



FedFin Client Report

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HFSC Goes Easy on CEOs

Client Report: REFORM212

Executive Summary

At today's big-bank oversight HFSC hearing, Committee Democrats focused on each bank's progress on social issues, such as internal diversity, unionization, and historic roles in financing slavery. Although Chairwoman Waters (D-CA) called for more restrictive merger-approval criteria in her opening statement, Democrats largely left the issue untouched. Ranking Member McHenry (R-NC) framed the hearing as political "theater," focusing on discrediting capital increases. Committee Republicans also asked CEOs about inflation, fiscal policy, and gun merchant codes. Chairwoman Waters concluded this marathon session by chastising the CEOs for failing fully to answer the questions she posed ahead of the hearing and demanding that they do so in five legislative days.

Analysis

Opening Statements

Chairwoman Waters attacked the large banks, claiming that they were not doing enough to invest in communities, prevent fraud, and encourage internal diversity. She also argued that regulatory authorities have been rubber-stamping mergers for too long and questioned who mergers actually benefit.

Ranking Member McHenry sharply criticized committee Democrats for politicizing financial regulation, accusing them of doing "woefully little" to hold federal regulators accountable. He added that Democratic efforts to use regulation to address social issues limits innovation and competition.

Testimony

USBank CEO Andy Cecere pointed to the social benefits of recent USB programs such as investing in digital banking products, small dollar loans, and diverse hiring. PNC CEO William Demchak focused on PNC's efforts in reducing overdraft fees and called on regulators

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to respond to Zelle scams. JPMorgan Chase CEO Jamie Dimon's oral testimony focused on the merits of free enterprise and community investment. It did not include comments that drew a press attention [yesterday](#) arguing that unduly high big-bank capital standards adversely affect economic growth. Citibank CEO Jane Fraser emphasized the impact of her bank's investments on employment and community development. Bank of America CEO Brian Moynihan spoke of his company's emphasis on responsible growth based on employee career development, diverse hiring, and small business lending. Truist CEO William Rogers Jr mirrored Mr. Moynihan's testimony, also speaking of prioritizing career development and community investment. Amid allegations of internal racial discrimination, Wells Fargo CEO Charles Scharf defended his bank's diversity policies, mentioning an external racial equity audit the bank announced last week.

Q&A

- **Mergers:** Reps. Huizenga (R-MI) and Barr (R-KY) asked the CEOs if mergers adversely affected either credit accessibility or competition; the CEOs said that they did not. Mr. Huizenga argued that aggressive resistance to mergers actually weakens competition at the G-SIB level, using Truist as an example.
- **Capital Rules:** Ranking Member McHenry and Reps. Lucas (R-OK) and Barr asked the CEOs if raising capital requirements would diminish the financial system's lending capacity; the CEOs said it would. Mr. Dimon specifically argued that Dodd-Frank, while useful for preventing systemic collapse, goes too far and results in shocks reverberating in capital markets because banks lack enough stabilizing liquidity. Rep. Foster (D-IL) argued that Dodd-Frank's requirements did little to prevent banks from experiencing a highly profitable decade and denounced what he called continual arguments for higher leverage. Rep. Steil (R-WI) asked Mr. Demchak if U.S. capital rules are gold-plated and if this makes sense; he said that they are, and it doesn't.
- **CBDC:** Rep. Barr asked Mr. Dimon what affect a CBDC would have on deposit-taking; Mr. Dimon stated that a CBDC would be fine if implemented properly although he does not trust the Fed to do so.
- **Climate Risk:** Reps. Lucas, and Hill (R-AR) asked the CEOs if proposals that punish banks for failing climate stress tests by imposing additional capital requirements are appropriate. Mr. Dimon stated that current internal stress tests adequately capture risk and Ms. Fraser argued that the lack of available data and climate change's everchanging nature make it difficult to design accurate climate tests. Rep. Meeks (D-NY) asked Mr. Moynihan about his stance on Scope 3 disclosures, but he did not have time to answer. Rep. Casten (D-IL) argued that Republican efforts to support investment in the oil and gas industry despite it "struggling" to attract capital are hypocritical given Republican attacks on "woke" financial policy.

- **Sanctions:** Reps. Sherman (D-CA) and Gooden (R-TX) asked Mr. Dimon and Ms. Fraser if their banks have completely cut ties with Gazprom and Lukoil; the CEOs stated that their banks are and will continue to follow the law. When asked by Rep. Torres (D-NY) if the banks have seen an increase in cyberattacks in retaliation for Russian sanctions, each CEO confirmed he or she has not.
- **China:** Reps. Lucas, Gonzalez (R-OH), Timmons (R-SC), and Gooden showed great concern over the influence of large Chinese banks and the ability of American banks to compete. Reps. Luetkemeyer (R-MO) and Gooden asked the CEOs if they would pull out of China if it invaded Taiwan; all pledged to follow the guidance of the American government.
- **Nonbank Mortgage Lending:** Reps. Meeks, Cleaver (D-MO), and Himes (D-CT) asked the CEOs why their banks have retreated from mortgage lending, with Mr. Moynihan and Mr. Scharf putting the blame on under-regulated and undercapitalized nonbanks.
- **Consumer Data:** Rep. Hill asked Mr. Dimon if he would support a privacy system similar to the EU's GDPR; he responded that he believes the US has a solid financial data privacy system. Rep. Foster argued that a digital ID system in the US would help to prevent fraud and protect consumer privacy. Rep. Loudermilk is concerned that the amount of data that regulators force banks to keep raises significant cybersecurity concerns.
- **Crypto:** Rep. Davidson (R-OH) and Mr. Dimon both argued that a lack of proper regulation prevents broader adoption of crypto in the financial industry, with Mr. Dimon careful to differentiate the promise of blockchains, smart contracts, and other technologies from crypto tokens. Rep. Gottheimer (D-NJ) promoted his bill to require a 1:1 cash backing of stablecoins.