US financial regulation

Obama's fiduciary rule is a disaster, warns former SEC regulator

Norm Champ backs US president to reduce red tape stifling the financial sector

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Norm Champ, the former head of the investment division at the US financial regulator, is an outspoken supporter of Donald Trump. He makes no secret of the fact he donated thousands of dollars to Mr Trump's presidential campaign last year.

Since the US president's inauguration, Mr Trump has been heavily criticised by opponents for his administration's ties with Russia, his interactions with the media and his decision to ban people from several Muslim-majority nations entering the US.

It has been a controversial start, but Mr Champ shows no sign of voter's remorse. The new president, he says, is vital to getting "the United States moving in a pro-growth direction".

"Getting the United States growing again is the number one priority. It overwhelms any other concerns [that have sprung up around Mr Trump]. If we get growth going again, that puts people back to work. Growth fixes so many problems," says Mr Champ.

The US president has promised to drive growth in part by taking an axe to burdensome regulation (https://www.ft.com/content/13b5092e-0a03-11e7-97d1-5e720a26771b) and diluting big sets of financial rules such as the Dodd Frank Act (https://www.ft.com/content/915666b6-f928-11e6-bd4e-68d53499ed71) — ideas Mr Champ supports.

Tall and talkative, Mr Champ's endorsement of less regulation seems at odds with his former career as director of the investment management division at the Securities and Exchange Commission. But he believes the financial sector (https://www.ft.com/content/13b5092e-0a03-11e7-97d1-5e720a26771b) has been stifled by unnecessary regulation.

"We just endured the slowest recovery from a recession since the second world war. And that was because of a number of things, but over-regulation is part of that," he says. "We do need to rationalise [regulation] so that we can get growth going again."

The lawyer, who became a partner at Kirkland & Ellis, the law firm, one year after leaving his job at the SEC, is particularly keen to halt the Department of Labor's fiduciary rule. This contentious regulation requires investment advisers to act in the best interests of their clients.

Consumer rights groups had pushed for the introduction of the rule in the belief that it would encourage advisers to recommend the most suitable products for their clients, rather than pushing funds that pay the biggest commission.

Last month Mr Trump announced a review of the rule, which was due to come into force in April, potentially paving the way for it to be watered down or scrapped.

Mr Champ, who recently wrote a book, *Going Public: My adventures inside the SEC and how to prevent the next devastating crisis*, says: "The fiduciary rule (https://www.ft.com/content/efcdddf0-e186-11e6-8405-9e5580d6e5fb) is a disaster for investors."

CV

Born May 1963

Total pay Not disclosed

Education 1989: Law degree, Harvard Law School
1986: Masters degree, war studies, King's College London
1985: Bachelors degree, history, Princeton University

Career 1990-92: Law clerk, Southern District of NY
1989-90, 1992-1998: Associate, Davis Polk & Wardwell

1999-2009: Partner and general counsel, Chilton Investment Co
2010: NY associate regional director for examinations, SEC
2010-12: Deputy director, Office of Compliance Inspections and Examinations, SEC
2012-2015:, Director, Division of Investment Management, SEC
2015: Visiting scholar, Harvard
2016:Partner, Kirkland & Ellis LLP

The Harvard Law School graduate says the regulation was a “pet project for the Obama administration”. He believes it would have allowed class-action lawsuits to be filed against financial advisers, putting pressure on them to pull back from looking after retirement assets altogether.

“If you get out of the business, then you don’t get a class-action lawsuit,” he says. “[Advisers] were also planning to reduce services to [investors with less money] because why would you bother with smaller accounts if they just become plaintiffs in a new class-action lawsuit against you?”

Despite his criticism of the fiduciary rule and other regulation, Mr Champ was heavily involved in adding to the red tape for asset managers during his time at the SEC following a 20-year career as a corporate lawyer.

Joining the US watchdog in the wake of the financial crisis, he worked on two big projects to shore up the financial system: the Volcker rule, which prohibits banks from conducting certain investment activities, and landmark reforms of the $3tn US money market fund industry.

In the years since, Wall Street has pushed back against the Volcker rule, which also limits banks’ ownership of hedge funds and private equity funds. But Mr Champ believes the rule will survive under Mr Trump.

“Maybe it gets loosened up a little bit and allows a little more risk taking by banks, but I don’t see it going away,” he says. The reforms of the money market fund industry are also set to stay, Mr Champ believes.

Kirkland & Ellis

Founded 1909

Employees 2,000 attorneys

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He predicts the asset management industry is unlikely to be hit with further onerous regulation under Mr Trump, while long-running questions about the systemic riskiness of the asset management industry should fall by the wayside.

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Mr Champ says the SEC's recent focus on the riskiness of asset managers was driven by the Financial Stability Oversight Council, a federal organisation set up to identify and monitors risks in the US financial system.

But he believes that the new secretary of the treasury, who ultimately oversees the FSOC, "is not going to be leading some search for risk in the asset management industry". "The good news is [the SEC] will focus a lot less on asset managers," he says.

Instead, Mr Champ predicts the new administration's regulatory focus (https://www.ft.com/content/72863f74-f1f6-11e6-95ee-f14e55513608) will be on making it easier for companies to go public in the US.

"I think it's going to be a great four years for asset managers. If [the Trump administration] succeeds in getting more companies to list in the US, then that's more companies for asset managers to invest in," he says.

"If they succeed in getting growth going to normal levels in the United States, that's good for asset managers. That means prices for all assets will go up. And if we are able to achieve some rationalising of the regulatory burden, it's going to be a three-way benefit for asset management."

During the conversation it becomes clear that Mr Champ sometimes found working at the SEC frustrating, particularly the political battles and the constant criticism of the asset management industry. But he says his time at the regulator has not made him a cynic. "It was a great experience and it will be the highlight of my professional career."

With a Republican in charge, and an administration that seems more in line with his regulatory stance, it begs the question whether Mr Champ could be tempted back to public service from the private sector?

"I'd probably like to go back to government service some day. But I've only been out two years. I need a much longer break."

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