NOV 22
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Gruenberg's potential exit leaves the FDIC's proposed banking rules in jeopardy

Article

The news: After the Wall Street Journal reported on the toxic work environment at the Federal Deposit Insurance Corporation (FDIC), and claimed that Chairman Martin Gruenberg allegedly did little to abate it, he faces growing calls to resign.

- That puts at risk some of the agency's proposed new banking rules.

How we got here: The FDIC has proposed a series of new rules that financial institutions (FIs) say would cost them billions of dollars, prompting strong lobbying efforts in opposition.

- After the March bank collapses, US regulators sought to protect against future crises by raising capital requirements.
- In October, successful joint banking efforts delayed the deadline of the comment period for the new capital requirements to January 26, 2024.

That's not the only change coming from the FDIC, though. Recently, the agency:

- Finalized stricter ESG measurement and reporting requirements
- Updated fair lending laws to include online lending requirements and climate resilience for historically redlined communities
- And it passed along the costs for March's banking crisis to banks with more than $5 billion in assets

Combined, these bills marked a regulator-led change in perception about big banks' responsibilities for climate change and the financial well-being of American consumers.

What happened at the FDIC? Last week, the Wall Street Journal published findings from an investigation it undertook into the agency's toxic work environment, based on interviews with more than 100 current and former FDIC employees.

- The report detailed incidents of harassment and discrimination that went largely unpunished, prompting women to leave the agency.
- Gruenberg faced questions from Congress after denying knowledge of workplace problems, but later recanted his testimony.
- The inappropriate behavior was said to have "festered" over the years as a result of agency leadership's inaction.

Why does it matter for FIs? This investigation and Gruenberg's uncertain tenure have broader implications for US FIs. His resignation could potentially stymie the agency's agenda with a two-two partisan split board, half of which opposes the stricter capital requirements.

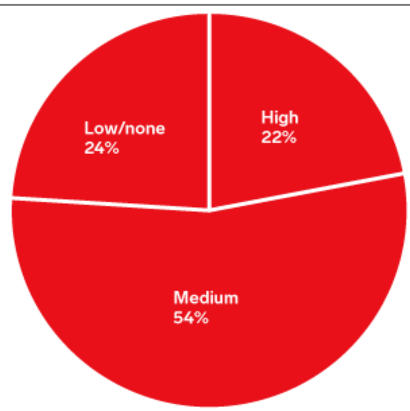
- This could disrupt pending plans for increased regulations on major US banks, such as the stricter capital requirements.
- A divided FDIC board would stall decision-making, which could lead to a period of inaction at the agency.

Next steps: The fallout from the investigation not only undermines the agency's credibility but also casts doubt on its ability to spearhead effective and fair regulatory initiatives.

- Stakeholders may capitalize on the agency's weakened standing, potentially reshaping the trajectory of financial regulations and oversight in unforeseen ways.

We'll be watching closely for any decisions about Gruenberg's tenure.

Level of Trust US Adults Have in Financial Institutions'/Banks' Ability to Protect Their Assets, May 2021
% of respondents



Note: n=3,511 ages 18+
Source: CivicScience as cited in company blog, May 4, 2021
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