Opening Statement
Chairman Sherrod Brown
The Financial Stability Oversight Council Annual Report to Congress
2/7/2024

I call this hearing to order.

Secretary Yellen has to leave at 11:30 for previous commitments, so we'll be strictly enforcing the five minute rule today.

For a long time, it's been pretty clear what gets rewarded on Wall Street.

Bigger risks mean bigger profits. Bigger profits mean more stock options. Bigger profits mean fatter bonuses. And then, we end up with a Wall Street culture that glorifies seeing just how much you can get away with.

Executives know that when big bets pay off, they get to cash out. And when those bets fail, they won't have to clean up the mess – workers and taxpayers will, always.

That's what financial fiascoes boil down to: the Wall Street system encourages bad decisions – and leads to an economy of excess for executives and a shrinking middle class. It's how we get East Palestine. It's how we get the

CEO of Stellantis making 365 times what their average worker makes.

We saw that story play out just 11 months ago.

Executives at SVB and the other poorly run banks put profits ahead of basic risk management.

Then, as the banks imploded, small businesses all over the country worried how they'd make payroll if they couldn't access their deposits. Families asked themselves if their money would be safe. So regulators had to step in to protect our economy, while the executives got off scot-free.

2008 was the same story, too—just on a far bigger scale.

Wall Street took big risks with Americans' money, just like SVB did. Wall Street figured out it could make even bigger bets by exploiting gaps in our regulatory system—always enticed by huge bonuses. Risk-taking built up in the shadows until it was too late to contain.

We all know how that turned out. Chaos on Wall Street put 9 million Americans out of work. Millions lost their homes and their wealth to foreclosure—I saw it in my neighborhood in Cleveland. Our zip code – 44105 – had more foreclosures than any other zip code in the country in the first half of 2007.

A mess that started in New York board rooms with big, barely supervised Wall Street companies then spread to neighborhoods around the country, swallowing up Americans jobs and homes and livelihoods.

Some would like to dismiss this as it's all in the past, it's all ancient history, it's a once-in-a-century catastrophe that we don't need to worry about anymore.

But 2008 showed us how Wall Street is always trying to hide the same old risky behavior in new terms that their PR team cooked up. They're not going to give up finding new ways to get around the rules so they can make bigger bets to make bigger profits.

But when we let them get away with it, with no oversight or safeguards, Americans pay the price. We've seen it too many times.

That's why, fourteen years ago, we created the Financial Stability Oversight Council—a council of all our financial regulators, which Secretary Yellen chairs.

FSOC's job is to monitor and respond to financial risk wherever it develops. While other regulators only police some kinds of businesses, FSOC takes a 30,000-foot view of our financial system. When Wall Street and its high-priced lawyers try to avoid the rules, FSOC can react.

FSOC's job is to close gaps in our regulatory system, covering blind spots that any one agency might have. It can also make sure safeguards are in place at the biggest, riskiest financial companies.

It plays a critical role in stopping the next AIG from blowing a hole in our economy. And FSOC is a key piece of how we end the cycle of bailouts and golden parachutes for executives, with workers stuck with the consequences.

Today, FSOC is as important as ever.

Right now, nonbank financial companies–hedge funds, private equity firms, insurance companies, clearinghouses–hold nearly 20 trillion dollars in assets.

And over the last decade, they’ve grown larger and larger. These days, these companies are responsible for a lot of the activity on Wall Street.

Some of these firms sit in the middle of our biggest markets. Others lend our biggest employers the cash to make payroll. Many finance buyouts, service mortgages, or make huge bets with billions of dollars—often using money from workers’ pensions.

Because these companies have become so central to our markets, it would be all too easy for just one of them to drag down our financial system.

And they have the same deep-rooted temptation to take on more risk for a big payday as anyone else on Wall Street – sometimes they’re even riskier.

And we all know that if one of these firms collapsed, the executives would be just fine. But most of the country wouldn’t.

That’s why FSOC is so important. When Wall Street tries to shapeshift to evade the watchdogs we depend on, FSOC must be there to take action to protect our economy.

Of course, it's not a surprise that Wall Street and its well-funded allies have always wanted to kill anything that tries to hold it accountable. Their lobbyists viciously fought to try to stop us from implementing the Dodd-Frank reforms.

After we passed it, the chief lobbyist for the Financial Services Roundtable said "now it's halftime."

And now they've tasked their lobbyists with trying to block the Council from doing its job, forcing it to sit on its hands as risk builds up. They want to take away some of our most important tools for keeping our economy safe from reckless Wall Street behavior.

FSOC makes Wall Street nervous—nervous that FSOC could bring oversight and accountability to parts of Wall Street that wouldn't otherwise get it.

The last administration worked hard to handcuff FSOC by undermining its ability to impose safeguards at the riskiest financial firms. The message to Wall Street was clear: FSOC isn't really watching and won't really act.

That is changing now. Today FSOC is far better positioned to make sure that bad bets anywhere on Wall Street don't crush Main Street.

The Council is also focused on responding to new, emerging risks to our financial system. These are risks we've talked about on this Committee before—risks like digital assets, cybercrime, the changing climate, and artificial intelligence——as well as the old risks that are as present as ever, like shadow banks. FSOC is also monitoring how the commercial property market is affecting our banking system—an important concern given what we've seen this week.

Secretary Yellen is responsible, too, for Treasury's critical work to safeguard our national security by cracking down on illicit finance. I look forward to working with her to combat all the ways that bad actors like Hamas and Iran are funding their activities—including with new tools, like digital assets.

Ultimately, we cannot allow another financial crash, wherever the risks may come from, to set workers and consumers back.

Instead, we need an economy where hard work – not financial speculation – pays off. A system that works for everyone, not just big corporations and hedge funds and their lobbyists.

We know we're still far from that economy – you only have to look at corporate profiteering the in the last few years. Every time Americans go to the grocery store, they're paying for stock buybacks and executive bonuses.

And it's what we see now with the big banks—throwing millions of dollars at a PR campaign to stop capital rules that will make sure that taxpayers don't have to bail out another bank failure. All to keep profits high.

While I've been Chair of this Committee, I've worked every day to end a system that rewards risky behavior with piles of company stock and huge cash bonuses, instead of real accountability.

That's why this Committee passed the bipartisan RECOUP Act last year—to crack down on a broken system.

And ultimately, that’s why we created FSOC, whose mission is so important today.

Secretary Yellen, thank you for being here this morning. I look forward to hearing about FSOC’s work to safeguard our financial system.

Ranking Member Scott.