

Questions for Mr. Luke Pettit, Assistant Secretary of the Treasury Designate, Department of the Treasury, from Ranking Member Elizabeth Warren:

1. In 2019, the banking agencies finalized a rule that rolled back certain capital and liquidity rules for banks with \$100 billion - \$700 billion in assets. SVB, Signature Bank, and First Republic Bank, which failed in Spring 2023, were all in this size category.
 - a. Do you believe that material stress at, or the failure of, banks with \$100 billion - \$700 billion in assets can threaten the stability of the financial system?
 - b. Do you believe that the 2019 rule played *any* role in the failure of these three banks and the broader instability in the banking system in Spring 2023?
 - c. If not, do you believe it is coincidental that weakening supervision and regulation for banks of this size category directly preceded the 2nd, 3rd, and 4th largest bank failures in U.S. history, all banks within that size category?
 - d. Do you believe it was appropriate for the banking agencies to generally reduce liquidity requirements for banks with \$100 billion - \$700 billion in assets?
 - e. Do you believe it was appropriate for the banking agencies to generally allow banks with \$250 billion - \$700 billion in assets to opt-out of a capital treatment that required unrealized gains and losses in the available-for-sale securities portfolio to be reflected in capital levels?

Answer: SVB's failure was a managerial and supervisory failure, not a regulatory or legislative one. Effective supervision needs to focus on real, material risks to safety and soundness. The tailoring of regulations enhances the breadth and dynamism of our banking system, enabling large, regional, and community banks to serve the nation in different and important ways.

2. In 2023, the banking agencies proposed revisions to the risk-weighted capital framework to address glaring deficiencies in the existing rules, especially with respect to risky trading activities and the losses banks face due to operational failures. The rule was generally aligned with the international Basel III "Endgame" agreement.
 - a. Do you believe the agencies should finalize this rule?
 - b. Do you believe the Basel Committee on Banking Supervision plays a useful role in preventing a global race to the bottom on capital rules?
 - c. Do you believe that financial crises in other countries can spill over to the U.S. banking system? Has that happened previously in U.S. history?
 - d. Do you believe banks are currently undercapitalized against significant trading risks in their capital markets activities?
 - e. What is the total volume of operational risk losses banks have had in the past 10 years? What part of the capital framework is intended to capture such losses?

Answer: I support a reassessment of the Basel III endgame proposal to ensure it promotes U.S. global competitiveness, and I am committed to a financial system that is competitive, safe and sound, and provides for main street economic prosperity.

3. In 2018, the OCC and Federal Reserve proposed to weaken the enhanced supplementary leverage ratio (eSLR), one of the most important post-financial crisis improvements to capital requirements for the eight largest Wall Street banks.
- Do you believe the eSLR has improved the safety and soundness of banks that are systemically important to the global financial system?
 - Did the 2008 financial crisis and the complete failure of the risk-weighted capital regime demonstrate that leverage capital requirements are an important safeguard to ensure the stability of the banking system?
 - Do banks' investments in Treasury securities carry any liquidity, operational, or market risk? If Treasury securities were exempted from the leverage ratio, which part of the capital framework would provide a buffer against losses on Treasury securities? Do you oppose exempting Treasuries and other assets from the leverage ratio?

Answer: Risk-based and leverage capital standards are both important measures of capital adequacy. As with all regulations, changes may be necessary from time to time, in order to ensure that capital standards both ensure safety and soundness in the banking system and do not unnecessarily inhibit economic growth. If confirmed, I look forward to working with the bank regulators to better understand how we can make our regulatory regime more effective and efficient and to ensure that markets for Treasury securities remain deep, broad, liquid, and stable.

4. Climate change clearly poses material financial risks to the financial system. More frequent and severe weather events, and chronic changes to the climate, threaten physical collateral, undermine cash flows backing a variety of loan types, and could increase losses on national bank balance sheets. In addition, the shift to a low-carbon economy could undermine the value of loans and bonds tied to carbon-intensive industries.
- Do you believe that climate change poses material risks to the financial system?
 - What climate-related financial risks in the insurance market most concern you?
 - Do you believe the Federal Insurance Office's data collection on climate risk and homeowners' insurance was valuable? Do you commit to continuing this data collection annually or biannually?

Answer: The financial system is enormously diverse, and there are many potential risks that should be monitored, but no specific risks should be ascribed resources disproportionate to the risk. If confirmed, I commit to working to identify and respond to material risks that the financial system faces. Further, if confirmed, I will assess the data collection efforts that have been undertaken to determine appropriate next steps.

5. What do you see as the top causes of de-banking for low-income Americans? What policy levers could be used to address the de-banking of low-income Americans?

Answer: These are complicated issues, and it is important to make sure that access to banking services is determined by appropriate risk-related factors, not political or other motivations. If confirmed, I look forward to working with our state and federal bank regulators to better understand underlying drivers of "de-banking."

6. The largest banks are even larger and more complex than they were in 2008 when they were bailed out to avoid another Great Depression.
- Do you believe the Too-Big-To-Fail (TBTF) problem has been solved? Do very large banks benefit from an implicit government guarantee and enjoy an unfair funding advantage over community banks?
 - Do you have confidence that if one of the global systematically important banks failed, it would not destabilize the banking system and inflict severe harm on the broader economy?
 - What steps do you think regulators should take to finally address the TBTF problem?

Answer: Effective and properly tailored regulations should provide strong protections for taxpayers and enable a healthy banking system that allows banks of all sizes to play their important roles in providing financial services to Americans and American businesses.

7. In the wake of the Spring 2023 bank failures, the FDIC published a report outlining potential options for deposit insurance reform.
- Do you believe small businesses should have a completely safe place to keep their money for payroll, operating expenses, and other transactions?
 - Do you think it is appropriate that large businesses with uninsured deposits at SVB and Signature Bank were protected by the government, while small businesses with accounts at local community banks sometimes lose their uninsured deposits when the bank fails?
 - Would you support bipartisan efforts to increase deposit insurance limits for small business transaction accounts?

Answer: I witnessed the uncertainty that SVB's failure created for community banks and small businesses alike. The FDIC report provided options and identified a need for further analysis. If confirmed, I look forward to working with Congress, agencies, and stakeholders on this important policy area.

8. What current or emerging risks constitute your top concerns for the financial system?

Answer: Cyber threats have the potential to cause significant disruption to individual banks, the banking system, the financial system, and governments.

9. Do you believe consumers and small businesses have been well-served by the substantial increase in consolidation of the banking sector over the last four decades?

Answer: I am committed to a financial system that is competitive, safe and sound, and provides for main street economic prosperity. I believe our banking system should enable banks of all sizes to provide consumer and small business credit and a broad array of financial services to Americans.

10. Please review the Department of Justice's 2023 Merger Guidelines and its 2024 Banking Addendum. Do you agree with the DOJ's approach to analyzing the competitive effects of bank merger transactions?

Answer: I have not spoken with the DOJ on this matter, but if confirmed, I will work to support the banking agencies and DOJ, as appropriate, as they review and enhance bank merger policy.

11. Why do you believe Congress added the financial stability factor to the Bank Merger Act in the wake of the 2008 financial crisis?

Answer: Ensuring financial stability is a key objective of our bank regulatory framework. If confirmed, I will work to support the work of the banking agencies and DOJ, as appropriate, as they review and enhance bank merger policy and measurement of stability.

12. What safeguards are necessary to ensure that stress in the crypto asset market does not infect the banking system?

Answer: Innovations in the financial sector should be encouraged here in the United States, to ensure that our economy is competitive and dynamic. Any risks that accompany such innovations, including innovative digital assets, should not be ignored, but rather monitored and addressed without unnecessarily discouraging technological advancement.

13. Do you believe it's appropriate to apply heightened liquidity requirements to deposits placed at banks by a stablecoin issuer? Do you believe there should be concentration limits placed on a national bank's ability to accept deposits from entities or industries that are themselves vulnerable to runs?

Answer: These potential liquidity requirements should be determined based on the specifics of the arrangement between the issuer and the bank. If confirmed, I look forward to working with the banking agencies to ensure that any potential incremental requirements are implemented in accordance with the law and are properly calibrated to the risks that they may pose.

14. Is it possible for a bank to hold crypto assets on its balance sheet, as principal, in a safe and sound manner?

Answer: There are a wide range of digital assets, and if confirmed, I look forward to working with bank regulators to assess the benefits and potential risks that they may pose.

15. Do you believe that crypto asset custody activities pose greater risk than custodizing traditional real or financial assets?

Answer: There is a wide range of practices for agents to serve as custodians of digital assets, and I look forward to working with bank regulators, Congress, and stakeholders in determining and promoting best practices.

16. Does the complexity of the ByBit hack pose any concerns about permitting banks to custody crypto assets?

Answer: Banks must understand and mitigate risks, including risks posed by illicit actors that threaten our national security and financial system. If confirmed, I look forward to working with this Committee to enact a sensible regulatory framework for the digital asset marketplace. The best way to protect consumers is to guarantee that innovation happens in America, and not abroad.

17. How can banks ensure that nodes, validators, and other network participants on distributed ledgers they are participating in are not terrorist organizations, cartels, or sanctioned countries like Russia or Iran?

Answer: Banks must understand and mitigate risks, including risks posed by illicit actors that threaten our national security and financial system. Enacting a sensible U.S. regulatory framework for the digital asset marketplace could help to mitigate such illicit-actor risks.

18. Do you believe decades of redlining inflicted severe harm on communities of color and low- and moderate-income communities?

Answer: Discrimination against customers based on their race, sex, religion, political views, or speech is unacceptable.

19. Do you believe redlining and other discriminatory lending practices are still a problem in the banking system?

Answer: Discrimination against customers based on their race, sex, religion, political views, or speech is unacceptable.

20. Do you think the banking regulators should defend the 2023 final CRA rule in court and implement the rule, if it is upheld?

Answer: My understanding is that the banking agencies recently announced that they intend to withdraw this rule.

21. Do you agree with senior OMB official Mark Calabria that federal deposit insurance should be “phased out fully”?

Answer: I can’t speak to the specifics of this comment, as I do not have the context in which it was made.

22. Does the Treasury Department currently have the legal authority to administer the Deposit Insurance Fund? If so, please explain.

Answer: The FDIC maintains the Deposit Insurance Fund (DIF).

23. Do you believe that funneling all major decisions through the White House will decrease the politicization of the banking agencies?

Answer: Interagency collaboration across the executive branch is a strength and will improve the regulatory process by providing consistency and certainty across regulators along with proper analyses of costs and benefits of major regulatory decisions.

24. If Elon Musk and DOGE direct severe staffing cuts to the Treasury offices under your purview, such that you do not believe the offices can adequately perform their duties, would you contest such a decision with Secretary Bessent? How would you go about expressing your concern?

Answer: The offices under the purview of the Assistant Secretary for Financial Institutions do important work, including leading implementation of several of the Treasury Department's statutory responsibilities. If confirmed, I will undertake a comprehensive review of the resource and funding needs of those offices and work with other appropriate officials to ensure those needs are met appropriately and efficiently.

25. What are the key risks you see in the insurance market?

Answer: The U.S. insurance market is the largest and most diverse insurance market in the world, and it plays an important societal role in the United States. Among other things, it is important to monitor how the market is adapting to increased cyber risks, an aging population, natural catastrophe exposure, developments in the international reinsurance markets, and macroeconomic conditions. If confirmed, I look forward to working with the state insurance regulators on these areas.

26. Do you have any policyholder protection or financial stability concerns regarding the increase in private equity ownership of life insurance companies? Have you seen any evidence that private equity companies increase the risk-taking of life insurance companies following the acquisition?

Answer: I understand that the Federal Insurance Office (FIO) and state insurance regulators have been, among other activities, monitoring the role that the insurance sector plays in contributing to the ability of Americans to live out their retirement years in a dignified manner. If confirmed, I look forward to working with FIO and state regulators as they continue to engage with domestic and international authorities to monitor these issues.

27. Do you believe the increasing reliance of financial institutions on a small set of cloud service providers pose risks to financial stability? Are cloud service providers critical infrastructure for the financial system? Do you commit to continuing the Treasury's work on these risks?

Answer: If confirmed, I look forward to collaborating with financial regulators, and my colleagues at Treasury, to assess the effects of cloud service providers on the U.S. financial system.

28. Do you believe the CFPB should exist?

Answer: The CFPB was established by law.

29. Do you believe the executive branch has the authority to shut down a statutorily created agency, or does that authority rest with Congress?

Answer: In general, executive branch agencies are required to carry out the functions under applicable law.

30. What do you see as the key consumer protection failures that contributed to the 2008 financial crisis?

Answer: There are a number of factors that contributed to the financial crisis.

31. During or leading up to the selection of your nomination, did anyone on the Trump campaign, transition team, or other closely related entity approach you about your loyalty to President-elect Trump? Did you sign a loyalty pledge or other similar oath?

Answer: No.

32. During or leading up to the selection of your nomination, did you discuss Project 2025 with any officials directly or associated with the Trump campaign or the Trump transition team? If so, please explain.

Answer: No.

33. During or leading up to the selection of your nomination, did you discuss Project 2025 with any officials directly or associated with the Heritage Foundation? If so, please explain.

Answer: No.

34. Please provide a comprehensive list of the people who approached you about joining the administration.

Answer: President Trump nominated me for this role, and I am honored for the opportunity to serve this nation.

35. Did any person provide advice to you, oral or written, on your responses to these questions? If so, please provide a comprehensive list of the individuals or organizations that provided assistance.

Answer: The answers to these questions are my own.

36. If confirmed, will you commit to making yourself available to provide testimony (including but not limited to briefings, hearings, and transcribed interviews) to the Committee on any matter within its jurisdiction, upon the request of either the Chair or Ranking Member?

Answer: If confirmed, I will make myself available to the Committee as appropriate.

37. If confirmed, will you commit to fully complying with all information requests from me and responding to those requests in a timely manner?

Answer: If confirmed, I will respond to requests for information as appropriate.

38. If confirmed, do you intend to respond to congressional information requests differently depending on who is making the request?

Answer: If confirmed, I will respond to requests for information as appropriate.

39. If confirmed, will you commit to complying with any federal protections for whistleblowers?

Answer: Yes.