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## Washington Policy

## Flash Note

# Jack Lew Being Nominated as Treasury Secretary, What It Means for Markets

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### Overview

Today at 1:30pm, President Obama will name Jack Lew as his nominee to replace Tim Geithner as Treasury Secretary. Picking Lew is a departure of the picks in the recent past (i.e. Geithner, Paulson) in that he does not have well-defined ties to the financial markets. Instead, Lew is a Washington veteran who will focus intently on budget and fiscal negotiations. The post of Treasury Secretary is, in many ways, the cabinet post most defined by the issues facing the nation and the administration's priorities. Geithner was picked largely because the issue of greatest importance at that point in time was the ongoing financial crisis. The issue of greatest focus in D.C. at this point in time will be the federal budget and ongoing fiscal concerns. Lew has spent the majority of his career steeped in budgetary minutia and has been involved in almost every major budget negotiation over the past 25 years. Lew is the right pick for the issues ahead, but we note that his choices to fill the top lieutenant posts will be pivotal and likely necessitate picks with deep financial market ties.

### What Will Be the Impact on Financial Markets?

First and foremost, financial markets want a seamless transition between Geithner and Lew. Geithner has stated his intent to leave by the end of January even if a debt ceiling deal is not in place. We are already remarkably concerned about the concentration of political risk in Q1 2013, and this shift in personnel heightens that risk.

Second, the next Treasury Secretary will take over as the head of the Financial Stability Oversight Committee (FSOC), the umbrella regulator charged with policing systemic risk. The Dodd-Frank Act granted the FSOC an unparalleled amount of authority as a result of a number of the lessons learned during the financial crisis. Specifically, the FSOC can designate specific companies or industries as Systemically Important Financial Institutions (SIFIs). Banks with above \$50B in assets are automatically SIFIs but the Dodd-Frank Act also granted the FSOC the authority to designate non-bank SIFIs. The FSOC's first step in this space was to [designate](#) eight financial market utilities (FMUs) as non-bank SIFIs. The FSOC is continuing to work towards additional designations.

We continue to believe that the FSOC will aim to cast a limited net when designating non-bank SIFIs as it intends to act in a measured, targeted capacity. Our view would be reinforced by Lew's confirmation as we expect him to have a laser focus on budgetary issues. We expect the next round of designations to include American International group (AIG-NC), Prudential (PRU-NC), GE Capital; and Blackrock (BLK). We have included an illustration of what being designated as a SIFI can entail.

#### What Does SIFI Designation Mean?

- enhanced prudential regulation
- Federal Reserve oversight
- risk-based capital standards
- leverage limits
- liquidity requirements
- concentration limits
- mandatory resolution plans (FDIC)
- board-level risk committee
- enhanced public disclosures
- contingent capital requirements
- short-term debt limits
- credit reporting requirements

Source: Dodd-Frank Act, FSOC, Compass Point

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## How Will His Confirmation Go?

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Lew will face the Senate Finance Committee for his nomination hearing. Lew's confirmation will not be unopposed as there have already been statements of opposition in the Senate (e.g. Sen. Jeff Sessions), however Lew has been confirmed by the Senate numerous times which makes blocking him now very difficult.

**Isaac Boltansky is Compass Point's Washington Policy Strategist. His contributions to this research report relate solely to Washington Policy and should not be attributed to any company specific research, ratings, or conclusions.**

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