May 30, 2018

The Honorable Elizabeth Warren
United States Senate
Washington, D.C. 20510

Dear Senator:

Enclosed are my responses to the written questions you submitted following the May 15, 2018[1], hearing before the Committee on Banking, Housing, and Urban Affairs. A copy has also been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I can be of further assistance.

Sincerely,

Enclosure

[1] Questions for the record related to this hearing were received on May 23, 2018.

Questions for Mr. Richard Clarida, Member-Designate, Board of Governors of the Federal Reserve System on behalf of Senator Warren:

1. Now that you have had more time to examine the Fed's recent proposal on changes to capital standards, do you support the proposal as currently written? If so, why do you think it is appropriate to reduce capital requirements for the country's largest banks at this time? If not, what changes would you need to see to the proposal before supporting it?

We need a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle. Since the crisis, the U.S. banking agencies have substantially strengthened regulatory capital requirements for large banking firms, improving the quality and increasing the amount of capital in the banking system. It would be important to me not to give up any of the gains in resiliency and stability that have been achieved since the crisis.

Risk-based and leverage capital requirements work best together when leverage capital requirements generally serve as a backstop to risk-based capital requirements. In cases where the leverage ratio becomes a binding constraint, it can create incentives for banking organizations to reduce their participation in lower-risk, lower-return business activity, such as repo financing, central clearing services for market participants, and taking custody deposits, notwithstanding client demand for those services.

I understand that the Federal Reserve's enhanced supplementary leverage ratio (eSLR) proposal is designed to maintain the eSLR standards as a meaningful constraint on leverage while ensuring a more appropriate complementary relationship between global systemically important banks' (GSIBs) risk-based and leverage-based capital requirements, and to help ensure that the leverage-based capital requirements generally serve as a backstop to risk-based capital requirements. If confirmed, I would look forward to reviewing the comments that the Federal Reserve receives on the proposal.

2. Do you believe that any US banks are Too Big to Fail?

- **If so, what can and should the Fed do to address this problem?**
- **If not, what evidence supports your conclusion?**

I believe that the post-crisis regulatory reforms and stronger supervision have resulted in a great deal of progress being made in strengthening the financial system and making large firms better able to absorb losses. Having said that, it is important for financial supervisors to remain vigilant to ensure that the financial system continues to remain resilient as economic conditions and market practices evolve.

3. Section 402 of S.2155, which recently passed the Senate and allows banks "predominantly engaged in custody, safekeeping, and asset servicing activities" to have less capital.

- **Do you believe that language applies to JPMorgan Chase and Citigroup? Would that analysis hold if those two banks created intermediate holding companies to house their custody services?**

Section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act provides leverage ratio relief to firms that qualify as "custodial banks" with respect to reserves held at certain central banks. The bill defines a custodial bank as any depository institution holding company that is predominantly engaged in custody, safekeeping and asset servicing activities (and any subsidiary depository institution of such a holding company). The Federal Reserve Board (Board) and the other federal banking agencies have authority to issue regulations implementing this section. By its terms, the bill does not appear to apply to diversified holding companies, such as JPMorgan Chase or Citigroup, because their custodial operations constitute a relatively small percentage of their overall businesses.

The Board applies regulatory capital requirements to bank holding companies on a consolidated basis. Under this approach, the top-tier bank holding company is required to aggregate all its activities and the assets of its subsidiaries. As a result, simply inserting an intermediate holding company would not affect the activities or assets of the consolidated banking organization or the analysis of whether the consolidated organization was considered to be predominantly engaged in custody, safekeeping, and asset servicing activities. This result would apply to an intermediate holding company that controlled the custody services of the banking organization as well as to any other intermediate holding company in the structure. An intermediate holding company therefore would not affect the capital requirements of the consolidated banking organization.

3. Banks today reported record profits – up 27.5% from the first quarter of last year. The economy is nearly a decade into a long expansionary period.

- **Why is a reduction in capital requirements necessary or appropriate at this time?**

We need a resilient, well-capitalized financial system that is strong enough to withstand even severe shocks and support economic growth by lending through the economic cycle. To that end, the U.S. banking agencies have substantially strengthened regulatory capital requirements for U.S. banking firms, improving the quality and increasing the amount of capital in the banking system. At the same time, it is important to monitor the capital rules on an ongoing basis, to determine whether the framework is effectively measuring and addressing risk and working as intended, and to adjust the framework as needed.

Reforms proposed by the Federal Reserve suggest that the enhanced supplementary leverage ratio standards may be currently calibrated too high, creating potential incentives for firms to disengage from certain low-risk, low-return financial activities that are beneficial for the economy. Modest recalibration may reduce these negative incentives while not materially changing overall large bank capital requirements. As mentioned previously, if confirmed, I look forward to reviewing the comments received on reform proposals.

4. Fed Chair Powell recently announced that the Fed's Board of Governors would vote on whether to relieve Wells Fargo from the growth restriction the Fed imposed on it pursuant to its February 2018 consent order.

- **What kind of changes at Wells Fargo would you need to see before voting to lift the growth restriction?**

First, let me say that just based upon the news accounts, the activities of Wells Fargo in this domain are egregious and unacceptable, and I was as shocked as anyone to read about it in the newspaper. If I am confirmed and this matter came before me, I would certainly individually want to be absolutely convinced that appropriate steps had been taken and could be verified.

My understanding is that the firm must fully comply with the terms of the Consent Order, which requires a number of improvements to be made to the firm's governance and risk management practices. If confirmed, I would only vote to lift the asset cap if the required improvements are implemented to the satisfaction of the Federal Reserve.

- **Do you believe the Fed should place more emphasis on finding diverse leaders for the regional banks?**

Like many others, I was excited to see the appointment of Raphael Bostic in 2017 as the first African-American Reserve Bank president and, more recently, the appointment of Andre Anderson as the first African-American First Vice President. Andre's appointment to this senor leadership role was particularly satisfying as I understand that he rose through the ranks at the Federal Reserve, beginning at the Birmingham Branch where he was hired to process municipal bonds.

Despite these recent appointments, I know that the senior leadership of the Board, and indeed the System, agree that there is a lot more work to be done to move the System toward its objective of benefiting fully from a diverse workforce and leadership. I and I know my potential future colleagues on the Board as well, view this as critical first and foremost because it allows the best possible job to be done in meeting the responsibilities enumerated for the System in the Federal Reserve Act.

If I am confirmed, I will arrive on the job eager to engage with my colleagues across the System on this important issue. I fully understand that the Federal Reserve Act assigns primary responsibility for selecting senior leadership at the Reserve Banks to their Class B and Class C directors. But the Act also gives the Board of Governors the responsibility to approve such appointments, and I intend to take that role seriously, including by doing everything that I can to use my position to help attract more diverse leaders to the System like Raphael and Andre.

- **If so, how do you recommend changing the current hiring process so that it produces more diverse leaders?**

Diversity is a critical aspect of all successful organizations. In my experience, and in agreement with Chairman Powell's sentiments, we make better decisions when we have a wide range of backgrounds and voices around the table.

There is value in having a diverse workforce at all levels of an organization. I am committed to achieving further progress, and to better understanding the challenges to improving and promoting diversity of ideas and backgrounds.

My understanding is that while different Reserve Banks tried different approaches, diversity has been a point of emphasis in all recent searches. Specific efforts of which I am aware include advance engagement with community groups and hiring of national search firms with specific expertise in diversity. If confirmed I look forward to encouraging the continuation of these efforts and I also commit to look for additional proven approaches to further expand the Federal Reserve's efforts.

5. The Fed is apparently participating in an interagency effort to reform regulations implementing the Community Reinvestment Act. In April, the Treasury Department sent a memo to the Fed, the OCC, and the FDIC recommending several rule changes.

- **Do you disagree with any of the Treasury recommendations?**

I understand that Treasury's recommendations were based on the Department's outreach effort and the summary sent to the agencies includes helpful insights. If confirmed, I look forward to reviewing the recommendations in more detail and supporting efforts to ensure that the agencies work together to find ways to improve both effectiveness and transparency in Community Reinvestment Act (CRA) supervision.

- **What are your priorities for CRA reform?**

If confirmed, I would work to better understand the calls from banks, community development organizations and others for making CRA evaluations more consistent and transparent. As well as for calls to revise the CRA in a way that encourages more lending and investment in underserved areas.