The Failed Bank Executives Clawback Act of 2023

On March 10, 2023, Silicon Valley Bank (SVB) failed after its executives loaded up on risk and did little to manage that risk – triggering instability in the banking sector that led to the collapse of the similarly mismanaged Signature and First Republic banks, and emergency action by the federal government to prevent further contagion.

Reports <u>indicate</u> that "[e]xecutive pay at Silicon Valley Bank soared after the bank embarked on a strategy to boost profitability by buying riskier assets exposed to rising interest rates." Greg Becker, SVB's CEO, received more than \$9.9 million in total compensation in 2022, including a \$1.5 million cash bonus, while other top SVB executives collectively hauled in nearly \$17 million. SVB executives also reportedly sold \$84 million in stock over the past two years, with the CEO alone selling nearly \$30 million – including nearly \$4 million in the days before SVB's collapse. The CEO of Signature Bank received \$8.7 million in total compensation in 2022. First Republic's CEO received over \$7.3 million in 2021, while its founder, former CEO and Executive Chairman received over \$17.8 million, including nearly \$12 million in stock awards.

The First Republic, SVB, and Signature failures – the second, third, and fourth largest bank failures in American history – make clear that bank executives must be held accountable for mismanaging their banks and putting our financial system and consumers at risk. However, under current law, the federal government's ability to hold bank management accountable for disastrous failures is limited.

The *Failed Bank Executives Clawback Act* would give federal bank regulators the tools they need to hold executives of large, failed banks responsible for the costs those failures exact on the rest of the banking system and the economy.

Specifically, the Failed Bank Executives Clawback Act would:

- Require the FDIC to claw back from large bank executives all or part of the compensation they received over the three-year period preceding their bank's failure or FDIC resolution.
- Apply to directors, officers, controlling shareholders, and other high-level persons involved in decision-making of banks with \$10 billion or more in assets who caused more than a minimal financial loss to, or had a significant adverse effect on, the bank.
- Direct funds clawed back from executives into the FDIC's Deposit Insurance Fund.
- Extend claw back authorities established by Section 204(a)(3) of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* to apply to any bank entered into FDIC receivership, not solely those resolved under the FDIC's Orderly Liquidation Authority.