



Failed Nominee Weiss Morphs Into Key Debt Official at Treasury

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February 24, 2015

(Bloomberg) -- Eight days after joining the Treasury Department as an adviser, Antonio Weiss was the lead U.S. official listed at a meeting with Wall Street executives. It's a role typically played by the undersecretary for domestic finance -- the same post Weiss lost after Democratic senators stymied his nomination.

Weiss's presence at that Feb. 3 meeting on quarterly debt sales shows him diving into many of the same tasks that would have come with the undersecretary's job. The former Lazard Ltd. global head of investment banking is now working on issues ranging from debt management to housing finance and global market developments. One big difference: his job as counselor to Secretary Jacob J. Lew doesn't require Senate confirmation.

As one of the few top Treasury aides with broad financial-industry experience, Weiss is likely to take on an influential, if low-profile, function shaping policy, according to former officials. That comes at a crucial time, with the cost of servicing the \$18.1 trillion national debt poised to rise as the Federal Reserve prepares to increase interest rates from near zero.

"He could have a very powerful role," said Joseph Engelhard, a former deputy assistant Treasury secretary who is now senior vice president at Washington-based consultant Capital Alpha Partners LLC. "My guess is Weiss will be very satisfied with his ability to influence the process."

Shadow Undersecretary

After Weiss, 48, withdrew last month as President Barack Obama's nominee to be the Treasury's domestic finance chief, Lew tapped him for an advisory role that can change at the secretary's discretion. The sequence of events has raised questions about whether the administration is trying to circumvent the normal Senate confirmation process.

"I certainly think the intent of having him there is to be a shadow undersecretary," said Mark Calabria, director of financial-regulation studies at the Washington-based Cato Institute, which supports free markets, and a former Republican Senate aide. "It does seem to be sticking their nose at Congress."

The White House is conducting a broad search for experienced people who want to serve in the administration, spokeswoman Jennifer Friedman said in an e-mail when asked about the undersecretary vacancy at the Treasury. “When this process has concluded and we are prepared to make an announcement, we will do so.”

Identifying and vetting potential nominees can take months.

Calabria said he’ll be watching to see if the administration nominates someone instead of Weiss. “If they don’t send up another name anytime soon, it just looks like their plan is to have him there the next two years,” he said.

Weiss’s Jan. 26 arrival bolstered a short-staffed domestic finance unit that faces a new challenge as the Fed prepares to tighten monetary policy.

Fed Tailwind

“The Treasury is operating with massive tailwinds since the Fed has bought a bunch of their debt and is holding rates at a very low level, which makes it much easier to finance the deficit and debt,” said Stephen Stanley, chief economist at Amherst Pierpont Securities LLC in Stamford, Connecticut. That changes as the Fed “begins to normalize rates.”

The annual average yield on 10-year Treasury notes is forecast in the Obama administration’s budget to increase to 3.3 percent next year from 2.8 percent this year.

Weiss would also be involved if the Treasury comes close to breaching the federal debt ceiling this year. Republicans in Congress have clashed with the Obama administration several times over raising the limit, which is suspended until March 15. The Treasury can take measures that probably will allow the U.S. to stay under the ceiling until September or October, the Congressional Budget Office estimated last month.

Lew’s Management

Weiss’s role is different from what he would have done as undersecretary, Lew said in a statement, without elaborating, when Weiss withdrew Jan. 12. Lew and Deputy Treasury Secretary Sarah Bloom Raskin will be increasingly involved in management of domestic finance, a person with knowledge of the matter said last month.

Weiss’s new position takes on added importance because the department has several high-level vacancies. The jobs, which require approval of the Republican-controlled Senate, become tougher to fill as the administration draws closer to its January 2017 exit.

In addition to debt management, housing and global developments, Weiss has been working on issues including market structure, state and local finance, and cybersecurity policy, according to a Treasury official who declined to be identified because of department policy. Weiss is also looking at infrastructure initiatives, retirement security, student loans and global financial market liquidity.

Treasury Vacancies

The undersecretary position, the Treasury's liaison to financial markets, has been vacant since Mary Miller left in September. Matthew Rutherford, who was assistant secretary for financial markets, had filled in as acting undersecretary until his departure Jan. 30.

Seth Carpenter, who had been a senior adviser at the Treasury, has been nominated to take Rutherford's assistant secretary slot. Another top domestic finance job, assistant secretary for financial institutions, has been vacant since April, with Amias Gerety, another Treasury counselor, doing much of the work.

Financial Stability

Weiss could become influential with the Financial Stability Oversight Council, a group of regulators chaired by Lew. Rutherford, as acting undersecretary, and Miller led the deputies committee, which reports directly to officials including Lew, Fed Chair Janet Yellen, and Securities and Exchange Commission Chairman Mary Jo White.

The FSOC deputies decide which companies are considered by the top regulators for designation as systemically important non-bank financial firms and subjected to Fed oversight.

"All the real work is done at the deputies level," said Engelhard, the former Treasury official.

A counselor at Treasury is typically lower-profile than a Senate-confirmed official, and the Treasury has in the past used the title to bring in advisers, such as Wall Street executives, who often prefer to avoid the nomination process or want to get to work quickly.

Former Secretary Timothy F. Geithner hired officials including former Bear Stearns Cos. executive Lee Sachs in the aftermath of the financial crisis. The department also has given the title to some nominees while they were awaiting Senate confirmation, such as former Citigroup Inc. economist Nathan Sheets, now the undersecretary for international affairs.

Different Case

Weiss's case is different. He was nominated and backed out after facing opposition from Democratic lawmakers led by Senators Elizabeth Warren of Massachusetts and Richard Durbin of Illinois. Durbin, normally a legislative ally of Obama's, was concerned about Weiss's work while at Lazard on corporate tax-avoidance strategies known as inversions.

Warren led the campaign against Weiss's confirmation, saying the administration doesn't need more Wall Street veterans and criticizing Obama for choosing a banker whose work included inversion deals, which the president has sought to curb. Press representatives for Warren and Durbin declined to comment on Weiss's role.

Camden Fine, who as president of the Independent Community Bankers of America had criticized the nomination, said he isn't troubled by Weiss's current role.

The ICBA's opposition wasn't about Weiss personally or his qualifications, said Fine, whose Washington-based group represents about 6,500 lenders. "It was the never-ending revolving door between Wall Street and Treasury," he said.