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In Trump Era, The Fed's Powell Could Be 'Voice Of Moderation'

By **Evan Weinberger**

Law360, New York (November 2, 2017, 4:03 PM EDT) -- President Donald Trump’s selection of Jerome Powell to chair the Federal Reserve should provide a level of stability in monetary and regulatory policy that banks will appreciate, but it also means that the extensive rollback of Dodd-Frank Act rules that many had expected may not come.

Trump officially selected Powell, a Fed governor since 2012, to replace outgoing Fed Chair Janet Yellen during a Thursday event at the White House. While other names on the list of potential nominees might have signaled a sharper break with current Fed policy, Powell’s selection suggests a level of continuity that had not been expected when Trump took office.

While the president has promised to "do a big number on Dodd-Frank," the 2010 financial reform law, Jerome Powell's approach to deregulation is expected to be smaller-bore than many in the banking world had hoped. (AP)

While the president has promised to “do a big number on Dodd-Frank,” the 2010 financial reform law, Powell’s approach to deregulation is expected to be smaller-bore than many in the banking world had hoped. And he’s seen as an heir to Yellen on the slow pace of interest rate increases and on the shift toward shedding assets on the Fed’s balance sheet.

“Powell could be sort of a voice of moderation and continuity for all the pent-up desire for deregulating boldly,” said Douglas Landy, a partner at Milbank Tweed Hadley & McCloy LLP.

Trump said at the announcement that one of Powell's key tasks would be to maintain the stability of the U.S. banking sector.

“That is why we need strong, sound and steady leadership at the United States Federal Reserve. He will provide exactly that type of leadership,” Trump said from the White House Rose Garden.

Powell in turn said that he would look to make changes to both monetary and regulatory policy in response to market conditions, but intimated that he would not be making many drastic changes to the rules banks operate under.

“Our financial system is without doubt far stronger and more resilient than it was before the financial crisis,” Powell said.

Powell is seen as the safe, if somewhat staid, choice in many circles. The Fed governor has voted with Yellen on interest rate decisions and regulatory policy since she took over as chair in 2013, and was briefly in charge of regulatory and supervisory policy after the departure of former Fed Gov. Daniel Tarullo earlier this year.

Trump had in fact seemed open to the idea of renominating Yellen, having lavished her with praise in several interviews during the process of naming a new Fed chair, but Republicans in the Senate and outside conservatives reportedly opposed keeping her on.

As for other potential nominees, including Stanford University economist John Taylor and former Fed Gov. Kevin Warsh, they were seen as potentially throwing a wrench into the Fed’s monetary policy and as wild cards on regulation.

Trump still has at least three spots to fill on the Fed's seven-member board of governors, and Taylor, at the very least, is still reportedly being considered for a now-vacant Fed vice chairmanship. A fourth could open up if Yellen elects not to serve out her term on the board, which expires in 2024.

So even if Powell is not seen as a radical change, others who take on positions at the Fed might be.

“From my conversations with the Fed, everybody knows change is coming because so many governors will be coming in the next year or two,” Landy said.

Even with those coming changes, Powell will bring a level of stability that should temper any radical moves, particularly on regulation and supervision of big banks, said Michael Nonaka, a partner at Covington & Burling LLP.

“He has experience being on the board, so he understands how large bank supervision works, understands the need for certain changes to the Dodd-Frank Act,” Nonaka said.

Powell has spoken about specific areas that he could address as Fed chair, including changes to Dodd-Frank’s ban on proprietary trading, known as the Volcker Rule, and tweaks to the annual stress-testing and resolution planning processes.

But those changes would be relatively minor, if they happen at all. For example, a change to the Volcker Rule that would exempt banks with $10 billion or less in assets would require action from Congress, and that is unlikely in the near term.

And other proposals, like increasing disclosures prior to subjecting banks to annual stress tests or changing the so-called living will exercise from an annual event to a biennial one, are largely uncontroversial.

In fact, while Powell has said that he supports many of the regulatory changes proposed in a June report from the U.S. Department of the Treasury, he has been skeptical of some of the more extreme proposals.

At a June hearing before the Senate Banking Committee, Powell called the report a "mixed bag."

“There are some ideas in the report that make sense, maybe not as expressed there,” Powell said. “There are some ideas in there that I would not support.”

Overall, Powell has said that lawmakers and regulators should look to “clean up” their work of the last several years.

“We’re not talking about some massive program here,” he told senators at the hearing.

That desire to keep the broad superstructure of Dodd-Frank rules in place while making some sensible tweaks has financial reform advocates cautiously optimistic about a Powell chairmanship.

“I haven’t seen anything yet that says he’s going to come in and do regulation-light or, more importantly, supervision-light,” said Mayra Rodriguez Valladares, the managing principal of consulting firm MRV Associates.

Still, the key word for many financial reform advocates is caution. While Powell has publicly called for tweaks to the regulatory system, he did have to win the support of Trump and Treasury Secretary Steven Mnuchin, said Bart Naylor of public interest advocacy group Public Citizen.

“To date, Gov. Powell has promoted sensible, thoughtful Wall Street regulation. But he may bring other qualities to the job, since he apparently appealed to a treasury secretary with a sorry record of foreclosures, and to Trump,” he said, referring to Mnuchin’s time as chairman of OneWest Bank.

One other unknown on regulation is the presence of Randal Quarles, the first Senate-confirmed Fed vice chairman for supervision. That position, created by Dodd-Frank, was left officially unfilled by Obama, although Tarullo held it on an unofficial basis.

The vice chair for supervision has a great deal of power over the Fed’s supervision of large banks and regulatory efforts overall. Quarles has not said much publicly about what he wants to do in that position, but he is widely viewed as more on the cautious Powell line than a bomb thrower.

The relationship between Powell and Quarles, who are rumored to be close and who previously worked together at private equity firm The Carlyle Groupand at the Treasury Department under former President George H.W. Bush, will be one to watch.

“They’re both viewed as being pragmatists at times who have a pretty steady hand when it comes to overseeing regulatory regimes, supervisory regimes,” Nonaka said.

If Quarles does aim to go in a more aggressive direction on deregulation than Powell deems prudent, the Fed chair would have a way of checking any actions he deems overly aggressive.

And that is by keeping any new rule from getting to the Fed board of governors’ agenda, Landy said.

“No rule will get approved without Powell approving it too,” he said.

--Editing by Mark Lebetkin and Rebecca Flanagan.