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Washington Weekly: Government Funding Shutdown Potential

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The Washington Weekly is the premiere publication in which the UBS US Office of Public Policy communicates major public policy and political developments in Washington. The report examines the legislative issues and debates that shaped Washington for the week, with a focus on financial services, tax, and regulatory measures which impact UBS, its employees and clients.

Government Funding Shutdown Potential. The Senate passed three government spending bills this week and the House passed two—all in an effort to build momentum to pass a full FY-24 government spending bill beyond the current deadline of November 17 and avert a government shutdown. These actions are helpful, but they are not game changers in getting a full government funding bill passed in 14 days. There seems to be a reluctant but bipartisan consensus that the November 17 deadline will be extended, likely to sometime in January. That will give the House and Senate more time to reconcile their differences, but it won't necessarily make that job easier.

Regardless of the deadline, there are significant differences between the two parties and the two chambers on whether government spending in the current year should increase (the Senate position) or be scaled back (the House Republican position) relative to last year.

AI Executive Order. The Biden administration this week issued a long-anticipated executive order (EO) on the development of artificial intelligence (AI). Reflecting AI's potential to fundamentally impact our lives, the EO covers a wide range of areas, including safety and security, US competitiveness, data privacy and consumer protection. The EO has many directives for federal agencies to make assessments and issue reports. While it also directs them to use existing powers to set standards, there are real limits to this approach outside of areas where there is significant direct federal authority (areas like national security, federal contracting and procurement, and regulated sectors like healthcare and financial services). The administration calls for Congress to pass a data privacy bill (it has been deadlocked on this issue for many years) and really needs legislation from Congress in order to have a more comprehensive and durable approach to regulating AI. Reflecting the interest in Congress, the Senate has been hosting forums to educate lawmakers on AI.

It will take time for Congress to overcome its learning curve, never mind developing and building consensus on a comprehensive approach to regulation of a complex technology that has implications on a wide range of issues that cut across many committees of jurisdiction.

Fiduciary Return. The Department of Labor (DOL) this week issued a package of new proposals that are part of longstanding efforts by the DOL to apply fiduciary standards of care to retail retirement accounts. A previous 2016 fiduciary rule by the DOL was struck down by a federal court in 2018. Since that time, the SEC issued its Regulation Best Interest (Reg BI) standard, which sets a unform standard for brokers to act in their clients' best interests when making an investment recommendation. The DOL also in 2020 issued its own regulation for retirement accounts with requirements intended to be consistent with Reg BI. Under the latest set of proposals, the DOL is proposing an expansion of the scope of activities subject to fiduciary requirements, new requirements under the 2020 regulation, and changes to certain exemptions (for example, one for the sale of annuities by insurance agents) to make their standards more on par with those of the 2020 regulation. While the Biden administration positions these changes as part of its broader agenda to curb "junk fees," many in the industry and in Congress question the need for the proposals and have concerns about their impact.

The DOL is in a rush to finalize these proposals to better insulate them from being overturned by a possible Republican administration or Congress in 2025.

Lawmaker Retirement Watch. This year, six senators and 21 House members have announced their intent to not seek re-election next year. Senator Mitt Romney (R-UT) and Congresswoman Debbie Lesko (R-AZ) have cited the poisonous political environment as a key factor in their decisions. In conversations we have with many lawmakers, we sense that the frustration of Washington's inability to govern will lead many more members to announce their retirements in the months ahead, particularly among House Republicans. Indeed, two House Republicans—Congresswoman Kay Granger (R-TX) and Congressman Ken Buck (R-CO)—this week announced their exits from the House next year. Veteran Democratic Congressman Earl Blumenauer from Oregon also announced his decision not to seek re-election. An average of 40 House members from both parties don't seek re-election each term, and we expect that number to be a bit higher this election cycle.

Look for more announcements over the next month or two, with many due at least partially to frustration with the dysfunction on Capitol Hill.

For more on new Speaker Johnson and spending, see this week's **Washington Weekly**.

Washington Weekly Podcast: Israel-Hamas War, AI, Chip design tech and Crime

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