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United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

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RANKING MEMBER

April 5, 2018

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: April 10, 2019, Full Committee hearing entitled, "Holding Megabanks Accountable: A Review of Global Systemically Important Banks 10 Years After the Financial Crisis"

The Committee on Financial Services will hold a hearing entitled, "Holding Megabanks Accountable: A Review of Global Systemically Important Banks 10 Years After the Financial Crisis" at 9:00 a.m. on Wednesday, April 10, 2019, in room 2128 of the Rayburn House Office Building. This will be a single-panel hearing with the following witnesses:

Panel
- **Mr. Michael L. Corbat**, Chief Executive Officer, Citigroup
- **Mr. James Dimon**, Chairman & Chief Executive Officer, JP Morgan Chase & Co.
- **Mr. James P. Gorman**, Chairman & Chief Executive Officer, Morgan Stanley
- **Mr. Brian T. Moynihan**, Chairman & Chief Executive Officer, Bank of America
- **Mr. Ronald P. O'Hanley**, President & Chief Executive Officer, State Street Corporation
- **Mr. Charles W. Scharf**, Chairman & Chief Executive Officer, Bank of New York Mellon
- **Mr. David M. Solomon**, Chairman & Chief Executive Officer, Goldman Sachs

Overview

During the financial crisis, the failure or impairment of large financial institutions sent shocks through the financial system, which, in turn, significantly harmed the real economy. Banking regulators and other relevant authorities had limited options to prevent problems affecting individual firms from spreading and thereby undermining financial stability. Consequently, Congress took the unprecedented step in 2008 to authorize $700 billion in funds through the Troubled Asset Relief Program (TARP)[1] to, among other things, bail out financial institutions and stabilize the financial system. Specifically, the eight global systemically important banks (G-SIBs)[2] based in the United States received roughly $125 billion from TARP's Capital Purchase Program. They also directly or indirectly benefited from several other

[1] Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343 (2008).
[2] In 2011, the Financial Stability Board, in consultation with the Basel Committee on Banking Supervision consisting of bank regulators from over 28 jurisdictions globally, including the United States, established a set of criteria to designate G-SIBs based on size, interconnectedness, substitutability, cross-jurisdictional activity, and complexity, among other indicators. Under this designation, certain financial institutions are subject to higher capital requirements to improve their resiliency in the event of a financial collapse and are subject to additional regulatory oversight. The eight U.S. G-SIBs are Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JP Morgan Chase & Co., Morgan Stanley, State Street Corporation, and Wells Fargo. *See* Financial Stability Board, *2018 List of Global Systemically Important Banks (G-SIBs)* (Nov. 16, 2018), http://www.fsb.org/2018/11/2018-list-of-global-systemically-important-banks-g-sibs/.

emergency measures deployed by the Congress,[3] Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and Treasury Department, which helped to stabilize the economy and prevent a second Great Depression.[4] However, American households lost trillions of dollars of wealth, and millions of Americans lost their jobs, retirement savings, and homes.[5]

The Committee held a hearing on February 11, 2009 with the Chief Executive Officers of the largest U.S. banks to examine what went wrong.[6] That hearing as well as others held subsequently served to inform Congress about the broken state of the financial system and the need for reforms, which were later included in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. In the decade since that 2009 hearing, progress has been made in strengthening the resiliency of the financial system and in protecting consumers. However, a number of questions remain regarding whether America is being well-served by the largest and most systemically important banks, , and whether there is appropriate accountability. This hearing will examine seven of the eight U.S.-based G-SIBs.[7]

G-SIBs based in the United States

U.S. G-SIBs have a combined $11.1 trillion in assets, comprising about 50 percent of domestic banking assets.[8] Additionally, these megabanks hold nearly $4.1 trillion in loans, and with respect to consumer lending specifically, provide over $700 billion in consumer loans, accounting for nearly half of all consumer loans in the United States.[9] These institutions have also generally grown larger over the last decade. For example, JPMorgan Chase had more than $1.5 trillion in assets at the end of 2007 and more than $2.6 trillion in assets at the end of 2018. Some of that growth came from several major acquisitions during the financial crisis.[10] For example, on March 16, 2008, JPMorgan Chase agreed to acquire Bear Stearns facilitated by a loan of $28.8 billion from the Federal Reserve. On September 15, 2008, Bank of America acquired Merrill Lynch in a $50 billion all-stock transaction facilitated by the Federal Reserve and U.S. Department of Treasury. On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank for $1.9 billion in a transaction facilitated by the FDIC.[11] On October 3, 2008, Wachovia Bank agreed to merge with Wells Fargo in a $15 billion all-stock transaction.[12]

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[3] N.Y. Times Editorial Board, *What the Stimulus Accomplished* (Feb. 22, 2014), https://www.nytimes.com/2014/02/23/opinion/sunday/what-the-stimulus-accomplished.html.

[4] *See, e.g.*, U.S. Dept. of Treasury, *The Financial Crisis Five Years Later – Response, Reform, and Progress* (Sept. 2013), https://www.treasury.gov/connect/blog/Documents/FinancialCrisis5Yr_vFINAL.pdf.

[5] *See, e.g.*, Financial Crisis Inquiry Commission (FCIC), *The Financial Crisis Inquiry Report – Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (Jan. 2011), http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_full.pdf; Government Accountability Office, *Financial Regulatory Reform - Financial Crisis Losses and Potential Impacts of the Dodd-Frank Act*, (Jan. 16, 2013) https://www.gao.gov/products/GAO-13-180.

[6] House Committee on Financial Services, *TARP Accountability: Use of Federal Assistance by the first TARP Recipients* (Feb. 11, 2009), http://archives-financialservices.house.gov/Hearings/hearingDetails.aspx?NewsID=1299

[7] The Committee held its first megabank oversight hearing on March 12, 2019, which focused exclusively on Wells Fargo. *See* House Committee on Financial Services, *Holding Megabanks Accountable: An Examination of Wells Fargo's Pattern of Consumers Abuses* (Mar. 12, 2019), https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=402383.

[8] National Information Center, *Holding Companies with Assets Greater Than $10 Billion* (Dec. 31, 2018), https://www.ffiec.gov/nicpubweb/nicweb/hcsgreaterthan10b.aspx; *see also* U.S. Department of The Treasury, *A Financial System That Creates Economic Opportunities- Banks and Credit Unions* (Jun. 2017), https://www.treasury.gov/press-center/press-releases/documents/a%20financial%20system.pdf.

[9] Financial Services Forum, *The Value and Strength of America's Largest Financial Institutions* (Mar. 29, 2019), https://www.fsforum.com/types/research/deck-value-safety-soundness/#section1.

[10] Congressional Research Service (CRS), *Costs of Government Interventions in Response to the Financial Crisis: A Retrospective* (Sep. 12, 2018), https://www.crs.gov/Reports/R43413.

[11] Andrew Gray, *JPMorgan Chase Acquires Banking Operations of Washington Mutual* (Sep. 25, 2008), https://www.fdic.gov/news/news/press/2008/pr08085.html.

[12] Scott G. Alvarez, Testimony Before the FCIC, *The Acquisition of Wachovia Corporation by Wells Fargo & Company* (Sep. 1, 2010), https://www.federalreserve.gov/newsevents/testimony/alvarez20100901a.htm.

G-SIBs provide various financial services and products by engaging in commercial, investment, and custodial banking activities.

Commercial Banking: The basic role of a commercial bank is to provide financial services to the general public, businesses, and companies. Commercial banks accept deposits, offer checking account services, provide various loans, and offers basic financial products.[13] With the exception of State Street and Bank of New York Mellon, all G-SIBS engage in commercial banking activities with JP Morgan Chase, Bank of America, Wells Fargo, and Citigroup as the largest entities.

Investment Banking: Primarily, investment banks serve governments, corporations, and institutions by providing underwriting and mergers and acquisitions advisory services. These financial institutions act as intermediaries between investors and corporations who require capital to grow and run their businesses.[14] Goldman Sachs and Morgan Stanley are most often categorized as investment banks. However, JP Morgan Chase, Bank of America, Wells Fargo, and Citigroup also provide investment banking services.

Custodial Banking: Custodial banking activities include, among other things, clearing, settlement, and execution services that serve as essential plumbing services for the financial sector; safekeeping and recordkeeping of assets for institutional investors, official institutions, and high-net worth individuals; and other ancillary services, such as foreign exchange.[15] State Street Corporation and Bank of New York Mellon are the largest financial institutions operating in this space, and do not have a significant commercial or investment banking line of business. JP Morgan Chase and Citigroup also provide custodial services. Collectively, these four firms represent the largest custody banks globally and are responsible for holding over $100 trillion in assets for their clients, which include the assets of pension funds, endowments, insurance companies, and other institutions.

U.S. G-SIBs made $780 billion in Profits last 10 years while paying at least $163.7 billion in Fines

U.S. G-SIBs Profits Last 10 Years
JPMorgan Chase, $215 billion
Wells Fargo, $197.3 billion
Bank of America, $105.7 billion
Citigroup, $93.2 billion
Goldman, $78.3 billion
Morgan Stanley, $47.2 billion
BNY Mellon, $26.5 billion
State Street, $16.5 billion

Top Banks by Fines Paid Last 10 Years
Bank of America, $76.1 billion
JPMorgan Chase, $43.7 billion
Citigroup, $19 billion
Deutsche Bank, $14 billion
Wells Fargo, $11.8 billion
RBS, $10.1 billion
BNP Parabas, $9.3 billion
Credit Suisse, $9.1 billion
Goldman Sachs, $7.7 billion
Morgan Stanley, $5.4 billion

***Sources**: CRS (2019), S&P Global Market Intelligence (2019), Keefe, Bruyette and Woods (2018)*

Record Profits and Compliance Breakdowns

The U.S. G-SIBs, along with the rest of the banking sector, have made record profits in recent years. In 2018, the six largest U.S. banks made more than $111 billion in profits.[16] However, these institutions have faced a long list of compliance breakdowns since the financial crisis. According to a 2018 report, financial institutions have paid at least $240 billion in fines since the financial crisis.[17] U.S.

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[13] Investopedia, *Commercial Bank* (Mar. 25, 2019), https://www.investopedia.com/terms/c/commercialbank.asp.
[14] Investopedia, *Investment Banking* (Aug. 3, 2018), https://www.investopedia.com/terms/i/investment-banking.asp.
[15] The Clearing House, *The Custody Services of Banks* (Jul. 2016), https://www.davispolk.com/files/20160728_tch_white_paper_the_custody_services_of_banks.pdf.
[16] L.A. Times, *The nation's largest banks enjoyed $111 billion in record profits last year- with more to come* (Jan. 16, 2019), https://www.latimes.com/business/la-fi-bank-record-profits-20190116-story.html. The industry as a whole made a record $236.7 billion in profits in 2018, which is an increase of 44 percent from 2017. *See* Federal Deposit Insurance Corporation, *FDIC Quarterly Banking Profile* (Feb. 21, 2019), https://www.fdic.gov/bank/analytical/qbp/2018dec/https://www.fdic.gov/bank/analytical/qbp/2018dec/.
[17] Market Watch, *Here's the Staggering Amount Banks Have Been Fined Since the Financial Crisis* (Feb. 24, 2018), https://www.marketwatch.com/story/banks-have-been-fined-a-staggering-243-billion-since-the-financial-crisis-2018-02-20.

G-SIBs accounted for roughly $164 billion, representing more than two-thirds of all fines since the financial crisis**.**

Executive Compensation

Under Securities and Exchange Commission rules, publicly traded companies, including G-SIBs, must disclose the compensation of their chief executive officers. In addition to this data, companies must also disclose how executive compensation compares to the employees of the company per a requirement of the Dodd-Frank Act. The chart below highlights the pay ratios of the six largest banks as well as estimated tax savings resulting from recent changes to the U.S. tax code.[18]

U.S. G-SIBs Tax Cut Benefits and Executive Compensation					
Bank	**Est. 2018 Tax Savings (Millions)**	**CEO Pay, 2017 (Millions)**	**Ratio of CEO to Median Worker Pay, 2017**	**CEO Pay, 2018 (Millions)**	**Ratio of CEO to Median Worker Pay, 2018**
Bank of America	$3,500	$21.8	250:1	$22.8	247:1
Bank of New York Mellon	--	$19.8	354:1	$9.4	153:1
Citigroup	$1,824	$17.8	369:1	$24.2	486:1
Goldman Sachs	$928	$22	163:1	$20.6	151:1
JPMorgan Chase	$2,908	$28.3	364:1	$30	381:1
Morgan Stanley	$1,116	$24.5	192:1	--	--
State Street	--	$19.5	236:1	--	--
Wells Fargo	$3,700	$17.6	291:1	$18.4	283:1

Sources: Americans for Tax Fairness, CRS, S&P Global Market Intelligence

Regulation of G-SIBs

Under the Dodd-Frank Act, all depository institutions with more than $10 billion in assets, including the U.S. G-SIBs, are supervised by the Consumer Financial Protection Bureau for compliance with consumer financial protection laws and regulations. Furthermore, the Dodd-Frank Act subjects the largest banks, including the U.S. G-SIBs, to heightened oversight and enhanced prudential standards to safeguard the U.S. financial system, which are implemented by the Federal Reserve. These requirements include enhanced capital, liquidity and leverage requirements, as well as regular stress testing to ensure banks hold enough capital to survive a future economic downturn or financial crisis. The G-SIBs are also required to submit resolution plans (also referred to as "living wills") to ensure their firms can be resolved in an orderly way if they were to fail.[19]

There have been several deregulatory developments and proposals in recent years. For example, S.2155, which was signed into law in May 2018 (Public Law 115-174), reduces the frequency of G-SIB stress tests, and it reduces other capital and leverage requirements.[20] In addition, regulators have been advancing their own proposals. In April 2018, the Federal Reserve issued a set of proposals to simplify its capital rules for G-SIBs and introduced a "stress capital buffer," or SCB, which would in part integrate the forward-looking stress test results with the Board's non-stress capital requirements.[21] The Federal

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[18] Americans for Tax Fairness, *Bank Heist: Wall Street Banks Get Huge Trump-GOP Tax Cuts, Enriching Shareholders but Sharing Little with Workers* (2018), https://americansfortaxfairness.org/wp-content/uploads/Big-6-Bank-Tax-Cut-Blog-Post-6.6.18-FINAL-KK.pdf.

[19] *See* Congressional Research Service (CRS), *Bank Systemic Risk Regulation: The $50 Billion Threshold in the Dodd-Frank Act* (Dec. 6, 2017), https://www.crs.gov/Reports/R45036.

[20] https://ourfinancialsecurity.org/senate-financial-deregulation-package-crapo-bill/.

[21] *See* Board of Governors of the Federal Reserve System (FRB), *Federal Reserve Board seeks comment on proposal to simplify its capital rules for large banks while preserving strong capital levels that would maintain their ability to lend under stressful conditions* (Apr. 10, 2018), https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180410a.htm.

Reserve joined the OCC in releasing a second proposal[22] to substantially revise the current enhanced supplementary leverage ratio (eSLR) that applies to G-SIBs. After the proposal was released, former FDIC Chairman Martin Gruenberg said, "Strengthening leverage capital requirements for the largest, most systemically important banks in the United States was among the most important post crisis reforms…the amount of tier 1 capital required under the proposed eSLR standard across the lead IDI subsidiaries would be approximately *$121 billion less* than what is required under the current eSLR standard to be considered well-capitalized"[23] (emphasis added). In response to a request from Committee staff for more information, the FDIC estimated the eSLR proposal would lower capital requirements for the primary federally-insured bank subsidiary of each G-SIB as follows:

- JPMorgan Chase & Co.: $34.597 billion (20.83% reduction in tier 1 capital)
- Citigroup: $26.978 billion (23.3% reduction)
- Bank of America: $22.838 billion (18.5% reduction)
- Wells Fargo: $20.406 billion (16.9% reduction)
- Bank of New York Mellon: $5.911 billion (33.65% reduction)
- State Street: $5.346 billion (37.5% reduction)
- Morgan Stanley: $2.507 billion (25% reduction)
- Goldman Sachs: $1.93 billion (9.49% reduction)

Despite proposing to reduce capital for the G-SIBs, the Federal Reserve's own research has indicated current capital requirements are on the lower end of requirements that best balances benefits associated with mitigating systemic risk with a bank's funding costs.[24] Furthermore, the Federal Reserve has also been working on making stress testing more transparent to banks, potentially undermining the value of the regular exercise.[25] Bank regulators have also proposed reducing enhanced prudential standards and liquidity requirements for banks as large as $700 billion, and there have been reports that regulators may reconsider their proposal on the Volcker Rule and propose further rollbacks of Dodd-Frank reforms.[26]

Finally, while the Dodd-Frank Act and related reforms required additional capital and strengthened oversight of G-SIBs through the creation of the Consumer Bureau, there remain concerns regarding whether some of these institutions are adequately being held accountable for repeated consumer violations, and whether these firms may be too big to manage,[27] as was discussed at the Committee's hearing on March 12, 2019, with Wells Fargo's former CEO, Tim Sloan.[28]

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[22] *See* FRB, *Rule proposed to tailor' enhanced supplementary leverage ratio' requirements* (Apr. 11, 2018), https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180411a.htm.

[23] American Banker, *Fed, OCC Back Proposal to Ease Big-Bank Capital Measure—Without FDIC* (Apr. 11, 2018), https://www.americanbanker.com/news/fed-occ-back-proposal-to-ease-big-bank-capital-measure. Analyses from other experts also suggest a major decrease of bank capital requirements resulting from the two new proposed rules. For example, Goldman Sachs Equity Research estimate the two proposals will reduce capital requirements by $56 billion for the largest banks.

[24] Daniel K. Tarullo, Governor, FRB, Speech at the Woodrow Wilson School, Princeton University: *Departing Thoughts* (Apr. 4, 2017), *available at* https://www.federalreserve.gov/newsevents/speech/tarullo20170404a.htm; *see also* Federal Reserve Bank of Minneapolis, *The Minneapolis Plan to End Too Big To Fail* (Dec. 2017), https://www.minneapolisfed.org/publications/special-studies/endingtbtf.

[25] Center for American Progress, *The Fed's Proposed Stress Testing Changes Are a Mixed Bag* (Mar. 20, 2018), https://www.americanprogress.org/issues/economy/reports/2018/03/20/448041/feds-proposed-stress-testing-changes-mixed-bag/.

[26] *See* American Banker, *Volcker 2.0 is Said to Face Do-over After Wall Street Complaints* (Mar. 6, 2019), https://www.americanbanker.com/articles/volcker-20-is-said-to-face-do-over-after-wall-street-complaints; Quartz, *As the World Braces for a Recession, the Fed is Rolling Back Measures Put in Place to Stop It* (Mar. 7, 2019), https://qz.com/1567385/the-federal-reserve-is-easing-wall-street-regulations/.

[27] CRS, *Systemically Important or 'Too Big to Fail' Financial Institutions* (Sept. 24, 2018), https://www.crs.gov/Reports/R42150; *see also* Democratic Staff of the Committee on Financial Services, U.S. House of Representatives, *The Case for Holding Megabanks Accountable: An Examination of Wells Fargo's Egregious Consumer Abuses* (Sept. 29, 2017), https://financialservices.house.gov/uploadedfiles/09.29.17_staff_report_final.pdf.

[28] *See* House Committee on Financial Services, *supra* note 7.