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Largest U.S. Bank Executives to Face Off With Congress This Week

CEOs of 7 of the largest U.S. banks will appear before the House Financial Services Committee on Wednesday facing a Democrat-led panel that will be looking to contrast a generally easing regulatory environment with oversight and scrutiny from lawmakers. The hearing elevates headline risk for firms and will further shape the tone for the financial sector leading up to the 2020 election, but the press attention likely outweighs any longer-term consequences. The Trump administration's deregulatory actions will continue despite the outcomes of the hearing, especially if President Trump's most recent intended Fed Board nominees (Stephen Moore and Herman Cain) are confirmed. Reputational risks will be elevated for the companies in the short-term with possible missteps responding to lawmakers' questions (as we recently saw with now-retiring Wells Fargo CEO Tim Sloan's appearance in March), but the overall threat of targeted legislation against the industry remains low given the split Congressional dynamic through the 2020 election.

Focus on industry scandals and accountability. The CEOs of Bank of America, BNY Mellon, Citigroup, Goldman Sachs, JP Morgan, Morgan Stanley, and State Street will face the challenging task of defending their institutions against lawmakers' desire for accountability related to recent industry scandals. Some may be related to banks not even represented in the room, but lawmakers could nonetheless look to generalize an industry culture that, in their view, puts profits before consumers. The Wells Fargo accounts scandal and Goldman's Malaysia 1MBD controversy may be in-focus, but recent regulatory actions such as the OCC's fine against Citi for alleged Fair Housing Act violations could also be used as examples of corporate missteps. The hearing's format resembles what we saw in the immediate aftermath of the financial crisis and will similarly serve as an opportunity for the new Democratic majority to get CEOs on record as it develops a legislative agenda.

Lawmakers are likely to question why the Trump-appointed financial regulators are easing rules for the industry in light of recent scandals. Wells Fargo CEO Tim Sloan's decision to step down gives the Committee additional ammunition to challenge the industry, and may even prompt lawmakers to seek commitments from the executives present to step down much sooner than Sloan should they find themselves in a similar position.

Grading Trump's economic agenda. Challenging President Trump's economic priorities will be another significant theme throughout the hearing. The effects of the new tax code on company behavior, particularly as it relates to stock buybacks, could be an area of interest. Some executives have emphasized that buybacks are a secondary priority to reinvestment in their business, and that buybacks are a useful financial management tool, but Democrats will look to emphasize that the tax code has benefited corporations more than "Main Street."

Lawmakers are certain to criticize recent regulatory decisions such as providing more transparency around stress tests. Executives will look to carefully navigate the argument that while firms have made significant improvements to their capital, liquidity, and resolution planning since the crisis, it is now an appropriate time to revisit the framework and make adjustments to support continued economic growth. Lawmakers could also pressure executives on an easing regulatory environment planting the seeds for the next financial crisis. The Trump administration's deregulatory actions have fueled an increase in risk-taking behavior in the form of leveraged loans, in the view of lawmakers. Although JP Morgan's Jamie Dimon believes that leveraged loan activity is not currently at "the size or quality to cause systemic issues," lawmakers are not likely to readily accept this assessment from someone they see as being a representative of the pre-crisis era.

Discussions on trade could also provide lawmakers with an opportunity to have executives disagreeing with the President's economic policies on record. Some in the industry have flagged increasing trade tensions and tariff uncertainty as potential threats to economic prospects. Although there may be agreement on the general goals of the Trump trade agenda, the methods (particularly tariff hikes) could face criticism.

The role of corporations in advancing public policy. While the hearing presents certain risks, it also presents an opportunity for some executives to differentiate. This could particularly be seen as the executives are questioned on social issues. Climate policy, views on gun control, financing for private prisons, and diversity/minority inclusion are areas that could see attention. Large U.S. banks have recently come under scrutiny from Republican Senators for limiting their relationships with “politically disfavored” and potentially “constitutionally protected” industries. In his recent shareholder letter, Dimon directly addressed this – stating “[banks] can take positions on public policy that they think are good for the country” and decide “with whom and how they will do business.” This stance may draw praise from Democratic lawmakers who see a role for corporate advancement of social policies. Greater investment in education, immigration reform, and increasing access to homeownership are other priority areas for Democrats where executives could voice support.

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