

May 4, 2023

The Honorable Sherrod Brown
Chairman
U.S. Senate Committee on Banking, Housing and Urban Affairs
503 Hart Senate Office Building
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
U.S. Senate Committee on Banking, Housing and Urban Affairs
104 Hart Senate Office Building
Washington, DC 20510

Re: Holding Executives Accountable After Recent Bank Failures

Dear Chairman Brown and Ranking Member Scott:

In the wake of the Silicon Valley Bank (SVB), Signature Bank, and First Republic failures, the undersigned organizations urge you to pass legislation to make it easier to hold executives accountable — and prevent the risk-taking that leads to bank failures in the first place.

We support President Biden’s recommendations to: 1) expand the FDIC’s authority to claw back compensation from executives at failed banks; 2) strengthen the FDIC’s authority to bar executives from holding jobs in the banking industry when their banks enter receivership; and 3) expand the FDIC’s authority to bring fines against executives of failed banks.¹ Specifically, we believe clawbacks of incentive-based compensation (including bonuses) and gains from stock trades should be mandatory in cases of bank failure. To ensure clawbacks are effective, a significant portion of incentive-based compensation should be required to be deferred into a fund. In the case of bank failure and/or executive misconduct, the fund would be forfeited.

In the report analyzing the failure of SVB, the Federal Reserve found that incentive compensation arrangements and practices “encouraged excessive risk taking to maximize short-term financial metrics”² and that executives were paid cash bonuses the day SVB failed.³

¹ “FACT SHEET: President Biden Urges Congressional Action to Strengthen Accountability for Senior Bank Executives,” The White House, Mar. 17, 2023, *available at* <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/17/fact-sheet-president-biden-urges-congressional-action-to-strengthen-accountability-for-senior-bank-executives/>.

² Board of Governors of the Federal Reserve System, “Review of the Federal Reserve’s Supervision and Regulation of Silicon Valley Bank,” 75, Apr. 28, 2023, *available at* <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>.

³ *Id.*

Additionally, soon after SVB's failure, news reports revealed that a trust owned by CEO Greg Becker sold \$3.6 million worth of SVB shares less than two weeks before its collapse.⁴ Meanwhile, public pension funds lost millions of dollars when the SVB share price tanked.⁵ Similarly, news also broke that executives at First Republic Bank sold millions of dollars of company stock in the months leading up to its failure.⁶

Clawing back bonuses and gains from stock trades should not depend on lengthy and costly investigations and lawsuits. Instead, Congress should act to make these clawbacks mandatory, minimizing the time and resources it takes to hold executives accountable. Making accountability certain would have the added benefit of serving as a deterrent to executives making millions while putting depositors, consumers, and the public at risk.

Additionally, we believe the FDIC should also have authority to claw back compensation in cases of executive wrongdoing absent bank failure, so that these executives do not escape accountability by virtue of working at too big to fail banks.

Lastly, we call on you to ensure the six agencies tasked with implementing section 956 of the Dodd-Frank Act — banning incentive-based compensation that encourages inappropriate risk-taking — finalize a strong rule this year to protect depositors, consumers, and the public from executives' excessive risk-taking.⁷

For further discussion, please contact Natalia Renta at natalia@ourfinancialsecurity.org.

Sincerely,

20/20 Vision

⁴ Ben Foldy, "Silicon Valley Bank CEO Sold \$3.6 Million in Shares Days Before Fatal Loss Disclosed," The Wall Street Journal, Mar. 10, 2023, *available at* <https://www.wsj.com/livecoverage/stock-market-news-today-03-10-2023/card/silicon-valley-bank-ceo-sold-3-6-million-in-shares-days-before-fatal-loss-disclosed-6re8L8VDWjk956bOLaDD>.

⁵ Peter Charalambous, "Pension funds report millions in losses amid Silicon Valley Bank collapse," ABC News, Mar. 17, 2023, *available at* <https://abcnews.go.com/US/pension-funds-report-millions-losses-amid-financial-crisis/story?id=97932375#:~:text=The%20losses%20represent%20a%20small%20percentage%20of%20the%20funds%20total%20investments.&text=Silicon%20Valley%20Bank's%20collapse%20is,shares%20before%20the%20bank's%20collapse>.

⁶ Ben Foldy & Tom McGinty, "First Republic Bank Executives Sold \$12 Million in Stock in Months Before Crash," The Wall Street Journal, Mar. 16, 2023, *available at* <https://www.wsj.com/articles/first-republic-bank-executives-sold-12-million-in-stock-in-months-before-crash-ca6ce79e>.

⁷ AFREF-led coalition letter, "Silicon Valley Bank Failure Demonstrates the Need to Implement Key Executive Pay Rule, Dodd-Frank Section 956," Mar. 27, 2023, *available at* <https://ourfinancialsecurity.org/wp-content/uploads/2023/03/956-coalition-letter-3-1.pdf>; Representative Velazquez and Senator Van Hollen, Letter to regulators re: Dodd-Frank Section 956, Apr. 26, 2023, *available at* <https://velazquez.house.gov/sites/evo-subsites/velazquez.house.gov/files/evo-media-document/quill-letter-111221-nmv-cvh-ltr-to-reg-on-sec-956-of-dfa-version-4-04-25-2023-04-15-pm.pdf>.

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
Americans for Financial Reform
Committee for Better Banks
Friends of the Earth U.S.
Institute for Agriculture and Trade Policy
Institute for Policy Studies, Global Economy Project
Public Citizen
Revolving Door Project