Wealth management insights from Stifel's CIO Office

November 21, 2023

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

Potomac Perspective

Recent press reports alleging a toxic workplace culture at the Federal Deposit Insurance Corporation (FDIC) are not yet enough to force a change of leadership. If more press reports emerge, however, they could possibly force Chairman Martin Gruenberg to resign, especially if subsequent coverage reveals even more serious allegations than those that have already been made. A resignation could impact the agency's work on the Basle III Endgame proposal. In our note, we discuss some hypotheticals.

Two recent articles from *The Wall Street Journal* made claims of a toxic workplace environment at the FDIC, including claims that Chairman Gruenberg allegedly berated FDIC employees. Although some congressional Republicans have called on Mr. Gruenberg to resign, it does not appear this is imminent. If, however, this view is wrong, or if additional allegations emerge, Mr. Gruenberg's tenure could be at risk. ***If Mr. Gruenberg were forced to resign at some point, it would leave the FDIC's board deadlocked at 2-2 and could potentially kill the Basel III endgame proposal.***

The FDIC's board is comprised of five members, no more than three of whom can come from the same political party. The three Democratic board members are Mr. Gruenberg, Acting Comptroller of the Currency Michael Hsu, and Consumer Financial Protection Bureau Director Rohit Chopra. Hsu and Chopra serve on the board *ex-officio*. Vice Chairman Travis Hill and Independent Director Jonathan McKernan are Republicans.

If Chairman Gruenberg were to resign, Vice Chairman Hill would become Acting Chairman. President Joe Biden could nominate a new Chairman in case of a vacancy, but that nomination would need to be confirmed by the Senate – a process that could take several months even in the best of circumstances. ***As the possible head of a 2-2 FDIC Board, Mr. Hill would have outsized influence over the future of the Basel III Endgame proposal.***

Both Hill and McKernan voted against the Basel III Endgame proposal. If Mr. Gruenberg were to resign and be replaced by Mr. Hill (at least temporarily), ***Mr. Hill could possibly try to force a significant re-writing of the Basel III proposal or refuse to have the FDIC agree to a final rule that is not in line with his demands.*** The Federal Reserve and the OCC would then have to decide whether they want to finalize a Basel III proposal that the FDIC might not adopt, thereby creating the risk of regulatory arbitrage, or potentially accede to demands that Mr. Hill might make.

At the very least, if Mr. Hill were to become Acting FDIC Chairman, he could slow down the regulatory process, which would make scenarios for a Basel III re-write we described in a recent note even more realistic. With a presidential election a year away, the longer it takes regulators to finalize Basel III, the more likely it is the proposal will be revised or even scrapped. In the hypothetical scenario of a 2-2 FDIC Board, Vice Chairman Hill would have significant leverage over the process.

For now, the current allegations do not seem to be enough to force Mr. Gruenberg's resignation. Key Senate Democrats, especially Senate Banking Committee Chairman Sherrod Brown and Senator Elizabeth Warren, have yet to call for Gruenberg's resignation.

The risk to Mr. Gruenberg's standing is the possible drip-drip of news stories like the *Journal's* reporting. Following these initial reports, other journalists are likely to make further inquiries. ***If subsequent reports reveal additional allegations, progressives like Senators Brown and Warren might call for Mr. Gruenberg to step down***, especially if subsequent reports make direct allegations against Gruenberg and if those accusations prove to be more serious than the initial reports.

We have no reason to believe that such allegations might emerge, and we do not opine on their veracity. We merely point out what the potential political fallout could be in this hypothetical scenario.

SUBSCRIBE TO OUR PODCAST!

Season 2 of the Potomac Perspective podcast is underway. To access a broader discussion of these and other topics, please download and listen to the latest episode of our Potomac Perspective podcast.

DISCLAIMER

Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com 1123.6111995.1