

Council of Inspectors General on Financial Oversight (CIGFO)

March 15, 2023

Video Conference Call

10:00 a.m.

Meeting Minutes

Council Members Present

Rich Delmar, Acting Chair, Acting Inspector General, Department of the Treasury
(Treasury)

Melissa Bruce, Acting Inspector General, Special Inspector General for Troubled Asset
Relief Program

Helen Albert, Acting Inspector General, U.S. Securities and Exchange Commission
(SEC)

Michael VanHuysen, Associate Inspector General for Audits & Evaluations, Board of
Governors of the Federal Reserve System (Board)/Consumer Financial Protection
Bureau (CFPB)

Fara Damelin, Chief of Staff, U.S. Department of Housing and Urban Development
(HUD), Office of Inspector General (OIG)

James Lisle, Audit Director, Federal Housing Finance Agency (FHFA) OIG

Jon Lebruto, Chief of Staff, Federal Deposit Insurance Corporation (FDIC) OIG

Stephen Obie, Attorney - Advisor, Commodity Futures Trading Commission OIG

Council Members Not Present

National Credit Union Administration, Office of Inspector General

Guests

April Ellison, Audit Manager, FHFA OIG

Jacqueline Becker, Senior Advisor and Senior Associate Inspector General,
Board/CFPB OIG

Rebecca Sharek, Deputy Inspector General for Audits, Evaluations, and Special
Projects, SEC OIG

Ryan McGonagle, Deputy Assistant Inspector General for Audit, HUD OIG

Amy Altemus, Acting Counsel to the Inspector General, Treasury OIG

Debbie Harker, Assistant Inspector General for Audit, Treasury OIG

Susan Barron, Deputy Assistant Inspector General for Audit, Treasury OIG

Andrew Berke, Senior Advisor, Treasury OIG

Jeffrey Hawkins, Audit Director, Treasury OIG

Camille Callender, Assistant Counsel, Treasury OIG

At 10:01 a.m. Rich Delmar, Acting Chair, called the meeting to order and welcomed everyone. He then asked for consideration of the December 14, 2022 meeting minutes

and asked if the members had any corrections or additions. Hearing none, Mr. Delmar then called for a motion to approve the minutes, which was made and seconded. The minutes were approved by unanimous consent.

Mr. James Lisle, FHFA OIG, was introduced and proceeded to provide an update on the CIGFO Working Group (WG) project, *Review of FSOC and Its Member Agencies' Response to the Executive Order on Climate-Related Financial Risk*. The WG has drafted a report, which has undergone the WG review process and is currently being referenced by Treasury OIG. The plan is to issue a discussion draft copy to the Financial Stability Oversight Council (FSOC) within the next week with the intent of issuing a final report in the next month or two. Mr. Lisle then touched on the highlights of the report. Additional discussion and questions from the CIGFO members concerned the differences between the FSOC's Climate Related Financial Risk Committee and Climate Related Financial Risk Advisory Committee.

Mr. Lisle then gave an update on the draft audit resolution policy. Since the last CIGFO meeting, the draft Audit Resolution Policies have been shared with FSOC and a meeting was held with FSOC officials to discuss the drafts and provide context around their purpose. On March 6, FSOC provided an email response (attached to the meeting notice) – in which they contended the adoption of the draft policies was unnecessary and explained their rationale – that existing authorities and practices were sufficient and that an additional policy might “just become stale or create undue burdens as needs or structures shift.” The response also included documentation of the authorities and current practices, and defined responsible officials, which Mr. Lisle noted was a goal of the policies themselves.

Treasury OIG and FHFA OIG have reviewed the response and are of the opinion that the email itself provides a record of FSOC's pre-issuance engagement and post-issuance resolution process – and is sufficient to guide interactions with FSOC on CIGFO reports. FHFA OIG recommends accepting and retaining the FSOC response as documentation of the process (and responsible officials).

FDIC OIG expressed concerns with the language in the response and that use of a Treasury Directive may not be appropriate in all situations. FDIC OIG believes that this should be a CIGFO/FSOC process that does not rely on Treasury policies. They also offered that audit follow-up might experience undue delay if all follow-up activities go through Treasury. Instead, these activities should be elevated internally within FSOC. The Acting Chair noted that the response is consistent with the current practice and that if it begins to falter, CIGFO can address this again in the future. Treasury OIG pointed out that the FSOC response identifies the specific elevation officials, which is information CIGFO did not have before. Discussion continued around the structure of FSOC and it was noted that the FSOC Secretariat is run out of the Treasury and utilizes its infrastructure and systems. FSOC also reports to, and is managed by, the Undersecretary for Domestic Finance. The Acting Chair noted that he is not aware of

any issues or concerns within FSOC of the way this has been set up or run. He also reiterated that if the process does not work in the future, CIGFO could revisit the issue with FSOC. FHFA OIG opined that the response accomplishes what CIGFO set out to do with the policies and recommended acceptance of the response as the process to follow going forward. The Chair offered the FHFA OIG recommendation as a satisfactory resolution and asked if there were any objections. None were noted and the resolution to accept the FSOC response as the process going forward was accepted.

The next item on the agenda was the CIGFO Annual Report. Mr. Jeffrey Hawkins, Treasury OIG, introduced this year's schedule for the 2023 CIGFO Annual Report. The process and cadence is similar to that used in the prior year annual report with a target to issue the final report by the end of July. This year's report will cover any CIGFO audits or agency work products issued between April 1, 2022 and March 31, 2023. The first milestone is for the submission of any joint CIGFO member projects that should be included with this year's report by April 21. CIGFO members should provide their individual submissions for this year's report by May 5.

Ms. Amy Altemus then briefly discussed recent events regarding the failure of Silicon Valley Bank (SVB). Ms. Altemus also informed the members that Moodys is reviewing six additional banks for possible downgrading. She then discussed a draft bill being sponsored by Senator Elizabeth Warren and Representative Katie Porter titled the "Secure Viable Banking Act" or the SVB Act. It seeks to repeal Title IV of the Economic Growth, Regulatory Relief, and Consumer Protection Act, and restore the original legislation. Title IV modified the Dodd-Frank financial regulations on midsize banks by raising the "too big to fail" threshold from \$50 billion in assets to \$250 billion.

Ms. Altemus observed that based on recent reporting, SVB was apparently the highest-paying publicly traded bank in 2018, and NBC news reported that employees received an average of \$250,683 for 2018. Bonuses for 2022 were paid out just hours before the bank was taken over. Senator Tester is calling for FDIC to claw back those bonuses, while Sen. Warner, Sen. Warren, and Sen. Baldwin have introduced a bill, titled the *Advancing Long-term Incentives for Governance Now (ALIGN) Act* to institute holding periods for stock buybacks and stock-based compensation – a measured move that would encourage company executives to prioritize investments that strengthen their companies over the long term, instead of focusing on short-term share prices.

Specifically, the Act would:

- Require executives to hold stock-based compensation for at least 3 years and to hold their stock for 12 months following the announcement of a stock buyback.
- Provide exceptions if a sale or transfer is made under certain circumstances such as through a will, in connection to a change of control, or after becoming disabled.
- Direct the SEC to establish public disclosure policy for a share repurchase authorization within 24 hours.

Ms. Altemus also discussed recent Reuters reports that Senator Elizabeth Warren called on Federal Reserve Chair Jerome Powell to recuse himself from an internal review of recent bank failures, saying his actions "directly contributed" to them. Senate Banking Committee Chairman Sherrod Brown urged Congress to enact regulations to strengthen stress tests and capital and liquidity standards for banks, and said he hoped the Federal Reserve would not raise interest rates when it meets next.

Mr. Delmar opened the floor and discussed the hearings the previous week with the House Financial Services Subcommittees. Mr. Delmar and Ms. Sharek shared some observations on the experience. Both anticipate additional hearings in the future. All three OIGs (Treasury, SEC and the Federal Reserve Board/CFPB) acknowledged the work and contributions of their staff in the research and preparation that went into the testimonies.

A motion was made and seconded to adjourn and was approved by all.

The meeting adjourned at 10:42 a.m.