

April 17, 2024

The Honorable Patrick McHenry

Chair
House Committee on Financial Services
2129 Rayburn HOB
Washington, DC 20515

The Honorable Maxine Waters

Ranking Member
House Committee on Financial Services
4340 O'Neill HOB
Washington, DC 20515

Dear Chair McHenry and Ranking Member Waters:

The undersigned four organizations strongly support congressional actions that would require the banking agencies to address issues contributing to Silicon Valley Bank (SVB), Signature Bank and First Republic Bank's failures and to fully incorporate lessons from the financial crisis of 2023. This includes requiring large banks similar in size to SVB to reflect unrealized securities losses in their regulatory capital, as well as requiring the banking agencies to report to Congress on the use of the systemic risk authority under the Federal Deposit Insurance Act. Two bills before the Committee would take positive steps in this area, and we urge members to support them.

- **Banks like SVB should hold capital associated with unrealized securities losses.**

Congress Member Brad Sherman of California introduced legislation H.R. 4206, the "Bank Safety Act of 2023"¹ to address this issue. The proposed Basel III Endgame capital rule would prevent large banks with between \$100 billion to \$250 billion in total assets from opting out of including securities gains or losses under Accumulated Other Comprehensive Income in regulatory capital. The bill would codify this closing of the opt-out loophole in law.

The agencies currently permit some banks, including those with total assets under \$250 billion, to not include unrealized losses on their holdings of securities designated as available for sale in their regulatory capital disclosures. This loophole enabled SVB and other banks of a similar size to disclose regulatory capital numbers that made their capital position appear stronger than it was. Unrealized losses on available for sale securities were a key factor in SVB's collapse. To address this issue, this bill would require the agencies to end the exemption that permits some banks to conceal losses on these securities.

- **Congress should require agencies to report to congress on future systemic risk exception uses.**

Congress Member Green of Texas introduced H.R. 4116, the "Systemic Risk Authority Transparency Act"² to amend the Federal Deposit Insurance Act to require reports on the use of the systemic risk authority.

¹ H.R. 4206, the "[Bank Safety Act of 2023](#)."

² H.R. 4116, the "[Systemic Risk Authority Transparency Act](#)."

This would add transparency to the process of winding up a failed insured depository institution, codifying the transparent and rapid reporting that the Federal Reserve, the FDIC and the Government Accountability Office provided shortly after the 2023 bank failures. The bill would also address the incentives at play, the conduct of insured depository institutions and uninsured depositors, and any mismanagement by the executives and board contributing to the depository's failure.

These are just a subset of the steps needed to incorporate lessons from the 2023 bank failures. Congress should pass commonsense accountability measures for executives of failed banks, H.R. 4208, Failed Bank Executives Accountability and Consequences Act and S. 2190, Recovering Executive Compensation Obtained from Unaccountable Practices Act (RECOUP) Act.³ Additional necessary steps include the prudential regulators finalizing the broader package of Basel III Endgame reforms and finally implementing section 956 of the Dodd-Frank Act, which set a nine-month deadline for finalizing a rule to ban incentive-based compensation that incentivizes inappropriate risk-taking.

We urge members of Congress to support measures such as these to hold the banking agencies and the large banks accountable for maintaining appropriate standards for safety and soundness and a resilient financial system.

Sincerely,

Americans for Financial Reform Education Fund
Public Citizen
THE ONE LESS FOUNDATION
20/20 Vision

³ We also support additional executive accountability bills introduced in the House. See "[Ranking Member Waters Announces First Wave of Legislation from Committee Democrats in Response to Recent Bank Failures](#)," Jun. 21, 2023.