To: FDIC Board of Directors: M. Gruenberg, T. Hill, J. McKernan, M. Hsu, and R. Chopra
From: Giovanna Arizpe
Re: Sexual Harassment and Racism are Endangering FDIC's Mission
Date: December 14, 2023

Background

The U.S. Federal Deposit Insurance Company (FDIC) was established to regulate Great Depression bank negligence and public insecurity. The FDIC's mission is to **ensure stabilization and public confidence of the U.S. financial system**. While the U.S. president selects the FDIC's board of directors (including its chairperson), the board can replace the chairperson in emergencies where the FDIC's mission is adversely affected. FDIC's current culture of bodily disregard and racial intolerance jeopardizes its mission. Because of this culture, many FDIC staff have been accused of sexual harassment and racial discrimination. However, those reporting their negative experiences, in accordance with FDIC's code of conduct's (COC) principle of accountability, endure aggressive, retaliatory behavior from leadership. After subsequent mistreatment, staff depart from the FDIC and leave future staff destined to repeat the cycle of abuse.

Problem Statement

FDIC's aggressive and retaliatory behavior enabled staff sexual harassment and racism. Failure to remedy and update FDIC's COC, establish an inclusive culture, and dismiss problematic staff threatens FDIC's stability and risks degraded public confidence in U.S. banking.

Recommended Strategy

Regulating FDIC's behavior through diversity, equity, and inclusion initiatives (DEII) remedies racist and sexist behavior. This organizational responsibility creates transparency, stabilizes the FDIC, and strengthens public confidence in U.S. banking.

Short-Term: The FDIC should partner with a third-party firm (TPF) specialized in DEII and update the COC to include race and gender equity. The board should sign and release a public statement of the FDIC's intent to implement DEII. The FDIC and TPF should create internal programs for marginalized groups focusing on creating a sense of belonging.

Long-Term: The TPF should investigate staff with sexual harassment and/or racism accusations. TPF should anonymize findings to the FDIC. After review and approval, the FDIC should dismiss offending staff. Additionally, if the FDIC chairperson has not upheld the DEII public statement, the board should replace the chairperson with a values-based leader.

Risks

DEII can carry inefficiency risks that threatens FDIC stability and public confidence in banking.

- TPF's agenda could misalign with FDIC's. Subsequent consultation could result in improper DEII or an incomplete investigation implementation leaving the FDIC unchanged and unstable.
- DEII implementation could fail and perpetuate FDIC instability:
  - FDIC staff leave and limiting human capital, negatively affecting FDIC regulatory ability.
  - The replaced chairperson is not unaligned with DEII and prevents implementation.

Benefits

Successful public acknowledgement, DEII implementation, and chairperson replacement enhances the FDIC's accountability, restores its stability, and ensures public confidence in U.S. banking.

- A greater number of diverse candidates will apply to the FDIC. Diverse hires increase FDIC innovation, improve bank regulation efficiency, and strengthen public confidence in banks.
- FDIC staff feel safer and stay in the agency. Decreased turnover centralizes knowledge and creates consistent human capital ensuring FDIC stability.

- Problematic staff removal legitimizes FDIC's accountability and prevents further sexist/racist behavior. Additionally, staff are reassured that following the COC will not result in retaliation.

FDIC inaction creates low public confidence and its continued turnover preventing effective bank regulations encourages reckless behavior that facilitates a fiscal crisis. The strategic benefits of preventing this behavior outweigh the risks and are optimal because the strategies attempt to resolve systemic issues that plague general work culture.

Implementation Considerations

DEII Remediation: With TPF's expertise, the FDIC should create a plan to strengthen public confidence and positively affect financial stability through DEII.

- FDIC should search for a TPF with DEII and leadership expertise.
  - The FDIC should address TPF's qualifications, scope of responsibilities, timelines, reporting requirements, and clarify and align on agenda objectives to ensure proper implementation.
- FDIC should work with TPF to update its accountability principle in the COC to include diversity, equity, and inclusion and create a DEII outlined plan.
  - After TPF review and approval, the FDIC should release a public statement of its updated COC and provide its DEII plan to remedy its sexist and racist culture.
    - This holds FDIC chairperson accountable to the public and is congruent with its COC.
    - If the FDIC chairperson cannot achieve proposed goals, the public statement provides reason and legitimacy for the board to replace the chairperson.
  - FDIC and TPF should create events that enhance marginalized groups' sense of belonging.
    - Internal networking opportunities provide those with less exposure of unspoken rules a place to create relationships with others who can help navigate through them and reducing staff turnover.
      - Events should emphasize intersectionality and include majority ethnicities to prevent unintentional exclusion that would otherwise fuel divisiveness causing DEII failure.

FDIC Staff Dismissal: The FDIC and TPF staff investigation ensures future FDIC stability.

- The FDIC and TPF should align, agree, and set guidelines for the investigation's overall procedure, investigation findings report, and staff dismissal.
  - FDIC should notify its staff of TPF's investigation and emphasize TPF's neutrality, FDIC's COC accountability principle, and FDIC's prohibition on retaliation.
    - Having TPF investigate promotes staff cooperation as TPF can be seen as neutral.
- Upon investigation completion, TPF should anonymize and provide FDIC's human resources a report for their review. Anonymizing findings for FDIC's human resource review prevents FDIC favoritism, intervention, or protection for offending staff.
- Once approved, TPF should provide staff identified for dismissal to the FDIC. FDIC's human resources should terminate problematic staff. This facilitates FDIC accountability and slows turnover with renewed trust from FDIC's staff.

FDIC Chairperson Removal: The board should replace FDIC chairperson if the chairperson does not successfully implement DEII and is consequently adversely affecting FDIC's mission.

- The board should meet and vote to replace the chairperson. Once voted, the board should start their search for an acting chairperson, come to a consensus, and vote for a new chairperson.
  - The board should consider individuals who adhere to high-standards of integrity, can consciously express humility and can communicate value-based visions to ensure FDIC DEII implementation success.
    - It is important to ensure the new chairperson's internal values are aligned with the FDIC so its strategic actions of DEII performance are enacted and successful.