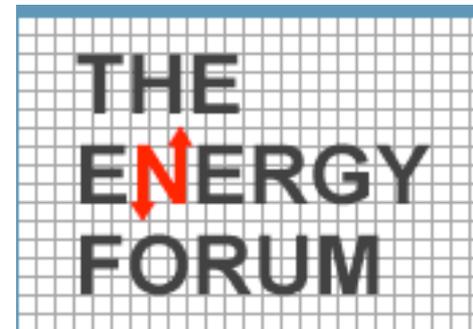




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Trumponomics: The Emerging New Regulatory Environment and Its Impact on the Energy and Financial Sectors

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Political Landscape Overview

Political Landscape Overview

How Much Can Be Achieved?

Trump administration has set ambitious goals

- Flurry of Executive Orders
- Generally not applicable to Independent Agencies
- Some hard to apply in practice



Political Landscape Overview

Will They All Get Along?

The Relationship Between Branches Is Key

- Outside of initial low-hanging fruit (e.g., CRA targets), legislative success will in large part depend on President Trump's relationship with Congress



Political Landscape Overview

Tools Available to Congress

Three Primary Paths for Legislation

- Traditional Path- Regular Order
 - Need 60-vote majority in the Senate
- Congressional Review Act ("CRA")
 - Simple majority
 - Skips Committee process
 - Scope may be broader than anticipated
- Budget Reconciliation
 - Simple majority
 - Limited in scope
- Potential New Tools
 - REINS Act

Fate of Dodd-Frank and Financial Reform

Fate of Dodd-Frank and Financial Reform

Trump Executive Order on Financial Regulation

- Sets the administration's "core principles"
- Directs members of FSOC to review existing legal infrastructure is consistent with the core principles
- Does not require affirmative action other than review



"We're going to be doing a big number on Dodd-Frank"

1-30-17

Fate of Dodd-Frank and Financial Reform

Top Legislative Targets- No Direct Impact on Energy

- Consumer Financial Protection Bureau
- Volcker Rule
- FSOC SIFI Authority
- Bank Capital Rules
- Fiduciary Rule



Fate of Dodd-Frank and Financial Reform

Prospects of Financial Reform Legislation with Energy Relevance

- CFTC Reauthorization Bill
 - Passed the House
 - Provisions key to energy market participants:
 - Swap Dealer *de minimis*
 - Position limits roll-back
- CRA Repeal of SEC Resource Extraction Disclosure Rule
 - Would invalidate rule required under Dodd-Frank
 - Use of CRA would prevent SEC from issuing a substantially similar rule

Fate of Dodd-Frank and Financial Reform

Prospects of Financial Reform Regulations with Energy Relevance

- CFTC Position Limits
 - “The perpetual rulemaking”- in process since 2010
 - Political “hot potato”
 - Potential upside if they get it right
 - Higher trading limits and more liquid financial markets
 - Efficient hedging
 - Potential downside if they get it wrong
 - Further pull-back from financial energy markets

Fate of Dodd-Frank and Financial Reform

Prospects of Financial Reform Regulations with Energy Relevance

- Limitations on Bank Participation in Physical Energy Markets
 - Federal Reserve Advanced Notice of Proposed Rulemaking (2014) and Proposed Rulemaking (2016)
 - The proposal would significantly increase capital requirements for bank and bank affiliates participating in physical energy markets
 - Could cause banks to withdraw from physical energy markets damaging liquid in many products
 - Future of rulemaking may be dependent on Trump's choice for Vice Chair of Supervision

Prospects for Tax Reform

Prospects for Tax Reform

Congress and Trump Have Overhaul Plans

- No Senate plan yet
- The Trump and Ryan Plans Have Many Similarities
 - Ordinary Income rate reductions for corporations and individuals
 - Elimination or reduction of deductibility of interest expense
 - Immediate deductibility of capital expenditures
 - Move to a territorial tax system
 - Reduction or elimination of various exemptions and exceptions
- The Trump and Ryan Plans Have Meaningful Differences
 - Treatment of investment income
 - Treatment of pass-through entities
 - Border adjustment tax
 - Degree of revenue neutrality

Prospects for Tax Reform

Potential Impact of the Proposals

- The proposals would have meaningful implications for the energy industry and beyond
 - Ability to immediately expense cap ex combined with indefinite carry forward of NOLs could increase investment in transportation infrastructure
 - Depending on details, the treatment of pass-through entities could further tax advantage MLPs
 - Loss of “special interest” deductions could have material adverse implications for the oil industry and municipalities
 - Loss of interest deductibility could reduce debt load and increase equity investment. Special treatment for interest expense of financial companies is likely
- The devil is in the details

Prospects for Tax Reform

Potential for Success?

- The process matters - Reconciliation vs. Traditional
 - Reconciliation requires a simple majority in the Senate
 - Reconciliation has procedural limitations
- Degree of revenue neutrality matters
 - Where will revenue come from? BAT? Repatriation?
 - Support of the Freedom Caucus is necessary
- Possible Outcomes
 - Large rate cut, little reform
 - Rate cut and some reform
coupled with a sweetener for Dems
 - Actual reform

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