

May 9, 2024

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: Urgent Need to Implement Key Executive Pay Rule, Dodd-Frank Act Section 956¹

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

In the wake of last year’s banking crisis, we wrote to you to urge you to implement section 956 of the Dodd-Frank Act, which requires you to promulgate a rule banning incentive-based executive pay that incentivizes inappropriate risk-taking. A year after the 2023 banking crisis — and almost fourteen years after the statutory mandate was enacted — we do not have a rule to protect consumers, depositors, and the public from executives’ excessive risk-taking.

The importance of the long-delayed rule became poignant in the wake of last year’s banking crisis, with the Federal Reserve’s own post-mortem report on the failure of Silicon Valley Bank concluding that “[t]he incentive compensation arrangements and practices at SVBFG encouraged excessive risk taking to maximize short-term financial metrics” and that “[s]tronger or more specific supervisory guidance or rules on incentive compensation ... may have mitigated these risks.”² At

¹ We have added an addendum to the letter applauding the recent action by four agencies to move forward on this important rule.

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

this time, many called on you to finalize this long-overdue rule, including members of Congress,³ President Biden,⁴ and a broad coalition of organizations.⁵

While the 2023 banking crisis may be in the rear-view mirror for some, you must not abdicate your statutory obligation to finalize this important rule. After all, in addition to the 2008 crash that precipitated the Dodd-Frank Act and the 2023 banking crisis that brought renewed attention to the issue, examples of connections between incentive-based pay and excessive risk-taking abound, including JP Morgan’s London Whale loss, Wells Fargo’s fake account scandal, and Goldman Sachs’ bribery case in Malaysia.⁶

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. We hope you will not wait until the next crisis to finalize this critical rule. For further discussion, please contact Natalia Renta at natalia@ourfinancialsecurity.org or Bartlett Naylor at bnaylor@citizen.org.

Sincerely,

20/20 Vision

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

American Federation of State, County and Municipal Employees (AFSCME)

American Federation of Teachers (AFT)

Americans for Financial Reform Education Fund

Committee for Better Banks

Consumer Action

Institute for Local Self-Reliance

Institute for Policy Studies, Global Economy Project

Interfaith Center on Corporate Responsibility

Maine People’s Alliance

³ Rep. Nydia Velazquez & Sen. Chris Van Hollen, Letter to Regulators, Apr. 26, 2023, <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>; Rep. Maxine Waters, Letter to Regulators, Mar. 17, 2023, https://democrats-financialservices.house.gov/uploadedfiles/03.17.2023_cmw_ltr_bf-ci2re.pdf; Sen. Gary Peters, Letter to Regulators, Mar. 22, 2023, https://www.peters.senate.gov/imo/media/doc/dodd-frank_letter.pdf.

⁴ The White House, “FACT SHEET: President Biden Urges Regulators to Reverse Trump Administration Weakening of Common-Sense Safeguards and Supervision for Large Regional Banks.” (March 30, 2023) <https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/30/fact-sheet-president-biden-urges-regulators-to-reverse-trump-administration-weakening-of-common-sense-safeguards-and-supervision-for-large-regional-banks/>.

⁵ Coalition letter led by Americans for Financial Reform Education Fund & Public Citizen, Mar. 27, 2023, <https://ourfinancialsecurity.org/wp-content/uploads/2023/03/956-coalition-letter-3-1.pdf>; coalition letter led by Governing for Impact, Apr. 11, 2023, https://governingforimpact.org/wp-content/uploads/2023/04/GFI_Finalize-Section-956-Rulemaking-Comment.pdf.

⁶ 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, <https://www.citizen.org/article/inappropriate/>.

Our Revolution
Public Citizen
Public Good Law Center
Revolving Door Project
The Value Alliance
United for Respect
USPIRG
VOICE (Voices Organized in Civic Engagement)

Addendum to Coalition Letter
Re: Urgent Need to Implement Key Executive Pay Rule, Dodd-Frank Section 956
May 9, 2024

As we deliver this coalition letter about the urgent need to implement section 956 of the Dodd-Frank Act to the six agencies tasked with this congressional mandate, we want to acknowledge developments that have occurred since the letter was finalized.

On May 6, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Housing Finance Agency (FHFA) announced that they voted to re-propose the 2016 proposal of the rule while adding questions for comment and identifying specific alternatives the agencies are considering. The notice of proposed rulemaking also included an analysis of the ongoing problems with misaligned executive incentive compensation, including the role it played in last year's banking crisis and Wells Fargo's 2016 fraudulent accounts scandal.

The notice approved by the OCC, the FDIC, and FHFA included the National Credit Union Administration (NCUA). We applaud these four agencies for taking this important step, and urge the Federal Reserve and the Securities and Exchange Commission to follow suit as quickly as possible.