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THE WEEKLY UPDATE ON WORLDWIDE SECURITIZATION

Treasury Sounds Friendlier Tone

Structured-finance professionals are viewing the **U.S. Treasury Department's** proposed regulatory overhaul as holding the potential to breathe new life into the market, while cautioning that any resulting changes could be slow to develop.

The new framework is outlined in a 147-page report, titled "A Financial System that Creates Economic Opportunities," that was commissioned by **President Trump** in February and issued by **Treasury Secretary Steven Mnuchin** on June 12. The prevailing response from securitization specialists: While the paper generally suggests friendlier treatment of the market, a lack of specific policy directives could make for a drawn-out implementation process.

"It's a great document, but it's very vague," **Mayer Brown** attorney **Jason Kravitt** said. "A lot of it appears to be in agreement with what the **Structured Finance Industry Group** and **Sifma** have proposed."

Kravitt is among those who see it as too early to set a timeline for any rule changes. He added, however, that many of the adjustments likely could be implemented independently by regulators or via enforcement decisions — as opposed to through an act of Congress, which would prove more time-consuming and politically challenging.

That said, a potential stumbling block exists in the White House's ability to name market-friendly officials to fill vacancies at agencies including the **Federal Reserve, Comptroller of the Currency** and **SEC.**

Among the potentially swifter changes: a reduction in loan-by-loan reporting requirements for securitization pools under the SEC's Regulation AB update, which took effect Nov. 23. The report devotes one paragraph to the matter, suggesting that the transparency sought through the measure could be achieved with fewer data fields.

The Treasury also wants to see the Dodd-Frank Act's risk-retention rule repealed for mortgage-bond deals, and the **Consumer Financial Protection Bureau** to ease its "qualified-mortgage" standards — particularly for self-employed borrowers.

The CFPB, meanwhile, would be reeled in to serve as a regulator for non-bank institutions with a budget subject to approval from Congress. That said, any reductions in the agency's scope likely would meet stiff opposition from Democratic lawmakers.

Also on the list is a reduction in Volcker Rule controls of proprietary trading by banks, with exemptions for those with assets of $10 billion or less and possibly some larger ones with strong capital positions.

A re-thinking of how U.S. regulators are implementing the **Bank for International Settlements'** Basel 3 rules is on the agenda as well, with an eye toward reducing banks' capital requirements. Among other steps, that would include a reduction in the "risk-weight floor" for structured products to 15% (from 20%) and a halting of the "Fundamental Review of the Trading Book," which would replace banks' proprietary calculations for the capital they must hold against their trading inventories with a prescribed formula.

Another key adjustment: The Treasury is suggesting that the regulatory process be streamlined via the designation of one lead agency for each rule, rather than splitting oversight among entities including the Fed, **FDIC,** SEC, **Commodity Futures Trading Commission** and Comptroller.

Along with sounding a more positive tone toward securitization, industry professionals see the report as opening the door for them to become more involved in the development of new rules. They point out, for example, that the report was overseen by Mnuchin counselor **Craig Phillips** — who earlier worked on structured-finance matters at **Credit Suisse** and **Morgan Stanley.**

They see regulators as more likely to supply feedback as well. "We often have been operating under the assumption that a call to regulators wouldn't be very useful and perhaps damaging," **Cadwalader Wickersham** partner **Chris Gavin** said. "After Monday, I will consider a call more often." ❖