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Can Supervisory Reform Prevent Repeat Bank Failures in the US?

PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

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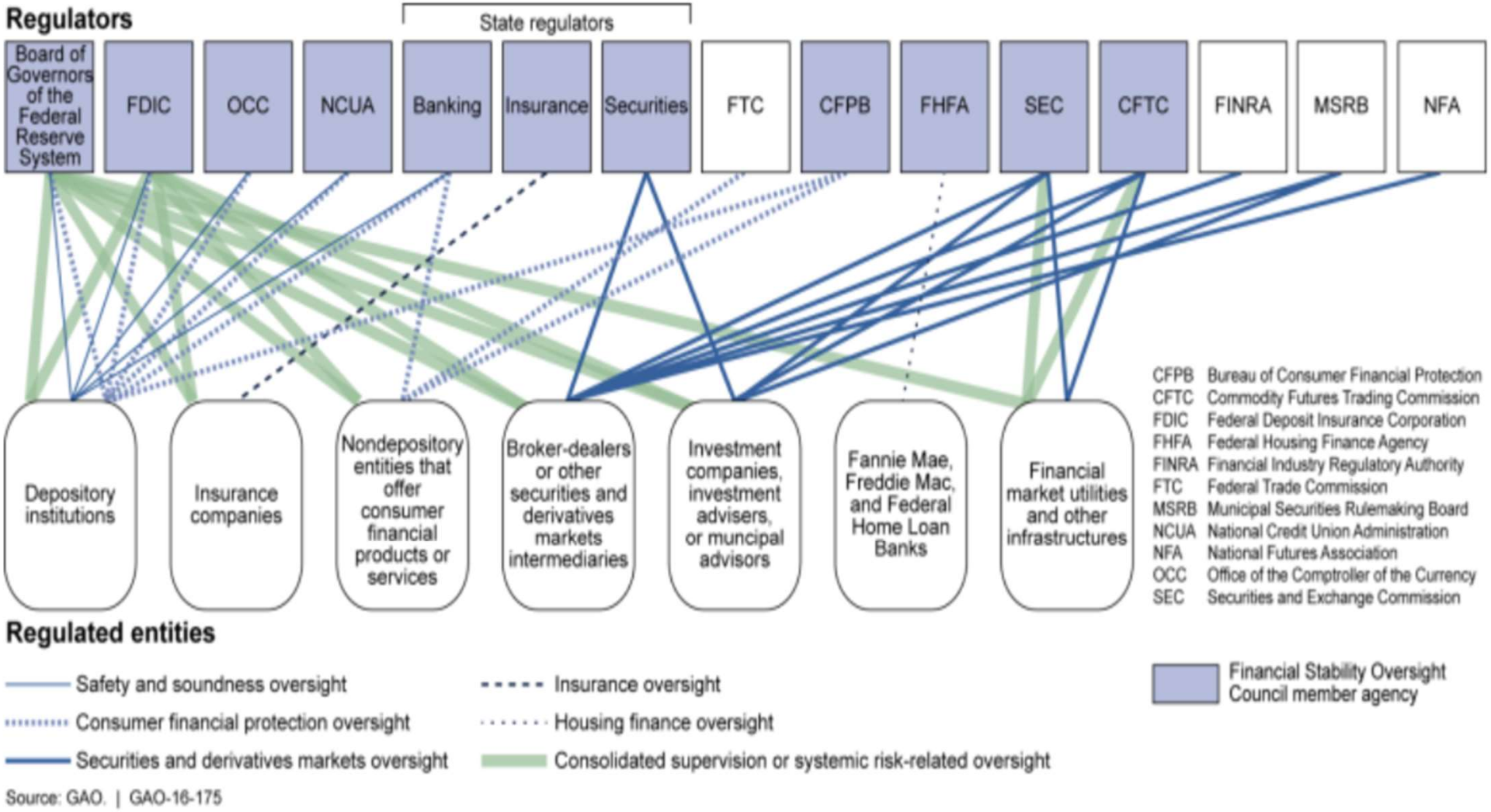
Regulatory Jurisdiction by Agency and Type of Regulation



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

	Category I U.S. GSIBs	Category II ≥ $700b Total Assets or ≥ $75b in Cross-Jurisdictional Activity	Category III ≥ $250b Total Assets or ≥ $75b in nonbank assets, wSTWF, or off-balance sheet exposure	Category IV Other firms with $100b to $250b Total Assets	Other Firms $50b to $100b Total Assets
Capital	**TLAC/Long-term debt** **Stress Testing** • Annual company-run stress testing • Annual supervisory stress testing • Annual capital plan submission **Risk-Based Capital** • GSIB surcharge • Advanced approaches • Countercyclical Buffer • No opt-out of AOCI capital impact **Leverage capital** • Enhanced supplementary leverage ratio	**Stress Testing** • Annual company-run stress testing • Annual supervisory stress testing • Annual capital plan submission **Risk-Based Capital** • Advanced approaches • Countercyclical Buffer • No opt-out of AOCI capital impact **Leverage capital** • Supplementary leverage Ratio	**Stress Testing** • Company-run stress testing every other year • Annual supervisory stress testing • Annual capital plan submission **Risk-Based Capital** • Countercyclical Buffer • Allow opt-out of AOCI capital impact **Leverage capital** • Supplementary leverage ratio	**Stress Testing** • Supervisory stress testing (two-year cycle) • Annual capital plan submission **Risk-Based Capital** • Allow opt-out of AOCI capital impact **Leverage capital**	**Risk-Based Capital** • Allow opt-out of AOCI capital impact **Leverage capital**
SCCL	**Single-counterparty credit limits (SCCL)** • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** • BHC/IHC level SCCL • FBOs: Meet home country requirement	**SCCL** • FBOs: Meet home country requirement if global assets≥$250B	**SCCL** • FBOs: Meet home country requirement if global assets≥$250B
Liquidity (Holding Company)	**Standardized** • Full daily LCR (100%) • Proposed full daily NSFR† (100%)	**Standardized** • Full daily LCR (100%) • Proposed full daily NSFR† (100%)	**Standardized** • If wSTWF < $75b: Reduced daily LCR and NSFR† (85%) • If wSTWF ≥ $75b: Full daily LCR and proposed NSFR† (100%)	**Standardized** • If wSTWF < $50b: No LCR • If wSTWF ≥ $50b: Reduced monthly LCR and proposed NSFR† (70%)	
Liquidity (Combined U.S. Operation)	**Reporting** • Report FR 2052a daily **Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Reporting** • Report FR 2052a daily **Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Reporting** • If wSTWF < $75b: Report FR 2052a monthly • If wSFWF ≥ $75b: Report FR 2052a daily **Internal** • Liquidity stress tests (monthly) • Liquidity risk management	**Reporting** • Report FR 2052a monthly **Internal** • Liquidity stress tests (quarterly) • Tailored liquidity risk management	
Holding Company	U.S. IHC Requirement	U.S. IHC Requirement	U.S. IHC Requirement	U.S. IHC Requirement	U.S. IHC Requirement

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

Source: Rodríguez Valladares, Mayra, Testimony before the Economic Policy Subcommittee of the Senate Banking Committee, May 2023.

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- Financial risk consultant & trainer to private sector financial institutions and regulators
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