



# BNY MELLON

**Statement of Charles W. Scharf  
Chairman and Chief Executive Officer  
The Bank of New York Mellon Corporation**

**Before the United States House of Representatives Committee on Financial Services**

April 10, 2019

## **I. Introduction**

Chairwoman Waters, Ranking Member McHenry, members of the Committee: Good morning and thank you for the opportunity to be here today. My name is Charlie Scharf, and, since July 2017, I have been privileged to serve as CEO of The Bank of New York Mellon Corporation. I have also been the company's Chairman since January 2018.

I appreciate this Committee's focus on accountability. I work hard to create a culture of compliance at BNY Mellon and to ensure we are the best that we can be.

I would like to begin by providing a bit of brief background about our bank and its business model before speaking to the financial crisis and the advancements we have made over the last decade.

BNY Mellon is proud of its historical relationship with the United States' financial system, a relationship that dates back to the founding era. In 1784, Alexander Hamilton, who would later serve as the first Secretary of the Treasury, invested in America and started what is today our nation's longest-running bank, The Bank of New York. In July 2007, The Bank of New York merged with Mellon Financial, a financial institution founded by another Secretary of the Treasury, Andrew Mellon.

Today, we are known as BNY Mellon, and we are a global custody bank, over 51,000 employees strong and operating in 35 countries. We provide investment services and management designed to help institutions and individuals succeed in markets all over the world.

## **II. BNY Mellon and Its Role as a Custody Bank**

At BNY Mellon, we are a custody bank, and, in that capacity, we perform the nuts-and-bolts administrative functions of the financial system. Our business model is very different from a traditional retail bank, commercial bank, or investment bank. We do not operate typical retail banking branches in the United States. Unlike most banks, we do not focus on retail markets, nor do we provide financial products such as credit cards and auto loans. We also do not engage

in proprietary trading, and the only mortgage loans offered by BNY Mellon are through our limited wealth management business.

The majority of our business includes providing custody and other basic operational services to governments; pension, municipal, and mutual funds; endowments; unions; and other institutional customers. Our revenues are largely generated from fees that we collect for the services we provide rather than yields on credit risk assets. At the close of 2018, we had \$33.1 trillion in assets under custody and/or administration and \$1.7 trillion in assets under management. Ten years ago, at the close of 2008, we had \$20.2 trillion in assets under custody and/or administration and \$0.93 trillion in assets under management.

With respect to our custody services, we focus on the recordkeeping and servicing of assets on behalf of others. As custodians, we secure and segregate the investment assets of our clients and their clients. We also maintain relationships with institutions that are members of securities depositories, and we provide administrative or “back office” functions, including the processing of payments, client reporting, fund administration, and accounting services. In many instances, these custody services are required by law (*i.e.*, some public funds) or practical necessity to meet compliance requirements (*i.e.*, ERISA plans).

Through the provision of custody and custody-related services, we assist clients in gaining access to global financial markets. Our clients rely on us to be a trusted partner to safeguard and service their assets, and we provide quality, timely, and easy-to-access information to help clients meet complex custody needs while maximizing efficiency and measuring and managing risk.

We maintain 15 international branches in Australia, Canada, Japan, and the United Kingdom, among other places, as well as other physical locations associated with our wealth management business. These branches are technical components of our operating structure and not retail branches in the traditional sense. We do not maintain retail locations with tellers providing services to consumers. We have minimal capital markets activities, as we are not a trading or investment bank. The primary capital markets activities we undertake are an outgrowth of our core custody and asset servicing businesses. For instance, we offer foreign exchange trading and agent securities financing services to facilitate client requests. We also own a broker-dealer, Pershing, whose lines of business are consistent with our general custody operations. Pershing provides an array of solutions to its clients, primarily in the clearing and settlement spaces.

### **III. BNY Mellon and the Financial Crisis**

Looking back at the financial crisis of a decade ago, BNY Mellon understood then—and it understands now—the gravity of the situation our economy faced. We believe that the capital investments and other efforts undertaken by Congress, the Department of the Treasury, and the Federal Reserve greatly helped to stabilize markets and allowed us to do more than we otherwise could have to improve fund movements in the financial markets at that time.

We are grateful for the support that we and others received from the United States government and the American people. We all owe you our gratitude and also our resolve to make sure the system is never tested in this way again.

Because of our business model, BNY Mellon was not involved with the underwriting of subprime loans or the structuring of complex investments that contributed to the financial crisis. BNY Mellon had a strong capital position throughout the crisis. In October 2008, when the Treasury allocated three billion dollars in capital investment to us under the Capital Purchase Program (“CPP”), we agreed to participate.<sup>1</sup> We did so because we understood the goal of having a range of institutions participate in the program, including relatively healthy ones like BNY Mellon. The Treasury’s investment in our bank allowed us to add liquidity to the markets. It also promoted confidence in the overall financial system.

Apart from receipt of this investment from the federal government, BNY Mellon also played an important role in assisting the Department of the Treasury with managing the crisis. BNY Mellon was appointed as the main custodian of the Troubled Asset Relief Program (“TARP”) and aided in administering various TARP efforts. Specifically, BNY Mellon provided custodial, accounting, auction management, and other support services. We also maintained the account of record for the TARP portfolio, provided pricing and asset valuation services, and tracked asset attributes, as required by TARP’s authorizing legislation.

In 2009, BNY Mellon repaid in full the three billion dollars it received from the federal government under the CPP. It also paid \$231 million in dividends and warrant repurchases, which reflected revenue to the government and resulted in a return on investment for taxpayers. I am proud that we were among the first to repay funds received from the CPP.

In the years since the crisis, BNY Mellon has supported the significant global regulatory reforms that have been implemented. We believe that the global financial system is stronger today as a result of these safeguards, and we look forward to continuing to work with Congress and our regulators to ensure the continued stability of our industry and the nation’s economy.

I can say with confidence that BNY Mellon is an even more resilient organization than it was a decade ago. Following the crisis, we developed more transparent and proactive relationships with our regulators, and we have strengthened our risk practices. We appreciate that our success depends on careful planning, prudent decision making, and ensuring sufficient protections are in place.

That is why we maintain a robust compliance and ethics program. Our Compliance and Ethics oversight function operates independently within BNY Mellon, reporting to the Chief Risk Officer and subject to the direct oversight of our Board of Directors. It is responsible primarily for helping to ensure the company’s businesses maintain appropriate processes to comply with all applicable laws, regulations, company policies, and ethical norms. Many Compliance and Ethics processes have been added and significantly enhanced since the merger that created BNY Mellon in 2007. For example, BNY Mellon created the Anti-Corruption Office to provide guidance to businesses on risk mitigation strategies and controls for relevant business activities.

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<sup>1</sup> The CPP was one of the five component programs of the Troubled Asset Relief Program, which was originally authorized by Congress in the Emergency Economic Stabilization Act of 2008.

BNY Mellon is also committed to its core values and its reputation for integrity and excellence. Building on this reputation for honesty, accountability, and transparency is essential to achieving our goal of making the company a trusted global leader in the financial services industry. We understand that our customers and shareholders expect the company and its employees to conduct business activities not only in full compliance with all laws and regulations, but also in accordance with the highest possible standards of ethical conduct. Accordingly, BNY Mellon maintains an Ethics Office and has developed the resources to support employees in meeting our high ethical standards.

These programs are crucial to our efforts to maintain compliance with all applicable laws and regulations, and we continue to look for ways in which they can be improved. At the same time, we recognize that there have been times when we have fallen short, and we have learned from those experiences. Since the financial crisis, we have been subject to ten public enforcement matters by our federal government regulators involving approximately \$320 million in penalties and restitution, the largest of which involved foreign currency exchange rates. These matters include settlements with the Securities and Exchange Commission,<sup>2</sup> the Board of Governors of the Federal Reserve System,<sup>3</sup> and with the Departments of Justice and Labor.<sup>4</sup> In addition to federal actions, we have also entered into settlements with state regulators, including actions relating to the federal actions described here.

Most, if not all, of these matters pre-date my tenure as CEO, but as the leader of our bank, I fully accept the responsibility of ensuring that we learn the lessons of these settlements. There is no excuse for non-compliance with our laws and regulations, and we will respond swiftly and aggressively when we see conduct that does not meet the highest standards expected of all our employees.

#### **IV. BNY Mellon Today**

I would now like to provide you with an overview of where BNY Mellon stands today and to address the remaining topics raised in the Committee's letter inviting us to testify.

First and foremost, BNY Mellon is financially sound, and we work each day to make sure that continues. We hold a substantial capital buffer above minimum regulatory requirements, which has increased in quality and quantity over the past decade. We continue to be highly rated by the leading credit agencies, and we are constantly investing in our controls and risk systems.

One area of particular importance is cybersecurity. Given the nature of technology and markets today, cyber threats pose a significant risk to all businesses, and BNY Mellon is taking steps to guard against this hazard. The security of our data is of the utmost importance to our business,

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<sup>2</sup> The settlements with the Securities and Exchange Commission include matters relating to trade timing oversight, foreign currency exchange rates, municipal bond disclosure statements, internship hiring, risk-based capital ratio reporting, disclosures, and pre-release American Depositary Receipts.

<sup>3</sup> The settlements with the Board of Governors of the Federal Reserve System include matters relating to collateral calculations for borrowing under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, risk-based capital ratio reporting, and the National Flood Insurance Act.

<sup>4</sup> The settlements with the Department of Justice and Department of Labor relate to foreign currency exchange rates.

our clients, and our regulators. To ensure that our data remains protected, we regularly assess, test, and upgrade our cyber defenses to meet the challenges posed by new and evolving threats.

Our cyber program includes controls that are aligned to national and international industry standards such as those promulgated by the National Institute of Standards and Technology and the International Standards Organization. As part of the program, we address multiple objectives, including vulnerability identification, asset protection, threat detection, incident response, and restoration of services.

Our Chief Information Security Officer regularly briefs me, our senior executives, and our Board of Directors on cybersecurity issues, and our teams conduct internal cybersecurity and resiliency exercises based on various scenarios to help raise preparedness, evaluate resiliency, assess communication protocols, and test alternative procedures in the event of a hypothetical adverse event.

BNY Mellon is not only making significant investments in technology and cyber-preparedness, we are also investing heavily in our most important asset, our employees. We value all of our employees, and our goal is to pay compensation that allows us to retain the best in the business at every level. Accordingly, we prioritize offering compensation that is competitive in the current market. For example, BNY Mellon recently invested benefits it received from changes in tax policy into our workforce by raising all employees' salaries to at least \$15 per hour. When we benefit, we want our employees to benefit as well. We recognize that our success in recent years is, in no small part, tied to the success of the American economy as a whole.

BNY Mellon does not use forced arbitration agreements in our employment contracts or, for that matter, with investors or consumers.

The 2018 base pay of the median U.S. employee at BNY Mellon was \$79,833. My total compensation is set by our Board of Directors. For 2018, my compensation was \$18.03 million, three-quarters of which is deferred to ensure alignment with the long-term interests of the company.

BNY Mellon has a forfeiture and recoupment (“clawback”) policy administered by the Human Resources and Compensation Committee of our Board. It applies to equity and cash awards granted to all of our employees, including our senior executives. This policy allows for the cancellation of all or any portion of unvested awards and the requirement to repay any shares of our stock or amounts acquired from the award in certain situations.

We also continue to make diversity a priority. We are proud of our diverse workforce's ability to deliver creative insights and solutions that lead to our continued success, and we believe that building a vibrant culture of inclusion creates a stronger, smarter, and more successful company. Diversity goals are also a factor by which we measure the performance and compensation of each of our executive committee members, including my own.

We aspire to be a top employer of the best talent. For us, being a top employer means creating the conditions to allow people to succeed, to challenge and enable them to do their best work, to

value their unique perspectives and diverse backgrounds, and to empower them to thrive on a global stage. We strive to support all of our employees—regardless of age, race, gender, color, national origin, sexual orientation, sexual identity, or disability—with robust, relevant programs that ensure everyone has an equal opportunity to excel.

Diversifying senior leadership is a priority in our global diversity and inclusion strategy. This requires diverse talent pipelines at every level of BNY Mellon, from our employees and new hires, through our executive and senior leadership team, to our Board of Directors.

We set workforce representation goals to improve the diversity of our employee population, and we hold executive committee members and hiring managers accountable for achieving this improvement. Diversity and inclusion are embedded in our hiring processes and initiatives across the talent lifecycle, from recruitment and development to retention and advancement. We require diverse candidate slates, support diverse succession benches, and invest in creating more advancement opportunities for top diverse talent.

Assuming the election of all director nominees at this year’s annual meeting, 50 percent of our Board of Directors will be diverse members. In 2018, women represented 41 percent of our total global workforce and 45 percent of our workforce in the United States. Women currently make up 28 percent of our executive leadership, 28 percent of our senior leadership (*i.e.*, director level and above) and 35 percent of our mid-level leadership (*i.e.*, vice president levels). Ethnic and racial diversity has also improved over the past two years. In 2018, our employees in the United States were 34 percent ethnically or racially diverse, up from 32 percent in 2016. And new hires were 42 percent ethnically or racially diverse. While we are making progress, we recognize that there is still more work to do.

We are also dedicated to fostering diversity among our external partners. We regularly work with diverse underwriters, including those that are female- and minority-owned. Indeed, we have doubled our spending with diverse suppliers over the past three years. In 2019, we are implementing a strategic supplier diversity program that will focus on further expanding our network of diverse suppliers and increasing our investments with them.

Additionally, we understand the importance of serving our community, and we have made significant investments in New York City, including financing the construction and preservation of approximately 5,700 affordable housing units. These types of projects coordinate funding sources from the public, private, and nonprofit sectors and leverage BNY Mellon’s capabilities in navigating complex transactions. They include: a \$200 million project in River Park for low-income and affordable housing; a \$143 million Compass project focused on creating new affordable housing without gentrification; and a \$100 million project focused on low-to-moderate income borrowers.

We are also proud of our philanthropic efforts, which include \$120 million in contributions from our institution and our employees in the past three years.

## **V. Conclusion**

At BNY Mellon, we recognize that we play an important role in our nation's financial infrastructure, and we do not take that responsibility lightly. We remain committed to retaining your trust as well as that of our regulators and the American public. Again, thank you for the opportunity to testify today. I look forward to answering your questions.