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Will Paige

Politicians weigh in on whether US banking needs a regulatory shakeup

Article

The news: Federal regulators suggested major changes to US banking regulations during a Senate hearing focusing on systemic failures related to the collapse of **Silicon Valley Bank** and

Signature Bank.

SVB blame game: Federal Reserve Vice Chair for Supervision Michael Barr said his agency had warned SVB as early as 2021 of the risks it was exposed to, but the lender failed to rectify issues.

- Barr described SVB's leadership as a "**textbook case of mismanagement,**" and pointed to the bank's failure to effectively manage interest rates and liquidity risk.
- SVB waited **too long to address problems**, and the actions it took to strengthen its balance sheet triggered the bank run that led to its collapse.

Banks face oversight overhaul: Barr and Federal Deposit Insurance Corp (FDIC) Chair Martin Gruenberg both said regulatory changes should be considered.

- The Fed said it plans to **propose a "long-term debt requirement for large banks**" so they have a "cushion of loss-absorbing resources."
- It also raised the **need to enhance stress testing** to capture a wider range of risk and to explore **changes to liquidity rules.**
- The Fed also said that **regulation needs to change to keep pace with evolving technology** and that it was analyzing the role social media, deposit runs, and interest rate risks played in recent events.
- The FDIC's Gruenberg said SVB's and Signature's failures "demonstrate the implications that banks with assets over $100 billion can have for financial stability" and that **regulators need to look at capital, liquidity, and interest rate risk.**
- The FDIC is also **reviewing the deposit insurance system,** and on May 1 will unveil policy options for coverage levels.

Regulation gets political: At the hearing, **Democrats broadly backed calls for stronger banking oversight**, with some blaming recent turmoil on the Trump administration for loosening rules introduced as part of the Dodd-Frank Act.

Republicans generally opposed tougher regulation and said sharp interest rate hikes by the Biden administration had led to bank failures, while smaller banks that follow regulations could be constrained by having to follow new rules.

Updating rules won't be easy: The banking tumult has led to strong opinions on the need to change or protect existing regulation. And politicians aren't finished with identifying where and with whom the fault lies for bank failures.

Pushing legislation through a divided Congress will be a tough and drawn-out process. But regulators can take some steps without lawmakers' involvement.

- Watchdogs can interpret rules differently and take a tougher stance within the existing regulatory framework.
- More scrutiny from both the SEC and FDIC also seems likely while political wrangling rumbles on.

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