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Will Paige

# Banks need to be prepared for social-media-fueled runs after SEC rejects short-selling ban

Article

**The news:** Securities and Exchange Commission (SEC) Chair Gary Gensler has ruled out a ban on short selling to tackle wildly fluctuating regional banking stocks, according to Bloomberg.

Similar constraints were ineffective when used previously, Gensler stressed at an event hosted by the Atlanta Federal Reserve.

**Why are bank runs in the spotlight?**

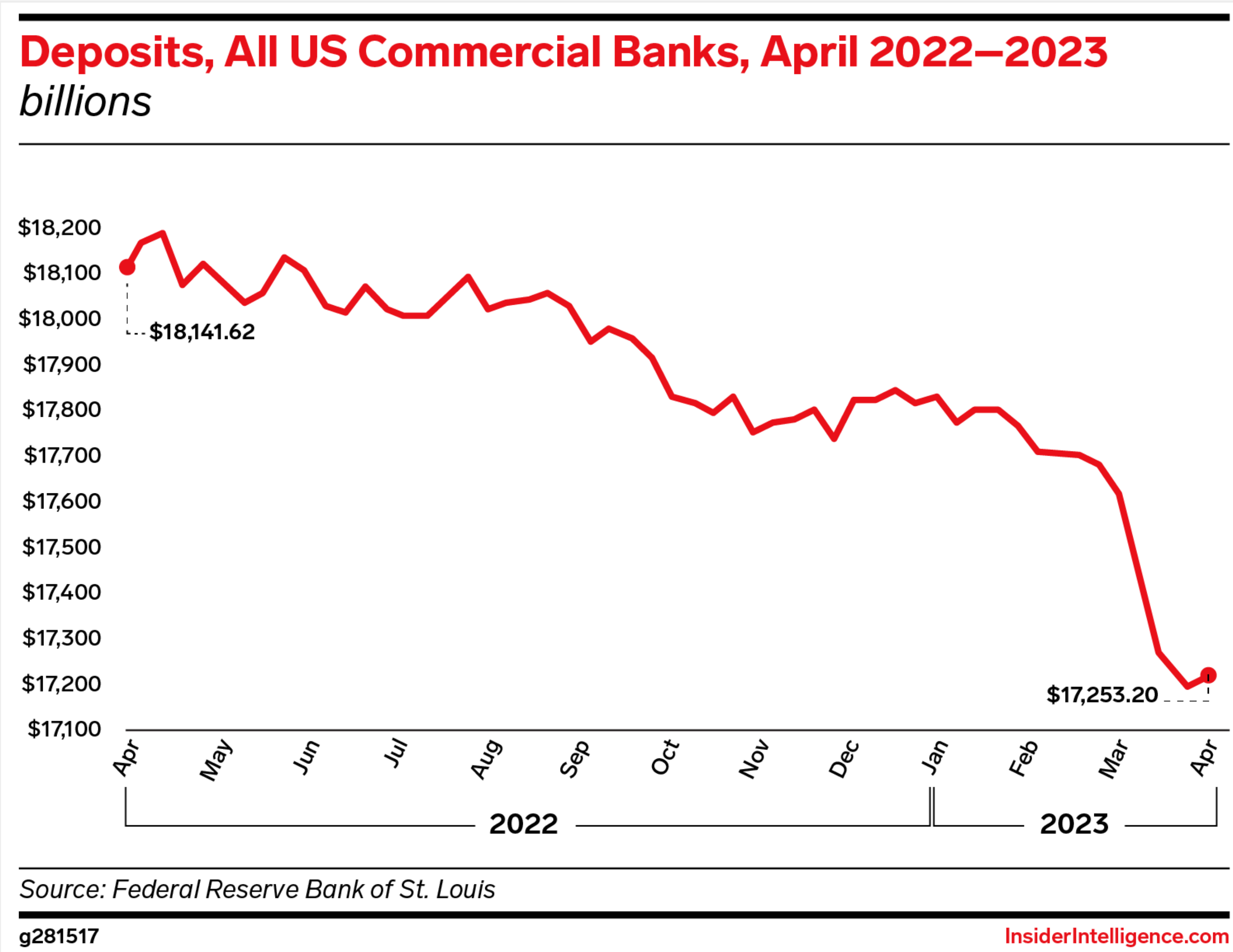
- **Silicon Valley Bank's** collapse began when the lender announced it had sold a portfolio of long-term bonds at a big loss and would raise additional capital. That triggered customers to start pulling deposits which snowballed and eventually led to the **biggest US bank failure since the 2008 crisis.**
- What was significant about the bank run at SVB was the **role social media played in whipping up panic online** and creating an echo chamber—leading to the fastest bank run in history, according to former SVB CEO Gregory Becker.
- More recently, some industry critics have called for a ban on short selling in response to **unpredictable trading in regional lenders** that's often not connected to banks' performance or outlook.

**Regulatory reforms could cut bank run hazards:** The current regulatory system may need tweaking to address the new risks that digital banking and social media have added to bank runs. Online banking means customers and businesses can withdraw funds in seconds, with little to no warning, while platforms like Twitter can spread panic about banks' financial health.

To tackle the problem of bank runs, regulators may introduce new rules.

- Bigger liquidity cushion requirements could ensure that lenders are better positioned to weather runs.
- Stronger oversight in how banks manage risk also seems likely. Both SVB and **Signature Bank** ignored repeated warnings from regulators about failing to address problems. Harsher punishments for lenders could reduce this problem.

**What can banks do?** The recent industry turmoil has highlighted the need for lenders to be prepared to quickly address runs and the panic that can spread online. Maintaining customer trust through clear communication will be key to drowning out sensationalism and fear. But the best option for banks will be to avoid the mismanagement that left SVB and other fallen lenders in such a vulnerable position for customers to start pulling deposits.

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