

The Deal

Boehner's departure hurts chances for bank regulatory relief

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Beleaguered House Speaker John Boehner's announcement Friday that he will resign from his post in October will likely make it more difficult for Congress to reach a deal to pass a bank regulatory relief bill currently under consideration, analysts said.

The legislation would roll back aspects of the Dodd-Frank financial reform law enacted in the wake of the 2008 financial crisis. The package has a variety of components but a key measure seeks to raise the asset threshold at which a bank would be automatically designated a systemically important financial institution from \$50 billion to \$500 billion. (The legislation does maintain regulators' discretion to designate some smaller regional and mid-sized banks based on their risk profile.)

As part of the Dodd-Frank Act, banks designated as SIFIs are subject to tough stress tests, as well as capital and liquidity requirements. They are also required to draft living wills explaining how they would unwind themselves in bankruptcy. Compliance with the provision is expensive and time consuming and is considered the driving force behind General Electric Co.'s (GE) recent move to divest itself of most of the financial assets within its GE Capital unit, the escaping designation as a SIFI.

Senate Banking Committee Chairman Richard Shelby, R-Ala., attached the relief package to a must-pass financial services spending bill that was approved in July and it cleared his committee on a 16-14 party line vote but in its current form it is unlikely to remain the spending bill.

Some Democrats are supportive of raising the threshold to \$100 billion or \$150 billion but not to \$500 billion as Shelby and many Republicans would like.

Donald Lamson, of counsel at Shearman & Sterling LLP in Washington, said Boehner's resignation pulls the House further to the right and may make it more complicated for a future House speaker to compromise with Democrats to get things done. He said Boehner's resignation makes it more difficult to get Shelby's bank bill through the House. "It pushes it back to the end of the line," he said.

Jaret Seiberg, analyst at Guggenheim Partners LLC in Washington, said in a note that the Ohio Republican's departure risks further eroding relations on Capitol Hill all of which is a "negative" for Shelby's bill.

"The way for a higher SIFI level to proceed is as part of a bipartisan deal," Seiberg said. "If Democrats and Republicans are fighting over core social issues like Planned Parenthood or Obama legacy issues like his healthcare plan then we have trouble seeing how there will be enough bipartisanship left to cut a deal."

Mark Calabria, director of financial regulation studies at the Cato Institute, agrees that Boehner's departure lowers the odds that Shelby's provisions are approved because Republicans will be even less likely to accept a compromise bill that is backed by Democrats.

Calabria acknowledges that there is no likelihood that Shelby's measure to raise the threshold to \$500 billion will be approved by the Obama administration anyway. However, he believes there is a small possibility that the SIFI threshold could be raised as part of a budget deal. Calabria said he believes that there is room for some sort of compromise on slightly raised SIFI threshold, especially if Boehner feels he can rely on more Democratic votes for the budget's approval. "He no longer has to worry that cutting a deal with Democrats will get him ousted from his Speaker role," Calabria said.

Alternatively, Calabria suggests that there is a small possibility that a SIFI threshold increase could be agreed to separately from the appropriations or regular legislative process by both a Senate or House unanimous consent approval, which means that no formal vote takes place in either chamber.