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Four Directors will leave Wells Fargo's Board

By Jimena Rubio, LL.M. Candidate 2018 | March 9, 2018

Last Thursday, Wells Fargo announced that four board members, including its three longest serving directors, will soon be stepping down. Federico F. Peña, Lloyd H. Dean, Enrique Hernandez Jr, and John S. Chen will officially leave by the next company's annual shareholder meeting this April.

Since 2016, the bank has been on the loop for years of misconduct. Among other malpractices, the bank was on account for charging customers with fraudulent bank accounts they did not consent to and for forcing them to take insurance they did not need. This gave rise to one of the most relevant fraud scandals lately.

The Federal Reserve firmly condemned Wells Fargos board for failing to oversee the bank and not assessing the company's and the CEO's performance. Since then, the Fed announced that the bank would be banned from getting bigger until they overhauled risk and strengthened its board's oversight. This forceful intervention meant that one of the biggest financial institutions would be unable to keep up with its fast-growing rivals. Wells Fargo had nearly $2 trillion in assets at the end of 2017.

The Fed has been penalizing banks for misconducts, but they have never reached such an imposition that limited a major bank's growth. Ever since, the bank has been pushing for a quick recovery, and Well's officials expect restrictions lifted within the next year. Therefore, the announcement that directors were stepping down came to no surprise.

Jerome H Powell, the fed official overseeing the negotiations with Wells Fargo, said, "Across a range of responsibilities, we simply expect much more of directors than ever before; and there is no reason to expect that to change." Furthermore, Powell said that they have proposed a new framework for board oversight that introduces a new principles-based approach that intends to spotlight the Feds expectations of effective boards.

This represents a shift in the evolving relationship between regulators and banks and suggests that the board's role will likely grow in importance. Furthermore, it is a clear message that directors should be extremely vigorous in their duties and failure to oversee malpractices will bring about harsh consequences. Perhaps it signals a corporate culture of more openness and shared accountability.