March 27, 2023

The Honorable Jerome H. Powell, Chair
The Honorable Michael S. Barr, VC for Supervision
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

The Honorable Martin J. Gruenberg, Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Gary Gensler, Chair
Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549

The Honorable Michael J. Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th St. SW
Washington, DC 20219

The Honorable Todd M. Harper
Chairman of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Silicon Valley Bank Failure Demonstrates the Need to Implement Key Executive Pay Rule, Dodd-Frank Section 956

Dear Chairs Powell, Gruenberg, Gensler, and Harper, Vice Chair Barr, Acting Comptroller Hsu, and Director Thompson:

Executives at failed financial institutions like Silicon Valley Bank and its corporate parent SVB Financial must be held accountable when their risky behavior leads to bank runs or other devastating results. Ideally, there would be rules in place to both ensure accountability *and* prevent inappropriate risk-taking in the first place.

Following the 2008 financial crisis, Congress agreed. In Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Congress tasked your agencies with implementing a rule to ban incentive-based executive compensation that encourages “inappropriate” risk-taking. Congress gave the agencies a May 2011 deadline. Almost twelve years later, we still have no final rule to protect consumers, depositors, and the public from executives’ excessive risk-taking.

We urgently request that your agencies issue a final rule this year, with the inclusion of three key policies:

1. Defer a significant percentage of executive compensation for 10 years, and if the financial institution fails, make it subject to forfeiture to reduce the the costs of insuring depositors; or if it engages in misconduct, use it to pay any fines: Former New York Federal Reserve Bank President William Dudley proposed a similar approach in 2014, arguing long deferral periods would help change Wall Street's dangerously risky culture by making executives personally pay for the costs of their own recklessness.[1] Had such rules been in place, SVB Financial CEO Greg Becker would have had no choice but to forfeit a large part of the compensation he accumulated over the past decade.

2. Ban stock options: Stock options provide executives with asymmetric incentives, promising executives all the benefits of share price increases with none of the risk of share price declines. Between 2019 and 2022, Becker pocketed $58 million just in payouts from stock options and stock grants — not including salary and cash bonuses.[2] During that time, he pursued risky strategies, overly relying on a single, volatile industry — tech — and then locking up cash from largely uninsured deposits in long-term bonds without preparing for interest rate hikes.[3] Becker's largest payday came in 2021, when SVB Financial's stock was trading as high as $700 per share and he cashed in $19 million in stock options.[4]

3. Ban executives from hedging bonus pay: Any effort to reduce inappropriate risk-taking will be ineffective if executives can use hedging strategies to reduce their risk from poor company performance. Even if a strong deferral program had been in place, for example, it is possible Becker would not have felt its impact if he had bought insurance or another hedging instrument to cover his losses after he led the bank to collapse.

The failures of Silicon Valley Bank and Signature Bank are only the most recent examples of excessive financial risk-taking since the 2008 crash.[5] Implementation of a strong section 956 rule would go a long way in preventing such disasters in the future, by better aligning the incentives of executives with the interests of consumers, depositors, and the public. For further discussion, please contact Natalia Renta at natalia@ourfinancialsecurity.org or Bartlett Naylor at bnaylor@citizen.org.

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[1] William C. Dudley, President and Chief Executive Officer, New York Federal Reserve Bank, "Enhancing Financial Stability by Improving Culture in the Financial Services Industry," Oct. 20, 2014, *available at* https://www.newyorkfed.org/newsevents/speeches/2014/dud141020a.html/.

[2] SVB Financial Group, 2023-2019 Proxy Statements (Schedule 14A), March 3, 2023, March 4, 2022, March 4, 2021, March 9, 2020, March 11, 2019, Option Exercises and Stock Vested Tables, *available at* https://www.sec.gov/edgar/browse/?CIK=719739&owner=exclude.

[3] Gregory Zuckerman, Ben Eisen, and Hannah Miao, "The Rise and Fall of Silicon Valley Bank: 'We Never Thought a Bank so Successful Could Collapse so Fast," Wall Street Journal, March 18, 2023, *available at* https://www.wsj.com/articles/silicon-valley-bank-collapse-ceo-management-cb75f147.

[4] SVB Financial Group, 2022 Proxy Statement (Schedule 14A), March 4, 2022, at 44 *available at* https://www.sec.gov/Archives/edgar/data/719739/000119312522064940/d299123ddef14a.htm.

[5] Bartlett Naylor and Zachary Brown, "Inappropriate: Banker Scams Continue as Washington Fails to Reform Pay as Mandated by 2010 Law," Public Citizen, Sept. 9, 2022, *available at* https://www.citizen.org/article/inappropriate/.

Sincerely,

20/20 Vision DC
American-Arab Anti-Discrimination Committee (ADC)
American Economic Liberties Project
American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
American Federation of State, County and Municipal Employees (AFSCME)
Americans for Financial Reform Education Fund
Asian Pacific American Labor Alliance, AFL-CIO
As You Sow
California Reinvestment Coalition
Center for Responsible Lending
Committee for Better Banks
Communications Workers of America (CWA)
Consumer Action
Demand Progress Education Fund
Indivisible East Bay
Institute for Policy Studies, Global Economy Project
Interfaith Center on Corporate Responsibility (ICCR)
International Federation of Professional and Technical Engineers (IFPTE)
Lake Research Partners
Open Markets Institute
Our Revolution
Public Citizen
Service Employees International Union (SEIU)
Transparency Task Force
United for Respect