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Welcome to the August edition of the CEO Report, POLITICO Pro's high-level outlook on the policy issues driving the month ... and beyond.

Stay tuned for action on tax reform: The success of Republican tax reform efforts hinges on what gets done during the dog days of summer. Republican lawmakers, business groups, conservative activists and President Donald Trump himself are fanning out across the country to build public support, notes Pro Tax Editor Toby Eckert. So far, that support has been tepid, at best, with polls showing voters have higher priorities. Members of the House, where tax bills originate, returned to their districts armed with talking points about the need for tax reform, while groups including the Business Roundtable, the American Action Network and Americans for Prosperity are running ads and getting their supporters out to members' town halls.

The end game is to deliver legislation to Trump's desk before year's end. The White House has laid out an ambitious timeline: committee votes on a bill in September, House action in October, Senate approval in November. That leaves no margin for error, and there are at least two big obstacles standing in the way of fast action — the need to raise the federal debt ceiling and pass a spending bill, neither of which will be easy. Moreover, important details such as setting tax rates, whether and how to fund the costs of reform, and which deductions to get rid of and which to keep, are still being sorted out. So for the hearings the White House envisions in September to mean anything, administration officials and congressional negotiators will have to make a lot of headway in August.

BUDGET & APPROPRIATIONS

Stopgap spending plan a good bet: While the House and Senate are on recess for the rest of the month, leaders are still working on a plan to avert a government shutdown and a catastrophic debt default before the fiscal year ends. The Sept. 30 deadline is still weeks away, but Republicans are eager to settle on a strategy before lawmakers return after Labor Day with just 12 workdays left before that reckoning. Even if they beat the buzzer this time and prevent a funding lapse, leaders are already

resigned to the idea of another short-term extension of current funding levels to buy more time. And if past go-rounds are prologue, it could be well into 2018 before federal agencies get updated funding.

Debt Ceiling Deadline: Looking for the path of least resistance on raising the debt ceiling, the Trump administration has stepped up its campaign this month for a "clean" increase in the nation's borrowing limit, hoping to avoid tricky negotiations with fiscal hard-liners on attaching spending cuts or other changes. GOP leaders in both chambers have reluctantly agreed to the plan, which is sure to enrage conservatives. Even so, leaders will have to deal with additional demands that could hamper their effort to raise the debt limit before the Sept. 29 deadline Treasury Secretary Steven Mnuchin has set. — *Jennifer Scholtes*

HEALTH CARE

After Obamacare repeal fails, all eyes are on insurance markets: A frustrated Trump has increasingly threatened to pull funding for a key Obamacare subsidy, but his advisers so far have talked him out of a move that could send the individual insurance markets into a tailspin. He faces two key deadlines in the next few weeks: whether to keep paying insurers the subsidy next month and whether to defend the payments in federal court. Meanwhile, insurers in most states must file final 2018 rates by Aug. 21 amid uncertainty about the future of Obamacare subsidies and whether Republican lawmakers will now drop their years-long assault on the health care law and focus on repairing it. Many insurers planning major rate hikes have partially attributed the increases they're seeking to uncertainty around repeal efforts in Washington. — *Jason Millman*

FINANCIAL SERVICES

FOMC to offer guidance on balance sheet, rates: The Federal Reserve's top policymaking body will release the minutes from its July meeting on Aug. 16. The central bank is likely to give clearer signals on the timing for its plan to start shrinking its massive balance sheet and its next rate hike, which could come as early as September. Both moves are likely to roil the financial markets if the Fed miscalculates on the timing.

IEX in SEC docket again: IEX rocked the financial world by winning SEC approval last year to operate a new stock exchange to compete with the two giants of the business, the New York Stock Exchange and Nasdaq. Now, the hard-charging startup, whose business model is designed to thwart the high-frequency traders that dominate the market, is back before the commission. This month, public comments are due to the SEC on a proposal to exempt certain IEX-listed securities from state law registration requirements, putting the upstart exchange on a par with its bigger rivals. IEX, hated by

other stock trading venues for disrupting the equities market, needs the commission's approval by October.

CFTC reviews swaps reporting: Comments are also due to the Commodity Futures Trading Commission on the agency's effort to update the reporting requirements for swaps, as part of a plan to complete an overhaul by 2019. The CFTC says the goal of the review is to get accurate and complete data on swaps transactions while streamlining reporting. Derivatives trading helped fuel the 2008 financial crisis, prompting Congress to assign the CFTC to create strict rules for the market. The request for comment to revise some of those rules stems from new CFTC Chairman Christopher Giancarlo's proposed swaps reporting reforms announced on July 10.

Trump appointees report for duty: A raft of fresh faces will get to work this month at agencies that are critical for the financial markets. Before leaving for summer break, the Senate confirmed a batch of nominees for top posts at the Treasury Department and the CFTC. They included David Malpass, who will become Treasury undersecretary for international affairs. At the CFTC, Giancarlo was confirmed as chairman after serving in an acting capacity following Trump's election. The CFTC will gain two new commissioners, Brian Quintenz and Rostin "Russ" Behnam, bringing it close to full capacity for the first time in years. — *Mark McQuillan*

DEFENSE

NDAA on hold with McCain sidelined: Senate Armed Services Chairman [John McCain](#), who is undergoing chemotherapy and radiation treatment for brain cancer back home in Arizona, plans to return to Washington in September, but his absence pushes back debate on the National Defense Authorization Act. Senate leaders from both parties were ready to fast-track the defense policy bill after a failed vote on Republican health care legislation, but the move was blocked by Sen. [Rand Paul](#) (R-Ky.) in an attempt to secure votes on amendments that would bar indefinite detention and repeal the 2002 Iraq War authorization.

Appropriations also up in the air: The Senate Appropriations Committee still has not taken up defense spending. Senate Majority Leader [Mitch McConnell](#) (R-Ky.) began a fast-track process to bring a House-passed package of national security spending bills to the floor, but senators didn't vote on the legislation before adjourning for recess. That measure is unlikely to garner enough Democratic support to overcome a likely filibuster. Without a full-year defense spending bill and a bipartisan agreement to lift defense budget caps, a continuing resolution will likely be needed to avert a government shutdown.

Senate breaks nominee logjam: The Senate substantially reduced a backlog of civilian Pentagon nominees before leaving for recess. Eight senior nominees were confirmed, including Navy Secretary Richard Spencer and the Pentagon's new top

acquisitions official, Ellen Lord. The Senate also confirmed dozens of military nominations, including Air Force Gen. Paul Selva to serve a second term as vice chairman of the Joint Chiefs of Staff. — *Connor O'Brien*

TRADE

It's Trump time on NAFTA: President Donald Trump promised voters during the campaign he'd renegotiate trade deals to make sure American workers aren't getting squeezed. His best chance to make good on that pledge before the midterm elections starts Aug. 16, when senior-level negotiators from the U.S., Mexico and Canada get down to the business of updating NAFTA. Washington is the setting for the five-day first round. Major points to be discussed include ways to reduce the U.S. trade deficit and steps to strengthen labor and environmental provisions in the agreement, which took effect in 1994. Here's a look at the [Trump administration's goals](#).

What say Ottawa? Canada and Mexico didn't want to reopen the deal — Trump did. The first glimpse of [Mexico's negotiating priorities](#) arrived last week, but the Canadians have played it close to the vest. Look for Ottawa to provide a better sense of its objectives when Canadian Foreign Minister Chrystia Freeland addresses Parliament's trade committee on Aug. 14. Canada's NAFTA priorities, based on some of the country's long-held interests, are likely to include greater access to U.S. government procurement markets and [greater mobility](#) for professionals across the United States' northern border.

No time like the present: While the schedule of subsequent negotiating rounds remains in flux, officials from all three countries continue to push to conclude talks by late this year or early next. High-level officials in both Canada and the U.S. have cast doubt on negotiators' ability to reach that goal, but Mexico is pushing for everything to be done before its presidential election in mid-2018.

Will Trump zing Beijing? A [planned rollout](#) of Trump's trade action against Beijing — targeting what the administration views as Chinese violations of U.S. intellectual property rights and forced technology transfer — was delayed late last week. The White House is still expected to go live with it this week.

The plan, sources told POLITICO, is for Trump to direct U.S. Trade Representative Robert Lighthizer to launch an investigation under Section 301 of the Trade Act of 1974. The investigation could examine China's controversial cybersecurity regulations, which companies have complained may force them to hand over valuable security software for inspection. Ordering the probe would ramp up trade tensions between Washington and Beijing, and could trigger a trade war. It would be a lengthy process that could extend into all aspects of Chinese industrial policies and also could result in unilateral U.S. trade sanctions.

Trump holding his trade horses: Two much-hyped Commerce Department reports examining whether to restrict steel and aluminum imports on national security grounds have been bottled up in an internal review. They had been expected by the end of June. Most manufacturers in both industries welcome import restrictions, which could come in the form of tariffs, quotas or a combination of the two. But U.S. companies that remain dependent on imports warn that such limits would hurt American jobs. Detractors fear that restrictions could lead other countries to retaliate, setting off a trade war. Also MIA is a report examining the causes of significant bilateral trade deficits. It also had been expected by the end of June. It is expected to identify to what degree the U.S. trade gaps are caused by discriminatory barriers like tariffs, dumping or intellectual property theft.

A KORUS showdown: Outside of Washington, August could bring a formal meeting with trade officials in Seoul to discuss the U.S.-Korea Free Trade Agreement. The Trump administration has requested it be reviewed. It took effect just five years ago. While Lighthizer requested that a meeting of the joint committee take place in Washington before mid-August, South Korea is pushing instead for a meeting in Seoul focused on examining the bilateral trade deficit and its causes before any changes are made to the deal. — *Megan Cassella*

DATAPoint

More on U.S.-China trade policy: The president has said he thinks China is not doing enough to stop North Korea from building a nuclear weapon that could strike U.S. soil — and he has complained, in public and private, that China engages in unfair trade practices. The Trump administration is considering changes to the U.S.-China trade relationship, and his top advisers are discussing options that could include trade restrictions and economic sanctions. — *Cristina Rivero*

View the full graphic [online](#) and find out more about DataPoint [here](#).

CYBERSECURITY

DHS enters key cyber phase: The government's main cybersecurity department is without a permanent leader for at least the next few weeks, leaving it in a position of uncertainty at a critical time for DHS.

The department is just starting to formalize tentative partnerships with state-level election officials to help secure the 2018 elections. In recent weeks, DHS finalized an

outline for coordinating with election officials as part of the department's work implementing the "critical infrastructure" tag placed on election systems in January.

And the DHS cyber wing is also on the precipice of a potential major reorganization. In late July, the House Homeland Security Committee approved a proposal to rebrand the National Protection and Programs Directorate as the Cybersecurity and Infrastructure Security Agency. The move would elevate and restructure the office to better reflect its cyber work. Meanwhile, one name familiar to cyber watchers has been floated as the next DHS head — House Homeland Security Committee Chairman Michael McCaul (R-Texas). As co-chairman of the Congressional Cybersecurity Caucus, McCaul has backed numerous high-profile cyber bills over the years and is a chief architect of the plan to reorganize DHS's cyber agency.

An eye on Russia: America's relationships with two main digital adversaries — Russia and China — appear headed toward new lows in the coming weeks. Congress recently pushed through a bill to further sanction Russia for its digital interference during the 2016 election. Trump opposed the measure — accusing lawmakers of unconstitutionally tying his hands on foreign policy — but signed the bill when it became clear Congress could easily override a veto. Moscow reacted angrily, kicking 755 U.S. diplomatic staffers out of Russia.

When Congress returns: Lawmakers left town with a number of unfinished cyber-related issues still on the table. When Congress returns in early September, the Senate is slated to finish up work on the annual defense authorization bill, which would fully fund the Trump administration's \$647 million request for U.S. Cyber Command. Lawmakers will also start to grapple with legislation to renew Section 702 of the Foreign Intelligence Surveillance Act, which authorizes tools used to collect the digital chatter of foreign targets. Intelligence leaders insist they can't lose these powers, which sunset at the end of the year. But lawmakers appear to be moving toward a reauthorization measure that would inject more provisions meant to better protect the privacy of Americans whose information is incidentally collected under the programs. — *Cory Bennett*

EDUCATION

States submitting ESSA plans: The Education Department is working to review and approve new plans drafted by states under the Every Student Succeeds Act, the federal education law that replaced No Child Left Behind in 2015. The plans detail how states will hold schools and districts accountable for the performance of all students, with a particular focus on low-income and minority students. Sixteen states and D.C. submitted their plans for federal approval this spring, and the rest intend to do so next month. The Education Department has been working quickly to provide states with feedback, and the agency has come under fire for being confusing, inconsistent or heavy-handed in its approach. At the same time, Education Secretary Betsy DeVos has emphasized

flexibility for states, stressing that her agency will only review plans to ensure they gel with federal law. One state, Delaware, has been approved so far. And the Education Department this month will work to approve more plans on a rolling basis. — *Caitlin Emma*

ENERGY

Revived methane rule may not last long: EPA has reinstated a rule to limit methane emissions from future oil and gas wells after losing to environmentalists in court, but Administrator Scott Pruitt is moving quickly to put it back on ice. The D.C. Circuit overturned Pruitt's 90-day stay of the rule's central requirements on leak detection and ordered EPA to put them back into effect starting July 31. That may speed up Pruitt's work to finalize a two-year stay that would free oil and gas companies from the regulation through 2019. Public comments on that proposal are due Aug. 9, and EPA is expected to finalize the delay no later than September.

Power plant rule pending: Timing is murkier around the rest of EPA's rollback agenda, the centerpiece of which is repealing the Clean Power Plan. The Trump administration's first formal regulatory agenda offered no target date to complete that rule, leading environmentalists to ask the D.C. Circuit to issue its ruling in a case argued last year over the rule. Expect to see the court respond to that request later this month.

FERC gets to work: Two of Trump's picks for the Federal Energy Regulatory Commission were confirmed by the Senate last week. Adding Republicans Neil Chatterjee and Rob Powelson to the commission finally brings an end to FERC's six-month stretch without a quorum. August is normally a slow month for the agency, but after the long paralysis, expect the new commissioners to build their staffs and wade into a [long list](#) of interstate natural gas pipeline projects; oil, gas and electric rate cases; and enforcement probes. The next two FERC nominees, Democrat Rich Glick and GOP Chairman-to-be Kevin McIntyre, will have a Senate hearing Sept. 7.

Perry gets a wingman: The Senate also confirmed Deputy Energy Secretary Dan Brouillette, who is taking his second tour through the agency. We may see more activity out of DOE as Brouillette settles in to help out Energy Secretary Rick Perry. — *Darius Dixon and Alex Guillén*

EMPLOYMENT & IMMIGRATION

DHS shuffle: The president's decision to appoint Homeland Security Secretary John Kelly as White House chief of staff was based largely on Kelly's track record at the department, including a dramatic drop in border arrests, increased interior enforcement and heightened visa screening. But what happens to the department now that he's

gone?

Elaine Duke — an accomplished and respected technocrat — replaced Kelly as acting secretary. The leading contender for permanent replacement is McCaul, who in addition to his cybersecurity efforts also recently introduced a border security bill. That measure would authorize \$10 billion over four years to place some combination of wall, fence, technology and aerial surveillance along the Mexican border. But McCaul will face opposition from the most vehement immigration hawks, whose candidate is Kansas Secretary of State Kris Kobach. He is a co-author of Arizona's highly restrictive 2010 immigration law, S.B. 1070, much of which was ruled unconstitutional by the U.S. Supreme Court. Kobach is also vice chairman of Trump's controversial commission on alleged voter fraud. He advised Trump on immigration during the campaign and met with him after the election to discuss Cabinet positions.

But Kobach is considered a less likely choice, given his lack of experience with the department and the hackles he'd likely raise among Democrats and pro-immigration Republicans. — *Ted Hesson*

TECHNOLOGY

Anti-sex-trafficking push may snag free speech: Tech companies and their trade groups are up in arms about a bill intended to crack down on websites — namely Backpage.com — that advertise sex trafficking. Websites such as Facebook, Twitter and Reddit, where users post content, and sites such as Airbnb, where users post reviews, have used a provision in U.S. law to avoid legal liability for posts that may be offensive or extremist. They fear that the bill, sponsored by Sens. Rob Portman (R-Ohio) and Richard Blumenthal (D-Conn.), would ensnare their legal protections under Section 230 of the Communications Decency Act as well as targeting bad actors. The Internet Association, an influential tech trade association whose members include Google and Facebook, immediately spoke out against the bill.

Opponents have the support of Sen. Ron Wyden (D-Ore.), who helped write the original law. Portman says his language is tailored so it wouldn't pick up websites that depend on the liability protection as it targets those that facilitate sex trafficking. A similar bill was introduced in the House in April by Rep. Ann Wagner (R-Mo.) On the other side of the debate, the National Center for Missing and Exploited Children and some anti-trafficking and law enforcement groups have thrown their support behind Portman's bill.

Redl confirmation not ready: The Senate Commerce Committee approved a slew of telecommunications-related nominees but left one behind. David Redl, a former congressional staffer who is Trump's nominee to head the Commerce Department's National Telecommunications and Information Administration, is still waiting for committee approval so his nomination can proceed. Redl ran into resistance from Sen. Ted Cruz (R-Texas), who dislikes Redl's statements on the transition that moved

internet governance from the U.S. to an international body last year.

TRANSPORTATION

Recess, but no break: FAA reauthorization bills pending in both chambers have been punted to September, with Congress in recess through August. The FAA's authority to collect and spend the taxes that fuel the aviation system will expire Sept. 30, leaving a tight deadline for enacting something into law. While [John Thune](#), the Senate Commerce chairman, and his House counterpart [Bill Shuster](#) (R-Pa.) have refused to discuss an extension of current law past Sept. 30, it's all but assured that one will be necessary. Meanwhile, Shuster and his allies will be using the August break to continue trying to win over lawmakers to a [beleaguered proposal](#) to shift air traffic control to a nonprofit body. When the House left for recess, Schuster was still short of votes to bring his FAA bill to the floor. — *Kathy Wolfe*

AGRICULTURE

Scanning the farm bill horizon: Conventional wisdom holds that House and Senate Agriculture committee leaders would get down to the business of drafting the farm bill early next year. The current iteration expires next fall. But committee leaders got out of the blocks early, with both panels holding a series of listening sessions across the country, and they're aligned on wrapping up the legislation on an expedited timeline. House Agriculture Chairman [Mike Conaway](#) (R-Texas) told attendees during a field hearing in Texas on July 31 that his panel will start drafting the measure "over the next eight weeks or so," with the goal of bringing it to the House floor for a vote by the end of the year. Earlier, Senate Agriculture Chairman [Pat Roberts](#) (R-Kan.) signaled a similar intent when he urged the Senate majority leader, during a July 25 hearing, to take up the bill on the Senate floor this year. "The sooner the better," Mitch McConnell replied.

Great expectations: Getting a farm bill through the House and Senate this year won't be easy. The current version was enacted in February 2014 after three years of debate. The committees are barely a few months into preparations — and the 115th Congress has a whole lot going on off the farm. Big-ticket objectives that could lay waste to Conaway and Roberts' best-laid plans include raising the debt limit, approving appropriations bills and adopting a budget resolution to clear the way to tax reform. — *Catherine Boudreau*

EHEALTH

Changes ahead: The eHealth agenda for August is all about gearing up for change.

ONC and CMS are awaiting final comments on Medicare payment rules and their intricate health IT requirements, and ONC is plunging into the interoperability morass, seeking comments on its framework for information exchange and holding a two-day meeting for use of health IT.

We're also awaiting the final makeup of the new, 26-member Health IT Advisory Committee. The 21st Century Cures biomedical innovation bill established the committee to provide expert advice to ONC and HHS on how to proceed with such nerdy but important health care chores as interoperability, the usability of electronic health records and information blocking.

We may also see the first announcements for participation in FDA's digital health pilot program, which is set to begin Sept. 1. — *David Pittman*

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