

US Federal Reserve takes further action against Well Fargo

Wells Fargo bank was fined \$186m in September 2016. Since then there have been further allegations that the bank sold unnecessary car loan insurance to customers and mortgage fees. These all indicate significant ethical failing within the business. This has "troubled" the Federal Reserve Board of Governors who issued a series of letters in February this year admonishing the former chairman and CEO and the senior independent director of the bank's board and members of the current board. In parallel The Fed has issued a "Cease and Desist Order" to the bank's holding company preventing it growing its balance-sheet and giving its board sixty days to present independently verified plans to "enhance the board's effectiveness in carrying out its oversight and governance" to the regulator's satisfaction. There are similar requirements covering the firm's compliance and risk operations. At the same time The Fed require Wells Fargo to "replace three current board members by April and a fourth board member by the end of the year". The Order specifies a programme of independent assessments of these remediation plans and progress in their implementation.¹

The failure by The Fed to remove the whole board has been criticised by a former US Treasury Secretary since while "there are compelling reasons for due process before anyone goes to jail, ... There is no similar justification for due process before being fired, publicly, for being a failed fiduciary."²

This case is important for a number of reasons. There is a clear public desire for senior management, who pursued a flawed corporate strategy, to be held to account. It is also vital that corporate governance and risk and compliance are sound. However, it is not clear that the underlying issues relating to the culture and ethics of the firm have been addressed. While it might be trite to say the "culture eats compliance" regulation will be frustrated if the corporate culture is wrong. In another industry regulatory compliance was described as "a mindset, an attitude...I can't put my finger on it but you get a feel for it from talking to staff, walking around the business".³ Work on corporate culture combined with individual personal accountability should be central to preventing the problems seen at Well Fargo emerging elsewhere.

¹ <https://www.federalreserve.gov/newsevents/pressreleases/enforcement20180202a.htm>

² **Lawrence Summers: Wells Fargo's board members are getting off too easy**, *Washington Post*, 6th February 2018, https://www.washingtonpost.com/news/wonk/wp/2018/02/06/lawrence-summers-wells-fargos-board-members-are-getting-off-too-easy/?utm_term=.9aa723539118

³ Sally Wilson, "Evidence Review on Regulation Culture and Behaviours Prepared by the Institute for Employment Studies for the Food Standards Agency", (2014), Institute for Employment Studies, 34