Can Supervisory Reform Prevent Repeat Bank Failures in the US?

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Regulatory Jurisdiction by Agency and Type of Regulation

Source: General Accountability Office (GAO).
Banks Failed Due To Shortcomings In...

• All of the banks’ line of defenses
  – boards,
  – executives,
    • CEO, Chief Accounting, Risk, and Credit Officers
      – All received bank examiners’ CAMELS reports and were at exit briefing meetings
  – asset liability management, and
  – auditors
Banks Failed Due To Shortcomings In...

- Bank regulation
  - Economic Growth
  - Regulatory Relief and Consumer Protection Act (EGRRCPA)
- Led to excessive Tailoring Rules

### Table: Regulatory Requirements for Different Categories of Banks

<table>
<thead>
<tr>
<th>Category I</th>
<th>Category II</th>
<th>Category III</th>
<th>Category IV</th>
<th>Other Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. GSIBs</td>
<td>≥ $700b Total Assets or ≥ $75b in Cross-Jurisdictional Activity</td>
<td>≥ $250b Total Assets or ≥ $75b in nonbank assets, wSTWF, or off-balance sheet exposure</td>
<td>Other firms with $100b to $250b Total Assets</td>
<td>$50b to $100b Total Assets</td>
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<tr>
<td>TLAC/Long-term debt</td>
<td>Stress Testing</td>
<td>Stress Testing</td>
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<td>Capital</td>
<td>Annual company-run stress testing</td>
<td>Annual company-run stress testing</td>
<td>Company-run stress testing every other year</td>
<td>Supervisory stress testing (two-year cycle)</td>
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<td></td>
<td>Annual supervisory stress testing</td>
<td>Annual supervisory stress testing</td>
<td>Annual capital plan submission</td>
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<tr>
<td>Risk-Based Capital</td>
<td>Advanced approaches</td>
<td>Counterparty risk</td>
<td>Advanced approaches</td>
<td>Allow opt-out of AOCI capital impact</td>
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<td>Countercyclical Buffer</td>
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<tr>
<td></td>
<td>No opt-out of AOCI capital impact</td>
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<tr>
<td>Leverage capital</td>
<td>Enhanced supplementary leverage ratio</td>
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<tr>
<td>Single-counterparty credit limits (SCCL)</td>
<td>SCCL: BHC/IHC level SCCL</td>
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<td>SCCL: FBOs: Meet home country requirement if global assets&lt; $250B</td>
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<td>BHC/IHC level SCCL</td>
<td>FBOs: Meet home country requirement</td>
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<tr>
<td>Liquidity (Holding Company)</td>
<td>Standardized</td>
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<td></td>
<td>Full daily LCR (100%)</td>
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<td>If wSTWF &lt; $75b: Reduced daily LCR and NSFR (85%)</td>
<td>If wSTWF &lt; $50b: No LCR</td>
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<td></td>
<td>Proposed full daily NSFR† (100%)</td>
<td>Proposed full daily NSFR† (100%)</td>
<td>If wSTWF ≥ $75b: Full daily LCR and proposed NSFR† (100%)</td>
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<td>Reporting</td>
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<td>Report FR 2052a daily</td>
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<td>Internal</td>
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<td>Liquidity stress tests (monthly)</td>
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<td>Tailored liquidity risk management</td>
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</table>

Source: Tailoring Rules, Federal Reserve Board
Banks Failed Due To Shortcomings In...

- National bank supervision
  - Federal Reserve Board and San Francisco Fed
    - Regulators have had Pillar II’s guidance on enterprise-wide and portfolio stress tests, as well as on interest rate risk in the banking book since 2006
    - Large Banking Organization Supervision
  - FDIC San Francisco
    - was cc’d on examination reports to the SVB Bank Board as far back as 2016
  - Consumer Financial Protection Bureau
    - also included in SVB exam reports as far back as 2018

- State bank supervision
  - California Department of Financial Institutions
Recommendations

1. Order An Independent Investigation of the Silicon Valley Bank Failure to get remaining outstanding answers
2. Appoint an Independent Inspector General for the Federal Reserve System
3. Revise Title IV of S2155 to Reinstate Dodd-Frank’s designation of Systemically Important Banks
4. Remove Heads of Banks From Federal Reserve District Boards
5. Reform Remuneration for CEOs and Key Bank Professionals
6. Require Transparency from Banks about their Assets and Liabilities and Interest Rate and Liquidity Risk Measurements
7. Utilize All of the Federal Reserve’s Existing Powers to Escalate Identified Risks at Banks and Impose Enforcement Actions on Non-Compliant Banks
8. Require Improvements In the Monitoring of Banks’ Interest Rate Risk Models
9. Reinstate The Liquidity Standard for All Large Bank Organizations, and
10. Provide Strong Whistle Blower Protections for On-site Examiners and Off-Site Supervisor

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