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The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
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Dear Chair Powell,

I write to you today with deep concern about your defiance of the law via your ongoing refusal to implement Section 956 of the *Dodd-Frank Act.* Section 956 directs financial regulators to jointly adopt regulations prohibiting incentive-based compensation arrangements that encourage inappropriate risk-taking by CEOs and other top executives.[1] Regulators were required to establish these guidelines by "9 months after the date of enactment" of the *Dodd-Frank Act*, which was April 21, 2011.[2] But 14 years after *Dodd-Frank*'s passage, you appear to be solely responsible for blocking Section 956's implementation.[3]

In a hearing before the Senate Committee on Banking, Housing, and Urban Affairs on July 9th, you provided misleading answers to questions about the status of the legally mandated agency action. In response to my asking: "How many banks have actually put in place the regulations that you said, 'I expect the banks will have in place'?," you pointed to a 2010 guidance document that the Federal Reserve (Fed) issued before *Dodd-Frank* passed.[4] But even you know that guidance is insufficient: when asked if the Fed has already met the requirements set by Section 956, you replied: "no."[5]

This is not the first time you have ignored Congressional directive on Section 956 rulemaking. In 2018, you told Congress that regulators could not achieve consensus and that you "expect" banks to reform executive compensation structure out of the goodness of their hearts.[6] Zero out of the top ten largest banks have since made meaningful reforms.[7] That same year, you helped

[1] Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203.
[2] Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203.
[3] Bloomberg Law, "Fed Faces Heat From Fellow Regulators on Banker Bonus Proposal," Evan Weinberger, May 8, 2024, https://news.bloomberglaw.com/banking-law/fed-faces-heat-from-fellow-regulators-on-banker-bonus-proposal.
[4] Federal Reserve Board, "Federal Reserve, OCC, OTS, FDIC Issue Final Guidance on Incentive Compensation," press release, June 21, 2010, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20100621a.htm.
[5] Senate Committee on Banking, Housing, and Urban Affairs, "The Semiannual Report to the Congress," July 9, 2024, https://www.banking.senate.gov/hearings/07/01/2024/the-semiannual-monetary-policy-report-to-the-congress.
[6] The American Prospect, "If at First You Don't Succeed on Executive Compensation…," David Dayen, March 20, 2023, https://prospect.org/economy/2023-03-20-biden-administration-executive-compensation/.
[7] JPMorgan Chase, "Annual Meeting of Shareholders Proxy Statement 2024," https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/proxy-statement2024.pdf.; JPMorgan Chase, "Form 10-K," https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-

orchestrate the rollback of regulations for large and mid-sized banks, including Silicon Valley Bank (SVB), Signature Bank (Signature), and First Republic Bank (First Republic)—inviting those banks to increase their risky investments to boost their short-term gains.[8] Despite the failures of all three banks—which were in part due to pay structures that encouraged inappropriate risk-taking—at a House Financial Services Committee hearing in March 2024, in response to a question about the status of Section 956, you said: "I would like to understand the problem we're solving, and then I would like to see a proposal that addresses that problem."[9] You may not "understand" the perverse incentives created by banks' current compensation structures, but the other bank regulators do.

On May 6, 2024, in response to the Spring 2023 bank collapses, the Federal Deposit Insurance Company (FDIC), Office of the Comptroller of the Currency (OCC), Federal Housing Finance Authority (FHFA) and National Credit Union Association (NCUA) issued a joint proposed rulemaking on Section 956.[10] The Federal Reserve was conspicuously missing from the list of agencies that are proposing this rule. Because Section 956 requires "joint" rulemaking by all named agencies, the rule will not be adopted if the Fed does not join.

The proposal requires large financial institutions to create a bonus pay structure for senior executives that is rooted in good risk management practices—and for those executives to defer a majority of their long-term bonus pay for at least four years, to make sure the consequences of short-term profit boosting are realized before executives collect their spoils.[11] The proposed rule

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chase-and-co/investor-relations/documents/quarterly-earnings/2023/4th-quarter/corp-10k-2023.pdf.; Bank of America, "2024 Proxy Statement," https://investor.bankofamerica.com/regulatory-and-other-filings/all-sec-filings/content/0001193125-24-064529/d529855ddef14a1.pdf; Wells Fargo, "2024 Annual Meeting of Shareholders," https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2024-proxy-statement.pdf; Citigroup, "2024 Notice of Annual Meeting and Proxy Statement," https://www.citigroup.com/rcs/citigpa/storage/public/Citi-2024-proxy-statement.pdf; US Bank, "2024 Proxy Statement," https://s203.q4cdn.com/711684571/files/doc_financials/2024/ar/US-Bancorp_DEF-14A_v1_ADA.pdf; PNC, "2024 Notice of Annual Meeting and Proxy Statement," https://d1io3yog0oux5.cloudfront.net/_d3a632fc325d6a93f68f9e92be5bdfaa/pnc/db/2263/21493/proxy_statement/2024+Proxy+Statement.pdf; Goldman Sachs, "Proxy Statement 2024 Annual Meeting of Shareholders," https://www.goldmansachs.com/investor-relations/financials/proxy-statements/2024/2024-proxy-statement-pdf.pdf; Morgan Stanley, "Notice of 2024 Annual Meeting and Proxy Statement," https://www.morganstanley.com/content/dam/msdotcom/en/about-us-2024ams/2024_Proxy_Statement.pdf; Truist, "2024 Proxy Statement," https://filecache.investorroom.com/mr5ir_truist/864/2024-Truist-Proxy-Statement.pdf; Capital One, "Proxy Statement 2024," https://ir-capitalone.gcs-web.com/static-files/73c7adb7-6d64-401b-8d4d-5e763e27b7c5.

[8] The American Prospect, "Jerome Powell Went Easy on Wall Street," Max Moran, June 10, 2021, https://prospect.org/economy/jerome-powell-went-easy-on-wall-street/; Letter from Senator Elizabeth Warren to Federal Reserve Board Chair Jerome Powell, March 15, 2023, https://www.warren.senate.gov/imo/media/doc/2023.03.15%20Letter%20to%20Powell%20re%20SVB%20Failures.pdf.

[9] House Financial Services Committee, "The Federal Reserve's Semi-Annual Monetary Policy Report," March 6, 2024, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=409159.

[10] Written Testimony of the Honorable Martin J. Gruenberg to the House Financial Services Committee, May 15, 2024, https://www.fdic.gov/news/speeches/remarks-martin-j-gruenberg-chairman-federal-deposit-insurance-corporation-oversight.

[11] The Office of the Comptroller of the Currency, Federal Deposit Insurance

prohibits “compensation arrangements that do not include risk adjustment of awards, deferral of payments, and forfeiture and claw back provisions. The prohibitions also emphasize the important role of sound governance and risk management control mechanisms.”[12]
Corporate CEOs and other executives are responsible for the long-term financial health of their companies, but these executives often get paid more when they prioritize risky investments that goose profits in the short-term—a lesson that was driven home last year amid multiple bank collapses. The second, third, and fourth largest bank failures in the nation’s history occurred in a span of two months in 2023. When the health of their banks tanked last year, the CEOs of SVB, Signature, and First Republic siphoned as much as they could from the businesses. All three took big risks to juice their banks’ short-term stock value—and then offloaded their inflated shares in the final hours before their banks collapsed. Greg Becker, the CEO of SVB, sold $3.6 million in SVB stock weeks before state regulators seized the bank.[13] Both the executive chairman and president of wealth management at Signature sold a combined $8 million of stock in January and February of 2023, a month before the bank was shuttered.[14] First Republic’s CEO Michael Roffler sold $2.3 million and chief credit officer David Lichtman sold $2.5 million in stock in the final months.[15]

The failures of SVB, Signature, and First Republic were caused in part by inappropriate risk-taking. SVB senior managers, as determined by Fed officials, had “financial incentive to focus on short-term profit over sound risk management”[16] that “encouraged excessive risk taking” beyond the bounds of sound financial management.[17] The Fed’s post-collapse review of SVB found that the bank had “major weaknesses” in its incentive compensation program and related board oversight, but Fed examiners missed these weaknesses in their 2019 exam.[18] The report concluded: “stronger or more specific supervisory guidance or rules on incentive compensation…or more rigorous enforcement of existing guidance and rules–may have mitigated these risks.”[19] Signature pursued “rapid, unrestrained growth without developing…adequate risk

Corporation, Federal Housing Finance Agency, and National Credit Union Administration , “ Incentive-Based Compensation Arrangements,” May 6, 2024 https://www.occ.treas.gov/news-issuances/news-releases/2024/nr-ia-2024-47a.pdf.
[12] The Office of the Comptroller of the Currency, Federal Deposit Insurance
Corporation, Federal Housing Finance Agency, and National Credit Union Administration, “ Incentive-Based Compensation Arrangements,” May 6, 2024, pp. 44-45, https://www.occ.treas.gov/news-issuances/news-releases/2024/nr-ia-2024-47a.pdf.
[13] CNBC, “SVB execs sold $84 million in stock over the past 2 years, stoking outrage over insider trading plans,” Robert Frank, March 14, 2023, https://www.cnbc.com/2023/03/14/svb-execs-sold-84-million-of-the-banks-stock-over-the-past-2-years.html#:~:text=Becker%20sold%20%243.6%20million%20worth,to%20data%20from%20Smart%20Insider.
[14] Fox Business, “First Republic Bank executives sold $12 million in stock in months before crash,” Ben Foldy and Tom McGinty, March 16, 2023, https://www.foxbusiness.com/markets/first-republic-bank-executives-sold-12-million-stock-months-before-crash.
[15] *Id.*
[16] U.S. Board of Governors of the Federal Reserve System, “Review of the Federal Reserve’s Supervision and Regulation of Silicon Valley Bank,” April 28, 2023, p. 3, https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.
[17] *Id.*, p. 75.
[18] *Id.*, p. 74.
[19] *Id.*, p. 75.

management" and executives "did not prioritize good corporate governance practices."[20] The collapses of SVB and Signature prompted a domino effect with First Republic, which had its own risk management failures. The leadership of First Republic prioritized bringing in wealthy borrowers by charging low rates on loans, leaving the bank unprepared for rising interest rates.[21]

The senior executives of each of those institutions ran their banks into the ground, were not properly supervised by Fed officials, got to keep their multi-million-dollar compensation packages, and yet the Fed is still trying to "understand the problem." The problem today is the same problem that prompted Congress to include this provision in the *Dodd Frank Act* 14 years ago: senior executives taking excessive risks to pad their bonus pay, even when those risks might tank their banks.

These CEOs' compensation structures encouraged them to make risky investment decisions to artificially inflate the values of their companies—and then cut-and-run with stock sales and bonus payouts when it became obvious that their banks were headed down the tubes. If regulators had finalized a rulemaking under Section 956 as directed by Congress, these corrupt CEOs may not have been emboldened by their pay structures to engage in excessive risk-taking—and may not have kept their huge bonuses after the bank failures. The Fed's refusal to act on Section 956 violates the law, not only in flouting the clear implementation timeline Congress established in 2011—but also in defying Congressional direction that you defer to the Vice Chair in matters related to bank supervision. In delegating decision-making on monetary policy to the Federal Reserve, Congress explicitly carved out from the Chair's responsibilities supervision of the banks, instead assigning that authority to the Vice Chair.[22] According to the Fed's authorizing statute, 12 U.S.C. Section 242: "The Vice Chairman for Supervision shall develop policy recommendations for the Board regarding supervision and regulation of depository institution holding companies and other financial firms supervised by the Board, and shall oversee the supervision and regulation of such firms."[23] Despite that explicit statutory instruction, you have refused to follow the law and have instead treated the Fed as your personal fiefdom.

Vice Chair Barr stands at the ready to bring Section 956 to the Fed Board for a vote, as he reiterated to me during the May 16, 2024 Senate Committee on Banking, Housing, and Urban Affairs hearing."[24] When I questioned you after the 2023 bank collapses, you said: "the main responsibility I take is to learn the right lessons from this and to undertake to address them."[25] Among those lessons is the role of executive compensation structures in encouraging excessive

[20] U.S. Federal Deposit Insurance Corporation, "FDIC's Supervision of Signature Bank," April 28, 2023, p. 2, https://www.fdic.gov/sites/default/files/2024-03/pr23033a.pdf.
[21] Letter from Senator Elizabeth Warren to First Republic Bank CEO Michael Roffler, May 3, 2023, https://www.warren.senate.gov/imo/media/doc/2023.05.03%20Letter%20to%20First%20Republic%20CEO%20Michael%20Roffler.pdf.
[22] 12 USC Section 242.
[23] 12 USC Section 242.
[24] Senate Committee on Banking, Housing, and Urban Affairs, "Oversight of U.S. Financial Regulators: Accountability and Financial Stability," May 16, 2024, https://www.banking.senate.gov/hearings/oversight-of-us-financial-regulators-accountability-and-financial-stability.
[25] Senate Committee on Banking, Housing, and Urban Affairs, "The Semiannual Monetary Policy Report to Congress," June 22, 2022, https://www.warren.senate.gov/newsroom/press-releases/at-hearing-fed-chair-powell-fails-to-assume-responsibility-for-deregulatory-push-preceding-bank-collapses.

risk-taking and the failures of Fed oversight to appropriately monitor the banks' stability. Finalizing congressionally mandated rulemaking is one way to address the Fed's failures. Your unwillingness to act to reform the role of risky CEO pay structures that contributed to both the 2008 financial crisis and the 2023 series of bank collapses can only be explained as a refusal to hold bank executives accountable. And your ongoing blindness to the legal requirement that the Federal Reserve act to promulgate this rule reveals a disdain for the law and the American public.

I write to remind you of your statutory duty to defer to the Vice Chair for Supervision on the implementation of Section 956 and instruct that you do so immediately, allowing the Board to convene for a vote on the proposal by August 15th.

Sincerely,

Elizabeth Warren
United States Senator