United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

March 31, 2023

The Honorable Janet Yellen
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Yellen:

To better promote market discipline and strengthen financial stability, the Financial Stability Oversight Council (FSOC) and its member agencies must review the full framework of regulations protecting depositors, consumers, and the U.S. financial system. Recent events serve as a wake-up call to reinforce our financial system to protect consumers and small businesses from systemic bank failures while preserving small banks and credit unions on Main Street.

The U.S. Department of the Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation came together under the systemic risk exception to address the recent bank failures, promote consumer confidence, and protect the financial system. These actions ensured workers could receive their paychecks and enabled small businesses to survive while providing depository institutions with the certainty arising from enhanced liquidity options.[1]

Banking regulators are reviewing what went wrong at the failed institutions, but reflection must not stop there. Under the broad authorities granted to the Council, we urge you to identify risks and vulnerabilities brought to light during this crisis and provide specific recommendations on regulation, legislation, or other actions necessary to address these threats.[2] Areas to assess include:

- Traditional, quantifiable risks within prudential regulation, such as liquidity and interest rate risk management of less durable funding sources like non-core or uninsured deposits, and concentrations in asset classes like commercial real estate & long duration bonds;
- Qualitative risks, such as the influence of social media and algorithmic marketing on bank safety and soundness and consumer protection, and the related effect of financial stability;

[1] Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC (March 12, 2023); Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors (March 12, 2023); *see* sec. 13(c)(4)(G) of the Federal Deposit Insurance Corporation Act, 12 U.S.C. § 1823(c)(4)(G), and sec. 13(3) of the Federal Reserve Act, 12 U.S.C. § 343.
[2] Pub. L. No. 111-203 § 112 (12 U.S.C. § 5322).

- Emerging risks faced by the financial sector, such as market volatility caused by geopolitical, economic, and financial events;
- The scope of federal liquidity backstops available to banks and credit unions intended to reduce the risk of contagion and promote financial stability, such as access to the Federal Reserve's discount window and Federal Home Loan Banks;
- The patchwork of state and federal supervision and examination of covered institutions, insufficient communication among regulators, and regulator's ability to effectively enforce the law; and
- The ability of regulators to hold executives accountable for their mismanagement of covered financial institutions.

Please provide your assessment of these risks and recommendations within sixty (60) days. We must take action now so that Americans can continue to be confident in our financial system and their financial institution of choice.

Thank you for your prompt attention to this matter.

Sincerely,

Sherrod Brown
Chairman
Senate Committee on
Banking, Housing, and Urban
Affairs

Jack Reed
United States Senator

Robert Menendez
United States Senator

Jon Tester
United States Senator

Mark R. Warner
United States Senator

Elizabeth Warren
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Catherine Cortez Masto
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United States Senator