BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JANET L. YELLEN
CHAIR

February 2, 2018

The Honorable Elizabeth Warren
Ranking Member
Subcommittee on Financial Institutions
and Consumer Protection
United States Senate
Washington, D.C. 20510

Dear Senator:

I write to follow up on our correspondence regarding the Federal Reserve's supervisory actions related to Wells Fargo.

The Federal Reserve takes its oversight responsibility of Wells Fargo's bank holding company very seriously. As we have discussed, I find the situation at Wells Fargo to be deeply troubling. The Federal Reserve expects that institutions will act ethically and legally in all aspects of their operations. The firm has had significant breakdowns in compliance and controls, including those that have been reported in the press over the past year and a half. The company has repeatedly behaved in an unacceptable manner towards its customers. We are focused on ensuring that the firm addresses the root causes of these breakdowns.

Today, the Federal Reserve Board issued a Cease and Desist order regarding unsafe and unsound practices related to the Wells Fargo governance and risk management practices that led to significant violations of law and substantial consumer harm. Significantly, the Cease and Desist order imposes a restriction on the firm's growth until it corrects deficiencies in its governance and risk management practices. The growth restriction, which prohibits any increase in the firm's total assets, is unique and more stringent than the penalties the Board has imposed against other bank holding companies for similar unsafe and unsound practices, but is appropriate given the pervasiveness and persistence of the problems at Wells Fargo. The Cease and Desist order also requires Wells Fargo's board of directors and senior management to take specific actions to address the governance and risk management deficiencies at the firm. Concurrently with the Cease and Desist order, the Federal Reserve has also issued letters of reprimand to the firm's former CEO and Board Chairman, John Stumpf, and former Lead Independent Director, Stephen Sanger for their failures to meet supervisory expectations, including failures to take decisive action in response to information concerning improper sales practices and other misconduct by Wells Fargo employees.

The Federal Reserve has an active supervisory program at Wells Fargo's bank holding company. The firm has made changes to its board of directors since my last letter to you. Notably, the firm's board has been significantly reshaped, naming an independent director as the new board chair and adding new independent directors, with many of the existing directors announcing their retirement. Concurrently with the Cease and Desist order, Wells Fargo announced that it will further restructure its board of directors, with three additional directors stepping down and being replaced by April 2018 and a fourth director being replaced later this year. Nevertheless, restructuring the board is only a first step. The firm has much to do to earn back the trust of its customers, supervisors, investors, and the public.

In your letter of August 16, 2017, you referenced the Federal Reserve's proposed guidance on the attributes of effective boards of directors of large banking firms. The proposed guidance marks the first time that the Federal Reserve has issued standalone expectations for boards of directors as distinct from management. That distinction allows us to spotlight the core responsibilities of effective boards, one of which is to ensure the independence and stature of the risk management and internal audit functions. The guidance would address a situation in which a firm's risk management is decentralized and attached to the profitability and success of a business. The proposed guidance sets out our expectations that boards should actively and effectively support a risk management function that is valued within the firm for identifying risks and escalating concerns about controls. I echo Governor Powell's remarks, in which he said of the proposed guidance "[f]ailure to ensure the independence of these functions from the revenue generators and risk takers has been shown to be dangerous, and this is something for which the board is accountable." [1]

The Board and its staff will closely monitor Wells Fargo's remedial actions and will take additional steps if necessary to ensure that the issues that are the subject of the Cease and Desist Order are appropriately addressed.

Sincerely,

Janet L. Yellen

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[1] See "The Role of Boards at Large Financial Firms," remarks by Governor Jerome H. Powell at the Large Bank Directors Conference, August 30, 2017.
https://www.federalreserve.gov/newsevents/speech/powell20170830a.htm.