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June 17, 2024

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve
System
20th Street and Constitution Ave NW
Washington, DC 20551

Dear Chair Powell,

I write to seek clarification on recent reports indicating that, behind closed doors and at Jamie Dimon's behest, you are advocating for slashing in half the Basel III bank capital requirements that global regulators determined are necessary to prevent another financial crisis.

In your appearance before the Senate Committee on Banking, Housing, and Urban Affairs on March 7, 2024, you said it would be "appropriate to make material and broad changes" to the Basel III capital requirements before finalizing the rule.[1] The day prior, when testifying before the House Financial Services Committee, you went so far as to suggest that scrapping the plan entirely was "a very plausible option."[2]

A Wall Street Journal report several weeks later provided specific details on your plans to roll back these rules:

> The Fed and two other federal regulators are moving toward a plan that would significantly lessen a nearly 20% mandated increase in capital for the biggest U.S. banks, according to people familiar with the matter.
>
> Required increases in capital for banks like JPMorgan and Goldman Sachs—meant to ensure they have sufficient buffers to absorb potential losses—would on average be about half as much as originally floated. [3]

The Journal also provided additional detail on how you and other Federal Reserve (Fed) officials made your decision to roll back these rules. This report indicated that Jamie Dimon and other big

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[1] Senate Committee on Banking, Housing, and Urban Affairs, "The Semiannual Monetary Policy Report to the Congress," March 7, 2024, https://www.banking.senate.gov/hearings/02/29/2024/the-semiannual-monetary-policy-report-to-the-congress.
[2] House Financial Services Committee, "The Federal Reserve's Semi-Annual Monetary Policy Report," March 6, 2024, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=409159.
[3] Wall Street Journal, "Dimon Led Bank CEOs to Fend Off Tougher Capital Rules," Andrew Ackerman, May 19, 2024, https://www.wsj.com/finance/regulation/dimon-led-bank-ceos-to-fend-off-tougher-capital-rules-b647756d.

bank executives lobbied you extensively—and obtained special access to you and other key Fed decisionmakers to influence your decision:

> Jamie Dimon and other big-bank CEOs played hardball with the Federal Reserve over proposals that the lenders hold more capital. Now, it looks like those tactics are paying off …. Dimon at a meeting in Washington last fall told his fellow CEOs to bypass Michael Barr, the central bank's vice chair for banking supervision and the main architect of the original plan. Dimon urged his fellow bankers to instead press other Fed governors, in particular Chair Jerome Powell, to alter the proposed capital rules …. Big U.S. bank CEOs met with Powell more than a dozen times between last July and March, according to the central banker's public calendar. Those included four meetings or calls with Dimon.[4]

This is a highly disturbing turn of events. Your opposition to the Basel III rules is not new. But it now appears that you are directly doing the bank industry's bidding, rewarding them for their extensive personal lobbying of you. Taking orders from the industry that caused the 2008 economic meltdown would sacrifice the financial security of middle-class and working families to line the pockets of wealthy investors and CEOs, and further undermine public faith in the integrity of the Fed—a faith that has already declined considerably due to a series of scandals and failures under your watch.

Throwing out the capital rules that a global consortium of financial regulators agreed were necessary to avert another crisis would contradict your initial perspective on the Fed's Basel III proposal. In July 2023, in the wake of a series of high-profile and expensive bank failures a few months prior, you said: "recent events have demonstrated the need to strengthen supervision and regulation for firms with assets between $100 billion and $250 billion."[5] You noted that "Congress and the American people rightly expect us to achieve an effective and efficient regulatory regime," which you now must deliver.[6]

The risks to the banking and financial remain high, with new threats continuing to emerge. Just last week, leading asset manager PIMCO indicated that it "expects more regional bank failures in the US because of a 'very high' concentration of troubled commercial real estate loans on their books," warning that: "'The real wave of distress is just starting' for lenders to everything from malls to offices."[7]

And you appear to be responding to arguments by Mr. Dimon and the leaders of other big banks that do not stand up to scrutiny. The big banks have made so much money while wailing about the impossibility of holding more capital in reserves that Mr. Dimon unexpectedly increased JPMorgan's dividend rate by 9.5% two months ago—the second time in the last year that the bank

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[4] *Id.*
[5] Federal Reserve, "Statement by Chair Jerome H. Powell," July 27, 2023, press release, https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20230727.htm.
[6] *Id.*
[7] Bloomberg, "Pimco Warns of More Regional Bank Failures on Property Pain ," Laura Benitez, June 11, 2024, https://www.bloomberg.com/news/articles/2024-06-11/pimco-warns-of-more-regional-bank-failures-on-commercial-property-pain.

juiced its quarterly payout to wealthy investors.[8] Indeed: "Banks have already started preparing for new standards, and have retained capital well in excess of their current requirements. … Plus, the proposal …[will] only fully phase in by 2028."[9]

Though the big banks have argued that the proposed 16% capital increases would decrease lending, they made that same argument in 2008 during Dodd-Frank's drafting—and were proven wrong. As economist Stephen Cechetti wrote: "Contrary to the predictions of the private-sector doomsayers, as banks were increasing their capital levels … bank credit to the non-financial private sector was rising."[10] In fact, as bank capital grew from 2013-2019, banks continued lending at a stable 150% of GDP and represented an increasing proportion of lending vis a vis nonfinancial sectors, all while raking in steep profits.[11] Former Fed Chair Paul Volcker's characterization of the banks' arguments in 2009 still rings true: "You know, just about whatever anyone proposes, no matter what it is, the banks will come out and claim that it will restrict credit and harm the economy … It's all bullshit."[12] The only cutbacks banks will be forced to make if the Basel rules are finalized will be payments to their investors and executives.

While big bank executives have every incentive to roll back the rules, they do not bear the brunt of the risks. 2023 was the biggest year of bank failures in our nation's history: nearly $550 billion of combined assets went under.[13] After the First Republic bank failure, Mr. Dimon bragged that: "[JPMorgan] worked hand in hand with the Federal Reserve" to purchase the bank.[14] That purchase was very, very lucrative for JPMorgan, which made "an upfront, one-time, post-tax gain of approximately $2.6 billion" in addition to "more than $500 million of incremental net income per year" going forward.[15] Meanwhile, the FDIC's Deposit Insurance Fund took a loss of $15.6 billion due to the bank failure.[16]

The decisions you have made as Chair of the Federal Reserve have enriched Jamie Dimon and his Wall Street cronies at the expense of the stability of our financial system. The Trump era

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[8] Fortune, "JPMorgan hikes dividends after Jamie Dimon knocks Jerome Powell's plan for higher capital requirements," Hannah Levitt and David Scheer, March 19, 2024, https://fortune.com/2024/03/19/jpmorgan-hikes-dividends-jamie-dimon-knocks-powells-plan/.
[9] Wall Street Journal, "Washington's Pivot on Bank Rules Could Free Up Tens of Billions," Telis Demos, May 23, 2024, https://www.wsj.com/finance/regulation/washingtons-pivot-on-bank-rules-could-free-up-tens-of-billions-109713c0?mod=article_inline.
[10] Centre for Economic Policy Research, "Higher capital requirements: The jury is in," Stephen Cecchetti, December 17, 2014, https://cepr.org/voxeu/columns/higher-capital-requirements-jury.
[11] Money and Banking, "Setting Bank Capital Requirements," Stephen Cecchetti and Kermit Schoenholtz, October 12, 2020, https://www.moneyandbanking.com/commentary/2020/10/11/setting-bank-capital-requirements.
[12] *The Unwinding, An Inner History of the New America*, George Packer, p. 285.
[13] American Banker, "Dramatic collapses made 2023 the biggest year ever for bank failures," Kevin Wack, December 13, 2023, https://www.americanbanker.com/list/dramatic-collapses-made-2023-the-biggest-year-ever-for-bank-failures.
[14] JPMorgan Chase & Co., "Chairman and CEO Letter to Shareholders" Jamie Dimon, April 8, 2024, https://reports.jpmorganchase.com/investor-relations/2023/ar-ceo-letters.htm.
[15] JPMorgan Chase & Co., "JPMorgan Chase acquires substantial majority of assets and assumes certain liabilities of First Republic Bank," press release, May 1, 2023, https://www.jpmorganchase.com/ir/news/2023/jpmc-acquires-substantial-majority-of-assets-and-assumes-certain-liabilities-of-first-republic-bank.
[16] Federal Deposit Insurance Corporation, Office of the Inspector General, "Material Loss Review of First Republic Bank," November 2023, p. 1, https://www.fdicoig.gov/sites/default/files/reports/2023-11/EVAL-24-03.pdf.

regulatory rollbacks that you shepherded watered down the Volcker Rule, which allowed SVB to load up on risky investments,[17] setting off its collapse and the domino effect that spread to Signature and First Republic.[18]

Moreover, Vice Chair Barr supports the current iteration of the Basel rule—and your actions to overrule him are not consistent with the intent of the law—or your testimony before the Senate in November 2021. According to the Fed's authorizing statute, 12 U.S.C. Section 242, Congress explicitly delegated responsibilities for supervision of the banks to the Vice Chair.[19] And in testimony before the Senate Banking Committee, you told me that "the only other office that has specific legislative grant, is the Vice Chair for Supervision, and that's what the job is" … "set[ting] the regulatory and supervisory agenda" … "I would not see myself as stopping those kind of proposals from reaching the Board, since the law seems to indicate that that's the job of the Vice Chair for Supervision."[20] But instead, it appears that you are treating the Fed as your personal fiefdom and are stepping in to overrule Vice Chair Barr's views on the Basel III rules.

I am disappointed by press reports indicating that you are personally intervening—after numerous meetings with big bank CEOs—to delay and water down the Basel III capital rules. These rules are critical and long overdue, particularly in the wake of the Silicon Valley and Signature Bank failures, and as risks from the weak commercial real estate market and other economic threats ripple through the banking system. Instead of doing Mr. Dimon's bidding, you should do your job and allow the Board to convene for a vote on a 16% capital increase by June 30th, as global regulators determined was necessary to prevent another financial crisis.

Sincerely,

Elizabeth Warren

Elizabeth Warren
United States Senator

[17] Better Markets, "Federal Reserve Deregulation Caused the Failure of Silicon Valley Bank and the 2023 Banking Crisis," Dennis Kelleher, March 27, 2024, https://bettermarkets.org/wp-content/uploads/2023/03/BetterMarkets_FactSheet_Fed_Eregulation_Caused_SVB_Failure_March-2023.pdf.
[18] Better Markets, "Federal Reserve Deregulation Caused the Failure of Silicon Valley Bank and the 2023 Banking Crisis," Dennis Kelleher, March 27, 2024, p. 14, https://bettermarkets.org/wp-content/uploads/2023/03/BetterMarkets_FactSheet_Fed_Eregulation_Caused_SVB_Failure_March-2023.pdf.
[19] 12 U.S.C. Section 242.
[20] Senator Warren, "At Hearing, Warren Presses Federal Reserve Chair Powell on Vice Chair for Supervision's Authority to Take Tough Regulatory Action ," November 30, 2021, https://www.warren.senate.gov/newsroom/press-releases/at-hearing-warren-presses-federal-reserve-chair-powell-on-vice-chair-for-supervisions-authority-to-take-tough-regulatory-action.