MAY 01

Jenna McNamee

The Fed’s findings from its SVB investigation reflect accountability and signal change ahead

Article

The news: The Federal Reserve released its analysis on the supervision and regulation of **Silicon Valley Bank**. The report highlights four key findings and areas of focus to improve the

Copyright © 2023, Insider Intelligence Inc. All rights reserved.

agency's oversight of the banking industry.

The key findings: Fed chair Michael Barr claimed the report is an honest, self-critical look into the Fed's processes—or rather, gaps in processes—and said **it's the first step in strengthening the agency's supervision and regulation authorities.** The report outlined four key findings:

- SVB's board of directors and management didn't properly manage the bank's risks.
- Fed supervisors didn't fully comprehend the severity of SVB's vulnerabilities as it rapidly grew in size and complexity.
- Fed supervisors didn't make a strong enough effort to ensure SVB rectified vulnerabilities they had identified.
- The Fed's approach of tailoring policy in response to the Economic Growth, Regulatory Relief, and Consumer Protection Act led to lower supervisory standards, increased complexity, and less-assertive enforcement.

Barr also pointed out other factors that contributed to SVB's collapse, including the use of social media among a highly tech-savvy and concentrated customer base; contagion within the banking sector from the recent fallout of other institutions; poor management; concerns about SVB's solvency; and the failure of the bank's board of directors to hold executives accountable for the bank's risk.

Supervisory areas of focus: The report emphasized that the Fed needs to overhaul its supervisory practices. It will focus on improving three areas.

- The need for **a revamp of the speed, force, and agility of its supervision** is evident: SVB had 31 unaddressed safe and soundness supervisory warnings, and the Fed failed to enforce their correction.
- The Fed will also **pay increased attention to banks that are experiencing rapid growth, or exhibit other special characteristics**, such as a concentrated business model.
- Finally, the Fed plans to create a process to **prevent supervisors from becoming complacent**. Even when the banking industry is booming, regulators must monitor banks' risks, prepare for potential shocks, and analyze the consequences of tail event occurrences.

Copyright © 2023, Insider Intelligence Inc. All rights reserved.

Regulatory areas of focus: SVB's failure and the Fed's lax supervisory actions are likely to spark new regulation within the sector. The Fed plans to focus on three areas:

- It will look at **banks' management of interest rate risk** to determine if it must establish new mitigation standards and set new expectations around its oversight of banks' interest rate risk controls.
- It will also examine **regulations around banks' liquidity requirements** and address the risks that accompany large amounts of uninsured deposits.
- It will **review its current rules around capital requirements** to determine appropriate updates for banks of all sizes.

Barr also noted that the Fed will revisit its approach to stress testing and will improve oversight of incentives for bank managers.

The big takeaway: Much of the banking industry wanted to see the Fed take some responsibility for SVB's failure. In its report, the Fed has owned up to its shortcomings in oversight and regulation, but it also identifies other factors that played a role in the bank's collapse.

Even though the report extensively covers the areas in which the Fed must improve and outlines some preliminary steps, real changes won't materialize for some time. Any regulatory changes will follow the standard notice and comment rule-making process. That could take years. A phased-in implementation of regulatory changes would also give banks ample time to ensure their internal processes and controls are compliant.

This article originally appeared in Insider Intelligence's ***Banking Innovation Briefing****—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*

Copyright © 2023, Insider Intelligence Inc. All rights reserved.