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SPOTLIGHT REPORT

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# Trump 2.0's Approach to the Financial Services Sector

**What's Happening:** Trump administration financial regulators are moving full steam ahead with a further relaxation of bank capital requirements and expanded access to the banking system for crypto companies in 2026.

**Why It Matters:** Having consolidated financial regulation in Trump 2.0 under the oversight of the Treasury Department, Treasury Secretary Scott Bessent quickly ticked off a series of major deregulatory efforts to begin the year as first laid out in his March address to the Economic Club of New York. Over the last several months, regulators have successfully overhauled the enhanced Supplemental Leverage Ratio, reformed the Federal Reserve's stress testing regime, tailored the Fed's supervisory processes, and begun to relax community bank regulations. Much of that deregulatory effort is set to continue into 2026, something Bessent outlined in a recent note atop the Financial Stability Oversight Council's 2025 annual report. **Prudential regulators are eyeing a near term release of the rewritten Basel III Endgame capital rules, expected to include a significant relaxation of the capital hike as compared to the Biden-era editions, alongside further tailoring of asset leverage ratios and an overhaul of antimony laundering rules.** Banks are no doubt celebrating those wins after four regulation-heavy years, but a separate campaign to expand crypto's access to the banking system is simultaneously giving banking groups pause. Regulators, beginning with the Federal Deposit Insurance Corporation (FDIC), are moving quickly to implement the requirements of the GENIUS Act in the hopes of accelerating the law's effective date. **At the same time, both the Office of the Comptroller of the Currency (OCC) and the FDIC are expanding access to novel bank charters for fintech firms, creating the risk that at least some of banks' traditional turf is ceded to crypto and payment companies.** The OCC has already conditionally approved national trust charter applications for major crypto companies like **Circle (CRCL)**, **Ripple**, and **Paxos**. The FDIC is separately reviewing comments on a request for information that could pave the way for an even more robust de novo pathway in the form of industrial loan company charters, something **PayPal (PYPL)** recently announced its application for. In both cases, a rapid expansion of fintech access to the more lightly regulated federal charters has banks worried that those companies will be able to offer traditional banking services without the typical regulatory scrutiny that comes along with it.

**What's Next:** A handful of major rulemakings are expected as soon as the first quarter of 2026, beginning with a now infamous rewrite of the Basel III Endgame bank capital rules. Prudential regulators are also planning to unveil additional regulations pertaining to the GENIUS Act early next year in the hopes of accelerating the law’s implementation date. And, in a related move, the fight over fintech firms’ access to the traditional banking system is expected to reach a fever pitch as crypto companies gain approval to launch de novo banks.

## Treasury's Next Deregulatory Targets

Treasury Secretary Scott Bessent has consolidated prudential regulation under his purview, reportedly holding regular meetings with top financial services regulators throughout the early part of the year. As a result, banks are facing reduced (and soon to be further reduced) capital constraints and more limited supervision.

### *AML*

Now, with Bessent still at the helm, the Wall Street Journal reports that the Treasury secretary has his eye set on an overhaul of anti-money laundering (AML) rules. **According to the Journal, Treasury is circulating a draft rule that would “...give the Treasury’s Financial Crimes Enforcement Network the ability to veto a finding by another regulator that a bank has infringed on the Bank Secrecy Act.” The idea is that by centralizing oversight of AML regulations under the Treasury Department, the administration could veto penalties for more technical violations of AML laws while better pursuing criminal activities.** Per the Journal, “Under the Treasury proposal, regulators would essentially have to ask FinCEN for permission to bring an enforcement action if they found a violation.” The rule still needs to undergo the traditional notice and comment period before it can be finalized, but it has the support of many financial institutions, easing its path forward should it be proposed in the coming months.

### *Capital Rules*

More significantly for major banks, and in the same vein as reforms that have been implemented this year, Federal Reserve Vice Chair for Supervision Michelle Bowman is leading an overhaul of the stalled Basel III Endgame capital rules expected to be released early next year. **Bloomberg reports that the new proposal will likely aim for a lower capital increase than the nine percent boost for large lenders offered up in Fed Governor Michael Barr’s compromise proposal last fall, potentially going as low as a three percent hike.** Bowman told lawmakers at a December hearing that she has “no preconceived notion” as to where regulators will land insofar as capital requirements are concerned, but will instead look at it “from a risk-based approach, by each factor and category.” **To achieve the lower capital hike, regulators are expected to drop the “dual stack” capital calculation that would have required banks with over $100 billion in assets to apply the stricter of two measures when calculating their capital**

**requirement.** Reuters also reports that regulators plan to relax capital requirements relating to operational risk in the proposal. **The net effect of the changes, according to Bloomberg, is that "lenders that have bigger trading portfolios could see less of an increase — or even a decrease — tied to the new requirement."** The outlet separately notes that "regulators are also considering a potential opt-out for midsize banks if they agree to other capital strictures."

## The Traditional Bank Charter Makes a Last Stand

While banks have largely benefited from Bessent's deregulatory agenda, traditional financial institutions are feeling the heat from the Trump administration's "technology neutral" and pro-innovation regulatory posture. Banks lobbied hard against a number of the provisions in the GENIUS Act only to come up short. But now banks are facing an even more existential threat: access to the banking system for crypto and other fintech firms.

Last week, the Office of the Comptroller of the Currency conditionally approved applications from **Circle (CRCL)**, **Ripple**, **BitGo**, **Fidelity**, and **Paxos** to operate national trust charter banks. Applications for the charter from **Coinbase (COIN)** and **Stripe** are pending. While those charters won't allow the fintech firms to engage in deposit taking or lending, they will allow them to engage in both fiduciary and non-fiduciary (in the case of digital asset custody) services nationwide. That's an advantage for those firms which otherwise would be limited to slowly accruing state-by-state money transmitter licenses. **Banks and state regulators argue that the approvals, when combined with Comptroller Jonathan Gould's own Interpretive Letter #1176 from 2021, will allow crypto firms to expand into traditional banking activities without any of the regulatory oversight banks themselves face.** That poses a systemic risk according to larger banks, meanwhile the move exacerbates community banks' concerns that increased stablecoin issuance could lead to deposit flight. Banks also worry that the upstart firms will be able to gain access to the Fed's payment systems without meeting the same capital and liquidity requirements as traditional banks. **As a result, Bloomberg reports that bank industry groups as well as state financial regulators may sue to block the approvals, although experts are skeptical of how successful any litigation ultimately will be.**

**Banks are also looking to fend off a separate effort by fintechs to reignite the use of industrial loan company (ILC) charters over at the Federal Deposit Insurance Corporation (FDIC).** Utilized infrequently over the last two decades, ILCs are appealing to fintechs because the parent company isn't required to meet the federal regulatory requirements of a bank holding company. As a result, non-banks can essentially charter ILCs that operate as more traditional banks than those approved under national trust charters, taking deposits (with certain exceptions) and offering lending services, while avoiding the regulatory scrutiny major banks face. **PayPal (PYPL)** is the latest company to file for an ILC, demonstrating the significance of the charter, but other companies including **Nissan (NSANY)** and **General Motors (GM)** are also in the queue.

Over the summer, the FDIC voted to withdraw a Biden-era regulation that would have severely restricted the availability of ILCs while simultaneously publishing a request for information (RFI) regarding a formal review process for ILC applications. **While at this point it's clear that the FDIC will factor the input from its now closed RFI into future ILC approvals, FDIC Chair Travis Hill is likely incentivized to create a more formal framework that will pave the way for approval of at least some of the existing ILC applications in the coming months.** The RFI suggests through its questions that the agency may tailor some approvals based on size and market share of the parent company while also weighing the benefits of introducing new competition into the banking system.

## Crypto Gets a Chance

Much of the regulatory spotlight on crypto is focused on the Securities and Exchange Commission's (SEC) crypto-focused agenda, something we outlined in an October Spotlight Report, but prudential regulators have their hands full with their own set of crypto-related rulemakings. Under the requirements of the recently passed GENIUS Act, each of the prudential regulators is tasked with developing a robust set of regulatory standards for prospective issuers of payment stablecoins. **Those regulations won't go into effect until the earlier of "the date that is 18 months after the date of enactment" (January 18th, 2027) or "120 days after the date on which the primary Federal payment stablecoin regulators issue any final regulations implementing" the law, but the Trump administration is hoping to shepherd the law along as quickly as possible.**

**To that end, the FDIC took the first step toward the act's implementation this week, proposing rules that will govern the application process for FDIC-supervised institutions seeking to issue stablecoins through a subsidiary.** The proposal details the information applicants will need to share with the agency, including details of the stablecoin and its related activities, structure of the subsidiary, and customer protections, among other things. As required by the law, the proposed rule states that the agency will have 120 days after a substantially complete application is submitted to approve or deny it. **The agency plans to propose rules relating to the capital, liquidity, and operational standards of applicants early next year.**

The Treasury Department is also in the process of meeting its obligations under the act, reviewing comments on an advanced notice of proposed rulemaking (ANPRM) the agency issued in September. The ANPRM covered a wide range of topics required under the law, including but not limited to: 1) issuance and whether the terms governing it are well defined by the law; 2) foreign issuance, including compliance, comparable foreign regulatory regimes, and potential safe harbors; 3) the broad-based principles that will be used to determine whether a state-level regulatory regime is "substantially" similar to the federal framework; and 4) compliance with illicit finance requirements such as the need for issuers to be able to block, freeze, and reject transactions. In addition, Treasury sought comment on areas not covered by the law relating to taxation, the bill's impact on the insurance industry, and the economic impact of certain provisions of the bill. **Importantly for the banking industry, Treasury's ANPRM also asked whether the bill's prohibition on issuer payments of yield or interest should be expanded in scope. With lawmakers**

**unlikely to address the issue legislatively, whether the bill's prohibition on yield is extended beyond issuers or not will likely be determined by the Treasury Department's rulemaking.**

## A New Day for Private Credit

Following a year in which the rapid growth of the private credit industry elicited financial stability concerns among Biden-era regulators, the industry appears poised for smoother sailing under the current regulatory regime. **In October remarks before the Managed Funds Association, Bloomberg reports that SEC Chair Paul Atkins said "This administration's view — from all of us in the financial services regulatory sphere — we don't view the private markets as being systemically important."** Atkins, in conjunction with the Department of Labor, is working to implement an executive order that would open up defined contribution plans to alternative investments, likely through asset allocation funds, a move that could dramatically expand retail access to private credit. In a similar vein, the Financial Stability Oversight Council, which Bessent recently reoriented toward the risks posed by overregulation, notably omitted many of the financial stability considerations and corresponding recommendations with respect to private credit that were raised in the 2023 and 2024 annual reports, instead stating in its 2025 annual report that "continued monitoring is warranted."

**Even so, the industry isn't entirely out of the woods, particularly should a downturn occur.** Bessent has repeatedly stated that he believes that the rapid growth in private credit is a function of overregulation of the banking industry, pointing to it as a reason to roll back bank capital requirements and other regulatory constraints on bank activities. Implicit in Bessent's statement is a preference for such activity to live within the banking sector which Bessent believes can be better supported in a down cycle. **In remarks at the New York Times DealBook Summit earlier this month, Bessent said, "My worry is that in a downturn, [private credit] could be very pro-cyclical…when you have investors, they will always panic at the bottom." By contrast, Bessent suggested that regulators could address similar problems in the regulated banking sector with "...window guidance to the regulators to loosen lending" or by having "the Fed…ease monetary conditions." Bessent's comments don't signal any immediate interest in acting to regulate or constrain private credit, but instead underscore his interest in further loosening bank regulations.**

US Attorney for the Southern District of New York Jay Clayton has also separately cautioned that "financial regulators and the department are looking at" areas of concern within private credit, in particular, how private assets are valued. Clayton said in November "I expect we will have more to do in areas of our private markets," however the former SEC chair has also suggested that his sights aren't trained on the majority of the market, saying "It's not all of private credit…it's not IG loans to well-functioning companies."

## Shuttering the Consumer Financial Protection Bureau

For a brief moment, supporters of the Consumer Financial Protection Bureau (CFPB) breathed a sigh of relief after the Supreme Court upheld the constitutionality of the agency's funding mechanism in 2024. Then came along Office of Management and Budget Director and acting CFPB Director Russell Vought. Over the last several months, the CFPB has shuttered most of its ongoing investigations, narrowed its forward looking supervisory focus, shifted certain enforcement cases to the Department of Justice (DOJ), and reduced its head count.

**Now, despite last year's Supreme Court ruling, Vought is teeing up plans to shutter the agency within a matter of months.** Utilizing a novel legal argument, Vought is contending that the agency is unconstitutionally funded because it relies on the combined earnings of the Federal Reserve, which, in Vought and the DOJ's view, have been zero over the last few years. Instead, Vought is requesting funding from Congress, something that won't come through given that the CFPB has never been subject to congressional appropriations. **As a result, Vought is effectively shuttering the agency.**

**There are reasons to be skeptical that Vought's argument will hold up in court, but in the meantime, the CFPB is only expected to have the funds to continue operations "into early 2026."** What that means for the agency's outstanding 24-rule long list of planned agency actions for next year is unclear, although it's likely that many will not be completed in that time frame. **Even so, Reuters reports that the CFPB plans to rush out an interim final rule on open banking in the coming weeks. The rule, which will replace a Biden-era measure, is expected to allow banks to charge data aggregators and fintechs fees for accessing customer data, although those fees are likely to be limited to those necessary to "recover costs for maintaining application programming interfaces and other tools for allowing data sharing" according to reporting from Bloomberg.** The new fees would be a boon for banks who were previously prohibited from any such charges under the Biden-era regulations.

**A shuttered CFPB would also raise uncertainty in mortgage markets given the agency's role as the publisher of Average Prime Offer Rate (APOR) tables.** Capitol Account reported earlier this year that the CFPB "intends to publicly spell out a different way to calculate APOR" although it's not yet clear what that will look like. **Bloomberg reports that the Mortgage Bankers Association previously argued that without the APOR tables and the agency's qualified mortgage rule, "...the legal-risk profile of many loans would change, creating challenges for lenders and purchasers in originating certain loans or selling them on the secondary market."**




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