervision would be a vastly different institution than one with Atkins or Allison in the same role, as the candidates have very different perspectives. The Trump team met with Atkins and Allison late last month.

One former top conservative government official familiar with the SEC said Atkins is too political for the job, has very right-wing views and would support more deregulation than Hoenig.

Atkins, a Trump transition team leader, served as a Republican commissioner at the SEC from 2002 to 2008. He's probably best known for his fervent opposition to an effort by the agency's then-chairman, William Donaldson, to regulate hedge fund managers and increase mutual fund board independence.

Hoenig and other participants at Monday's conference offered differing positions about whether the largest hedge funds should be subject to greater restrictions and regulations.

Former International Monetary Fund chief economist Simon Johnson pointed to a recent analysis completed by the Financial Stability Oversight Commission, an interagency group charged with identifying systemwide risks, that raised concerns about the largest hedge funds.

He noted that there has been significant pushback from the industry, which is "deeply disturbing," and cited the late 1990s collapse of Long-Term Capital Management as an example of why it's "really important to consider, going forward, the kinds of risks" highly leveraged funds maintain.

Hoenig, on the other hand, said the potential failure of hedge funds makes them attractive. "They go out of business frequently," he explained. "To me that's wonderful. If we give them [hedge funds] a perception of somehow being within the safety net, they will leverage up even more and we will have bigger problems as a result."

Isaac Boltansky, an analyst at Compass Point in Washington, said Hoenig would probably be much tougher on the largest banks than Atkins. The companies that would likely face the toughest additional restrictions under Hoenig include **Bank of America** (**BAC**) , **Citigroup** (**C**) , **JPMorgan Chase** (**JPM**) , **Wells Fargo** (**WFC**) ,**Goldman Sachs** (**GS**) and **Morgan Stanley** (**MS**) .

Atkins, or ex-SEC Commissioner Dan Gallagher, might be likely candidates to succeed Mary Jo White at the SEC, Boltansky added. Either would likely try to reduce the regulatory burdens for hedge fund and private equity managers, moving first to trim the reporting requirements under SEC Form PF.

Former Rep. Barney Frank, D-Mass., a co-author of the landmark law that was written in the wake of the 2008 crisis, told *TheStreet* that he would expect Trump to pick cabinet officials who don't believe strongly in financial regulation and would manage much like former SEC Chairman Christopher Cox, who was chairman from 2003 through the financial crisis.