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Opening Statement
Full Committee Hearing
May 4, 2023 at 10:00 AM

Today we're supposed to be talking about "Holding Executives Accountable after Recent Bank Failures." But from where I sit, all I see is finger pointing. I don't see anyone – from the bank executives, to the regulators, to the Biden administration – taking meaningful accountability for their actions that played a role in the recent bank failures.

We should, 100 percent, discuss certain authorities regulators have to claw-back executives' compensation if that individual acted in malpractice. And we should discuss the lack of accountability at the executive and board of director level, as well. But we should not forget that the regulators should also be held accountable.

So, like I have said from the beginning, this was a failure in three parts, and we must discuss accountability across the board—for bank executives, bank regulators, and this administration's inflationary spending policies. And I look forward to addressing these issues later in hearings this month.

As for the bank executives, these were not your average banks. They were like the Las Vegas betting tables of banks that rolled the dice on falling interest rates when everything pointed in exactly the opposite direction. And if that didn't have the red alert sirens going, we now know that they suffered rampant mismanagement and these very same risks that brought the banks down were in plain sight [of] the supervisors. Flashing red lights, without a question. What a blatant disregard for economic conditions, a disregard for supervisory warnings, and a disregard for basic corporate governance and risk controls.

To start, SVB operated without a chief risk officer for eight months following the resignation of the previous officer in April of 2022. A very fast-growing bank—unprecedented growth—without a risk officer for eight consecutive months. But even more concerning is when Silicon Valley Bank failed, it had 31 open supervisory findings, and that level of findings is about three times the number [at] other peer banks.

As a Charlestonian, I want to put it a different way. We are known for amazing restaurants and fantastic food. If one of our restaurants had 31 safety or health violations, they would be shut down in a heartbeat! We wouldn't get to 31. But what's more, if an inspector failed to take note of those 31 safety or health issues in the first place, they would lose all credibility and their [job]!

Regulators must also be held accountable for their supervisory failures to the same extent that the failed banks' executives and directors should be—otherwise, there is no incentive for anyone at fault to change.

Just last week, we received the Federal Reserve and FDIC's reports on the failures of SVB and Signature Bank. The Federal Reserve report acknowledged the supervisors did not fully appreciate the extent of the vulnerabilities as SVB grew in size and complexity. But rather than focusing on these failures and providing mechanisms to ensure sufficient steps are taken in the future, the Federal Reserve used the report as a scapegoat to push its progressive, regulatory agenda.

Where is the accountability for the inaction [of] the Federal Reserve? I think we should all keep in mind that the last time Michael Barr testified before the Committee, he would not commit to firing any of the employees who failed to do their jobs. The FDIC's report also found supervisory failures as well as failures in bank management. Additionally, after the failure of a second California bank, First Republic, with over $200 billion in assets over the past weekend, it is clear that the practices and the standards of the California state supervisors also merit congressional scrutiny.

Turning back to the bank executives. We must find a path forward to holding bad actors accountable. We all know that market behavior is a driving force, and perhaps we should look to strengthening corporate responsibility through good governance mechanisms.

For example, it has been reported that SVB's bonuses came with so-called claw-back provisions that would [have allowed] the lender to recoup the pay if there was wrongdoing. However, there was no provision allowing the bank to claw-back the money if excessive risk-taking led to the losses. I certainly think this is something we can, and should, discuss.

At the same time, if good governance reforms are not appropriately targeted and calibrated, an overly prescriptive approach has the potential to further siphon and divert talent away from the banking sector to non-bank sectors of the financial services industry. As we have seen here, good management is absolutely essential. Recruiting talented folks at financial institutions is of the utmost importance in making sure that these institutions run smoothly and soundly.

It is questionable whether we should be encouraging supervisors to dedicate more time, attention, and manpower to evaluating the riskiness of compensation practices when they failed to resolve bread-and-butter banking practices at these failed banks. The FDIC, the SEC, and the DOJ have authorities to hold management at these failed banks accountable for any misconduct.

At the end of the day, the United States banking system is one of the most heavily regulated industries in the world. What is the point of having law after regulation after rule after guidance if the regulators aren't using the tools they already have at their disposal? It doesn’t matter what we do in Congress if the regulators don’t implement and enforce the laws we create as intended.

With that, I look forward to hearing from our witnesses on accountability across the board, with existing authorities and any potential suggestions you may have.

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