

Questions for Mr. Graham S. Steele, of California, to be an Assistant Secretary of the Treasury, from Chairman Sherrod Brown:

- 1) Where have you excelled in past positions in attracting, hiring, and promoting people of color in positions in your organization/s? Where might there be room for improvement?
 - a. **Answer: If confirmed, I would be committed to the principles of diversity, equity, and inclusion because lived experience is extremely important for anyone in a decision-making or policymaking position. In my current role at Stanford Graduate School of Business, we have made the incorporation of diverse identities, viewpoints, and experiences a priority in our events, our leadership, and the issues that we address. I believe, however, that there is substantial room for improvement in seeking equal representation for, and representing and centering the experiences of, marginalized individuals and communities.**

- 2) What specific measures will you use to evaluate the success of the U.S. Department of Treasury in understanding and addressing the needs of Black, Indigenous and people of color (BIPOC)? And, will you work with the Secretary and senior officials to keep Congress apprised, as appropriate, on the progress being made on these measures?
 - a. **Answer: The leadership of the Department of the Treasury, including Secretary Yellen and Deputy Secretary Adeyemo, have made clear that racial equity, both with respect to personnel and policies, is a priority for the Department. I believe that communities of color must have a seat at the table, in order to ensure that their needs are reflected in the Department's policies. Representation in personnel at the Department is important, as is consultation and engagement with impacted and marginalized communities. I also believe that success should be measured in terms of policy outcomes. For example, I believe that the Department has sought to embed racial equity as a top priority in its implementation of the American Recovery Plan, investments in Community Development Financial Institutions and Minority Depository Institutions, aid for state and local governments, and support for renters and homeowners in communities of color. If confirmed, I look forward to working with the Secretary and senior officials to keep Congress apprised, as appropriate, on these measures, and would also welcome the opportunity to collaborate with you on this very important issue.**

- 3) What is your plan for creating an inclusive working environment for employees within your office?
 - a. **Answer: I believe that ensuring justice, equity, diversity, and inclusion is a matter of both personal and systemic change. On the personal side, I believe that it is incumbent upon individuals in positions of authority to actively seek out, identify, support, and promote candidates, colleagues, and employees**

from historically marginalized groups within their organizations. At the same time, I believe it is also important to re-examine the structures and systems that organizations have instituted, to evaluate whether those structures and systems disadvantage BIPOC and other marginalized communities, and, if they do, to change those structures and systems.

Questions for Mr. Graham S. Steele, of California, to be an Assistant Secretary of the Treasury, from Ranking Member Patrick J. Toomey:

Congressional Oversight

- 1) Please provide your philosophy on how you will approach and respond to Congressional information requests (both for documentary information and oral testimony), if you are confirmed.
 - a. **Answer: As a former Congressional staff member, I believe in the importance of legislative oversight of executive branch agencies. Similarly, I believe that it is important for agencies to respond to information requests from Congress, consistent with the Executive Branch's constitutional and statutory obligations.**

- 2) If confirmed, do you intend to respond to information requests differently depending on who is making the Congressional information request (whether it's the chair of the Congressional committee, the ranking member, or another member of Congress)? Please answer "yes" or "no." If your answer is "yes," please explain.
 - a. **Answer: If confirmed, I will respond to requests for information consistent with the constitutional and statutory obligations of the Executive Branch. The factors that I would consider when evaluating an information request would generally include the form of the request, the nature and scope of the information sought, as well as any applicable Department of the Treasury policies.**

- 3) Will you commit that, if confirmed, you will respond in a timely manner and fully comply with all information requests from me? Please answer "yes" or "no." If your answer is "no," please explain.
 - a. **Answer: If confirmed, it is my intention to respond, consistent with the constitutional and statutory obligations of the Executive Branch, as well as all applicable Department policies and procedures, to information requests from members of Congress, including the Ranking Member of the Committee on Banking, Housing, and Urban Affairs.**

- 4) Will you commit that, if confirmed, you will make yourself and your employees expeditiously available to provide oral testimony (including but not limited to briefings, hearings, and transcribed interviews) to the Committee on any matter within its jurisdiction, upon the request of either the Chairman or Ranking Member? Please answer "yes" or "no." If your answer is "no," please explain why.
 - a. **Answer: If confirmed, it is my intention to make all reasonable efforts to respond to requests for information for matters relevant to the oversight**

responsibilities of the Committee on Banking, Housing, and Urban Affairs, consistent with the constitutional and statutory obligations of the Executive Branch, in consultation with the relevant officials at the Department of the Treasury and consistent with all applicable Department policies and procedures.

Climate

- 5) Climate models are ill-suited to predicting financial risk due to their uncertainties and complexities, and the fact that climate models have a time horizon of decades or longer. In fact, one recent paper by a group of climate researchers found that current climate models cannot provide financially meaningful information.¹ In addition, the international Financial Stability Board issued a report in July 2021 acknowledging that the difficulty in modeling climate risks and lack of reliable historical data create greater uncertainty in assessing financial institutions' exposures to climate risks than other risks.² However, you have argued that climate change represents a potential systemic risk and, as such, the Financial Stability Oversight Council (FSOC) and Federal Reserve Board should take regulatory actions to mitigate this perceived risk. Given the uncertainty of both climate models and actual risks to financial institutions, on what basis do you believe such sweeping regulatory action is warranted?
- a. **Answer: I agree with Secretary Yellen that climate change is an existential threat to our environment, and it poses an emerging threat to our country's financial stability. It is therefore important for regulators to be prepared for the prospective market and credit risks resulting from the increased physical damage caused by climate events, and the changing climate more broadly. At the same time, there are also potential risks inherent in a transition to a net-zero carbon emitting economy. As a result, the Secretary has said that FSOC has a role to play in helping to coordinate regulators' collective efforts to improve the measurement and management of climate-related risks in the financial system.**

Financial Stability Oversight Council (FSOC)

- 6) In 2019, the FSOC unanimously approved guidance to implement an activities-based approach for identifying potential risks to financial stability.³ Under this approach, FSOC works with entities to mitigate systemic risk via "off-ramps," and designates individual entities as systemically important only as a last resort. You have advocated for individual company designations of nonbank financial companies, including large asset managers. If

¹ <https://www.nature.com/articles/s41558-020-00984-6.epdf>

² <https://www.fsb.org/wp-content/uploads/P070721-3.pdf>

³ <https://home.treasury.gov/news/press-releases/sm844>

confirmed, would you seek to reserve or advise the Treasury Secretary to reserve the FSOC's current approach to designation?

- a. **Answer: Individual company designations require a company-specific analysis that reflects the unique risks posed by each nonbank, based upon a number of different relevant factors. As a result, I would not want to form any premature judgments regarding the appropriateness of designation for any specific companies. In addition, I would not form any conclusions regarding, or seek any revisions to, the current guidance with respect to nonbank designations without first being briefed by, and consulting with, the relevant staff at the Department of the Treasury.**
- 7) FSOC's 2019 guidance also established that, before the FSOC uses its authority under Section 120 of the Dodd-Frank Act to issue nonbinding recommendations to a primary financial regulatory agency, it will ascertain whether the agency expects to perform a cost-benefit analysis. In cases where the agency would not, the FSOC will conduct its own cost-benefit analysis. This commitment is critical given the importance of engaging in analytical rigor when developing regulatory standards. Do you commit to retain the cost-benefit analysis requirement if confirmed?
- a. **Answer: I agree that it is critical that the Council employ analytical rigor in considering the use of any of its authorities, and that the Council consider all factors contemplated by section 120 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.**

Answering Questions for the Record

- 8) Please describe with particularity the process by which you answered these questions for the record, including identifying who assisted you in answering these questions along with a brief description of their assistance.
- a. **Answer: I drafted the answers to these questions. I then coordinated with staff in the Department of the Treasury's Office of Legislative Affairs regarding a review for technical accuracy. Treasury staff also provided to me public information regarding the Department's existing positions and policies.**

Questions for Mr. Graham S. Steele, of California, to be an Assistant Secretary of the Treasury, from Senator Cortez Masto:

Lending to Franchising and Multi-Level Market Businesses

- 1) In April, my office published a report, *Strategies to Improve the Franchise Model: Preventing Unfair and Deceptive Franchise Practices*⁴ which documented some problems with government guarantees for loans to franchise businesses. In addition, there have also been concerns raised about multi-level marketing schemes⁵ which can strip wealth from entrepreneurs.
 - a. If confirmed to this position, will you take steps to ensure financial regulators provide appropriate oversight of financial institutions that finance franchise business loans with government guarantees, such as the 504 or 7(a) loans from the Small Business Administration?
 - i. **Answer: Thank you for your leadership on improving the franchise model and your advocacy on behalf of the small businesses that are a cornerstone of the U.S. economy. If confirmed, I look forward to collaborating with my counterparts at the Federal Trade Commission, the Small Business Administration, and other relevant Federal banking and consumer protection agencies to ensure sufficient safeguards for consumers and investors. Furthermore, if confirmed, I look forward to working with you to see how Treasury can facilitate strengthening small business protections in the franchise model.**
 - b. If confirmed to this position, will you take steps to ensure financial institutions provide appropriate investor protections for franchise small business owners?
 - i. **Answer: Please see my answer to the previous question. Thank you.**
 - c. If confirmed to this position, will you take steps to ensure financial institutions protect investor and consumers when providing banking services to MLM businesses?
 - i. **Answer: Please see my answer to question 1a, above. Thank you.**

4

<https://www.cortezmasto.senate.gov/imo/media/doc/Franchise%20Report%20from%20the%20Office%20of%20Senator%20Cortez%20Masto.pdf>

⁵ <https://www.rollingstone.com/culture/culture-features/lularich-docuseries-lularoe-mlm-cult-1228224/>

Federal Home Loan Bank System

2) Will you commit to working with my office to ensure the Federal Home Loan Bank System meets the housing and community development needs of the communities they serve as well as the liquidity needs of member financial institutions?

- a. **Answer: As you know, the Federal Home Loan Bank (FHLB) System is regulated by the Federal Housing Finance Agency (FHFA), an independent agency. If I were fortunate enough to be confirmed, I would look forward to working with you and your staff to understand your concerns with the current operations of the FHLB System, as well as what role the Department of the Treasury might play in helping to ensure that the FHLBs meet the housing and community development needs of the communities they serve as well as the liquidity needs of member institutions.**

Racial Equity Promises from Large Financial Institutions

3) Numerous financial institutions promised to invest in communities of color,⁶ If confirmed to this position, will you commit to provide oversight of these promises and report on how the financial institutions implemented their initiatives?

- a. **Answer: The leadership of the Department of the Treasury, including Secretary Yellen and Deputy Secretary Adeyemo, have made clear that racial equity, both with respect to personnel and policies, is a priority for the Department. If confirmed, I look forward to being briefed by my colleagues at the Department on the Department's relevant authorities, policies, and initiatives and would welcome the opportunity to collaborate with you on this very important issue.**

⁶ <https://www.washingtonpost.com/business/interactive/2021/george-floyd-corporate-america-racial-justice/>

Questions for Mr. Graham S. Steele, of California, to be an Assistant Secretary of the Treasury, from Mike Crapo:

- 1) One of the proposals that has been encouraged on the supervisory front is scenario based stress tests regarding climate. If a financial institution sees that it has a potential risk because of this stress test, would it be appropriate for the regulator/examiner to cite them as operating in an unsafe and unsound manner if the institution continues to make those loans?
 - a. **Answer: It is my understanding that processes for evaluating the financial risks of climate change, such as stress testing or scenario analyses, are in their early stages and therefore require further research, monitoring, and data collection in order to help supervisors and financial institutions better account for, and address, the full ramifications of climate risk. As a result, I believe that it is important not to prejudge the appropriate role for incorporating such tools into the supervisory process. While the Department of the Treasury has no direct role in the regulation, supervision, and examination of banks, if confirmed, I look forward to collaborating with the Federal prudential regulatory agencies on identifying appropriate steps to address climate-related financial risks.**

- 2) During a Banking Committee hearing in March 2021, Secretary Yellen stated that FSOC should focus on specific activities instead of the size of firms. Additionally, she noted that while asset managers can face certain risks, “it’s not obvious to [her] that designation is the correct tool” to address those risks.
 - a. Do you agree with Secretary Yellen’s perspective?
 - a. **Answer: I do.**

- 3) Do you think that TLAC is an important financial stability tool post crisis?
 - i. **Answer: I do. I believe that Total Loss Absorbing Capacity (TLAC) has the potential to reduce the financial stability impact of a large, complex financial company’s failure by requiring such companies to have sufficient loss-absorbing capacity in the event of a resolution.**
 - a. Do you agree that we shouldn’t be in the business of taxing activities that are required by regulatory mandate?
 - i. **Answer: On an issue of tax policy, I would need to consult with the appropriate staff at the Department of the Treasury. If confirmed, I look forward to being briefed by my colleagues across the Department and to working with you on this issue.**

Questions for Mr. Graham S. Steele, of California, to be an Assistant Secretary of the Treasury, from Senator Tim Scott:

1) The Office of Financial Institutions oversees the work of the Federal Insurance Office. In August, FIO released a Request for Information soliciting public input on FIO's future work relating to the insurance sector and climate-related financial risk. One of the stated priorities for FIO in this RFI is "insurance sector engagement."

a. Through what mechanisms do you believe FIO should engage with the insurance sector when developing this report?

i. **Answer: As you noted, in August, the Federal Insurance Office (FIO) published a Request for Information (RFI) regarding climate-related risk. The issue of insurance sector engagement is one of FIO's three climate-related priorities. In addition, FIO has requested comment on three specific aspects of its engagement with the insurance sector. Given that the question of engagement is currently the subject of an open comment period, I believe that it would be inappropriate for me to prejudge this aspect of the RFI, other than to state that, if confirmed, I would be committed to a robust deliberative process and have in no way prejudged its outcome.**

b. Do you believe the insurance sector should have the opportunity to review and comment on the findings of the report before it is finalized?

i. **Answer: Given that the question of insurance sector engagement is currently the subject of an open comment period, I believe that it would be inappropriate for me to prejudge this aspect of the RFI, other than to state that, if confirmed, I would be committed to a robust deliberative process and have in no way prejudged its outcome.**

c. What do you believe should be the objectives of the report?

i. **Answer: Pursuant to Executive Order 14030, FIO has been directed to assess climate-related issues or gaps in the supervision and regulation of insurers, including as part of the FSOC's analysis of financial stability, and to further assess, in consultation with States, the potential for major disruptions of private insurance coverage in regions of the country particularly vulnerable to climate change impacts. In addition, FIO has identified three initial climate-related priorities: insurance supervision and regulation; insurance markets and mitigation/resilience; and insurance sector engagement.**

2) For more than 150 years, insurance has been regulated on the state level. As has been demonstrated time and time again, our unique state-based system of insurance regulation is the best in the world.

a. Will you commit to ensuring that FIO continues to respect and preserve this regulatory framework by working hand-in-hand with state insurance commissioners and NAIC on consequential decisions related to the business of insurance?

a. **Answer: If confirmed, I would ensure that FIO continues to respect and preserve the primacy of state insurance commissioners as the primary regulators of the insurance sector, and to work closely with state insurance commissioners and the NAIC on consequential decisions related to the insurance sector.**

3) In 2019, the Financial Stability Oversight Council (FSOC) proposed an activities-based approach rather than singling out particular entities in addressing threats to the U.S. financial system. The guidance also requires a cost-benefit analysis before FSOC can designate a financial institution as systemically important and invites more involvement and transparency from nonbank financial institutions during the SIFI designation process. As someone who favors an activities-based approach to non-bank SIFI designations, and more clarity around what gets a firm designated and de-designated, I considered that to be a step in the right direction.

a. Do you believe an activities-based approach is preferable to an entities-based approach to addressing systemic risk?

a. **Answer: I believe that an activities-based approach is appropriate to address risks to the stability of the financial system where there exists a primary Federal financial regulator with adequate legal authority to address such risks. I believe that designation is only appropriate where there is no primary Federal financial regulator responsible for, or capable of, addressing risks to the stability of the financial system and a company meets the statutory criteria for designation.**

b. How important is it for regulators to perform a cost-benefit analysis and to engage entities at every stage of the process before designating an institution as systemically important?

a. **Answer: Individual company designations are highly fact-specific decisions requiring an extensive analysis based upon a number of relevant factors established by law and guidance. I believe that it is absolutely critical that FSOC employ analytical rigor at every stage of the process before designating any institutions. I also believe that it is good practice for the FSOC staff, deputies, and principals to engage**

with any company being evaluated for designation, including meetings and submission of written materials.

- c. Do you believe entities should have the opportunity to be de-designated if they have addressed the financial stability risks raised by FSOC?
 - a. **Answer: I believe that the law is clear that designation is only appropriate if and when the FSOC has determined that the material financial distress of a nonbank financial company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities could pose a threat to the financial stability of the United States. I therefore believe that it is appropriate to rescind a designation if the members of the FSOC determine that a designated company no longer satisfies these statutory criteria for designation.**