FEDERAL DEPOSIT INSURANCE CORPORATION

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SYSTEMIC RESOLUTION ADVISORY COMMITTEE

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MEETING

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TUESDAY,
DECEMBER 5, 2023

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The Advisory Committee convened at 9:00 a.m. EST in the Federal Deposit Insurance Corporation Cafeteria at 550 17th Street NW, Washington, DC, Martin J. Gruenberg, Chairman, presiding.

PRESENT:

SHEILA BAIR, Former Chairman, Federal Deposit Insurance Corporation
BEN S. BERNANKE, Distinguished Fellow in Residence with the Economic Studies Program at the Brookings Institution
SHELLEY C. CHAPMAN, Senior Counsel, Willkie Farr & Gallagher, Former United States Bankruptcy Judge, Southern District of New York*
JAY CLAYTON, Former Chairman, U.S. Securities and Exchange Commission (SEC)
JON CUNLIFFE, Former Deputy Governor of Financial Stability for the Bank of England
H. RODGIN COHEN, Senior Chairman, Sullivan & Cromwell LLP
GARY COHN, Former Assistant to the President Economic Policy and Director of the National Economic Council

ROBERT DRAIN, United States Bankruptcy Judge, Southern District of New York
RICHARD J. HERRING, Co-Director, The Wharton Financial Institutions Center and Professor of Finance, The Wharton School, University of Pennsylvania
DONALD KOHN, Former Vice Chairman, Board of Governors of the Federal Reserve System and, Senior Fellow, Economic Studies Program, Brookings Institution
ELKE KÖNIG, Former Chair of the Single Resolution Board
FRANK LA SALLA, President and Chief Executive Officer, DTCC, President and Chief Executive Officer of DTC, FICC and NCSS
TIMOTHY J. MAYOPOULOS, President of Blend, Former President and Chief Executive Officer of Fannie Mae
SANDIE O'CONNOR, Former Chief Regulatory Affairs Officer, JPMorgan Chase & Co.
DOUGLAS L. PETERSON, President and Chief Executive Officer, S&P Global
JOHN S. REED, Former Chairman and CEO of Citigroup and Former Chairman, Corporation of Massachusetts Institute of Technology
MEG E. TAHYAR, Partner and Co-head of Financial Institutions, Davis Polk LLP

ALSO PRESENT:

MARTIN J. GRUENBERG, Director, Federal Deposit Insurance Corporation, Chairman
TRAVIS HILL, Director, Federal Deposit Insurance Corporation, Vice Chairman
ROHIT CHOPRA, Director, Consumer Financial Protection Bureau
MICHAEL J. HSU, Acting Comptroller of the Currency
RAE-ANN MILLER, Senior Deputy Director, Supervisory Examinations
SUSAN BAKER, Division of Complex Institution Supervision and Resolution

ELIZABETH FALLOON, Office of General Counsel
ANDREW FELTON, Deputy Director, Systemic Risk
BRUCE HICKEY, Senior Counsel
ARTHUR J. MURTON, Deputy to the Chairman for Financial Stability
DENA KESSLER, Acting Senior Counsel
SHAWN KHANI, Deputy Director, Division of Resolutions & Receiverships
JON POGACH, Senior Economic Researcher, Center for Financial Research
ALFRED SEIVOLD, Deputy Director, Institution Risk, CISR
R. PENFIELD STARKE, Acting Deputy General Counsel, Legal Division
RYAN TETRICK, Deputy Director, Resolution Readiness, Division of Complex Institution Supervision and Resolution
JENNY TRAILLE, Division of Complex Institution Supervision and Resolution

*Present via video teleconference

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P-R-O-C-E-E-D-I-N-G-S

(9:03 a.m.)

CHAIRMAN GRUENBERG: Well, good morning, everybody. And let me welcome you to this 2023 meeting of our Systemic Resolution Advisory Committee.

We are really delighted to have such a large group today, almost 100 percent attendance. As I mentioned to a couple of people, it really shows what three bank failures can do for you in terms of participation in this committee.

I am told that during the events of the spring Meg Taylor actually sent us an email saying this is going to make for a great SRAC meeting.

(Laughter.)

CHAIRMAN GRUENBERG: And there's something to that.

All things considered, I think we could have had an interesting meeting without the bank failures. But that being said, I do think the program for today will be of exceptional interest, and want to thank you all for being here.

The Systemic Resolution Advisory Committee provides advice and recommendations to the FDIC on a broad range of policy issues regarding the resolution of systemically important financial institutions, pursuant to FDIC authority under both the Dodd-Frank Act and the Federal Deposit Insurance Act.

If I may, I'd like to start today by welcoming our newest members who have joined the committee.

Elke Konig, the former Chair of the Single Resolution Board for the European Banking Union. Also, former President of the German Federal Financial Supervisory Authority, or BaFin, as it's called.

And also Sir Jon Cunliffe, who recently stepped down as Deputy Governor for

Financial Stability at the Bank of England.

Also former U.K. Permanent Representative to the European Union, former international economic advisor to the Prime Minister, and served as Chair of the Committee on Payments and Market Infrastructure at the Bank for International Settlements.

We, we could not have done much better, I think, in terms of gaining an international perspective of resolution than having Elke and John join the committee. So, thank you to both.

And thank you to all of you for the advice and counsel that you provide.

At last year's SRAC meeting, some of you may remember, one topic of discussion was the resolution of large regional bank and the particular issues they present in resolution. We discussed the challenges, the range of strategies, and the advancement of the proposed rulemaking that was outstanding at the time, related to a long-term debt requirement for large regional banks.

These issues have, obviously, become even more relevant after the FDIC was called on to resolve three large regional banks this spring.

Given that experience, we are going to start today's meeting with a review of what happened earlier this year when two banks failed over the course of a weekend, and a third was severely impaired and would go on to fail a number of weeks later.

Staff from the FDIC who were directly involved in those resolutions will discuss the reasons behind the failures and the complexities involved in resolving those banks.

In addition to the FDIC staff, we are very fortunate to have two guest speakers today to talk about the regional bank failures. They are Tim Mayopoulos and Michael Shepherd, who will share their experiences when the FDIC called on them to lead our bridge banks: Silicon Valley in the case of Tim.

I should say Mike was prepared to lead the bridge institution for First Republic but, fortunately, it turned out it didn't have to come to that and we were able to sell First Republic out of resolution. And Mike will be able to discuss his experience in terms of preparing to take over the bridge bank for First Republic.

As you may know, Tim is a member of this committee. He is a former President and CEO of Fannie Mae, and served as General Counsel of Bank of America prior to that.

Mike is a former Chairman and CEO of Bank of the West, Chairman of BNP Paribas USA, served as General Counsel to the Bank of New York. And he also had a distinguished career in public service, I might add, as Senior Deputy Controller of the Currency, Deputy Assistant Attorney General, and Associate Counsel to the President.

I would like to note that Greg

Carmichael, who is the former CEO of Fifth Third Bank, and led our bridge institution for Signature, and did a remarkable job, really remarkable, unfortunately couldn't be here today. But I think Tim and Mike will be well-positioned to talk about their experience in dealing with our bridge institutions.

Following the regional bank failure discussion this morning we will have another panel to talk about the failure of Credit Suisse earlier this year, the first failure of a globally systemically important bank, or G-SIB.

And we have two guests who are well-positioned to discuss that: Eva Hupkes and Sebastiano Laviola.

Eva was recently appointed as Secretary General of the International Association of Deposit Insurers. She previously was the head of Regulatory and Supervisory Policies at the Secretariat of the Financial Stability Board. And Eva was appointed by the

Swiss Government as a member of the expert panel that reviewed the failure of Credit Suisse.

And Sebastiano is a member of the Single Resolution Board for Europe, Director of Resolution Strategy and Cooperation for the SRB. And he also serves as Chair of the FSB's Bank Cross Border Crisis Management Working Group. And in that role Sebastiano oversaw the FSB's recently published report titled "The 2023 Bank Failures: Preliminary Lessons Learned for Resolution," in which a discussion of Credit Suisse was prominently featured.

So, that's our morning.

And after lunch we will turn to a forward-looking discussion on addressing large bank resolution challenges. The first session after lunch we'll discuss key operational challenges that we faced this spring and that remain for resolving large banks.

And then, the final session of the day will touch on some key policy issues.

So, I think this is going to be a very interesting discussion. And let me note that our agenda, not surprisingly, places a lot of attention on regional bank resolution because of the events of the spring. I want to let you know we have not forgotten about G-SIB resolution at the FDIC. It obviously remains a key priority for us.

And I wanted to let you know that the FDIC is close to releasing a new paper that will provide the most detailed explanation that we've yet given as to how we are thinking about and planning to use the FDIC's orderly liquidation authority under Title II of Dodd-Frank to resolve a G-SIB. And that paper and G-SIB resolution will be a significant area of discussion at the next meeting of this committee.

So, we want you to, we want to keep you coming back if at all, if at all possible.

Needless to say, we welcome your questions, reactions, and input throughout today's meeting. It's meant to be a discussion, and we are very grateful for your thoughtful participation.

Let me note that today's meeting is being webcast to the public. That's a requirement of the Federal Advisory Committee Act, just so you should all be aware.

And let me note that in addition to our SRAC members, we are joined today by a number of the members of the board of the FDIC. And if I may, let me turn to them if they have a comment.

VICE CHAIR HILL: Thank you, Chairman.

I'll just briefly echo the chairman's remarks, and I guess Meg's remark, too, about this being an interesting time to have an SRAC meeting.

I want to thank everyone for participating today and look forward to hearing from everyone. I especially would like to hear any feedback people have for things the FDIC did well, things the FDIC could have done better.

And, as the Chairman noted, I think we have a lot of interest and reactions to what happened in Switzerland as well.

So, thanks again to everyone, and look forward to the discussion.

CHAIRMAN GRUENBERG: Michael.

DIRECTOR HSU: Just looking forward to the discussion, thanks.

DIRECTOR CHOPRA: I'll make it quick.

I think if I reflect on last year, we had a number of discussions about uninsured deposits. And, of course, for me, many of the banks that are heavily involved in consumer and retail have very high dependence on uninsured deposits.

And I think we now have a real life example about whether people perceive that uninsured deposits at some of these institutions are actually insured, and what do we do to correct that.

I think the chairman has already

mentioned we have proposed some reforms to address that, particularly to give us more time when it comes to resolution options. In each of the cases of the past year we ended up selling it to a very large institution. And I don't know if that's necessarily always something we want to do.

You know, the vice chairman mentioned Credit Suisse. I think that's also very important for us to understand here in the U.S.

And the only thing that hasn't been mentioned that I think we also still need to consider is the undesignated non-bank SIFIs. So, to date there is a total in the U.S. of zero systemically important financial institutions designated by the Financial Stability Oversight Council. The Treasury Secretary has made some important changes this year to, I think, course correct on that. But to me that remains also a place this group needs to be thinking about.

So, thank you again.

CHAIRMAN GRUENBERG: Thank you.

Let me turn it over to the staff. Let me acknowledge at the outset that staff has done a remarkable job in terms of preparing the agenda for today. I think it will be a very satisfying discussion.

Let me turn it over first to Art Murton, who is Deputy to the Chairman for Financial Stability and former Director of our Division of Complex Institution Supervision and Resolution.

And also to Jenny Traille, who is the Senior Deputy Director of the Division.

Art and Jenny.

MR. MURTON: Great. Thank you, Chairman Gruenberg. And good morning, everyone, and thank you for being here. Very much looking forward to your feedback on what happened this spring.

So, let me turn it over to Jenny, who is going to introduce and moderate the panels today.

MS. TRAILLE: Good morning. Thank you. And thank you all for joining us today.

Before we get started we do need to make two announcements concerning the FDIC's obligations under the Government in the Sunshine Act and the Administrative Procedure Act.

The Government in the Sunshine Act imposes notices and access requirements whenever a quorum of the FDIC's board of directors meets to conduct or determine agency business. Today's SRAC meeting is not held for that purpose and does not constitute a meeting under the act.

The board members present will only engage in general or preliminary discussions that do not relate to specific proposals for actions pending before the FDIC. Any specific issues for official board resolution remain open for full consideration by the board following the conclusion of the meeting.

Additionally, for the Administrative

Procedures Act there are currently pending a number of notices of proposed rulemakings, or NPRs, regarding various topics that are expected to arise during today's meeting.

These NPRs include a proposal to require certain financial institutions to maintain certain amounts of long-term debt; proposed revisions to the FDIC's Resolution Planning Rule for insured depository institutions; proposed guidance to Category 2 and 3 covered companies regarding their Title I resolution plans; proposed revisions to the capital rules for certain large and certain other banking organizations; and, finally, proposed corporate governance and risk management guidelines that would apply to certain FDIC-supervised depository institutions.

The FDIC is in the process of collecting and/or reviewing comments associated with these NPRs, and will consider all comments before the board finalizes any of these proposals.

Staff will give presentations today on some of the proposals based on publicly available information. The staff is not able to indicate the direction the FDIC or any of the other agencies involved in these NPRs is likely to take with respect to final proposals.

And in accordance with FDIC practice, we will publish on the FDIC website a summary of this meeting. The summary will generally include a list of participants and a high level summary of the discussion that we have today.

If there are any questions on either of those announcements, we do have FDIC's staff present who will be happy to answer.

Otherwise, I'll move on to some technical notes.

When you would like to speak, please just use the button on the microphone. And for anyone participating remotely, you can use the raised hand function or chime in directly.

And with that, I think we'll move on to our first session and get started for the day. The first session is on the spring bank failures. I am joined at the table by our FDIC panelists.

In addition to Director Art Murton, we have Deputy Directors Alfred Seivold, Ryan Tetrick, Associated Director Dave Kiddney, and Acting Deputy General Counsel Pen Starke.

We will also hear from two of our guest speakers that the chairman introduced previously, Tim Mayopoulos and Michael Shepherd, about their respective experiences with SVB and First Republic.

So, with that, we will get started with the discussion for today. And I will turn it over to Alfred to lead us off.

MR. SEIVOLD: Thank you, Jenny.

As Jenny indicated, my name is Alfred Seivold. I am the Deputy Director of Institutional Risk in the FDIC's Division of Complex Institution Resolution.

As Chairman Gruenberg pointed out, today's program we're going to talk a lot about the spring failures, detailing some of the root causes, the timeline of events, discuss lessons learned, highlight regulatory developments, and provide insights on how the FDIC is proceeding.

In this first slide I will briefly highlight a few of the relevant factors and specific vulnerabilities leading into the spring of 2023.

First, the use of social media evolved during the COVID period as a tool for market participants to promote a view or a position to millions of followers with just a click. Think Reddit's WallStreetBets.

The instantaneous spread of information via social media, as observed on March 9th, may have fundamentally changed how bankers and regulators must think about and prepare for future bank runs.

Another element, and beginning in

2022, the federal funds rate would increase from near zero to more than 4.25 percent by year-end, which was the steepest increase in more than a generation. The dramatic change in rates put pressure on firms' balance sheets, especially those that invested in long, longer-term, or duration assets.

While interest rate risk is not new, the March failures have highlighted important questions about how banks currently manage their interest rate risk. It also raises questions about the appropriate treatment of unrealized losses for capital purposes.

At risk of oversimplifying the root causes of the failures, the three banks did share some common characteristics that made them more vulnerable to a run. And a detailed accounting of this can be, can be read of investigated more in the Federal Reserve and FDIC's post-failure reports.

First, the three banks grew rapidly

and relied heavily on uninsured deposits for funding. Two of them had uninsured deposits approximating 90 percent of their funding; the third, roughly 70 percent.

Additionally, Silicon Valley Bank and First Republic had elevated levels of unrealized losses on securities and low yield loan portfolios relative to their capital base that caused customers and market participants to question their solvency.

Lastly, and most importantly, Silicon Valley Bank and Signature Bank, specifically, were poorly managed and not responsive to supervisory feedback.

As an examiner for 30 years, we learned one thing as a supervisor: banks can't have enough capital liquidity for bad management. These characteristics proved to be a toxic combination.

Now I will turn it over to Ryan Tetrick to discuss more on the timeline of events, and be happy to take any of your questions.

MR. TETRICK: Thanks, Alfred.

Good morning, everyone. I'm Ryan Tetrick, Deputy Director for Resolution Readiness in our Complex Institutions Group.

We can turn to Slide 6.

The goal for the next few slides is to run through events of that first weekend when SVB failed, provide some insight into how we were navigating those events within the FDIC, and then offer some observations on what they teach us about large bank resolution.

Alfred set the scene well. There were vulnerabilities in the system, but it wasn't yet a systemic environment. That said, you can see from the timeline here, SVB didn't fail entirely in a vacuum.

On March 8th, the day before SVB failed on Wednesday, Silvergate -- or the day before SVB had its massive run, Silvergate announced that it would wind down, self-liquidate. That same day, SVB also announced a large loss on a securities sale that it had made to generate liquidity for itself.

We were attentive to these issues, but we were not yet mobilized for resolution, we weren't preparing to take any of these institutions into resolution the way we get to at later, later stages in our process.

You could compare these bank failures to past bank failures. Take Washington Mutual. In the case of Washington Mutual there had been a significant deposit run on that bank. It was about $16.7 billion over the course of nine days. The case of SVB, $42 billion left the bank in about six hours.

So, you might have heard that a million dollars was leaving the bank per second that day, and the math checks out on that.

So, it really wasn't till the end of the day on Thursday that we at the FDIC learned of the severity of the bank run at SVB, and that it was likely to fail. So, we worked throughout the night with our colleagues at the Federal Reserve Board and the California Department of Financial Protection and Innovation to assess and respond to the situation.

We worked through the FDIC's Division of Resolutions and Receiverships which led to standing up a closing team.

We roused staff out of bed to deploy onsite to branches of SVB and perform other resolution functions.

And then as we were assessing the situation that night, the most immediate and pressing question was that of strategy: what strategies were used to handle the resolution of SVB, and what would the impact be on depositors.

Alfred's noted the extraordinarily high level of uninsured depositors at SVB. And the flip side of that, of course, is that there was a low level of insured deposits and, therefore, a low exposure of the deposit insurance fund to this bank. And if you couple that fact with the high level of unrealized losses in SVB's securities portfolio, and the fact that it didn't have any real meaningful unsecured debt to absorb losses before the depositor class that meant that there would be significant losses to uninsured depositors.

It was immediately very clear that there was no path to protecting uninsured depositors that would meet the least cost test that we have to abide by.

This is, of course, one of the largest bank failures in U.S. history. But, also, without the systemic risk exception would have represented one of the largest haircuts that uninsured -- or the largest haircut, by a pretty wide margin, that uninsured depositors have experienced.

We were, of course, very focused on the impact on depositors as we were assessing the situation. Consider two decisions that we made that evening that I want to highlight.

One was to form what we call a deposit insurance national bank, or a DINB, which is simply a tool that we have to make the payment of insured deposits easy. It allows insured depositors to show up at the bank branch, withdraw their insured funds. It's really just a vehicle for us to help insured depositors.

The other decision that we made was that we would announce an advance dividend to ease the impact of uninsured depositors. So this is a, you know, based on a conservative estimate of the recoveries that we'll ultimately make on the bank's assets, we make a portion of the recoveries that we expect available to uninsured depositors upfront.

We were assessing how much we could provide to uninsured depositors at this time, but we knew that we would be able to provide a significant portion, so we decided to announce that when we took the bank in receivership.

So, with these points decided, it was on Friday morning just, it was actually just shortly after open in California, that the bank was, that SVB was placed into receivership. It's, obviously, it's unusual for a bank to close on a Friday morning, but it just shows the severity and suddenness of the issues that SVB was facing.

We were focused that Friday, March 10th, on addressing customer inquiries of the bank, valuing assets so that we could more precisely size the advance dividend that we would provide, and preparing to initiate a marketing process for Silicon Valley Bank.

And then, again, at the end of the day on Friday we learned of the severity of the deposit run at Signature Bank. And that Signature Bank was also having trouble meeting its liquidity needs. It was having trouble mobilizing collateral to place at the Federal

Reserve to borrow against the discount window.

In the end, Signature Bank very narrowly avoided defaulting that evening. But it was very clear going into the weekend that it would likely fail.

With that, we can turn to Slide 7.

And deposit outpours continued to mount over the weekend. There were outgoing wires that continued to queue both at Signature Bank and SVB. And we grew concerned about deposit outflows that we were running right across the system, in particular at First Republic Bank, which we learned had also had a massive deposit run and was on the brink of failure as well that first weekend.

With this activity in the backdrop, we started a formal bidding process for Silicon Valley Bank. We started that on Saturday, so, the bid deadline for the following day. This was obviously a dramatically truncated timeline for marketing a bank.

We ordinarily have two to three months that we use to gather information to build up a due diligence data room to allow bidders to conduct due diligence. You know, then, you know, also I think we should keep in mind comparing again to Washington Mutual where there had been significant private sector due diligence before that bank failed. SVB was really getting on everybody's radar screen once it failed. There hadn't been a lot of prior interest in acquiring the bank.

Still, given that Silicon Valley Bank occupied a really unique niche in the marketplace in serving the innovation economy, there was some immediate interest expressed to the FDIC in potentially acquiring that bank. So, we took steps to do what we could to market it quickly.

The data room that we could make available to bidders was, of course, far from complete at this time. We were working diligently over the weekend with staff at SVB, who were very cooperative in helping us to gather the information our advisors, that prospective bidders were telling us was going to be most important to allow banks to formulate bids.

In the end, when the bid deadline arrived that Sunday, some of the bidders that had first appeared most promising declined to bid. And then those that did ultimately submit bids, they were very few and they were very far from acceptable compared to the estimated cost of just liquidating the bank's assets and paying out insured deposits.

I can't stress enough, therefore, the very scant portion of the bank's assets, and that had a very steep discount or otherwise just involved extraordinarily high costs to the Deposit Insurance Fund.

It's not surprising, given the limited time that folks had here, the uncertainties on the balance sheet, both on the losses on the securities side and some of the unique asset pools that SVB had, and the fact that a transaction might involve haircutting on insured depositors. But, but ultimately there were not very good bids received that first weekend.

At the same time, over these two days over the weekend we were activating our bridge bank playbook to be prepared to stand up bridge banks by Monday for Signature Bank, Silicon Valley Bank, and First Republic Bank.

We ultimately stood down those efforts for First Republic Bank later on Sunday when it became clear that they would be able to secure their borrowing needs going into the beginning of the week but were preparing for after that first weekend.

And we'll talk more about the bridge banks and that process in the segment just ahead of us.

On Sunday, authorities took decisive steps to address the contagion that was spreading broadly throughout the banking system.

First, we should note the importance of the Bank Term Funding Program, which was a temporary program that the Federal Reserve launched on that Sunday which allowed banks to borrow against securities collateral for up to one year that provided an important source of liquidity for banks that were going to experience a deposit run at that time, and just reassurance to the system broadly that such a facility was available to the banking system.

And then turning to the system of risk exceptions for Signature Bank and Silicon Valley Bank that were passed by unanimous votes of the Federal Reserve and FDIC boards and, ultimately acted on by the Treasury Secretary, the analysis supporting those really focused on the macro effects across the banking system.

It's true that Silicon Valley Bank had a unique place in the market in supporting the innovation economy in the United States. And that was important. There was also a lot of concern from us and from others about the impact on uninsured depositors, particularly companies that had large uninsured deposits at these banks and were concerned about making payroll in the coming week.

But of even greater concern was a series of bank failures that was in motion and spreading, and outflows of deposits across the system, and the consequence effects that that turmoil might have on the availability of credit and on economic performance.

So, the systemic risk exceptions, of course, not a decision made lightly by the authorities. But it allowed us to protect all depositors of the failed banks, transfer those to fully-operational bridge banks, and provided some assistance -- or some assurance to the system broadly.

So, we can turn to Slide 8. And here we'll welcome the committee's views on lessons to draw from this first weekend. And I'll offer some observations to start.

First, you know, it's very desirable to have a nice long runway before a resolution, and land conveniently on a 5:01 p.m. appointment on a Friday. But it's clear from these events that we need to just anticipate atypical timelines and operate around them.

Also, it was important that we were able to adapt to the situation as it evolved over the weekend and adjust our approach as needed. But also created challenges because a lot of stakeholders had to adapt with us, whether it was customers and counterparties of the banks, personnel of the banks. And so, that involved some of its own messaging challenges.

On operational readiness I say that even though we were deploying novel processes, something that we hadn't done before, if we had practiced it, it went pretty well. So, standing up the bridge banks is a good example of that. And we'll talk more about that.

Standing up a data room to market a bank in one day is a good example of something we didn't anticipate, and that was much more of a challenge.

And then the last point here, we'll talk about that afterward. But there's obviously significant challenges that remain in large bank resolution. And we'll talk throughout the day about some of the things we're doing to address those.

So, with that, you know, welcome views from the committee on lessons to draw from this first weekend or any questions that you have.

CHAIRMAN GRUENBERG: Don.

MEMBER KOHN: So, I want to push a little bit on the Fed discount window issue.

Both in perhaps buying you guys some time, if banks had been prepared to use -- better prepared to use the discount window to set up the bridge banks, et cetera, I don't know whether it would have gotten through Friday night or not.

So, what -- and Michael Barr made, I think, a very important speech a week ago, I guess, or last week, about the discount, better use of the discount window preparing banks to use the discount window as part of their liquidity planning. And he noted the issue with stigma.

And one of the groups he, he cited as working to reduce working -- that the Fed needs to work on to reduce stigma was the supervisors.

So, I wondered, maybe this part of the question for Michael as well, what are the regulators doing to get, or supervisors doing to get the banks better prepared to use the discount window?

Are supervisors more open to using the discount window as part of liquidity planning and liquidity stress tests, et cetera?

Thank you.

MR. SEIVOLD: Don, thank you for the question. I mean, I think it's a really important question because I think the perception in the industry is that there is a stigma.

But, I mean, there it's, it's absolutely critical and important for bank resilience that the banks are prepared to use whatever means they need to obtain the liquidity, if necessary.

And so, you know, I think, you know, the supervisors had been putting pressure on, on the banks to test their capabilities, to monetize their HQLA. And so, so that's, I mean, we've been going through that process. And I think Mike can attest to that, that it's been a big part of our, the work that we've done over the summer and fall.

DIRECTOR HSU: I think, Don, you raise a really good question. And there's a difference between readiness and over reliance.

And think this is kind of a big policy question is how do you differentiate between making sure that banks are ready to use the discount window but are not over reliant on it as a funding source and, essentially, committing the Fed to lending in situations that the Fed may not be ready to lend in.

I think this is part of the policy trade-off discussion that we're going to have to address because stigma then attaches to one or the other. And, you know, I think this is, this is, I think Vice Chair Barr rightfully kind of put this front and center out there for discussion. And I’d be really interested to hear your thoughts and others' thoughts on how to, how to thread that needle.

CHAIRMAN GRUENBERG: And if I can add, I agree with Mike's points. I think all of the banking agencies are very focused on liquidity issues, frankly, coming out of the experience of this spring in particular.

I think front and center to that is managing access to the discount window and the issue of prepositioning collateral at the discount window to assure access particularly in times of stress.

And I think managing that appropriately is going to be one of the key things we'll, we'll be focusing on.

MEMBER HERRING: I'd like to pose a perhaps very naive question. But it's rooted in the fact that the two banks that failed over that weekend were, and it's clear since, outliers. They were hugely more dependent on uninsured deposits than most others.

And they were visibly, if you read the 10-Ks or reports, insolvent if you were to mark from the market, which was true of a number of banks. But the difference was reliance on uninsured deposits.

Was any, any thought given to trying to avoid using your systemic risk exception and simply saying, look, we've had these two failures, we're going to make a very aggressive payout in advance so that we won't have to worry about payrolls? Because as I understand it, you could have paid out as much as 90 percent of the deposits.

And so, you've removed that.

But also have the Fed facility to make it very clear that there will be ample liquidity to support anybody else who gets in trouble.

So, you could have preserved the idea that uninsured depositors actually are uninsured and there is a risk involved in having uninsured deposits. Yet, you could have, I think, removed the contagion problem.

Because it should have been very clear that these institutions -- and it really wasn't until we dug through the data later, that these were very unusual institutions in terms of both the interest rate risk they had taken, maybe not so much in that regard, but especially due to their reliance on uninsured deposits.

I realize that it was a very stressful weekend, but I, I'm curious if that was seriously considered?

CHAIRMAN GRUENBERG: The answer to that is yes.

And if I may respond. As Ryan pointed out, we did not move to exercise a systemic risk exception after the failure of Silicon Valley Bank on Friday morning, March 10th. And, in fact, we, being the FDIC, put out a public notice, as Ryan indicated, that we were setting up a deposit insurance national bank on Monday morning. Indicated in the public release that insured depositors could come and get their money.

And indicated that uninsured depositors would be eligible for an advance dividend, which meant that they could get a portion of their deposits, but a portion would be held back. And depending on the losses of the failed institution, those depositors might not receive all of their deposits. That's what it meant to be uninsured.

I think that's where we were on Friday morning after the failure of Silicon Valley.

I think what changed the perspective was the report on Signature at the end of business on Friday evening. And it was quite clear that the run on Signature was a reaction to the failure of Silicon Valley Bank, and clear contagion effect.

And we also had reports, as Ryan indicated, that First Republic Bank was under severe stress and also experiencing a serious run, and was at risk of failure. And that really changed, I think the perception of things, that we did not have an idiosyncratic failure of an institution with an unusual business model, but we really had a contagion effect that was impacting the banking system more broadly.

And I take the point, and we obviously gave serious consideration to it. And it's true with an advance dividend, depositors could get back 90 percent or maybe more of their deposits. I think the judgment was at the time that anything less than 100 percent really had the potential to perpetuate and exacerbate the contagion effect. And we had pretty clear evidence of that.

So, it was a tough judgment call. I, you know, I take the point that you make. I think that, ultimately, the collective judgment of the board of the FDIC and the board of the Fed to make the recommendation to the Treasury Secretary in consultation with the President, I think it was the collective judgment of all the responsible principals at that time that that was the appropriate call to make.

It was a tough call. You can second guess it. Although I will say it's one of the great second guesses of the world. I have not spent a lot of time second guessing that judgment because, in retrospect, I think we could well have been in a more difficult situation if we had not done that.

Ryan, or any of the staff, did you want to answer that?

MR. TETRICK: No. I think you've

covered the points well, and actually had a lot of -- or maybe Alfred.

MR. SEIVOLD: No. No, I take the point.

The only, I guess, question would be could we have been more explicit about what the advance dividend would be, what amount we would have provided and when, and whether that would have had a different impact. I don't know. It's a question, I think.

DIRECTOR CHOPRA: Dick, can I just add there was also, I mean, and the timeline that was mentioned was also the same day of that weird SVB release about the losses on securities, was also the announcement of Silvergate winding down, self-liquidating.

So, there was also this dimension of was this something the market was perceiving as just adjacent to crypto and digital assets? Because you'll recall this was also just a few months after the FTX and other meltdowns. So, Signature, of course, did have some, they had a, they had a, you know, a multi-family business, others. But they also had that digital asset business.

I think it was a pretty gut-wrenching decision to do the system risk exception. But I think once there was indicia that this was leading to contagion in banks that had no exposure to that, and also were well known, you know, regional banks, you saw it in the data that there was a lot of movement in the system. And the fear was that were there going to be many more dominoes that fell?

So, I will just share there was a lot of thought to avoiding the system risk exception.

MEMBER HERRING: That's interesting because it had managed its liquidity so carefully. But even though it had I think until that time the largest outflow ever, it was able to self-liquidate. It didn't have to rely on public resources.

CHAIRMAN GRUENBERG: Ben?

MR. BERNANKE: A question of fact. Did any of the banks have FHLB advances? And if they had, how would that have affected the resolution strategy?

Oh, he's laughing at it.

MR. TETRICK: So, they, they did have FHLB advances, as banks often do when they're taken into resolution. And often, you know, one of the first things we do is we pay off the FHLB advances, and then we have the collateral to sell or liquidate.

In these cases when we stood up bridges, some of those advances moved to the bridge. Actually, during the bridge period Silicon Valley Bank paid off its FHLB advances during that period and moved to discount window borrowing. But it didn't have a big impact on the resolution strategy.

CHAIRMAN GRUENBERG: Jon?

MR. CUNLIFFE: So, just a question

about what happens before 8 March. So, you've got a bank that has a fairly lopsided business model, very high proportion of uninsureds, connection to the crypto world, which was certainly reputationally risky at that point, and is unhedged on its government securities program.

So, just how is that treated in the supervisory framework when those, when those risks are there?

It's a kind of business model question I guess, and the risk question. How much of this is due -- and I read some of the back papers that you provided -- is due to actually supervisory issues before you got there?

I mean, hindsight's a wonderful thing, I know but, and was anything happening before 8 March, I guess is the question?

MR. SEIVOLD: Yeah, thank you for the question.

I mean, there was a lot going on before March 8th on the supervisory side. A lot of, a lot of discussions, a lot of criticisms, matters requiring board attention.

I think if you look at the post-failure reports, I mean, the reports are, are very transparent that we should have been a little bit more forceful in supervisory, you know, taking maybe more actions because, because the management teams were not, you know, moving, moving things fast enough.

But, but there was certainly discussions and feedback, the interest rate risk that the Silicon Valley had taken was observed and was, you know, was a criticism of the firm.

MR. TETRICK: Now I'll just jump in.

From a resolution planning perspective, you know, if different banks had failed I would be telling you about their unique problems. But these banks failed, and they definitely had unique problems that we were concerned about if they were to fail.

We were concerned in particular that

they, because they had these high concentrations, extremely high concentrations of uninsured deposits they would be particularly unstable in resolution. And so, given the vulnerabilities in the system we were concerned about that.

I'll say, though, you know, we're resolution planners and so we're worried about everything all the time. And so, what we need is a way to organize that, that concern. And these banks weren't elevated to the level, as I said earlier, we were mobilizing for resolution.

They just, there hadn't been deterioration prior to that point. There had been vulnerabilities identified but not deterioration that put us on a mobilization footing.

CHAIRMAN GRUENBERG: Elke.

MS. KONIG: I would like to build a bit on Jon's comment.

Looking at lessons learned, liquidity, were there any considerations prior to the failure to say, well, with such a unique business model, with so many high volume uninsured deposits you need to have a different, a more stringent liquidity requirements?

And the same, which always strikes me a bit as a former accountant, to have a bank where you have a hot maturity portfolio on your asset side to back liquid liabilities sounds a bit counterintuitive.

So, were these discussions that were really upfront and, or to do it differently, were these topics that you could have addressed with hindsight?

MR. SEIVOLD: Well, I think, I think hindsight is beautiful, absolutely.

I think, you know, my personal opinion is I think there was a lack of appreciation of the ease and speed in which these deposits would leave the bank, you know, given certain events.

I mean, Silicon Valley did not have a very high loan-to-asset ratio. I mean, they had a huge securities book. That security book was impaired by its unrealized losses till -- I mean, I think everyone is aware of that.

You know, so is there more that, you know, we, we could have done? Probably so. But, you know, I, you know, the bank was not very well managed. I mean, they were without a chief risk officer for roughly eight months.

I mean, there's a lot that we can look back to and say, hey, you know, what could we have done here and there?

MS. KONIG: Yeah, I think hindsight is always beautiful. But the question is also was there a legal hook to do more or was it more the moral persuasion to push the bank?

MR. SEIVOLD: Well, I think our supervisory toolkit provides us, you know, with, with tools where we could have done more.

You know, arguably, in hindsight we could have said unsafe and unsound banking practices; right? You know, so, you know, I think, and I think we'll learn from this and we'll try to do better in the future from, from the supervisory side.

MEMBER COHEN: Thanks.

If I could offer just three quick comments.

One, you know, maybe I'm not the only one who when you hear "operational risk" your eyes glaze over. But it was very real. And I think the vice chair is absolutely right to call that out with respect to access to the Fed.

Prepositioning is only part of it. The fact that the wires shut down and there are big blocks of time where you can't transfer securities is a huge problem.

Trying to deal with the FHLB is a big problem because there's a lot of excess collateral there that can't be moved.

So, these were very real problems. And I think the focus is right.

Second, on stigma I hope that the

system can overcome what stigma applied to primary credit. But I don't think anybody will ever overcome the stigma of secondary credit. And so, I think the Federal Reserve is going to have to be willing to exercise its discretion to not classify borrowing as secondary, because then the accounts are going to take you down in a day. They're going to say, we're no longer a going concern.

And, third, while understanding that it was a wrenching decision, I don't think you should second guess yourself for a moment. I think had you not invoked the systemic risk exception you would have had multiple banks fail within days. And who knows after that.

CHAIRMAN GRUENBERG: Gary.

MEMBER COHN: Well, the senior Mr. Cohen said the things I was going to say.

So, so on the stigma, I completely agree. Having been on the other side, the stigma is real. There's a view you can walk in but you come out in a body bag.

And Roddy and I have had this discussion numerous times on the Fed window.

So, let me, let me go to another point that I think is equally important.

I understand why we fixate on insured deposits. I mean, this is a deposit insurance organization. But at the end of the day, a bank run is a bank run. And it may make it more interesting or more problematic for you, if you have insured deposits or uninsured deposits, you look at it differently.

The retail banking world and the banking world does not really look at it that much differently in many respects. They look at bank safety and soundness as bank safety and soundness. So, we can split hairs up here, but you have to understand that bank safety and soundness is bank safety and soundness.

So, I think that if you want less insured deposits and you were not getting in force the systemic resolution authority, you would change the course of history dramatically. Corporates have the ability to pull money out of banks every night. They can go in the repo market, they can go in the reverse repo market. There's a lot of activity that corporate treasurers could do if they wanted to pull uninsured deposits out of banks every night.

They choose not to because they believe banks are relatively safe, relatively sound. My company meets payroll every other week, which is over a billion dollars. So, at some point I have to put that billion dollars into a bank, even if for 24 or 48 hours.

If I can't think of a bank to put payroll into for 24 hours, and you tell me I'd have to put my payroll into a thousand different banks, we really have a problem.

And so, I'm with Rodg, you shouldn't be sweating this decision. I think you should applaud yourself in having kept the U.S. economy sort of intact, and kept corporate businesses trusting the institutions.

But I get back to where I started. You know, we, we had a bank run. And you mentioned social media. We had a very prominent figure in the community that SVB served who was on a conference call with the CEO of the bank, who basically told everyone to -- and we were all on the conference, we were all on the conference call -- basically told everyone, you better get your money out, because I am, while the bank's sitting, while the bank's CEO is sitting there and saying, as long as everyone acts rationally we will be fine.

That was a basic billboard flashing, please don't act rationally.

Banks are built on rational behavior.

CHAIRMAN GRUENBERG: Doug.

MEMBER PETERSON: I have a couple of comments on the supervisory oversight. And I guess one question relates to the coordination across the multiple supervisors: California, FDIC, the Fed, et cetera.

But one of the comments I'd like to make. When I, when I've looked at this case very carefully, it looks to me like SVB was not a bank. It was much more like a securities company. They were not making loans. Their balance sheet was almost all in securities. They should have been, instead of taking deposits, they should have been selling securities.

Their clients should have been coming to them and they should have been saying, we're going to sell you the actual bonds that were on their balance sheet. Those should have been owned directly by their customers.

So, in your supervisory oversight, two questions. First, about coordination across different regulators.

And, second, did you ever think, and are there any banks that shouldn't be banks, that should just be the business model should shift and they should be basically take their license away and make them do a different business model, make them into securities companies?

MR. TETRICK: So, you maybe touch on the coordination on supervisors. I mean, there's a fair amount of coordination in this case with the FDIC involving backup supervision, the Fed, the consolidated supervisors and, of course, the California Department of Financial Protection and Innovation.

I think, I don't know that there's a case to say that this bank wasn't in the business of banking entirely. It was a very atypical bank. It had a banking charter.

The securities portfolio was really what they were doing with a lot of excess liquidity that came in during the COVID period. And they chose to put that in bonds that became hard to liquidate without realizing losses when they needed to.

The other part of the business that

was very atypical for a bank, one -- they had two loan portfolios. One that they were making loans to venture capital firms, which wasn't that atypical. But then they were also making direct loans to start-ups. And that was very not bank-like.

So, there were certainly things that nobody could say they weren't in the business of banking, but it was an outlier in the industry for sure.

MEMBER COHN: They were mostly buying assets with zero risk rate. I mean, go figure.

MR. TETRICK: That's, that's fair.

MEMBER COHN: Go figure.

MR. TETRICK: No, that's fair.

CHAIRMAN GRUENBERG: I'm sorry. Frank?

MEMBER LA SALLA: Marty, thank you.

Just if I can get two questions, and you can maybe answer them after I go through it.

First of all, thanks for your candor in terms of hindsight, would have, could have, should have. It's refreshing and really appreciate it.

I guess one of the things that I am intrigued about and have been, and we've been circling around it here, is this idea of a run on a business model.

Now, I think the point that there was going to be contagion, and you probably did the right thing, but one question I would have is how does this idea of a notion of this run on a particular business model inform the way you think about future preparedness for an event like this?

Do we bucket organizations like that in a different way? Maybe not formerly, but may be in a way you think about how you approach these things.

Just, just something I've been sort of thinking about since the events of the spring.

The second question I have is I have a pretty vivid recollection that at last year's advisory meeting we opened up -- the FDIC folks opened up with this some commentary around how the FDIC plays vis-a-vis other regulators.

And getting back to this would have, should have, could have, do you feel there was anything in the regulatory structure as we know it, writ large, that impeded, or prevented you, or made you second guess certain decisions that you otherwise might have made during the event?

Sorry, that was a lot. But just we've been thinking about it.

MR. TETRICK: So your point about run on a business model is an interesting one. The three banks that failed that we noted they had some commonalities, particularly the high levels of uninsured. So they were catering to the tech industry largely. But they were different.

I mean, SVB was more startup community. Silicon Valley Bank was really New York CRE and then explored the crypto space and then right up to their failure. And First

Republic had a really unique business model based on high service kind of to serving the West Coast.

But they had some commonalities. But they were each different. I think we do look at if there's in any crisis situation where's the contagion going to be and are there like business models that's a concern for.

And then we talked about regional banks last year. We do bucket them into different groups. And these banks were in one category. There's a lot of model line consumer lenders.

There's the more diversified models. And so we look at what are the right tools and strategies for different types of banks. And when they've got a focused business model, a concern is that it has to be that part of their business that was in trouble when they failed.

And that means our options for preserving value and resolving them might be limited. And then I'll start on your second question and maybe Alfred can pick up. I don't think there was anything that was a particular impediment about the regulatory structure.

I mean, we were quite active in dynamic in engaging with our counterparts at the Federal Reserve, at the OCC, at both New York and California. Everybody was extremely hands on and knew each other before these events. So I don't think there were particular impediments that come to mind. We'll talk about the international case too with, I think, the same message.

MR. SEIVOLD: Yeah, Frank. And just to add, I mean, my teams provide backup, like, supervision at the 26 firms, over 100 billion. We have a very good relationships with the PFRs, Federal Reserve, and OCC.

I mean, a free flow of information. There was no impediment that I've observed that we didn't have the right information at the right time. This was such a unique failure to some degree and the speed. I don't know that they could've given us anything else. Would've made us prepare differently as far as that goes.

DIRECTOR HSU: Just one quick comment on your question on the run on a business model. I think there's, at the risk of oversimplifying, maybe two ways to think about contagion. One is the risk of exposure to loss, and I think that's kind of the classic.

And here it's the risk of what I would call guilt by association. And the question is what is the association? And so it could be a business model.

I think in this particular case, it was uninsured deposits more broadly. If you go back to '08, you had a bunch of investment banks who were not banks prior to '08 where that guilt by association was either through repo, through prime brokerage, through others, which banks also had. And so I think for us as supervisors, regulators, it really behooves us to say, well, what is that risk that needs to be addressed and perhaps is under-calibrated, it's undercaptured.

That's part of this ongoing project because the business model one is slippery to classify over time. But I think it's the right way to approach this. What are other avenues for contagion that don't naturally lend themselves to the usual kind of exposure measurements which is our typical toolbox.

DIRECTOR CHOPRA: Let me comment briefly on the regulatory structure part. I'll just speak for myself, a few additional reflections where that some of these institutions did not have a holding company. There were certainly cases where we didn't even cover the G-SIB deposit into First Republic which is its own set of dynamics.

I've reflected a lot on certainly the FDIC Board can self-appoint itself as receiver. That's a very rarely used, if ever, tool. I think there's probably some reflection to be done on when that should be used. And then certainly there's a lot of other, I think, issues about where are there more automatic triggers, either in law or regulation when it comes to -- and I take Gary's point. But it's the dependence on uninsured deposits that I think that the high percentage or growth, what triggers should there be in statute or regulation that might contain some of the risks on that.

CHAIRMAN GRUENBERG: Doug?

MEMBER PETERSON: Maybe something we'll get into later. But the beneficiaries of the outflow of deposit were the G-SIBs. And you can see it in aggregate statistics of the size of the deposit pools. So what are the implications of the JPMorgans and Wells Fargos having picked up so much more additional liquidity? Anything that changes your analysis of the G-SIBs and what would happen when there's stress in the system.

CHAIRMAN GRUENBERG: (Speaking off mic) on that point, because we followed this and tracked it in our quarterly banking profile. The actual evidence of deposit flows from regional banks to the so-called G-SIBs was very limited at the end of the first quarter. It was not sustained in the second quarter.

And actually in the second quarter, G-SIBs lost uninsured deposits. The principle beneficiaries were the money market mutual funds. So I think there was some of that but perhaps overstated in terms of the impact. Gary?

MEMBER COHN: So I just think there's an important point that maybe we have this all wrong. So when you say dependence on uninsured deposits, if they were dependent on them, they would've lent them out. It feels like they were not dependent on them.

Therefore, they bought treasury securities because they had nothing to do with the money. I don't think those banks were dependent on uninsured deposits. They were flooded with money they didn't know what to do with it.

So as a guy who ran a bank, what would I do with money I didn't know what to do with? I'd go by zero risk rated assets. That's how I'd manage my balance sheet, and I'd buy relatively short duration. I probably would've hedged the interest rate risk.

(Laughter.)

MEMBER COHN: Let's be honest. I would've hedged the interest rate risk. But I didn't need those deposits. If I needed them, they've would been lent out.

So I think this is a big issue. And we should be careful saying they're dependent on these uninsured deposits. Uninsured deposits, these things, like I said, my uninsured deposits move in the billion dollar tranches on an hourly basis.

CHAIRMAN GRUENBERG: Jon?

MR. CUNLIFFE: Just wanted to come back on this common factors point, and it goes a little bit to business models and uninsured deposits. I don't know whether uninsured deposit is more likely to run than insured. Well, our evidence is probably they move faster.

But the common factor, there's another common factor here which is that interest rates have gone up very sharply over the past year. And everybody was looking in the banking system but also in the nonbanking system for where the stress would show and what would crack first. So this problem plays out in an environment where people are worried, investors and others are worried that actually there are losses to be taken in the financial system for the very sharp increase in rates but haven't yet materialized.

And given social media and given the speed with which these things travel, I think one of the insights potentially is that on the supervisory side you can't afford the tolerance that you could afford before because there are things that will tie banks together in a way that probably wouldn't have happened before. And I can illustrate that with the UK examples. So this is not a U.S. problem.

And everything I say is in the public domain. So I'm okay with being webcast or whatever is happening to us. We had a bank that got into -- had a business model run. Actually it was a run to do with perception of management failure back 2017, 2018.

They misreported their capital. They got it wrong. The run started on a Saturday with a tweet, I think, and developed in about 20, 25 minutes.

So we already have this issue of things moving very quickly. In the end, the bank had to raise more equity which it managed to do. But we were faced at that point with how quickly could we get to a bridge bank.

And we discovered we couldn't get to a bridge bank quite as quickly as we assumed we could. That institution got into trouble again after Silicon Valley or whatever because some of the contagion came across the Atlantic but also due to their interaction with a supervisor. And again, they had to raise capital in a hurry.

If they'd have failed back in 2017, 2018, then I think we could've managed the issue with the uninsured or whatever. If they'd have failed in 2023 after Silicon Valley or whatever, it would've been a completely different ball game. So how contagion operates now and the way that -- an event that is idiosyncratic in one situation can be absolutely contagious in another, particularly given the speed is very different. And I think one of the lessons from that is that where you have outliers in the way risk is being managed or in a business model, in a supervisory sense, you can have less tolerance for them because actually their ability to create contagion is just much greater now that it was before.

CHAIRMAN GRUENBERG: Just for the record, insured deposits did not decline at any point during this process. In fact, they increased. So we had no instability, at least in the U.S. context with insured deposits. But that was not the case with uninsured.

MS. TRAILLE: I think seeing that I don't think there are any other cards up, we can move on to the second half of this first session where we're going to look at stabilizing the bridge bank. And I'll turn it over to Dave Kiddney to kick that off.

MR. KIDDNEY: Good morning. I'm Dave Kiddney. I'm the associate director for operational readiness in the complex institutions group. And what I want to do during this portion of the agenda is focus a little bit more on operating and stabilizing the bridge banks.

So let me start by briefly discussing some of the actions that we were taking that weekend as we prepared to form both bridges. As Ryan mentioned, it was Saturday, March 11th that we really started in earnest preparing for at least two and possibly three bridge banks. Given the limited buyer pool for large banks and their risk for liquidity events, our planning efforts internally have focused on bridge banks.

We didn't have nearly the time that we had anticipated. We were clear on some of the critical steps that needed to occur. So that weekend, the mobilization really started.

And again, what would've occurred normally over -- or ideally over weeks occurred in mere hours here. We needed staff on site at the locations. We needed to charter the bridge banks.

We needed to be prepared to work with bank staff to open both bridge banks on Monday morning. And we needed to identify leadership for these bridge banks. Identification of leadership for the bridge banks has been a focus of a program that we've been running internally at the FDIC to support this need.

It's an important part of the

resolution toolkit, and it's designed both for short term bridges like we saw with Signature and with SVB. It's also designed for longer term bridge banks. The two leadership roles that we immediately focused on were that of the bridge bank board and the identification of CEO.

Starting with the board, our planning had anticipated using an outside board for the bridge banks. To charter any bridge, just one bridge, we need a minimum of five board members. And the context of that weekend, we were potentially looking for up to 15 individuals for these boards.

Given the time constraints that we were faced with, we utilized FDIC executives as board members. And then in pretty short order, we had marketing under way. And our view was that there was a likelihood that we'd be able to exit in the relatively near term.

And for those reasons, we kept FDIC executives in place. But had those bridges gone on for a longer period of time, we likely would've replaced the FDIC staff serving as board members with outside individuals. And we would've used the program that I previously referred to

Shifting to CEO and placing a new CEO as a top operational priority for us because we can all appreciate it's important to bring stability to the bank. It's important to engender confidence and customers and depositors and in the public. Here too we had planned for some runway.

We had anticipated giving prospective leaders 24 hours to weigh the decision. We anticipated giving them access to supervisory staff to be able to talk about the bank in greater detail. And there too events didn't follow the playbook.

But the work that we had undertaken paid off. So shifting to Sunday morning, that's when the outreach calls began. And Greg Carmichael, Tim Mayopoulos, and Michael Shepherd all answered the call and we're grateful for the service they performed over those weeks.

As the chairman mentioned previously, Greg couldn't make today's meeting due to scheduling conflicts. But we do have both Tim and Michael here to share their experiences. So at this point, I'd like to turn the floor over to Tim to share some of his experiences with SVB.

MEMBER MAYOPOULOS: Thank you, Dave. And let me say first at the outset that I'm really grateful to the FDIC for giving me the opportunity to serve as the CEO of Silicon Valley Bridge Bank in the wake of the failure of Silicon Valley Bank. I really do appreciate the confidence that the FDIC placed in me to fulfill that role.

I'm also grateful for the opportunity today to be able to share some of my experiences and insights at SVB with this committee. I want to say at the outset here I'm not a policy maker. And I've never been a Prudential regulator.

I'm really a financial services operator. And so the perspectives I bring are really from that vantage point. I do think that by any reasonable measure the decision to create and operate the Silicon Valley Bridge Bank was a success.

It enabled the public to be reassured about the stability of the banking system. It enabled much of the value of the franchise to be preserved, not all of it but much of it. It facilitated an extended and orderly sale process that ultimately resulted in a successful transaction with a qualified acquirer which as was previously discussed was something very difficult to pull off in a weekend immediately after the failure of Silicon Valley.

And it mitigated the negative affect of the failure on both uninsured depositors and on the deposit insurance fund. There were many things about the bridge bank experience that worked well, and there were obviously some things that could have worked better. And I'll talk about both of those.

But let me start with what worked well. First, I think the FDIC was very forward thinking in its decision to create the standby pool of seasoned banking executives well in advance of actually needing to deploy those executives. The FDIC successfully identified people who would be willing and able to respond to a call quickly.

I don't think any of us thought the call was going to come that quickly and we'd have to make a decision on the spur of the moment. But it was really that advanced planning that made all that possible. And I know that I personally would've been reluctant, maybe even unwilling to serve as the CEO of the bridge bank if I hadn't had years of experience dealing with the FDIC staff and knowing that a lot of thought had been given to could a bridge bank enabled resolution actually work.

And I knew that a lot of thought had gone into that and a lot of preparation had been done. Second, I'd say that the government's decision to protect all of the deposits at Silicon Valley Bank regardless of the nature or size of those deposits was absolutely essential. As was previously noted by Ryan, on the first day of the run at Silicon Valley, deposits were leaving the bank at the pace of a million dollars a second.

Hard to imagine, nothing like that had ever happened before in the American banking system. Hard to imagine that we could've eventually stemmed that bank run without protection of all the deposits. We were eventually able to stem that bank run.

It took us well into the first week of the bridge bank. But by the end of the first week, we were able to get to something. It was roughly approximated, equal flows in and out of the bank. That would not have been possible without protecting all the deposits.

As has been noted, many of the depositors were businesses that desperately needed those deposits to make their payroll. These are not people who are, like, just depositing money into a checking account and leaving it there unattended. These are people who have real business needs for it.

They really could not risk leaving their deposits at Silicon Valley Bridge Bank without an explicit, credible assurance from the government that those deposits were going to be safe. They just weren't going to leave that money there. Third, I think one of the things that made this a success was that the FDIC gave me and Greg over at Signature broad discretion to make decisions and take action with respect to day-to-day operations.

We were not figureheads. We were actually charged with running the institutions as best as we could. So there were many operational issues that we were facing that required very quick decision making, people literally lined up outside my office with issues to ultimately be resolved.

And the FDIC, I think, made a very prudent decision to delegate that authority and latitude to the CEOs to be able to do that. Of course, I knew and I'm sure Greg knew and know that Mike knew that there would be issues that the FDIC might want to have input into. There were potentially sensitive issues or things that need to be carefully thought through.

And the FDIC I think appropriately relied on us to identify and raise those issues which we did. Fourth, and I think this was critically important, the FDIC gave us broad latitude to communicate directly with the bank's employees and with the bank's clients, their customers. In order to operate the bridge bank effectively, we needed really the full engagement of our employees.

In the wake of Silicon Valley's failure, the employees there were understandably desperate for reliable information about what had happened and what was likely to happen going forward. They knew the bank had failed on Friday. There had been discussion over the weekend about certain kinds of resolution approaches.

Those decisions got changed. Ultimately, the bridge bank got created. So there was a need for a lot of information for people to understand what was happening and what was likely to happen to them.

My experience in life mostly coming out of the mergers and acquisitions space, not bank failures, is that the number one question that most employees have in the wake of big events like an acquisition or maybe in the case of a bank failure is what's going to happen to me. That's what people want to know. And being able to answer that question was really important.

With respect to customers, in order to

stem the outflow of deposits and retain the customer relationships, we needed to be able to clearly communicate that Silicon Valley Bridge Bank was open for business, that we were operating on a business as usual basis. We continued to make loans.

We continued to extend credit. We continued to give people access to all of our services to the greatest extent possible. And we also needed to assure them that their deposits were safe regardless of amount.

We distributed written updates to our customers on a daily basis, and we held multiple video calls in that first week that thousands of customer representatives attended. So it was absolutely essential for us to be able to communicate freely. And the FDIC gave us the latitude to do that.

Here, I'd say the FDIC really helped us a lot by engaging a sophisticated and knowledgeable outside communications firm to assist us with those communications. That team had deep experience not only in these kinds of stressful situations but also with the FDIC itself and understood what would be sensitive issues for the agency. And it was really very effective in helping us vet those issues with the FDIC staff.

Next, I'd say while the FDIC obviously acted decisively at Silicon Valley Bank by dismissing the CEO and the CFO, the FDIC also made a very prudent decision to keep the rest of the executive leadership team in place. It would not have been possible frankly for me to open up the Silicon Valley Bridge Bank without that executive leadership team. It was a daunting task despite their presence.

It was really hard for us to get the bank up and running in a safe and sound manner. Doing so without executives who understood the bank's business, the bank's clients, its products, its technology, its systems, its processes would've presented a very substantial risk of operational failure which at that point was the major risk remaining. We knew that the bank had already failed, but the real worry was would the bank operationally fail?

Would we have some massive data breach? Would we have some massive fraud event? Would we actually be able to execute transactions on behalf of clients effectively?

Without that executive leadership team and without the employees being engaged, we wouldn't have been able to do that. I will say that perhaps the thing that most impressed me about this assignment was really the dedication of the remaining Silicon Valley Bank executives, their commitment to their clients and to their colleagues. Even though they themselves were experiencing very severe professional and personal loss, most of their personal wealth was tied up in the equity of the bank which is now worth zero.

They were highly committed to the success of the bridge bank. They were very committed to serving the clients. And they were committed to ensuring the reliability of our operations.

Next, I'd say the FDIC provided us and the management team with active assistance and support. The senior FDIC folks on the ground, we had people physically present who had been deployed there over the course of the weekend. They were absolutely terrific.

We had literally constant communication, people walking back and forth across the hall to talk to each other about what was happening, what problems existed, what solutions could be implemented. That all happened without any kind of ceremony or pretense whatsoever. And that was really terrific to see.

The FDIC also engaged directly in reaching out to other regulators, both domestic and foreign, other financial institutions and third parties to help resolve issues in a timely fashion as to which there were a number. And I'll get into a couple of those in a second. I also had regular access to direct reports to the chairman.

We met every day at the same appointed hour which was a really valuable forum for us to talk about what was the state of circumstances and to identify issues that needed to get resolved and get them resolved. And then I also want to personally thank Dave Kiddney who was available to me basically 24/7 on a moment's notice and helped me navigate lots of things about the situation. So I think he played a really instrumental role in all of this.

So finally, the FDIC was able to maintain public confidence in the banking system and achieve a successful sale of most of the assets and liabilities of the bridge bank to a qualified buyer. The fact that we could actually open up this bridge bank and successfully operate it for two weeks and meet most customer needs, not all customer needs but most customer needs, I think did reinforce that public confidence. It also enabled the FDIC to achieve a successful resolution of Silicon Valley.

And there's no doubt -- and I think it's been confirmed here today. There's no doubt that without a couple of weeks to actually market the institution and its assets, the FDIC would not have been able to get a reasonable outcome. So that's all what worked pretty well.

So what could've worked better? I think many of the challenging operational aspects related to the response of third parties to the creation of a bridge bank. So when the FDIC creates a bridge bank, of course, it's creating a new legal entity.

It's creating a new bank. And some of the domestic counterparties including other banks declined to recognize the bridge bank as standing in the shoes of Silicon Valley. And they insisted on vetting SVBB.

We came to be known as SVBB, not just SVB but Silicon Valley Bridge Bank, as a new counterparty. They wanted to establish new contracts and agreements with us. And they often declined to execute transactions that have been initiated by Silicon Valley Bank.

And this disrupted our ability to serve our clients, caused lots of operational challenges, made it difficult to do things in real time. Similarly as I noted, much of the uninsured deposits at the bank were payroll deposits, deposits that were there to make payroll for our clients. And some of the payroll providers, people who provide information to actually help process that payroll declined to work with Silicon Valley Bridge Bank to meet the payroll needs of our clients.

And this caused a lot of consternation among our clients understandably and ultimately required the FDIC to intervene and get those folks into line. We experienced similar challenges with foreign financial institutions and counterparties. And this significantly impaired our ability to execute foreign exchange transactions in particular.

This was a chronic problem and persisted throughout the entire two weeks that we operated the bridge bank. So those were some of the external challenges. There were other issues that created internal challenges.

For example, it's typical for senior executives in major U.S. corporations to receive indemnification agreements and to have director and officer liability insurance protection from their employer. And these two forms of protection ensure that executives will not face personal liabilities that they undertake in their corporate capacity unless they act wrongfully and in an intentional or reckless manner. And because Silicon Valley Bridge Bank was a new legal entity, our insurance coverages from SVB terminated.

And we needed to put in place new indemnification agreements and new D&O insurance and took a considerable period of time for this to get done at the bridge bank. I think there was some debate, some misapprehension at the FDIC staff level about whether those protections were really necessary, because in their view all these executives were just following the instructions at the FDIC. And it took some time to persuade the staff that we really did need this indemnification agreement.

We really did need the D&O insurance and that absent those protections, executives simply were not going to go execute on the instructions that were being given to them. This was not really a baseless concern. I mean, there was a holding company at Silicon Valley. And the holding company was not part of the ultimate bank resolution.

Of course, it filed for bankruptcy.

And the FDIC not inappropriately was telling the bank not to remit funds back to the holding company. So understandably, there was a real dispute going on that executives who refused to deliver that money might've been swept up in. So that was one key challenge.

Another key challenge, there was no compensation plan in place for the senior executives for their service to the bridge bank. The FDIC's position was that any compensation for the executive team should come from the acquirer of the bridge bank or its assets on a going forward basis. However, the executives being pretty sophisticated about these things, they knew that most potential acquirers would likely decide that they even didn't want those executives or that they didn't need those executives.

And they weren't going to offer them any compensation going forward. They just weren't going to be part of the team of the go forward institution. So we operated as a management team. Obviously, I was -- the FDIC understood.

They decided to pay me. I had the kind of indemnification in D&O protections. I had compensation. But the rest of the executive team, we're basically relying on their professionalism to show up and continue to operate.

That worked for two weeks. But I think in my personal view as an operator, I think it's highly unlikely that we were able to operate this bridge bank for much longer absent some resolution of these key issues. So I think these kinds of issue around protecting executives as they step into these roles from a liability perspective and providing for some compensation for them to continue to be engaged.

It raises a question as to how long you can actually operate a bridge bank. I think collectively we were fortunate that the two bridge banks that were created operated for one week in the case of Signature and two weeks in the case of Silicon Valley. But I think the concept is that at least potentially we might want to operate bridge banks for a period of months.

And I think from my perspective in order to be able to do that, be able to successfully execute a long-term bridge bank strategy, one needs to give both customers and key employees clear and credible reasons to think that they should want to be part of a long-term strategy for the bank that gets articulated pretty early. So despite the creation of the bridge bank and the extension of the deposit protection to all deposits which was extremely valuable, obviously Silicon Valley's clients were actively considering whether they should take their business elsewhere. And understandably, some of them actually did that.

Similarly, key employees, this

included executives but also included lots of other people who are responsible for maintaining customer relationships and generating revenue. They were being actively recruited away by competitors. And so like the executives, these folks had seen the value of their Silicon Valley stock disappear overnight.

And I'm sure many of them were wondering, what's going to happen to me? What's going to happen to my career? What's going to happen to my ability to actually take care of my family?

And so by the end of the two weeks during which we ran the bridge bank, we started to see a number of key personnel accept positions elsewhere. To effectuate a longer term bridge bank strategy, I think we would need to show both clients and key employees that it's in their interest to stick with the bridge bank over the longer term. And that would require showing them a credible path for recovery, including interim steps towards recapitalization and future success of the company.

So they think that it makes sense for them to keep their fortunes tied to the institution as opposed to finding safe harbors someplace else. I would suggest in the case of Silicon Valley Bank there was an opportunity to leverage some unique strengths of Silicon Valley's customer base which understandably one could argue it actually caused the bank run. But it also was a source of potential strength for the institution.

That was the venture capital community. And there were clearly venture capital firms who in the wake of the failure understood what they had wrought and wanted to do something to try to preserve this institution that so capably helped them sustain the innovation economy in which they operate. And a number of them indicated to me that they were willing to invest alongside the FDIC as passive minority shareholders until a full recapitalization of the bank could be achieved.

And that's obviously not something that we ended up pursuing. But those kinds of investments had they been made would've been a very strong signal to the market that customers were standing by at the bank. Also it would've been a very strong signal to employees and executives that they should stick with the bank because there actually was a long-term future for it.

I'm not saying that would've been the right strategy here. I'm just saying that if one wants to think about running a bridge bank for a period of months as opposed to a period of a week or two, one would need to think about these kinds of somewhat risky propositions about are you willing to actually entertain novel approaches to these kinds of issues. So at the risk of kind of going on too long here, I would suggest just several possible regulatory enhancements for consideration by policymakers.

And again, I'm not a policymaker. So I'll leave this in the hands of other people. But first, I think it would be very useful for the FDIC to issue clear written guidance the very same day that it creates a bridge bank that domestic financial institutions and other counterparties expect to deal with that bridge bank as if it were standing in the shoes of its predecessor.

I think if we had been able to point to that kind of explicit public guidance to other financial institutions and to counterparties, we could've resolved many of the operational issues that we face much faster. And so I would encourage the FDIC to think about that in the event that you ever create a bridge bank again going forward. I think it may also likewise be useful for the FDIC to work with foreign regulators to achieve the same result in foreign jurisdictions.

As I said, we had many foreign counterparties that were reluctant or confused about who or what Silicon Valley Bridge Bank was and were understandably very cautious about executing transactions with us. As I mentioned earlier, the FDIC's decision over the number of authorities involved in this decision to protect all the deposits was critical to enabling us to stem the bank run. And I recognize this is a topic there probably is not unanimity about or even consensus about.

But I would recommend that policymakers evaluate whether offering full insurance for all deposits, including commercial deposits as Gary was pointing out earlier, if you were a business, you have to put your payroll in a bank on a day in order to write your payroll checks. You have to have confidence that those deposits are going to be protected. If we could offer that kind of insurance, not for free, but instead for a risk-based insurance fee to be paid by the depositor to the insurance fund, I think it eliminates this prospect of potential panic because people worry about what's insured and what's not insured.

And if the answer to people worrying about what to do with their uninsured deposits is to move them to money market mutual funds, I'm not sure that's a great outcome. Maybe we'd be better off keeping all those deposits in the banking system, insured but insured at a price, not for free. I will say that there's a sense that depositors should be able to figure this out for themselves.

I've run some businesses. We've deposited money in places like Silicon Valley. Even large depositors are not that well equipped to evaluate which banks are likely to suffer bank runs or failure any more than other market participants or maybe even regulators.

And there's no reason to think that I think most depositors are any better position to be able to do that than anybody else. I'd also say that offering large deposit insurance for a few would level the playing field between the too big to fail banks, the so called too big to fail banks, and smaller institutions. And absent a uniform approach, it may be that depositors choose to put their money with the G-SIBs as opposed to regional or community banks.

And obviously if this kind of insurance were made optional, then it's available only for a fee. There should be no sympathy for any depositor that chooses not to pay the fee for the insurance. If their deposits get wiped out, they made that conscious decision.

So those are some thoughts. Obviously, a lot worked well in this situation. Some things could've worked better. I think it was a great learning experience.

I'm grateful for the opportunity to have been a part of it. And I'm happy to answer questions. But first, I want to turn things over to Mike for his observations if that's the way you want to go, Dave.

MR. KIDDNEY: I think that's -- so maybe let me just start with just a couple kind of quick reactions. First and foremost, thank you for the commentary and thank you again for your service. With respect to bridge banks, that is something that is continually front of mind for us in our planning efforts, long-term bridges.

They can go on for up to five years. We don't think we would ever get to that point. But they can potentially extend up to five years. So thinking about things like retention, that's front of mind in a lot of what we do.

In the cases of these two bridge banks, we did put in retention plans for the majority of employees. But Tim, as you point out, the executive committee did not receive retention plans. And there's attention there in terms of identification of culpability, timing.

But then again as you point out knowing the operational complexities and being able to continue those bridges is important. With respect to communication to some of the other counterparties and parties transacting with the bridge banks and letting them know that the bank is continuing to operate the same way it did the previous week and the week before that, that it can enter into trades, that it can make loans. The Financial Institution Letter, the FIL that we put out on Tuesday, I think went a long way in helping to provide some clarity there.

And importantly, it gave bank staff something to point to and feel as though they had cover in making the decision. So items like those were important lessons learned. And we were really learning those on the fly in some instances as we went through those bridges.

And we were incorporating them in real time in our planning for First Republic Bank. Early on that weekend, we had been in touch with

Michael Shepherd and discussed the possibility as serving as CEO should that need arise. And we remained in active communication over those next couple of weeks and again kind of filtering in some of these lessons in real time. So perhaps with that, maybe you'd like to turn to Michael to ask him to share a little bit of his experience.

MR. SHEPHERD: Thank you, Dave. And thank you for this opportunity. I'm pleased to be here and report to the Committee. I've gotten to know quite a few of you over the years, and it's an honor to be with you today and to be a member of the standby pool.

I think the standby pool does provide a credible alternative for the FDIC and other national decision makers to reinforce confidence and stability and contribute to the best resolution. And I think as Tim just said, it certainly has shown that capability now. I can speak -- obviously, I'm not -- I'm the physical manifestation of why they call it the standby pool.

(Laughter.)

MR. SHEPHERD: It is a thing, though, for the members of the pool to -- I think we first started recruiting people -- well, I know years ago, I think 2018 or so. And I want to say that I think people want to join the pool because they welcome the opportunity to do public service. And as I wanted to say too or plan to say to the executive team and all employees at First Republic Bank in a time of trouble, we're fortunate to have the training and experience to serve our customers, our communities, minimize losses and do that public service.

And I'm not sure it would last for more than a couple weeks as Tim says without compensation. But I do think that's an opportunity for us all and for the members of the pool. It's also we welcome the opportunity to receive some affirmation from the regulators about their confidence in the members of the team.

As Dave said and as the chairman mentioned, I was notified that I might be the -- or that I would be designated as the CEO of the bridge bank on that same Sunday, March 12th. The situation was very fluid and I guess for everybody but also for First Republic. In fact, while I was on the phone from the airport to Dave, he was telling that my name -- I was going to be announced with Greg and Tim as bridge bank CEO.

And he said, oh, wait a minute. Some new funds are coming in to First Republic. We're going to stand down for a moment for that, and as I say, the experience of being in the standby pool. Over the weeks, the First Republic efforts to continue in operation, I had the opportunity to meet with leaders and the closing officers from the FDIC with two separate resolution teams over that time period.

We had video and telephonic conferences with other officials and frequent and close consultations and engagement for the first ten days or so, maybe a week. Things went a little slow then for a while. It looked like there was substantial deposits by large financial institutions came into the bank.

But then things heated up again as concerns increased and run up to the announcement of earnings. And we were prepared for additional deployment as necessary. Tim and Greg had actual big game experience.

I only threw hard in the bull pen. But I did for about six weeks. And so I thought maybe although it's fortunate we weren't needed, the relevance of my experience for this Committee's purposes, what we learned during that effort. As Dave just mentioned, we had the direct experience of Signature and Silicon Valley Bank that had been wrapped up by the time the second round of run up to the earnings release.

We had more time to think and plan. But the potential of the failure was sufficiently imminent that we remained very focused. So I can't call it Standby Pool 2.0 but maybe 1.1 from that experience.

First, the important nuts and bolts details have been collected by the FDIC for the standby pool members, including information about closing process and establishment of the bridge, draft internal and external communications, deposit insurance letters as Dave mentioned a few minutes ago for both financial and nonfinancial counterparties. Other crucial pieces were communications for all employees, members of the executive committee and for customers. Guidance on what can and cannot be said is quite useful in that situation.

It's in everyone's interest for the CEO of the bridge to be able to speak with some authority. As Tim was saying and as you all know, one of the principle purposes of this appointment is to assure people and give stability to the situation. And it's therefore important not to have to walk back well-intentioned but inaccurate comments which you are making to people who are under great stress, be they customers or employees.

As chairman and CEO of Bank of the West, I'd worked about two blocks away from First Republic for almost 20 years. I knew many of those people. And I had a feeling for the community, of course.

I wanted to say, I've admired your bank and its commitment to outstanding client service for years. Let's maintain that commitment to our clients and our communities and to each other. I'm not here to assign blame.

I may be a caretaker. But with your help, we'll take good care. Third, I think the information packages that have been discussed are quite important, especially if there's a lag in the time between the designation of the assignment from the standby pool and actual deployment.

As Chairman Gruenberg mentioned in his remarks last August at the Brookings Institution and I think there are parts in the proposed rulemaking, I recommend the packages be provided to pool members as soon as they're assigned to a specific institution or perhaps some other appropriate triggering event. But that time in the run up when you're eager to gather information and it's more easily available once you're there. But at the time, your appointment is quite confidential.

I was, of course, scouring the internet. But there's other information that would be easily obtained at the bank or perhaps from the regulators. But the regulators are quite busy at that time too.

Those packages could include the living will, lists of top vendors and counterparties, major customers, recent FCC filings which as I say can easily be found, perhaps summaries of current year, strategic plans. And not so much to see the big ambitions of the company but to think more about how the units fit together and how they operate the business. And related to that, organization charts, not just of senior executives but key operations, treasury, and information on security executives whose engagement and retention will be critical to the ongoing operations.

I don't think a bridge bank CEO -- I can certainly defer to Tim on this -- needs to see that much confidential supervisory information as they prepare for deployment. But it's useful to learn of recent communications and to get a sense of examiner reviews of key executives in problem areas. Tim mentioned preparation for a longer bridge, and I wanted to close with comments about that.

It's important at least as you're planning and taking initial actions that those steps are taken with the possibility that the operation of the bridge will last for many months. I certainly have no regrets, decisions there. Later, steps will include the addition of independent directors.

The FDIC is obviously completely in charge. It's the appointed receiver. It owns all the shares and its funds are on the line. But at the same time, it's good that the FDIC sees that an empowered, reliable executive team of pool members will help it achieve its goals and preserve value. As I say, I appreciate the opportunity to be with you, and thank you, Mr. Chairman.

MEMBER TAHYAR: Thank you, Mr. Chairman. I was honored to be the counsel to both of the bridge banks, an emergency assignment that came out of nowhere, there's no standby pool. I first want to say absolute compliments to the FDIC staff, both those at headquarters and those on the ground and I was on the ground.

Extraordinary hard work, great job, quick responses available 24/7, taking hard decisions. And I know that many of them did at great personal sacrifice. I think there are a few -- with the beauty of hindsight, there are a few lessons learned.

There's some low hanging fruit, some of which had been mentioned. My own personal belief is we're in a new world. We are going to face deposit runs despite the specialness of these two banks. The ability for uninsured funds to move quickly is with us now forever.

So a couple of suggestions, that FIL announcement which came out on Tuesday at 4:48 next time should come out on Sunday evening because the problem wasn't the CEOs. I know FDIC staff were calling the CEOs of all the major banks, and the CEOs were saying, we're willing to deal, willing to deal. Which one of my 200,000 employees is the problem? I need to go there now, right?

And it's the guy or the gal in the wire room who is told, let 10 million dollars go and thinks I'm going to lose my job. So the FIL is really, really important on Sunday night. The indemnities and the D&O were a huge distraction, and they were a distraction for the executive management.

I think we can work those out in advance. Low hanging fruit, in other words, decisions will be made about the executive team. But as part of advanced planning, we can take care of that.

I'm a lawyer, so I think there's a need for the FDIC to update its key documentation. It's been a long time since bridge banks have been used. Muscle memory was a little bit not in place.

So the last time the charter has been updated is the '80s. The last time the bylaws have been updated is the '80s. The last time the purchase and assumption agreement has been updated is the '80s.

I think we could get a group together

and work on those updating. It caused some grit in the gears as we were working. Another surprise was the world of syndicated lending and the world of bank resolution had not talked to each other.

And so there hadn't really been a previous situation where an administrative agent was in default. So at law firms and banks all across the country, there were folks from the finance side who were about to take a bunch of actions and got really surprised when they learned that, no, you can't do that because the FDIA doesn't let you do that. So I think updating the FDIC's resolution handbook and making these things clear, lots of low hanging fruit that could be helpful for when this happens the next time.

CHAIRMAN GRUENBERG: Thank you. Sebastiano?

MR. LAVIOLA: Thank you. Just a question I had. I appreciate very much the experience that was provided here. I wanted to ask about some requirements that a bridge bank should respect.

For example, solvency and liquidity requirements, I understand that with the creation of the bridge bank would be automatically given a license to operate as a bank. What about the requirement? This is the discussion we are having now in the banking union, if there is a bridge bank to be created.

And what is the timing? What happens, et cetera, et cetera? Or if they are waived from this requirement until under the pages of the FDIC. Thank you.

MR. STARKE: So if I could respond to that. The statute is clear that there are no capital requirements for a bridge bank. The bridge bank is backed by the FDIC and its deposit insurance fund and its obligations which are backed by the full faith and credit of the United States.

And the DIF has been able to provide

liquidity. So there are no mandates. There are some policy thoughts that it would be better to have capital. But it's not required by the statute.

MEMBER LA SALLA: This would be the case even if the selling would happen not in two weeks but in five months or one year.

MR. STARKE: From a legal standpoint, that's correct. And policy judgment will have to be made as to what kind of parties are comfortable with. But as I say, the obligations of the FDIC are backed by the full faith and credit of the United States government. So it's expected that a bridge bank will be able to perform on all its obligations.

CHAIRMAN GRUENBERG: Rodgin?

MEMBER COHEN: I wanted to pick up with what I thought was a very important point. It was sounded by both of our speakers and that is information that is critical to the new CEO. And I just wonder if that wouldn't be low hanging fruit.

Could not there be an appendix to the resolution plans which simply list all that information? It's nothing new. It's just derived out of the plans. So the new CEO could immediately see that.

MEMBER MAYOPOULOS: I think that'd be very useful. Sitting on the airplane on my way to Palo Alto, I didn't have any of that material. And of course, I just hung up the phone with Dave a few hours earlier.

But it would've been valuable information to have to at least know, what are the legal entities in this structure? What's the organizational chart? Like, what's the relative size of the assets? Like, those were, like, basic things that one would want to know and there was no time for it. And it was kind of catch-as-catch-can once I landed.

MR. TETRICK: I think in these cases, it really was. I mean, that first weekend, it was a matter of immediate deployment. I mean, there was no space between the call and the deployment and needing to stand up the bridge banks.

And we had just learned that day that there would be a systemic risk exception and that we formed the bridge banks. Part of what we were -- we had the benefit of for First Republic and glad we didn't have to bridge First Republic -- but it would've been a great bridge if we had to do it -- was that with Michael we had the time to get a lot of that information. Things like the FIL were ready to go.

Some of that grit in the gears on the legal documents, although we have updated those recently. There's a difference between updating them internally, going through them with the OCC, and actually road testing all of those things that you need to put in place. And this is a road test, and we discovered new things when we did that. But it was a really different position when we had -- the difference between zero days and seven weeks is a lot. And we have a lot more time to prepare for the next one.

CHAIRMAN GRUENBERG: Anyone else? Let me thank both Tim and Mike really for a superb presentations and for your service. Tim expressed his gratitude to us, although I will say I think perhaps the first day or two running the bridge, I'm not sure.

(Laughter.)

CHAIRMAN GRUENBERG: But after that, it got better.

MEMBER MAYOPOULOS: I will say it was fun. I have a very perverse sense of fun. Just ask anybody who knows me well. But I got to say it was a -- Mike put it properly. This was an opportunity for public service.

And I'm drawn to challenging situations. And this was clearly that. And just I'm very appreciative of the opportunity to be able to do that. And I know Mike and Greg are too.

MS. TRAILLE: Okay. With that, we will take a break and return at 11:15 for the next session. Thank you, everyone.

(Whereupon, the above-entitled matter went off the record at 11:01 a.m. and resumed at 11:18 a.m.)

CHAIRMAN GRUENBERG: Welcome back. I thought that was a terrific discussion this morning.

And, let me turn it back over to Jenny. We have two additional guest speakers to talk about the experience with credit squeeze, which is of considerable interest to us.

So, Jenny?

MS. TRAILLE: Sure. Thank you. Yes, so, we're pleased to welcome Eva and Sebastiano. Eva Hupkes, as previously mentioned, is the Secretary General of IADI and was previously the head of regulatory and supervisory policies at the SS -- Secretary of the FSB.

Prior to that, she served as head of policy and regulation at the Swiss Financial Markets Advisory Authority, or FINMA, and, FINMA's predecessor organization, the Swiss Federal Banking Commission.

She was recently a member of the Swiss Experts Group commissioned by the Federal Department of Finance of Switzerland to evaluate the stability of the Swiss financial center. And, she is going to speak to us today about the report produced by that group.

And, we will also hear from Sebastiano Laviola, a member of the SRB and Director of the Resolution Strategy and Cooperation.

Prior to this, he was the Central Director at Bank of Italia, the central bank of Italy. And, he currently chairs the SSB's Bank Cross Border Crisis Management Group, which is part of the resolution steering group.

And, in this capacity and as the Chairman mentioned earlier, this group has published the 2023 Bank Failures Report on Lessons Learned for Resolution. And, he will speak more about that today.

So, I -- oh, and then I should say, we are joined by our FDIC panelists, Director Art Murton, Deputy Director Ryan Tetrick, Corporate Expert Susan Baker, and our Legal Counsel, Bruce Hickey.

So, welcome again Eva and Sebastiano. And, Eva, I will turn it over to you.

MS. HUPKES: Well, thank you very much, Jenny. It's a great honor to be here. Thank you, Chairman Gruenberg for inviting me.

I am very happy to share some insights from the review of Credit Suisse having been involved, actually both in the preparation of the FSB Report as well as the Independent Expert Group set up by the Swiss Federal Council, which actually included also bankers, besides the academics as well as former FINMA and FSB officials.

So, this gives you a bit of background if you read the Report. I think I can safely say, we are fairly aligned, both Sebastiano and I, what we are saying.

So, I'll mainly focus on the Swiss framework. But, let me maybe briefly recall the facts.

So, the Credit Suisse failure was different, I think, from the U.S. banks we just discussed.

It was a slow burn scenario, idiosyncratic that evolved over years on this erosion of confidence in Credit Suisse Bank from a combination of issues, including the weakness of the business model and governance reflecting a lack of an effective risk contract and controls.

And, Credit Suisse is also not being very responsive to supervisory action. And, there has been many changes in risk and compliance leadership and a fast turnover of senior management in the past years. Went through three different Chairmen over three years. And, four CEOs over seven years.

The announcement of a revised strategy which included raising 4 billion Swiss francs in 2022 to fund a restructuring, actually didn't restore confidence. And, Credit Suisse did not have the strength and ability to manage a turnaround in the summer of 2022, despite the report of solid group capital and liquidity figures.

The market started to question financial strengths and viability already in late 2020 and substantially lost confidence then in the early fall of 2022 as reflected in the significant outflows of Swiss francs like in the fourth quarter.

And then, on the 15th of March 2023, FINMA and the FSB confirmed actually that Credit Suisse was still meeting capital and liquidity requirements and that the SNB was ready to provide emergency liquidity assistance to Credit Suisse.

Credit Suisse then announced it was drawing 50 billion Swiss francs, which again, very modest in size, but did not reassure the markets.

And then, on the 19th of March, UBS and Credit Suisse concluded the merger contract, maybe you can use -- move to the next side -- which was fully executed in June. And, FINMA approved the takeover in view of the competition authority.

The actions were taken based on a provision in the Swiss Federal Constitution that grants power to the government to act and provide credit to safeguard the public interest. The same constitutional basis was used to take the restrictive measures that were imposed during the COVID pandemic actually.

The government emergency regulation enabled the conservation of the Swiss state to enter into a contract with the Swiss National Bank regarding liquidity assistance and to provide a default guarantee covering 100 billion Swiss francs. And, that contract was terminated in August of this year.

The emergency regulation also enabled the government to enter into a loss protection agreement with UBS.

So, the state would have had -- would have borne 9 billion of any definitive loss arising from the sale of certain assets after UBS took -- would have taken 5 billion of any losses.

This loss protection agreement also was terminated in August. And, the emergency regulation also enabled the Swiss National Bank to provide additional emergency liquidity, the so-called ELA plus.

Up to 100 billion was priority in the creditor hierarchy, but otherwise uncollateralized. And, it allowed for the merger to go ahead with approval of the UBS, and without the approval of UBS and Credit Suisse shareholders and without other requirements otherwise provided for in the merger, such as preparation of interim balance sheets, et cetera.

And, the old emergency ledger regulation also authorized FINMA to order Credit Suisse to write down the AT1 bonds.

So, the -- maybe go to the next slide. The Swiss authorities chose not to execute the resolution plan that had been prepared jointly with the members of the crisis management groups and which included the FDIC.

The execution of that resolution strategy, which was a single point of entry open bank resolution strategy, would have entailed the full write down of capital, the full write down of AT1 bonds, the conversion of bail-in bonds issued by the holding company, which would have then generated 57 billion fresh capital.

And, that strategy was deemed executable by FINMA, a conclusion that was shared by the expert group and also the members of the crisis management groups.

It would obviously not been without, entirely without risk. Probably no resolution is fully smoothly.

Bond holders could have claimed lack of proportionality, given the intact capital base, or the way it was, had been communicated.

The execution of bail-in could have given rise to operational and legal challenges in light of the application of securities laws in the U.S. and also other jurisdictions.

It seemed that those factors weren't the ones that were really decisive. The Swiss public actually reacted quite negatively to the merger since it increased the dominance of UBS. And, they would have apparently preferred the creation of a standalone and much smaller bank.

However, the authorities stressed that this was the best solution under the circumstances. The alternative being nationalization or irresolution.

And, I think the resolution concept maybe wasn't well communicated. It sounded more like a bankruptcy that could have severe systemic consequences.

The conversation that the expert group had with market participants actually resulted in the view that there would not have been major systemic consequences as a result of the bail-in for instance.

So, resolution wasn't executed. There nevertheless a number of lessons to be drawn both for supervision and resolution.

And, let me maybe start with three points on supervision. First, capital liquidity metrics clearly weren't transparent in that they did not provide a good view of the health of the bank and actually available resources.

So, capital liquidity resources were trapped in entities, be it in host jurisdiction, but also in the bank's subsidiary in Switzerland.

And, they weren't freely usable and could not be moved where they were actually needed.

And second, the Swiss Banking Act provides a legal basis for early intervention that is fairly broad. And, provides wide discretion.

The question is -- that we asked, was whether that discretion is too wide and therefore resulted in FINMA not acting early enough out of fear of legal challenge.

So, from a Swiss perspective, it could be helpful to have specific quantitative but also qualitative sort of prompt proactive action triggers.

For example, looking at, also at other factors like profitability, market value, a business model, so to enable the supervisor to intervene early and mitigate a forbearance.

And then thirdly, recommendations have to be made to strengthen FINMA's enforcement powers and strengthen individual accountability at senior management levels through a regime actually similar to that in the UK, the senior manager's regime.

But, now let me turn to resolution. And again, make three points. One key finding relates to flexibility and optionality in resolution.

FINMA had only prepared for a single resolution strategy, so a single point of entry bail-in strategy.

The Swiss banking law gives FINMA actually quite a range of resolution powers. Also, the power to set up a bridge bank or do the transfers.

And, they could have allowed FINMA to implement the merger in resolution. However, without preparation, this would have been difficult in this very short period of time.

So, it's clearly not possible to prepare for all possible scenarios. But, considering in what scenario, different resolution tools could be applied and albeit combined, certainly could help authorities to be better prepared. This is also for the types of liquidity scenarios.

The Credit Suisse case, in my view, also demonstrated the challenges associated with an open bank bail-in strategy where actually the debt-to-equity conversion has to be essentially executed over a weekend.

So, with leaving very little time to meet the various SEC requirements regarding exemptions and also disclosures, given that the Credit Suisse TLAC bonds were traded in particular here in the U.S.

So, the question arose whether actually the use of a bridge would have allowed more time. And, as you know, that was a strategy chosen for US G-SIBs. It might present its own regulatory challenges.

And, I think we just heard about this, the discontinuity of the legal entity, because the bridge would assume operations which would then probably in particular, and also in foreign jurisdictions, require approval from host regulators regarding change of controls.

But, it would have promptly allowed for a bit more time also in the preparation of the post restructuring options, transferring operations to other market participants and finding a buyer.

Another key finding relates to the public liquidity backstop. And, I mean, that it was clear that it is critical for an effective resolution and for its credibility.

And, there is already a legislative proposal now put out. Which actually would also include an advantage fee to -- that systemically important banks would have to pay advantage to compensation the state.

And, there are lessons relating to access to liquidity and, I mean, the stigma was also an issue that was widely discussed.

Banks, from supervisors, need to be able to make sure that banks are better prepared to access liquidity, preposition collateral. That was a key recommendation.

And then finally, one point, it identified a bonded Swiss expert group relates to the triggering of resolutions. By law, FINMA has the sole authority to place a bank into resolution.

And, for the expert group, it was difficult to see how FINMA could exercise this power with respect to a global systemic important bank that would need massive amounts of liquidity from the Central Bank. And, the failure of which could have also had significant economic repercussions.

So, it would be natural that both the lender of last resort as well as the executive government have a voice. And, I think that is sort of the three keys approach here in the U.S. as I understand it.

And, so an ex -- the Swiss expert group made a recommendation to review this decision making process.

And then, maybe let me conclude by highlighting two points that are relevant. Probably both for supervision and for resolution.

And, one relates to cross border cooperation and the operation of the supervisory and crisis management groups.

As you may recall, the Swiss authorities held a press conference to communicate the assisted merger plan to the public at 7:30 p.m. Swiss time on Sunday.

And, that was actually 7:30 a.m. in the morning in Japan. And, the Japanese authorities had actually been working all weekend preparing orders to, well, refinance Credit Suisse.

And, they only found out a few hours before that press release. So, a few hours also before the opening of the markets in Japan, what the outcome of the crisis management board.

So, maybe we do need to rethink how crisis management groups operate in crisis times. Also, the compositions of these bodies and communicating -- communication with authorities taking into account the time zones on different.

The Swiss clearly had been working very closely within the core college, the UK authorities, the U.S. authorities.

But, I think, the Europeans as well as the, yeah, Asian, the Japanese were not close to the planning process.

And, then finally, the second point has to do with resources. Clearly this is a significant need for resources and standard staff with the relevant know how and expertise.

And FINMA is extremely lean as compared to other authorities in other jurisdictions. And, the reliance on external auditors contracted by the banks, really doesn't compensate for its own resources.

So, there is clearly a need to give thought on how to augment available resources quickly and particularly in times of stress, but also in business as usual in supervision.

So, let me stop here and turn over to Sebastiano.

MR. LAVIOLA: Thank you. And, first of all, let me thank the FDIC and Chairman Gruenberg for inviting me today. It's a great honor and a pleasure.

And, I as my capacity as Chairman of the Working Group on Cross Border Crisis Management under the ReSG Group and Chairmanship of BaFin Committee, I was tasked with a group to assess the implication for international resolution framework of the recent crisis events, and then, to identify initial lessons learned.

So, what I will tell today is strongly based on the evidence of the reports. And, what I have to say has been thoroughly reviewed and approved by the ReSG not only, but also by the entire FSB membership.

So, I would say here, and you will not be surprised, that there are various aspects that will come back.

And, that we're, as Eva said, in the end, I mean, what she said on the initial lessons is really aligned only on the super -- on the resolution part.

And, the report doesn't deal with the supervisory part for which there has been already also a report from the BaFin Committee on initial lessons learned. And so, some aspects will come back.

First of all, I would say that after the great financial crisis, this was a big real test of the international resolution framework. In terms of just to give you an idea, and this was already numbers that have already been used in the private domain.

Essentially, the amount of the crisis, including U.S. and Credit Suisse, were more than

$1.1 trillion in total assets. If you relate in European Union to the GDP, which is how we, of course, stops and flows, it's not the same thing.

But, I mean, it is really a big amount. Much higher than the GDPs of several member states. And therefore, this was really a big difference from the great financial crisis.

But, clearly in the international domain, among the international regulators, called into question essentially the applicability of the international resolution framework.

And now, the review that has been done, and in reality upholds and confirms the appropriateness and feasibility of the framework. Identifying at the same time, as Eva said, the number of implication issues both for the G-SIBs, but also for other systemically important banks.

And, this is what we discussed a little while ago regarding banks that can be systemic or critical in failure.

Let me give you just the -- first, the positive aspects that we found. That's to say that the decade long work now done on resolution planning and capability, and the build up of LAC, so that the LAC proved very useful.

And, in the case of Credit Suisse, provided an executable alternative to the solution that then the authorities chose to put in place, because they preferred the debt.

And, this is a very important element. Without all this preparation in terms of building up on operational continuity, on access to financial infrastructure, on cooperation and coordination, what Eva said, on cross border cooperation and crisis communication within the core management group, even though the story is not finished there, worked very well.

Because the authorities in FINMA started in October after the first strong liquidity crisis to build the preparation for resolution in the restrictive group of authorities that included, as Eva said, the Swiss, the U.S., and the UK essentially, various types of authorities in part of these three jurisdictions.

Another important point is that both in the U.S. and in Switzerland, the financial stability was preserved and the contingent effects were prevented. But, we already discussed that.

If you can go to the other slides. I point the attention here to the first point. This is not in the order that you find in the report.

But, I think therefore the crisis, it is very important, both business time and in crisis time, to have very good communication and coordination among authorities, and also with the firm, because we have seen it.

In the case of Credit Suisse particularly, some unwarranted declaration of one shareholder, I mean, how it precipitated the situation. And, instead among the authorities, as I said, the work between home and host, both supervisor and resolution authorities.

Now here, an important point. We found out that you have to go in certain dedicated cases beyond the CMG, the core, the crisis management groups' jurisdictions.

Because it is also important to pay attention to indirect effects. Which can be the same entire effects, difficult to say.

But, if you look at the press releases that were issued immediately after the decision on Credit Suisse, for example by the Bank of England, by the SRB, by the home core monetary authority regarding the AT1, because there was a surprise in the way in which they were addressed, even though started early incorrect, et cetera, this was essentially a measure to stem the panic that clearly hit the market of AT1 holders after the announcement.

And, this means that in certain cases, it is important to have for the main jurisdiction where there could be indirect effect, to be in the loop of the decision making, a certain point or an appropriate or need to know basis at probably only a certain level.

But, the guidance that we have from the FSB on CMGs, on information where the entity is not part of CMG, the authority of the entity is not part of CMG, can be systemic in other local markets, may be subject to be reassessed and reconsidered, because for example, there were subsidiaries over Credit Suisse, which were not relevant, even systemically in the local markets.

But, the problem was not the legal entities. The problem was, for example, in this case, related to the activities.

And therefore, or if you think derivatives, was very difficult to assess the second round, the third round effects. But, in certain cases, it is important to take those into account.

On the resolution strategy in

particular on tools, as it was said by Eva, we found out that first of all, authorities would learn to put again, to have greater awareness and visibility of the potential impact of bail-in on financial markets.

As on the other hand, these are already detailed on the key attributes, annexes over the guidance issued by the FSB.

And, they should, they could be ready to use eventually in certain cases, even more than one resolution tool or calibrate the use according to the different scenarios, including the liquidity ones.

So, in this case, the usefulness of transfer tools, I mean, is stressed. And, therefore, in the work program of the ReSG, there is the consideration of resolvability resolution preparedness to preserve optionality of resolution tools.

Which doesn't mean that this has to be to the detriment of the preferred resolution strategy.

But, the situation may change, may evolve over time. And, therefore, some preparation is in order.

Another aspect that comes out from the report very strongly is to have the availability of an effective public sector bank, funding backstop.

And, here there will be also work ongoing, because as it has just been shown, the amount of funds that have been deployed, and the fact that the emergency legislation had to be used and likely enough because there was preparation to have it in ordinary legislation, but was not yet ready.

But, there was the possibility to enact it in an emergency legislation, because in a situation where you have a resolved bank, in this case was a merger, outside of resolution. But, nonetheless, there was a strong need probably for liquidity.

And, therefore, even though you have enough capital to regain the trust of market counter-parties, it may be necessary to have this funding available.

The other aspect that came out, and again, linked to the experience with Credit Suisse, is the one of the working on resolution preparedness for cross border recognition and execution of the cross border bail-in. Because clearly there are securities laws that have to be respected.

Normally, if there is a subscription in, so issuances in foreign countries, or subscription by foreign investors, according to the securities laws, this situation may be different in the case of the U.S. in the SEC, any conversion of the bail-in bonds into shares, is assimilated to a sale, the first requires either registration in any prospectus essentially, or an exemption.

And, there are conditions for the

exemptions. In other legislation, there are not even conditions for the exemptions.

But, that's associated to debt that maybe also disclosure requirements that have to be followed.

This means that we want to work more on the resolution preparedness for these cases in case of cross border banks.

So, how one can qualify for the exemption in these cases and also on pro forma disclosures of some statements, because this is also required by the security laws.

And, there is work ongoing in the FSB to this regard even today. I have to say, in Basel, there is a workshop to this regard.

Also, related to that, there is also the need that to prepare for the credible restructuring plan. That's to say, to resolve the bank, it is not enough.

But, particularly one, the way they are following the resolution, the authorities have to be able to communicate a credible restructuring plan to the market to regain confidence of the market. And then, monitor the restructuring.

So, this has also to be done in preparedness, in resolution preparedness. This is not mentioned in the key attributes, because it is post-resolution. But, it is clearly important, particularly if you have an open bank bail-in.

The other two aspects if they're here, I would not speak that much about that, because it is the aspects that came out from the experience in the U.S., that's to say banks that can be systemic in failure for various reasons, as detailed in the slides, and therefore, here one has to decide what type of features, in terms of resolution requirements are necessary for these banks in terms of preparation, in terms of explicit requirement.

One of the requirement that comes to

the attention in a proportionate way, is, of course, to have enough amount of loss of solvency instruments, so the LAC or TLAC.

I can tell you that in Europe, we have a longstanding requirement, because it is in the legislation, European legislation that all the banks above 100 billion total assets have subordinated requirements.

Which is not the issuance of a mandatory long term debt, but since of subordination to qualify for TLAC or in-bail, our LAC in Europe has to be above one year maturity.

It is essentially similar to that. It is lower than the 18 percent of the GSIBs. But, it is a requirement that mid-sized banks have to have.

And then, there is all the -- an area of work regarding the interaction between deposit insurance and resolution that have been reported in the U.S. here regarding level of coverage, type of coverage, regarding the benefits of having a layer of subordination that of course sustains unsecured deposits from absorbing losses and could, in principal, have mitigated the effects of the runs.

And then, there are other interactions, of course, between deposit insurance and resolution, particularly when you have a high amount of uninsured deposits, because clearly if they run all together, this has an impact also on the franchise value of the bank if you have then to resolve the bank.

I would end with the last slides on some initial, my initial lessons then for the banking union.

The banking union banks were not significantly affected by this volatility in the banking sectors and by the turmoil.

However, there is no reason for complacency here. Because first of all, I would say the bounds of pre-implementation has to be finalized and it seems to me that really today or tomorrow there will be the final decision of the co-legislators for the implementation of the Basel III.

And, the other element which I will mention in a moment, at the end of the slides, the review of the crisis management framework, which is currently ongoing.

And, to fix the shortcomings of the current framework regarding mid-sized banks. But, I will mention it in a moment.

The other elements, as you see, are very much aligned with the report, communication and confidence, liquidity and resolution.

We have in particular a single resolution fund and a backstop of the European system mechanism. But, when you have a G-SIB, the amounts at stake may be very, very big.

And, therefore, all the authorities, including Central Banks, has to work in order to confirm the credibility of resolution.

And, the crisis, they're quoting here

CMDI, it means crisis management -- or, it is mentioned correctly there.

Your crisis management and deposit insurance framework to review what it does, essentially tries to fix the problem that emerged regarding mid-sized banks.

Mid-sized here, the size is different from the regional banks. And, for us, it would be banks that would merit subordination requirements. When we speak of mid-size banks, are banks between 10 billion and 60, 70, maximum 100 billion.

And, some of these banks, particularly the smaller ones, are too big for liquidation. But, may have also problems and be dealt with in resolution.

Therefore, in the past we have seen that rather than using the framework, the organized framework, there were other types of solution, a border line solution for certain cases.

And therefore, the proposal tries to fix this problem in this way, increasing the toolkit, providing that the national DGS, since we do not have yet the common deposit insurance system, the national DGS may intervene to bridge in terms of funds, to cover the losses essentially of the bank after the absorption of the LAC, until you reach the possibility to use the single resolution fund.

In Europe, we have a threshold that has to be respected. It is the 8 percent in terms of total all funds of liability that has to be respected to access the single resolution funds, which is a fund made by contribution of the banks.

And therefore, there is this possibility to use the national DGS to arrive at the single resolution fund when needed. And, after that, then the loss absorption of the instruments as they're taking place, if the loss is higher, of course.

After that, the bank exits the system.

So, there is the use of transfer tools. The bank has to be sold to somebody else. And, this would facilitate the transfer in resolution.

To deal with the crisis of mid-sized banks, essentially the DGS use would allow the transfer of the book of deposits. It is only used to avoid that the deposits would be bind-in where necessary.

And, this would allow access to deposits and shield these depositors from losses where needed. It is on a case by case system decided by the competent authorities.

And, in this case, this would allow it to prevent contention and maintain financial stability.

Thank you very much.

CHAIRMAN GRUENBERG: Dick?

MEMBER HERRING: Thank you. Thank you very much for the FSB report. It was really very helpful in understanding a lot of very confusing news reports.

There were, I guess, three aspects that concern me. First of all was the direct opposite of the conclusion that the Swiss Minister of Finance is rather reported to have said at press conference that the kind of resolution thought of with regard to the whole set of principles, just wasn't workable.

And, it may be that she was very new to the job and didn't understand it. But, it's obviously in complete variance with the report.

And, I'm happy that the report concluded that. But, I'm also curious about how you squared the circle.

I'm also interested in the extent to which they worried a lot -- worried at all about the too big to fail problem. This was a trick that Switzerland could play once, and they already had two large, too big to fail banks arguably.

Now, there is one that is incontrovertibly too big to fail, and you don't know what the next solution could possibly be.

And then finally, the idea that you have to produce a restructuring plan immediately when you open a bridge bank, strikes me as overly ambitious.

The bank itself tried to present a restructuring plan in January to encourage the market to believe they had a future. I think it was widely disparaged as not the convincing path too anywhere.

And, it's asking an awful lot of the authorities to come up with a better plan the very day they take over the bank.

So, I'm wondering if there isn't some other alternative way. Because I think, that's very, very ambitious.

Actually, a final point if I may make it. Is the role of the SEC was rumored in the newspapers, you actually explained it very well, I think.

But, it does call into question the

huge reliance we're placing on TLAC, if in fact it hasn't been pre-cleared with regulators, securities regulators around the world.

If every time we use TLAC we have to renegotiate exemptions or prospectuses with securities regulators, it raises questions about how useful that TLAC tool actually is.

MS. HUPKES: Yeah, okay, maybe on the credibility of the too big to fail framework, and I would agree that it was most unfortunate that the statement by the Swiss, or as it was reported in particular in the Financial Times, that the resolution didn't work, and up to today, I'm not sure, you know, how well the resolution plan had been explained and its execution to the Finance Ministry.

I think subsequently, when the authorities have come back to this, in particular FINMA, stressing that it was, they were prepared, they had, they were ready to pull the trigger, everything was prepared, and I think key host authorities also had been -- I mean, the U.S. and the UK had been working towards the resolution.

They also confirmed that the mere availability of that resolution option helped to come to the, to facilitate actually to what they described as the preferred solution, namely the assisted merger, which in their view -- and, I mean, to be fair, it did preserve financial stability, and in that respect had been successful.

However, I mean, there was clearly a cost to it in terms of more hazard and the credibility, I think, of the Swiss framework, and the question now is how credible is it with respect to UBS given that this domestic merger option will no longer be available?

And just, I mean, on the restructuring plan and the credibility, I wonder, I mean, if you had done the, implemented the resolution strategy, you would have had recapitalized the Credit Suisse to 44 percent, so, and then had a restructuring, maybe changed management or put in place a new CEO and -- I mean, even then this restructuring plan that had previously been envisaged, namely, you know, winding down the investment banking, coming up with -- I'm not sure why.

I mean, it could -- why it shouldn't have been credible to Credit Suisse customers. So, I think the narrative was there and it was maybe a matter of communicating, quoting it effectively in connection with the resolution.

MR. LAVIOLA: I would add that this was timely mentioned also in the report. So, it is difficult, clearly, ex post to assess the extent of the potential impact of bail-in of the bond holders.

Some interviews that have been made, both in the context of this report and in the context of the Swiss expert group report said that, for example, many market participants thought that this was an idiosyncratic crisis and that they expected a resolution.

At the same time, while the Swiss authorities emphasized the risk of, you know, knock-on effects and uncertainty about, as it was said, market acceptance of standalone recapitalized entities, other authorities and private institution considered this potential risk to be much less serious.

That's why I mentioned at the outset that in order to better, or to work better to understand the impact and the implication of potential bail-in in financial markets, one should also, according to the type of scenarios, work on greater optionality in resolution tools, which doesn't mean a tool to avoid the bail-in, clearly, because there are certain banks that have no other options, because otherwise you classify it too big to fail.

And I would say on restructuring plan, you have to consider that some loss of some amount is also useful in a liquidity-driven crisis to make the coverage of losses during restructuring credible.

And the Swiss authority, I think, when they mention if we had the full open bank bail-in, we would have had a 73 billion conversion, essentially a 44 percent of AT1, which one says, but this is an enormous amount. You didn't need that, but they said well, but is the reason the restructuring, we try to factor in also potential losses coming out from the selling of certain legal entities, downsizing the investment bank or so on and so forth.

So, you know, I think that to consider in certain cases, not necessarily always, but in certain cases, a greater availability of using tools also in combination, and I have to say it seems to me that in the case of the FDIC, when you use the bridge tool, which is classified in our jargon as a transfer tool, this doesn't mean that nobody loses anything, but on the contrary, all liability (audio interference) and so I'm sure credit also, if there are losses, they pay the full. I mean, that with the transfer tool, you have no losses, this is not true, absolutely.

On the SEC, here, you know, the agreement is there. Clearly, there are guidances of the FSB regarding also this aspect, you know, and also mentioned in reporting, in the reporting, but it is also true that when the case happens, you are confronted with a different situation.

And before, we believed that more work has to be done in terms of increasing the awareness, both of the banks and of the resolution authorities, to be able to be sure that you qualify for the exemptions, or in any case, that you decrease the legal risk to an extent tolerable.

I have to say that any legal actions that would be started by any clients that would feel, I mean, discriminated or not properly informed would not stop the legality of the situation. So, this is not that you have a wind back of the operation. However, if there is a big uncertainty, this has an impact on the credibility of the situation.

CHAIRMAN GRUENBERG: Thank you. Jon?

MR. CUNLIFFE: Thanks so much, and thanks for both the report and the presentation, and I can say for the UK, we were ready to go and confident that this would have been very messy because no resolution is immaculate when you come to a G-SIB, and what happened in the end was pretty messy anyway.

I very much agree with the statement that we have as yet had no convincing explanation of what the general risks were, and I've seen the FSB report, which Marty chaired. So, there is a kind of black hole there about what it was that changed the view over the weekend. I guess we'll never find out, secrecy being what it is in Switzerland.

(Laughter.)

MR. CUNLIFFE: I had two questions. One is just a link back to the earlier discussion. So, Credit Suisse was solvent. It looks as if it was solvent now. I mean, the guarantee hasn't been called on the assets, and it was liquid. It has sufficient liquidity in terms of the regulatory requirements.

What brought it down was a number of reputational hits over a period and a failed business model, because unlike many other European banks, after the financial crisis, they never actually managed to solve the investment bank problem and they went back to their shareholders several times, and the shareholders paid up, but nothing happened, and then one shareholder was unfortunately unwise enough to say we won't pay anymore, and that's what started it.

But that link between the business model and a slow drain of profitability, investability, and a run, I think, is relatively new. So, in the financial crisis, we saw the share price of banks really crash, but that was, I think, because of worries about, not about profitability, but about losses in capital.

Here, you see the share price go down because of just worries about whether the bank will ever be profitable and sort itself out, and then the wealth management business in particular, the high net worth individuals started to move and move quickly, and I just wondered whether, when you looked at that, is that completely idiosyncratic, or are we now in a rather different world?

It comes back to today's discussion, and this is not to do with interest rates because this has been going on for a number of years, but where actually the kind of slow bleed of credibility in a bank's business model can spark a liquidity run, and that, to me, was a kind of new thing about this, and then that goes to the supervision, back to supervision again, which is, you know, we're used to looking at capital and liquidity. Maybe we need to look more at investability if I can put it that way.

And the question, the second question is more technical. The disenfranchisement of UBS shareholders, was that simply an operational thing because there wasn't -- it would have taken a number of months to have the shareholder vote and they didn't have the time, and they wanted certain, or was there a real resistance there on UBS shareholders?

One heard rumors that there were cross shareholdings, that some shareholders were both in Credit Suisse and in UBS, and were threatened to basically derail the transfer unless they got a better deal for Credit Suisse, so -- because that's -- I don't know about the U.S. but in the UK, I think emergency legislation to remove shareholders' rights -- to force somebody to buy a bank would be rather difficult in Parliament, so, but --

(Laughter.)

MR. LAVIOLA: Well, I will address the first question because to the second one, I'm not sure I have the answer. On the risk that brought Credit Suisse down, I think I would agree with you, Jon, that --

I mean, the main thing, and this is linked to the idiosyncratic aspects, I think, is that their business model, notwithstanding the efforts made over the years, was not convincing. That's why you have seen in the chart that there was three years that the shares was going down.

And before, at a certain point, you know, when you have not addressed since a long time this fundamental issue, it is enough a volatility like that one that was created in the U.S. crisis, that at a certain point starts a panic-driven behavior. Now, is this bank run a new paradigm that you have to look more at profitability and sustainability of the business model rather than capital only or liquidity?

I think that we will have to address, both from the supervisory and resolution point of view, the impact of this digitalization and social media, et cetera, but I think that these are certainly factors complicating the issue, you know, but they were not the root cause of the crisis.

So, that started the crisis, but the crisis was underlying there since some time, I would say, and so this was the trigger. So, I'm not so sure that it is only the fault of this coordinated behavior and this type of factors, that in the end, that caused this event.

So, we will have to see, and certainly something in the case an uninsured deposit has to be done in terms of monitoring concentrations. There are various proposals going around, but I think that essentially you have to address the business model, and before the work of supervisors, particularly in terms of, I mean, addressing the governance of the bank and the credibility of the business model, so kind of a more holistic approach and not only look at the standard rules is here.

MR. CUNLIFFE: I would only say they were idiosyncratic, but not that idiosyncratic. There are a number of banks with, you look at price to book values, and a number of banks try to resolve problems around investment banks and the like. This is not -- I mean, it's not the only example of that sort of thing.

CHAIRMAN GRUENBERG: Rodgin?

MEMBER COHEN: Just a word on this securities law issue, which seems to be so pervasive. I think it is close to, if not the unanimous view of the securities law bar that bail-in is not a second sale or issuance of a security.

But if the Commission is not prepared to go there because of precedent or whatever, there are two quite simple solutions. One, they can issue an exemption, or second, they can do a no-action letter, and what you do is attach to the exemption or no-action letter a form of disclosure, which would be the typical disclosure, and say if the disclosure is consistent with this, then you're entitled to the exemption, and if there isn't a further worry about secondary market trading in the future, you could simply say look, the security can be delisted unless there is a filing within X amounts of pro forma financial statements. So, I don't think this -- I realize this was a very serious issue, but I don't think it's a very serious issue to resolve.

CHAIRMAN GRUENBERG: Thank you. Elke?

MS. KONIG: Let me build a bridge on Richard's comments. I think by my short take, the Swiss have resolved a problem remarkably fast, quite weird, and created a bigger problem, now having a giant bank in their country. And to reflect on the European Union, now the emergency regulation, you said you would have an issue with

Parliament. I think it just doesn't exist. So, this would not work.

Second, I'm not sure whether we should really wish for preparing for a merger of a G-SIB with whom? Now they merge the two G-SIBs within one fairly small country. In most other cases, there's one G-SIB and you need to find a neighboring country G-SIB to acquire.

I'm not sure now to take Company A in Country A that Company B in Country B will be very much excited to lend their shoulder to a failing giant. So, I think we really need to work on the idea of open bank bail-in, not for resurrection, but for then having the time to slice and dice.

And then that gets me to another argument which came out. The FT was very good in keeping us informed on what was going on Credit Suisse, but they also kept us informed in summer that the white knight made excessive profits.

And I think there that at least the

presumption that such an orchestrated acquisition creates an option for excessive profits compared to a proper auction process is a given statement. So, I think this also needs to be considered, and my short take would therefore be not to be repeated.

(Laughter.)

CHAIRMAN GRUENBERG: Thank you.

MS. KONIG: So, it was more a statement than a comment, but I think the white knight, we still need to look into, and to see -- well, you will find out in ten or 15 years whether it was really a profitable deal or not, but it is at least a topic also to be addressed.

MS. BAKER: So, yeah, I would agree it should not be repeated. This is probably as much a comment as a question, but I'd love your reaction because I'm getting this question a lot as I talk with folks about what happened last spring.

It seemed to be that if resolution

planning and new resolution authority should have worked, it should have worked here. I mean, this was a slow, very slow train wreck. It was idiosyncratic in the sense this was a mismanaged bank. There are other banks that have the same issue, but still there is not some widespread market meltdown that the regulators were dealing with.

And some in the FSB, both of you had excellent presentations, but some of the problems that they ran into should have been anticipated and resolved far ago, long ago. And I just wonder, you know -- I think we owe it to the public. Are we serious about this? Do we want to end too big to fail? Because it's getting worse, not better.

All the hard work that's gone into this is not panning out the way we thought, including with, you know, a classic systemic institution, that if anything should have worked, it should have worked here. So, will it ever work, right? So, we solve the SEC problem, we solve this problem.

With that, is there some five more things that are going to come up the next time this happens? Then we have to go and explain to the public oh, I'm sorry, we just made banks bigger again because we couldn't figure out how to do it on a standalone basis.

I just don't think that's fair to the public, and it's not -- it puts us all, and I was one that strongly supported new resolution powers and Dodd-Frank in Europe because I believe they can work. I still believe in them, but people have to take them seriously, and do the preparation work, and be willing to execute on that.

And if we're not going to do that, we need to think of other strategies to deal with too big to fail, and maybe we do that in conjunction. Tim talked about the competitive disparity we're seeing now with uninsured deposits between too big to fail institutions and regionals. It's squeezing the regionals.

You know, maybe we -- because, see, too big to fail is bad for a lot of reasons, but the competitive distortions is one that is quite serious and getting worse now. So, again, that was a comment but also a question. Is it ever going to work and how do we explain this to the public, I guess?

MR. LAVIOLA: It is true that maybe some of the problems should have been anticipated. It is also true, I would say, that when you are confronted with the real situation, it is always difficult. Even the speed of this crisis was a surprise.

And as was said today by the colleagues of the FDIC, I mean, even though the procedures worked, I mean, they knew in principle what to do, but it had to be done in a very compressed time for banks that were a threat to stability, but were not a G-SIB.

My perception is the work done until now has been a good one, so a profitable one. Clearly, I think that it works and it can work if it's put in practice. The issue of the securities laws, I agree with what was said, saying that I think that it is solvable, so it can be addressed.

It is also true that, as detailed in the report, you know how it works, that the staff of the SEC contacted because of that, because Credit Suisse had, of course, a lot of instruments in the U.S., was made part of the crisis management group, but the exemption, the opinion on the exemption was given by the counselor, by the lawyer of the bank, not by the SEC. They don't say yes or no. They assess it. I suppose they can suggest, advise, et cetera, but they said if you don't prepare beforehand, this is going to be an issue.

And then there is a certain amount of disclosure concerning the anti-fraud regulation has to be in any case observed, which was something that I'm not sure that everybody across the world was aware, I have to say, to be fair, and for this regard, a certain debate and work.

In Europe, a lot of work had already been done for this, also with the help of a law firm, and before, we were relatively sure that there was no problem. Now, of course, we are doubling the efforts in order to be double sure that it will work, and this is where we are.

MS. BAKER: It shouldn't count as TLAC if it doesn't work, right? So, maybe that would provide a strong incentive for the banks themselves to get engaged with the SEC and get this problem solved, because it shouldn't count as TLAC. If it's not real, then it shouldn't be in.

MS. HUPKES: That's what our TLAC term should actually say, that it has to be shown that it is executable. And I would agree, it's not just the exemption, but also the disclosure requirements and the risks that inaccurate disclosures could have, I mean, criminal sanctions that are somewhat a deterrent there.

But, I mean, I couldn't agree more with Sheila that actually the reason we invented bail-in after the global financial crisis was to avoid the, not having any choice but to merge banks and resolve crisis in that way, and since then, I would think also having --

I think being involved in the work at the resolution steering committee, I think at times it's not easy to keep up the momentum to keep actually the focus on resolution planning. It's not something that happens, you know, all of the time, so, I mean, how do you keep prepared and keep -- make sure that you have the resources available, and actually the training and practice?

So, we -- I think that's why it's been -- it's good that more and more focus is on doing simulations and fire drills to test and do that also with foreign regulators, and including also at a domestic, in a domestic setting.

I mean, that was also a finding that in Switzerland, maybe the communication amongst the domestic authorities hadn't been tested, and now we know that everything has to go even faster. And so, you know, ex ante simulations, testing are critical to remain prepared.

CHAIRMAN GRUENBERG: Dick?

MEMBER HERRING: I wanted to try to make a link between this discussion and the discussion in the first session, and that is that in each of these cases, the banks that failed or that needed to be merged were highly capitalized as far as the regulators were concerned, had very strong liquidity ratios, were, in fact, signed off on by their accountants, in the case of the U.S. just a week before, saying they were just fine, yet they weren't.

And I think it goes back to a fundamental problem, A, in the way we measure capital, but I won't go there, but it does result in a fundamental problem with the flimsy way we've tried to avoid defining non-viability. These were all kind of cases of non-viability that would have warranted earlier intervention.

In a way, waiting until you've had a vast liquidity run, it's just too late. There really are no good options at that time, but if you can intervene earlier, which would require a better definition of non-viability, we might make more progress with the problem.

CHAIRMAN GRUENBERG: Anyone else?

MR. LAVIOLA: I think in the supervisory report of the Basel Committee is that the reason mentioned is this thing, that rather than -- I mean, in addition to, of course, to looking at the ratios of capital and liquidity, and all the various other indicators which are objective measures, but are also backward looking if you want, a number of other not necessarily --

I mean, already measurable indicators

have to be developed in terms of a holistic intervention in order to fix maybe problems in the business model, because in certain cases, there was clearly a problem of the business model even though the ratios were respected, as you said.

On the other hand, there is clearly an issue of the boundary with the legality of the intervention, so to structure earlier invention is clearly, I mean, what should be done, but the legality of the intervention where the bank respects all of the former requirements is, of course, at stake.

And before, you have to probably use more persuasion, persuasive measures, but also to take other measure that are not only to increase capital or other things, because in certain cases, this doesn't fix the problem.

If you have to change a process to have more capital, it's a punishment, but if the bank doesn't want to change the process, it doesn't change it, so there is nothing that makes this change into possible, and to use all the battery of tools that the supervisors in reality have. This is what also is discussed in the supervisory report.

CHAIRMAN GRUENBERG: Yeah, Don?

(Off-mic comments.)

PARTICIPANT: That was a great segue.

MEMBER KOHN: The implications for U.S. G-SIB, it would be really great to hear what you guys think about that. And I want to in particular, drawing on this discussion, think about the last two bullets.

One is the criticality of effective restructuring planned to address the cause of failure. As Jon has emphasized, the cause of failure has been bad business plans, so that implies a huge restructuring. I mean, it's not clear if your -- if the whole business model isn't working, the restructuring is going to be major.

And then the risk of negative market

reaction must be anticipated and managed, and obviously, there is all of this risk of negative market reaction to TLAC, bail-in, and the circumstances under which, so how are you thinking about anticipating and managing that?

MR. TETRICK: Well, I'll pick up from there, and thanks for that invitation, and I'm going to actually -- I think the first point is the most important one, so I'm going to end on that point actually and go through the others first.

So, and some of these things have been observed already. You know, Credit Suisse was in many ways an interesting counterpoint in terms of the cause and speed of failure to the U.S. bank failures. There was a very sudden failure in the case of the regional banks.

In Credit Suisse, I think we had as long of a runway as you could hope for. I mean, we started preparing in the fall. We were, you know, prepared to support the resolution in the fall and you had until the spring, so it was, you know, more than six months. That's as much as you could hope for in a G-SIB resolution.

And then I think it is interesting the points about, you know, the core metrics that we typically look at. Their CET1 ratio was healthy. Their liquidity coverage ratio was good compared to other banks, and so it just shows that institutions can fail in a variety of ways.

I will say the preparation that we did, I think the two reports accurately describe that that was pretty effective preparation that the Swiss authorities led. There was an ability to, you know, organize across jurisdictions, to address both, you know, strategic issues, technical issues throughout the process, and, you know, I think Jon Cunliffe noted that in the UK, they were prepared to support the resolution.

We were of a similar view in the U.S. and expected to support a resolution both in the fall and again in the spring. Maybe there were some issues about non-CMG members that are lessons learned, but I bet there's an effective way to manage a crisis management group in an actual crisis.

The point about the restructuring plan, you know, this ties back into the way in which they failed, that the sort of overriding point is that bail-in of the TLAC debt isn't enough. That's just a starting point. So, in this case, there wasn't an underlying capital issue, so bailing-in the TLAC wasn't going to address that issue.

I take your point earlier that, you know, announcing a complete restructuring plan that's got everything sewn up at the time of initiating the resolution might be a lot to ask, but there needed to be some longer term, and I think the Swiss authorities were cognizant of this, way to address the underlying business model and risk management issues here if there was going to be some piece of this that survived and operated over the longer term, and that might have just been following through more aggressively with the restructuring plan that the firm had already announced and taking some other actions.

It's a reason why we in the U.S. place a lot of importance in the Title I plans on separable components and objects of sale, so that we have a variety of options that are more readily available when an institution fails.

And then the last point, I'm going to borrow Jon Cunliffe's phrase because it was great, there's no such thing as an immaculate resolution. The resolutions involve costs. They involve uncertainties, and those need to be anticipated and managed.

And so, in this case, the costs would have been borne by TLAC holders, and any single point of entry resolution, the costs should be borne by TLAC holders that are in a position to do that.

We think that you can bail in TLAC holders and that market can continue to function otherwise, and there might be some uncertainty around other G-SIBs. The goal of a resolution is to make sure that that's contained, and temporary, and managed so that there's not knock-on effects.

And so, just with that, returning to the first point, I mean, to be clear, we don't think that there are other good options available to us for G-SIB resolution in the U.S., and single point of entry very much remains our focus, both under bankruptcy and under Title II.

You know, we think that we have all of the key pieces in place to carry out a resolution of a G-SIB under Title II. And as the Chairman noted at the top of the session today, we'll be publishing a paper in short order that goes into considerable detail on how we expect that to work.

CHAIRMAN GRUENBERG: If I can add to

the conversation here, Credit Suisse was the first G-SIB since the 2008 crisis effectively to fail, and there's no way around it, the Swiss blinked, and that's a source of considerable frustration to the other key jurisdictions that have been working for ten-plus years on this, and my colleagues here to my right from the UK, from the Europe, as well as the U.S. share that.

You know, we've -- and I think Ryan made the point we think we've put the pieces in place to execute an orderly resolution of a G-SIB, and the frustration here in part is that to a significant degree, the Swiss had also, but they were not willing to pull the trigger, and that really goes to the Swiss, frankly, the Swiss officials and authorities and the judgments they made, which we probably wouldn't agree with in all candor.

But it's problematic because it's created the first precedent since the 2008 crisis and that's, frankly, something that we in the

U.S., as well as the UK and Europe, are going to have to deal with going forward. It creates -- and the questions are fair and reasonable to ask in light of the Swiss experience.

And I think we're just going to have to deal with it and, you know, Ryan mentioned the paper we're going to be coming out with to try to add more granularity as to how we might approach this, but there's a consequence for the first example since the 2008 crisis to have gotten this way, and I think going forward, we're simply going to have to deal with that. I don't think there's any way around that.

MEMBER REED: If I could just suggest a tool, and for all I know, it is used. It's obviously confidential, but the one thing that could cause a bank to recognize that even its statistical measures look great, there's question of other dimensions, is the board of directors.

Now, I don't know to what extent regulators meet and have serious, I don't mean perfunctory, talks with boards, but it seems to me in my experience running a bank that that is where, if the management is off track, the board is there to sort of, if necessary, change them, but to at least be there.

And I don't know if it's a tool that could be publicly broadcast, could be written into legislation in any way because it would be impossible to describe it, but I could assure you that in my experience, had regulators come to my board and said hey, we really think you guys are going in the wrong direction, it would have caused a very serious reaction.

And so, I don't know if this is a tool that exists, doesn't exist. The Bank of England was famous for exercising that kind of judgment, and I have occasions where I heard from them, and it strikes me that it is a tool that people should be cognizant of, even if you can't write it down on a piece of paper.

CHAIRMAN GRUENBERG: Any other

comments? In that case, I think we'll break for lunch. Thank you all, and thanks to Ava and Sebastiano.

(Whereupon, the above-entitled matter went off the record at 12:37 p.m. and resumed at 1:52 p.m.)

CHAIRMAN GRUENBERG: Jenny, let me turn it back over to you.

MS. TRAILLE: Sure. Thank you, everyone. Our next session is focused on large bank strategy and resolution options.

We have our FDIC panelists rejoining us here, and then also Deputy Director Shawn Khani, to speak to the session. And to start it off, I will turn it over to Ryan.

MR. TETRICK: Hopefully, you'll just here me once. No, that's twice.

(Off mic comments.)

MR. TETRICK: So, we're going to turn back to large banks we discussed earlier today, how we got into resolution, ran the bridge banks, and the sessions about how we got out of resolution, or are still getting out of resolution.

So, we can turn to slide 28 here. We discussed in the last meeting of this committee some of the challenges that we anticipated in marketing large regional banks. And then we were confronted with those challenges this spring.

Some of those challenges are listed here. They were compounded by the significantly truncated timeline that we experienced, and one of the messages of this session is that while these challenges were ultimately overcome, and that we were able to sell each of these banks, we don't think the lesson from that should be that we can rely on large bank sales as an exit from a regional bank resolution. That's something that is possible, but an uncertain prospect.

There was significant interest expressed to the FDIC. And considering bidding on these banks from institutions of a range of sizes, as well as from non-banks, but ultimately, there were few bidders that were able to submit strong bids that were able to compete with the costs of liquidating the banks.

We were also confronted with the challenge of balancing the need to provide sufficient time for due diligence for the bidders to formulate their bids, with the goal of exiting quickly, before value deteriorated and compromised the opportunity.

These banks occupy unique niches and had some unique asset portfolios, which also made it a challenge for bidders to evaluate the acquisition opportunity, both from a valuation perspective, and to assess whether they were good strategic fits for a merger.

And then we really needed to look for ways to shrink the size of the transaction, so that more banks could compete and participate in the bidding process, which meant that we had to leave behind significant pools of assets in order to undertake these resolutions.

In fact, turning to the next slide, part of the message that'll come through here is that our job was hardly, if even half-finished when we completed each of these bank transactions.

I'll go through the top few rows here, and just touch on the bank sales. And then Shawn Khani's going to go through the bottom two rows and talk about the work that we've been doing on asset dispositions out of the receiverships.

We won't go through all the detail here, just touch on a few points overall and a few highlights for each of the transactions.

First, I'll note that while in each instance there's what we call a holding bid that won, and that, effectively, all the deposits were assumed and most of the assets were acquired.

We were express in welcoming non-conforming bids. We were looking for whole-bank bids, but we were express in welcoming non-conforming bids, to maximize the likelihood of a sale.

And similarly, we were not encouraging or discouraging bidders of any particular type, whether it was midsized banks, G-SIBS, non-banks. What we wanted was competition, and as much of it as possible.

I'll say that at the end of the day for each transaction, of course, cost was the determinative factor. We were looking at a range of bids that we received, and simply assessing those, and obliged to pick the one that resulted in the least cost to Deposit Insurance Fund.

And another sort of interesting feature, generally, is that depositors were ultimately attractive to the winning bidders in all cases, both insured and uninsured depositors.

That's not too surprising, given how important that the uninsured depositors were to these particular banks and how connected those depositors were to particular lines of business.

But it's a noteworthy outcome in each instance.

For Signature Bank, which is the first bank that we sold, the acquiror, New York Community Bank, and their subsidiary, Flagstar, was a good strategic fit for that bank in that they were sort of crosstown rivals.

But a consequence of that was that as part of the reason why a large portion of the loan portfolio was left behind in the receivership, because it would have been problematic for Flagstar to then have a huge increased concentration in the same market. And so, that resulted in the significant loan portfolio that we've been handling in the receivership for that bank.

With Silicon Valley Bank, we were particularly aggressive in expanding the marketing of that institution.

So, we solicited not just whole bank bids, but also bids on SVB Private, their wealth management line of business, and then also bids on pools of assets. So, we segmented their loan portfolio into fifteen different tranches, and were seeking asset bids at the same time we were seeking bids on the whole bank and on the wealth management business.

This was important given the relative complexity of Silicon Valley's business and the fact that we wanted to do everything we could to arrive at a positive outcome.

It also made, once we actually received bids, our job more complex over that week in comparing a variety of different types of whole-bank bids and asset bids, and bids for lines of business.

Ultimately First Citizens was the winning bidder with a whole bank acquisition, and as anticipated in any transaction with that bank, the left behind the large underwater securities portfolio that was part of the cause of that bank's failure.

And then with First Republic, it might

at first look like what happened there was something a lot more like an ordinary FDIC bank marketing process, in that the announcement that the FDIC was appointed as receiver, and of the winning bidder, was made at the same time.

And it's true, we had a lot more time to -- we talked about time to prepare for the bridge for First Republic if we needed it. We had a lot more time to market this institution, to pull together the full set of ordinary information that we get to build a data room to update that a couple of times.

However, because there had just been this significant turmoil in the banking sector and there was a tremendous amount of attention on First Republic, and that bank was in a particularly fragile condition, it made advance marketing of that institution, the way that we ordinarily do it, quite risky.

Because there was a real concern about leak risk and precipitating a failure earlier than it might otherwise occur.

And while we now know the bank failed on May 1st, it wasn't clear during this period when it might fail. There was a lot of uncertainty about whether it would zombie march on just for a couple of weeks, or a couple of months, or a couple of quarters.

And then I'll also note in that transaction, that JPMorgan acquired essentially all of the assets of the bank. But they were competing bids that would have left behind huge pools of the loan portfolio. And so, it just underscores that even though it wasn't the outcome in this transaction for regional banks, asset disposition is really a big part of the job.

And so, with that, I'll hand it off to Shawn to go through some of the work we've been doing on that front.

MR. KHANI: Thanks, Ryan. So, my name is Shawn Khani, Deputy Director, Asset Marketing

Management. So, I'll start with that.

So, actually, a lot of numbers here on this screen. I'm not going to hit every point, but I'm just going to highlight some of the key transactions that had occurred.

I'll also highlight that when this was all occurring, March 9th was also my anniversary, so the shock-and-awe was also felt by my wife that night.

But a couple of real highlights. If you look at the securities retained, when combined, it's $114 billion face of securities. That's between the two major retained portfolios from Signature and SVB.

In addition, we had about a $33 billion CRE portfolio from Signature, that was essentially concentrated in New York City.

So, very unique challenges. We also had additional exposures from SVB in various foreign jurisdictions. So, the scope of the work that was upon us was very significant.

And it was a lot of discussion earlier today about communication and operational strategy. The communication does not end once we basically pass resolution weekend.

So, a case in point is the securities portfolio had significant concerns for markets, both from a standpoint of the various asset classes, which in this case across ten different asset classes, but just the markets clearly realizing that this is one of the reasons why the banks were under stress, or had a run.

And so, how we were to essentially resolve these assets had to be orderly, in order to not cause further disruption or knock-on effects.

So, how do we do that? One is clearly from a communication standpoint. We had to put out a press release. This is something that we typically would not do. But at this scale that we were operating, we had to make sure that people knew what the game plan was, essentially.

The second thing that we had to focus on was the fact that we had to make sure that everyone was not only aware of the game plan, but that we really had a gradual and orderly pace.

What we did not want to do is any sort of a fire sale of any kind, which there was a lot of speculation, the fact that some of these subsectors ceased trading altogether, in anticipation of our move. So, that was troubling.

We also didn't want to rush anything, because, again, with that many securities, operationally, you have to set up sort of a back-office, middle-office, front-office operation, in a matter of weeks.

So, we could not rush that process. We don't want to fail trades, we don't want to be necessarily utilizing a custodian of the bank that had failed.

While we have an interim service relationship with Flagstar, there's a tremendous amount of operational challenges. We had to kind of centralize that operation first, and then start moving with our financial advisor.

We also did this with close coordination -- this gets back to the communication again -- with our U.S. Treasury, Federal Reserve, FHFA, along with market participants that wanted to discuss our plans.

We even consulted with our bridge bank CEO. So, Tim and, of course, Greg Carmichael.

So, with that, a lot of communication, just to reflect on the strategy, that it will be gradual, that we did not want to disrupt markets, and then we also wanted to have robust competition. So, we put out information to how someone would register.

We wanted to make sure that given that most of these securities are electronically traded, we wanted to make sure that we operate under standard market practices. So, we traded the way it's expected to be traded.

So, we don't take a discount as a result of that, or, again, kind of fall out sort of off-the-run-type process that is not conducive to liquidity, where we take a deep discount.

So, one of the things we did was, we had to also make sure that we were getting independent pricing and color constantly. Like, daily, or within the day, just to make sure that we weren't disrupting any markets and were keeping sort of our ears to the ground while this process is rolling.

So, took a few weeks to get it operational. And after that, we had 26 consecutive weeks of sales between two to three auctions a week.

And somebody mentioned zero risk. I think Gary Cohn mentioned it. So, these are zero-risk-weighted assets. But the liquidity is challenging with this size. Right?

So, we tried to target between four to eight percent of daily trading volume. So, that was dependent upon the week -- the day, literally -- of how these things were trading.

We had to go out slow in the beginning. Because, again, a lot of people were just not trading at all, once they realized we're not going to fire-sale it and we're just going to kind of move forward in a gradual pace, orderly pace, and we were able to see that the market started to actually pick back up, demand started to increase as well.

And we ended up, through the course of that operation, we sold nearly $99 billion. That's over 5,900 trades. So, that was a significant operation that occurred.

And the fact that it didn't make the headlines, other than maybe early on in the process, was kind of the point. Right? We didn't want disruption.

The one area that we did have to pivot a bit -- so, this gets into liquidity -- was the Ginnie Mae project loan securities.

It's a significant portfolio. Essentially, it's a buy-and-hold bank paper. Again, it's zero-risk-weighted, but very thinly traded. So, we had about a year's worth of trading of volume on our balance sheet.

So, how do we avoid that? We actually pivoted to doing a securitization with an FDIC guarantee. That takes it out of that market and allows that market to kind of function again, recognizing that it won't enter that market in the same form that people were expecting.

So, we had to do some pivoting there. But ultimately, that encompasses the large majority of that securities portfolio that we had to manage through.

Now, as receiver, so we have a bunch of obligations under statute. There's maximizing recoveries, minimizing losses, ensuring adequate competition, prohibiting discrimination, but also maximizing preservation of the availability and affordability of low- and middle-income affordable housing. So, this is on the residential side.

So, the reason I'm mentioning that one more prominently, because that came into significant play with the CRE portfolio.

And this CRE portfolio is still in process of closing. It's actually closing this month. So, I can't speak to some of the details around it.

But I can tell you that $15 billion of which were rent-controlled, rent-stabilized, as well as Section 8 housing.

So, that needed an additional high-touch approach. First, it's very concentrated in New York City, so just a sheer market concentration is a challenge.

Second is just doing the due diligence. So, a lot of people said that there wasn't enough time for anyone to have enough runway to bid on these institutions.

We have the same issue. Post-closing,

we didn't have a lot of information. It took us weeks to just get our arms around the data. We even partnered with city and state officials, through information sharing agreements, to see what data they have.

Just to decipher the portfolio. To get the understanding of where it's at. And of course, we're going to leverage the staff and the data that the failed bank has. But you still have to do your own homework. And that was important.

The second thing we didn't want to do was rush it. We didn't want to have a misstep. Similar to a securities portfolio, we don't want to rush out there to market and suddenly have to pivot, re-message all that stuff. That would not instill confidence.

So, we need to make sure, how do we address all these statutes, including the one I mentioned on affordability?

And so, we landed on a couple of

things strategically. Well, really three things.

One was to leverage our ability to do joint ventures. So, this is a partnership where we can hold a majority ownership stake, particularly with this portfolio.

The second thing was really to focus on the fact that we had to have a stringent sort of oversight of these things, post-close. Even though we're holding an ownership stake, people might want to know, what's your game plan for seeing it through?

And then, of course, we need to have an appropriate operating agreement. So, that takes several months. We didn't have one that particularly addressed this type of portfolio and these unique challenges. So, we had to take some time. And it took several months to kind of get it all together, in terms of the data and so on.

And there was a lot of outreach, similar to when we said communication. I mentioned city and state officials, met with the attorney general, the comptroller, we had attended town halls.

And I literally met personally with every single tenant association that wanted to meet with the FDIC.

So, the point of that was we wanted to make sure we're not missing anything. But also, we wanted to make sure that people got the same message at the ground level, because there was a lot of speculation about what our intent was, or what's going to happen, what the outcome would be.

So, that required a very different process than securities. But nevertheless, communication was a big component, but also being thoughtful about the approach.

Now, this transaction is closing this month, like I mentioned. But those principles are where we feel we had enough thoughtful approach to basically getting it right, so to speak, at the end, making sure that all constituents are, I don't want to say satisfied, but at least aware that we did our best to address all of our statutes.

And then I will say another similar piece of the puzzle was really within our international operation. I just want to highlight one quick thing is the German operation.

So, we were talking about, with respect to some of the operations that occur, even though they're not significant in terms of what we would think about in a G-SIB and the types of operations where we worry about shared services, operational continuity -- we still had to think about operational continuity from our perspective. Right?

And that's working with regulators at BaFin, to recognize our receivership resolution process, and also to work with employee retention, working with employee laws which are different, getting a financial advisor that can operate in this area, to conduct sales.

It was a significant operation for us, given that it was overseas, and I'm not mentioning the other areas.

But that's another example of making sure that we coordinate with our regulators overseas to get that process correct.

So, I'm trying to go as fast as I can on this. But that's basically some of the highlights from the asset sales and dispositions that we've done to date.

MR. TETRICK: So, we'll turn to slide 30, and then we'll take some questions on this session. So, as Shawn has gone through, we had a considerable job to do out of the receiverships. The large bank sales was ultimately achieved, but a pretty uncertain prospect for a period.

So, we've talked about some of the challenges. What can we do about those challenges? Some of the things that we're focused on here in the opportunities column on the right-hand side.

But I think the main message here is that there's still a significant strategy problem for large regional banks.

It's possible to sell large banks, but not always going to be an option that's available to us and not one that's going to be available to us with a high degree of confidence.

The alternative of liquidating a large bank is going to be highly disruptive and value destructive, and is unattractive for a large number of reasons. And there's just not currently other reliable good options that are available to us for banks in this category.

It's probably the case that for regional banks there's not going to be a one-size-fits-all solution. So, unlike for G-SIBS with single point-of-entry, for regional banks strategy's probably going to be more dependent on the particular bank and the particular scenario in which it fails.

But we do want to do the things that we can to make a large bank sale more likely, more likely to occur at a lower cost, and a wider range of scenarios.

I'll run through some of the things that we're doing here, and would be interested in the committee's views on improving the strategic options for these banks.

Obviously, we'll talk more in the next segment about the proposed long-term debt requirement. But that can play an important role in internalizing the costs of a bank failure, and increase in the possibility that more strategies meet the least-cost test.

Some of the transaction structures that Shawn's talked about to market assets out of the receivership, Shawn and others have been looking at ways to make those types of transactions more available up front when we're originally marketing a bank, so that we can market assets to a wider group of parties. That can be particularly valuable to non-banks, to be able to compete up front and just reduce the overall size of the transaction for another acquirer who might be bidding for the whole bank at the same time.

In terms of the time pressure that we faced, we're placing a lot of emphasis in resolution planning on data room capabilities, so that we can stand that up quickly, and also continue to build out our bridge capabilities, so that if we need more time, we can take it.

And then on financial constraints, because there are capital financing liquidity issues that acquirers need to navigate in participating in a large bank transaction, it's clear that we need to continue to develop the tools that we have to address that, whether it's loss share or seller financing, or other options for enabling banks to participate in large transactions, if that's what we need to do.

And then also, in part with that in resolution planning for the IDI plans for the regional banks, we're very focused on separability and having franchise components.

Not ones that are imaginary, but identifying those parts of the business that are readily actionable, that you could carve out at the time of a bank failure, to, again, reduce the overall size of the transaction.

What comes with that is that we need to anticipate the asset marketing strategies up front. That needs to be incorporated as part of our resolution planning, and to be something that we're looking at when a particular bank is failing a particular scenario, thinking about as we're marketing the bank what our asset disposition strategy, so we can stay ahead of that at the same time.

So, those are some of the things that we're focused on, and would welcome views on how to solve the large bank strategy problem, or any questions that you have.

CHAIRMAN GRUENBERG: John?

MEMBER REED: I'm interested that you didn't mention customers. It would seem to me that if you had a good sense of who the customers were, what relationship they had with the institution and so forth, that acquirers are not only looking at the assets, but that's not going to be the real reason. They have to look at the franchise value. And I always used to say, who's your customers, what role do you play in their life, and why did they choose to be with you.

And if you could answer those questions with regard to the customers that are represented in some of these banks, it would seem to me that you'd have acquirers who were looking beyond the immediate asset value.

MR. TETRICK: I think that's a great point and something to focus on the resolution plan submissions to. It's worth thinking about how to market an institution. And who's next?

MEMBER HERRING: Thank you. I have two questions about the whole-bank outcomes. First was with regard to the sale to Citizens Bank.

My recollection is that Citizens Bank market value went up by a huge amount -- maybe as much as 40 percent -- just after the transaction, which suggested that maybe the FDIC didn't drive as hard a bargain as one might wish if you were going to maximize returns to the Deposit Insurance Fund.

And the second question was the extent to which you worried about too-big-to-fail aspects when you thought about bids.

J. P. Morgan ended up with First Republic, and if I look around for the safest hands, that's where I would go, but it's also the largest bank. And if you worry about too-big-to-fail, you've just made one even bigger.

MR. TETRICK: So, really good points on both of those. And it was First Citizens, and

First Citizens, clearly the market viewed that as a very favorable deal for them.

And as I noted, we were as aggressive as I think we could be in the time period that we had and how we marketed that institution. We were innovative, compared to past marketing processes.

It wasn't just the whole banks. We were looking at ways to maximize the value. At the end of the day, we were looking at piecing together the range of asset bids that we got with whole bank bids, other permutations, and there was just a lot of uncertainty around that bank and we didn't get better bids.

And so, I think there was a judgment as to whether attempting to prolong the marketing process to seek a better outcome would have resulted in that, or would have resulted in further deterioration of value.

And our view was we were better off exiting, that a better deal wasn't coming down the pike.

MR. STARKE: Yeah, and I would also add -- didn't show up on the slide -- but part of the transaction involved the issuance of warrants by First Citizens that the FDIC cashed in on the week after the failure. So, there was some upside for us as well in the transaction.

MR. TETRICK: And then on the sale to J. P. Morgan, the G-SIB point, the concentration point, I mean, that's clearly a concern.

And I'll first note that in the case of Signature and SVB, were first at first criticized for a perception that we didn't want to sell to a G-SIB, when in fact we were just seeking the value-maximizing outcome. We were hoping a G-SIB bids there too.

Here, J. P. Morgan I think was clear, was the least-cost bid. It was fairly decisive and we felt bound by the least-cost test to pursue that option.

That said, I think some of the things

that we're looking at doing can help make regional banks more competitive.

A big challenge here for regional banks bidding on a large bank that's comparable in size, is that they needed to solve for their post-acquisition capital, which meant they had to increase their asset discounts in order to maintain what they thought were healthy capital ratios.

The long-term debt can help with that by absorbing some of the costs. And focusing on separable components to reduce the size of the transaction could also potentially help with that and make smaller banks more competitive.

MR. STARKE: And when you say, we felt bound by the least-cost test, the statute's very clear that to the extent the bidder's approved by its regulator, it was less costly than liquidation, and less costly than any other bids. The statute gave us no choice, other than to accept the JP bid.

CHAIRMAN GRUENBERG: Meg?

MEMBER TAHYAR: Thanks, Chairman. I've got to comments and a question. One comment goes just to make sure that it doesn't escape folks here on slide 29. Flagstar, five bids, four bidders, Silicon Valley Bank, 31 bids, 20 bidders. First Republic, twelve bids, four bidders.

Having been on the other side of that process, what that tells you is that the FDIC staff, going overnight, is acting just the way it happens in a private M&A. They're coming back to the bidder saying, couldn't you do better here? Couldn't you do better there? Don't you want to make it better?

They are tough negotiators. And this makes it clear that they are working hard to get that least-cost by going back just the way a private sector actor would go back.

The second comment is on the virtual data rooms. That was really grit in the system.

And it's really quite clear that having the private sector have the capabilities to have those virtual data rooms in place will be a lot faster than relying on FDIC staff to run around and do it.

But one of the things that's really good about the IDI rule, is it's not requiring that the private sector banks have that virtual data room at all times in all places. It requires capabilities to show that you can put it in place really quickly.

And that's very important because there's a lot of confidential data there, and the idea, in my view, is not to create a honeypot for cyberstalkers to come in and say, what could I get at that, but to show that any bank that's subject to the IDI rule can populate that IDI room within 24 hours. In my mind, that's very good policy.

And here's my question. Shawn, looking at the dispositions afterwards, so at the moment of failure, the FDIC puts out a very specific press release that estimates the loss to the Deposit Insurance Fund from that failure.

Does that estimated number at that time include or not include the results from the later sales? I mean, does it have an estimate of them, or is it just basically pre-that, and then later on you're going to update the cost to the DIF and the specialist fee assessment?

MR. KHANI: Yeah, so at closing they're projected, based on whether it's mark-to-market, in the case of securities, as well as expected dispositions.

Now, you're sort of beholden to as good as the data is at failure. Subsequent, as we move through the resolution process post-closing, then those numbers would be revised over time. And it can go in either direction, improving or getting worse, depending on how things go.

MR. STARKE: So, in this case, we made

estimates at the time. Some of those losses now crystallized, as we've been able to dispose of some of those assets. And I think we've come in pretty close to where we estimated.

MR. TETRICK: And if you don't mind, I'll just mention on the virtual data room. It was particularly tough for SVB, and there was perhaps some correlation here in that the bank's data itself was not in very good shape and it was difficult to pull together data that was of high quality.

MEMBER TAHYAR: Felt tough at Signature as well.

MR. KHANI: We also wanted to note that some of these transactions are longer duration too, so shared loss can go across a number of years.

So, how that plays out is a function of how they manage their assets that they retain with our coverage or relationship there. Also, in these joint ventures that are created, that also has a longer runway too.

So, the numbers can change over a matter of years, versus, like, selling things outright.

CHAIRMAN GRUENBERG: Sandy?

MEMBER O'CONNOR: Thank you. And a great report out. Much, much appreciated.

Two comments and a question. I just think it's important to note, which is a little bit different with First Republic, you did have some of the largest banks, I believe, infuse $30 billion in deposits to sort of, thinking of First Republic was a bit different than some of the other pieces.

And I think that was a good demonstration by some of those organizations, to try to instill some confidence. I think that's of note.

On the too-big-to-fail comment, I think we need to continue to be careful with painting everything in sort of the same way, in the sense that I think the teams here and across the agencies have done an extraordinary job with liquidity rules that didn't exist before, with increases in capital requirements, with resolution plans, which I do believe can be very, very viable, and to make everyone sort of feel a little bit better. This goes back to the stress testing that does go on with CCAR, and many of the individual organizations right now on their own carry enough resources, as demonstrated through CCAR results, by themselves, to cover all the losses that occurred in 2008.

Now, you can't go back and trade the last thing. But I think, take a breath on that. That's really important. So, more may or may not be better.

And I think therein is my next question. You talked about, for zero-risk-weighted assets, notably treasuries.

Market depth is actually not what it needs to be. And that's driven by a few things, one of them being the size of the deficit, another one being the shift in how primary dealers think about taking on those assets. And, by the way, the primary dealer size relative to the treasury market.

So, how are you thinking about the fact that we need to tend to the functioning of all of our markets, but most notably these, in the context of different players, bigger size, and ongoing increases in requirements for capital and liquidity that target these particular assets?

Because these are vital in order to make resolution plans functional and preserve asset values.

MR. TETRICK: So, I think that's a problem we're probably not entirely in a position to solve. But it's a concern. And it's dynamic that we've absolutely observed.

And as you rightly point out, there's an assumption and a range of uses that there's deep liquidity in those markets, including for resolution purposes. And so, we need to examine if those assumptions hold.

But it's not the depth of that market. And some of the questions about the functioning in the treasury market or securities market is something we're attentive to, but just not in a position to address ourselves.

MR. KHANI: Yeah. Also, the securities portfolio we happen to retain at very low treasuries, actually. It was mostly agency paper that add to the complexity.

And like I mentioned, some of the sectors, or subsectors, are incredibly illiquid, despite the zero-risk-weighting.

MEMBER O'CONNOR: Yeah, and I anchored in on treasuries, because you had lots of mortgages here, when you think of everyone's holding treasuries for the same reason, whether it's HQLA and big banks, whether it's that margin at CCPs, whether it's as liquidity buffers in asset management portfolios. So, something that can carry on, making sure we're tending to.

CHAIRMAN GRUENBERG: Tim?

MEMBER MAYOPOULOS: Thank you. I just wanted to offer a little bit more kind of market color on this question about whether First Citizens got too attractive a deal from the FDIC.

First, I wasn't involved in evaluating the deal, and so I'm not talking my own book here. But there are a couple of things about the circumstances of SVB that made it especially complicated, over and above what the FDIC staff I think has very well described.

One was you had multiple institutions expected to be on the market at the same time. And I think it's fair to say that First Republic was probably regarded as the most attractive of these three sets of assets.

And so, for Signature and SVB in particular, institutions like J. P. Morgan were not particularly interested in bidding for SVB, knowing that First Republic is likely to come on the market at some point. So, it just limited the number of kind of larger institutions that might be interested.

And second, something that didn't become apparent to me until about halfway through the marketing process, was that Silicon Valley Bank was a state-chartered bank and that probably wasn't by accident.

Like, its business model involved making loans to venture capital-backed portfolio companies, sometimes to a point where they didn't even have revenue, let alone profitability.

So, the OCC was not likely to actually approve any national bank buying that institution, because the loans it was originating would have been criticized assets at the moment they originated.

So, the number of state-chartered institutions in the United States that were big enough to actually absorb SVB, and actually had an interest in its fairly idiosyncratic business model focused on the innovation economy, I think was pretty limited.

So, I think under all the circumstances, the fact that the FDIC was able to get a whole institution sale done at some reasonable price, as opposed to, like, breaking it all up and just selling off asset portfolios, I think was actually pretty impressive.

And First Citizens ended up being kind of the beneficiary of that. Because it was one of very few market participants who could actually step up and make that bid.

CHAIRMAN GRUENBERG: Jon?

MR. EINBERG: Thanks. Was there any difficulties on AML and CTF regulation or conduct?

So, I notice you kept the crypto-related deposits. And was that because actually nobody wanted to take them because of concern about what might be behind them?

And to any extent, did you have to give safe harbors? Because I remember after the financial crisis a number of banks who bought other banks actually had to pick up the tab for those sorts of failures. Was that an issue at all in this?

MR. TETRICK: So -- and follow up if I'm not understanding the questions right. But it's very much as you described for the crypto-related parts of the business in both Signature and SVB.

You just had FTX, Silvergate, and then these banks, that had, at least, particularly, Signature, had been in that crypto space, and so there was just a paint-by-association that others didn't want to take on.

And so, it wasn't something that we were leaving out of these transactions. It was that Flagstar didn't want to have any of that associated with them as part of this acquisition.

It was a relatively small part of the

bank by the time we were marketing it, but there was just not a desire to take that on.

And then there wasn't, that I'm aware of, any particular safe harbor that we provided. There were loss-share agreements to protect acquirers from the worst possible downside risks, but not -- yeah.

(Off mic comments.)

CHAIRMAN GRUENBERG: Gary?

MEMBER COHN: So, quick clarification. On the bidders, did you have to have a bank charter, to be considered to get to the finals?

MR. TETRICK: So, in order to assume deposits, you had to have a bank charter.

MEMBER COHN: So, you weren't willing to grant anyone a bank charter, even if they were a better bid.

MR. TETRICK: So, we don't grant bank charters at the FDIC, unless it's in the context of a G-SIB failure, I guess.

MEMBER COHN: Well, they became G-SIBS

when they got a big --

(Simultaneous speaking.)

MR. TETRICK: Well, maybe so.

MEMBER COHN: It was an interesting weekend. Some of us went through that. Some of us were there.

MR. STARKE: Yeah, we work on the resolution, but we rely on the supervisor of the acquirer to make the decision on whether they should make acquisitions.

And yeah, I think there were some shelf charters back in 2008. I'm not aware of any of those now. But as you probably know, you don't create a bank overnight. There's a fair amount of due diligence that the regulator does.

MEMBER COHN: A couple were created overnight.

MR. STARKE: Okay.

MEMBER COHN: I ran one that was created overnight.

MR. STARKE: Well, it's hard to do.

MEMBER COHN: It's hard to do. It was extenuating circumstances. No, I ask the question because as these banks get larger and larger, and some of the alternative pools of capital get larger and larger, you draw the venn-diagram, you have to start thinking about it.

Could you create a bank relatively quickly, to solve one of these problems, in lieu of creating a bigger G-SIB? That may be a track that you might want to consider.

MR. KHANI: You mean a bridge bank? No, I'm just kidding.

MEMBER COHN: Well, no. I mean a non-FDIC bridge bank. A bank where a third-party risk capital is put up. Real third-party risk capital is put up day one.

It may look like a structured bridge bank where the first tranche of loss of capital is outside capital.

MR. TETRICK: Well, I think we asked for solutions. So, that's welcome. We should be getting things to think about here.

And when we did welcome non-banks to participate in this process, they did participate. They did submit bids in tandem with banks putting in capital. But it was a bank that we were going to be facing in the transaction.

And if there had been compelling opportunities with non-banks, I don't know if we would have been able to consider those in a timely way, but it would have been a matter of, could we have done it in a timely way?

MR. STARKE: And I would suggest there's a third option to selling to a bank or having a new bank created, which is if we create the bridge bank, and particularly if we can recapitalize it through long-term debt if that road's adopted, we would be able to potentially sell the bridge bank and have that return to the market, undoubtedly smaller through the bridge bank process, but without any consolidation of the industry.

CHAIRMAN GRUENBERG: Doug?

MEMBER PETERSON: What Gary just described is how some of the banks in Japan resolve. Like, Shinsei Bank and Lone Star, etc.

My question was about incentives. Your incentives as managers and as people working in the organization, I'm sure you have some sort of cost-of-funding that you look at.

But how do you balance speed versus value? Do you have incentives? Do you think about this? Do you track? Do you have KPIs that you measure your performance against? And how do you balance speed versus value capture, loss capture, etc.?

MR. TETRICK: And others can jump in. If the question's simply about, like, how we measure that in terms of --

MEMBER PETERSON: So, like, how does Marty measure how well you do at the end of the year?

MR. TETRICK: I'll have to talk to him

about that. But on bank transactions --

CHAIRMAN GRUENBERG: He does pretty well, I have to confess.

MR. TETRICK: I mean, it all comes down to value. So, when we're thinking about time and exiting quickly, that's about are we doing that in order to preserve value?

So, there's the possibility that value will attrit over time. There's cost to the FDIC in running an institution. But our bottom line is it's a near-religion at the FDIC. It's cost-to-deposit insurance fund. And so, every decision is made on that basis.

CHAIRMAN GRUENBERG: Sheila?

MEMBER BAIR: Thank you. I just had a couple of follow up questions. One was on the crypto question.

There were several billion of crypto-related assets at Silicon Valley too, weren't there? I assume the bidders didn't want deposits that were tied to crypto, so it was paid out.

Well, Coinbase had a reserves back in their stable coins, so maybe they weren't directly connected.

MR. TETRICK: Yeah, I don't think there were any crypto-related. I don't recall any crypto assets.

MEMBER BAIR: Oh, not crypto assets, which always tied --

MR. TETRICK: Deposit-related through --

(Simultaneous speaking.)

MEMBER BAIR: -- deposits that were backing crypto assets. So, you just paid those out, I assume? I was just curious of the result. Oh, it's okay.

MR. TETRICK: I don't think there were any deposits that were associated with crypto in that bank that were carved out. I think all the deposits were assumed.

MEMBER BAIR: All of the deposits were assumed?

MR. TETRICK: Yeah.

MEMBER BAIR: Okay. Really? Oh, okay.

MR. KHANI: Yeah, in Signature, that was the case. Those were not assumed by Flagstar.

MEMBER BAIR: But the stablecoin reserves at Silicon Valley were purchased as part of the whole-bank transaction?

MR. TETRICK: Just don't recall that being a part of the bank, or being an issue.

MEMBER BAIR: Oh, okay. Well, that's fine. The other question, to Gary's point, and maybe this guidance is still out there. We had this issue of -- and Pen, I think you helped draft it; Art probably too -- private equity wanted to come in and they wanted to bid on whole banks and Asia bank charter.

And so, some of the charter in the agencies were accommodating the add-in. Some of those were fine, and so it just made us a little nervous.

So, we set out some guidance saying, okay, we'll do this, but we're going to give you lock-up periods and higher capital, etc.

I mean, that seemed to provide -- a lot of them didn't like it, but at least provided clarity about what they needed to do to be a new bank charter and bid in a whole bank of acquisition-only securities. Is that still there, or is that even thought about, maybe?

(Simultaneous speaking.)

MR. STARKE: It's still there. There seems to be less interest at this time.

It seemed to me anyway -- and Ryan or Shawn, jump in -- but the non-banks, the private equity firms, were interested in partnering with the banks.

And that could be very effective, because buying assets for a bank has a huge capital cost and if the PE firms can take the assets, that helps them. So, none were successful, but we had several --

MEMBER BAIR: So, they were backing the regional banks, or interested in investing in the regional banks.

MR. STARKE: Exactly.

MEMBER BAIR: Yeah, that makes a lot of sense. Thank you.

MR. KHANI: Yeah, there was definitely a lot more interest also just in the structure, or the assets themselves. Specific asset classes.

MEMBER O'CONNOR: Just a follow-on question to what Sheila asked. How many new bank charters do we issue on a twelve-month basis? Because my intuition is there are probably a lot of people that want to become banks that might step in here. Really, just, I want to balance it.

MR. STARKE: We're a little stove-piped at the FDIC. And so, obviously, we have to approve deposit insurance for new banks. Chairman, do you have a better sense?

CHAIRMAN GRUENBERG: I'd want to check the numbers to be sure. I think over the last five years there have been 50 or 60 de novo institutions, and other Christmas or community banks.

MEMBER O'CONNOR: Thank you.

CHAIRMAN GRUENBERG: Matt, if I may just add one comment. The asset disposition function of the FDIC after a failure is probably under-appreciated responsibility that we have that's really quite consequential and can have real market consequence.

And in particular, I really want to -- and you can see that from the slide here -- in particular, in New York City as a result of the Signature failure, we came into ownership of 4,000 multi-family housing properties, with 80,000 units of rental housing.

And even in New York City, 80,000 units of rental housing, most of it rent-controlled and rent-stabilized, is a remarkably large resource, particularly in current market conditions, where affordability of rental housing is one of the key challenges.

And the FDIC, under statute, has an obligation to maximize the preservation of affordable housing in the disposition of these properties.

And I will say Shawn and his team just did a remarkable job. And any of you who -- I'm a New Yorker, so I have some appreciation of this -- anyone who has any familiarity with doing business in New York City, particularly in apartment buildings in New York City, really would appreciate the skill with which this was done, working in partnership with the city, the state, and community organizations across New York.

I mean, everybody likes the FDIC right now in New York City. And that's just not the way things generally work, I just have to tell you.

And Shawn mentioned there were numerous tenant associations. And Shawn met with literally everyone that asked to meet with him. And the value of that and the return on that, in terms of the cooperation we received and the goodwill, was really quite remarkable. And I think we're going to execute on this, complete the sales I think by the end of the year.

But the arrangement here will be for the FDIC to retain an ownership interest, particularly in these affordable housing properties, to assure a basic quality of management to benefit the tenants here.

So, I think we're doing the responsible thing from a financial standpoint, and really executing on a broader responsibility that the FDIC came into here.

So, I just wanted to acknowledge that and the fact that one of the apartment buildings in the Signature portfolio happened to be the one in the Bronx that I grew up in. Did not affect my perspective here whatsoever. Just for the record, 2766 University Avenue.

Any other comments or questions on --

MS. TRAILLE: So, we're running a little out of schedule, but I think we can use it very easily in our final session today. So, let's take a fifteen-minute break and come back at three o'clock. Thank you.

(Whereupon, the above-entitled matter went off the record at 2:45 p.m. and resumed at 3:01 p.m.)

CHAIRMAN GRUENBERG: Okay. I think we're on the home stretch here.

MS. TRAILLE: We are.

CHAIRMAN GRUENBERG: Jenny?

MS. TRAILLE: Okay. Thank you very much. We are now ready for the last session of the day. So far this morning and through this afternoon we've been talking about the experiences that we had in the spring failures and now we wanted to pivot towards considering some of the policy initiatives that we are working towards.

So we have several speakers, and we're going to run through four different areas. And so I would like to just introduce our FDIC panel.

We have Senior Deputy Director Rae-Ann Miller who will speak first. We have Senior Economic Researcher John Pogach, Deputy Director Andy Felton, Senior Resolution Readiness Advisor Betsy Falloon and our legal counsel Dena Kessler. And I will turn it over to Rae-Ann to kick us off.

MS. MILLER: Good afternoon. As Jenny mentioned, my name is Rae-Ann Miller. I am senior deputy director in our Division of Risk Management Supervision.

Among other responsibilities that I have are policymaking. I do certain policies related to corporate governance, credit risk, brokered deposits is in my area. But I think most importantly, we do maintain the manuals for examination policies for the risk management area.

We maintain something that we call examination documentation modules, which are the procedures examiners use when examining institutions generally that we supervise, although we do engage in backup supervision for institutions that we don't supervise.

So I was going to talk a little bit -- can we advance that slide? I was going to talk a little bit about some of the policy matters that we've been working on. And for the most part when I'm talking about policy matters, I'm talking about supervision policy and actually how we do the exams and what kind of changes that we have made that were informed by the lessons that we learned. And we're not done, of course, we're still looking at other areas. But that's kind of the focus of what I wanted to talk about today.

And I haven't been able to listen to the whole presentation today, but I have heard some bits and pieces. So obviously we've been talking a little bit about the internal reports that the Fed produced, that we produced. You know, we focused particularly on the recommendations and considerations for us as examiners of FDIC supervised institutions.

So, you know, drawing on those, you can go back and read some of our responses where we're done yet. As I mentioned, we've gotten -- the First Republic material loss review has just been released the 28th of November. So we're still certainly working through some of that.

But a lot of things we've already done, and I was going to kind of go through that with you at a high level and some of the other things we're planning, and if there is any bankers here or advisors to bankers, you know, what they could expect to see in our supervisory priorities for 2024.

So maybe advance the slide for me, please. So we have -- I mentioned we have our manual. We also have internal instructions. We have training. And that's how we communicate to our examiners our expectations.

And so internally we have distributed instructions and guidance to our examiners. The first area is in escalation of supervisory matters. This was an area that was identified primarily in our Signature review as well as in the SVB, the Fed's review.

And so for us, what we're talking about here is within a -- typically within an examination cycle, if supervisory concerns are raised and a supervisory recommendation is cited, procedures, more specific procedures on escalating that through what we call matters requiring board attention and then ultimately through enforcement actions.

We also took the opportunity to refresh our examiners on scheduling root causes of supervisory concerns and what you'll see in some of the reports and in some of these case studies is there was a root cause, right? There was a lack of attention say to contingency planning for liquidity or perhaps there was a poor culture of risk management and not -- I heard this morning, you know not staffing the senior risk management staff for a long period of time to identifying the root cause of concerns and then tracking management responses and doing a better job with that.

We have also updated our instructions on concentrations. And I did hear the first session, and we talked about some of the excessive levels of uninsured deposits at these institutions. So we've long had instructions in our exam procedures for citing funding concentrations. And we talked about uninsured deposits as part of those funding concentrations, but we put a finer point on our instructions to require a citation and write-up whenever those levels reach 50 percent or more.

And we've also expanded our

instructions about movement of those deposits and talked a little bit about, you know, this herd behavior that we saw, the panic behavior that we saw in the contagion situations. And we talked a little bit about that.

If you look at the First Republic material loss review, one of the things that our IG cited was long-held views about what the stickiness of deposits were really broken down. And, you know, unlike, you know, when you saw SVB where there is a lot of correlation between depositors, that wasn't necessarily the case in First Republic, but we did see that kind of contagion and movement and fear. And so we don't use the word fear in our exam manual. But just try to put a finer point, as I say, on really understanding and getting underneath what the concentration is.

The third thing that we've done is, you know, as the event was spreading, and unfolding, we wanted to make sure we understood the stability of deposits at other institutions.

And so we very quickly enacted a monitoring system, you know, trying to look at institutions with maybe similar fact patterns, similar vulnerabilities. And then as things were unfolding, there were new vulnerabilities that were sort of unfolding. And so we did that. We established a process for doing that.

We have been working on our staffing models. And one of the things that you will see in at least, and for Signature say, is that we did struggle with staffing in that institution. And for the coming year, 2024 and for the remainder of 2023, we really took a step back and tried to challenge some of our assumptions about staffing.

And, you know, a bank is not just a number, right? We have a declining number of institutions. But we've got an increasing number or increasing level of complexity to those institutions that we supervise, especially in the large bank sphere, which I'm lucky enough for the FDIC supervising institutions, I also -- I do operations and policy. So smaller institutions and larger institutions that are FDIC supervised are in my bailiwick. So really understanding the complexity and trying to do a better job of allocating staff to the complexity, not just that a bank is a number.

And with that -- I forgot to mention, too, on my first bullet point, I'm jumping around a little bit, but we do have two examination processes here at the FDIC for the FDIC supervised institutions.

So we have the point in time exam where, you know, a team of examiners goes in every 12 to 18 months, examines the bank with offsite monitoring in between and interim contacts. But we do have the continuous examination process as well for our largest institutions.

And we've instituted some changes to that process based on lessons learned. It might not be apparent to the banks that we are supervising but definitely procedures internally.

And one of those is -- you know, we talk about escalation. And we have escalation two ways, right? So for us escalation is to the bank when the bank is not -- either can't or won't be responsive to supervisory recommendations. We'll escalate that.

But also when we observe a breach or a significant increase in risk appetite, sort of out of the norms, we are requiring our examiners to escalate that to us.

You will read in the First Republic there was a significant breach in the EVE interest rate risk measure that was escalated within the bank but not necessarily within our management chain. So that was a lesson that we learned. And we already have a process for doing that. But we expanded the types of things that would fall under that process.

So the last thing I wanted to talk about was we have also issued a rulemaking on corporate governance. And the FDIC was the only of the banking agencies that did not have a similar regulation so that's open for comment right now. We just extended the comment period through February 9. But essentially it establishes or requires three lines of defense type of risk system that we do expect, but this would be a requirement for that.

And I mentioned just real briefly, we are not done with our lessons learned, and we are continuing to look at things with escalation, with volatility in all areas of the institutions. Obviously, we're looking at CRE very closely now, and that's been a priority since at least 2020 always, but, you know, heightened since 2020 and moving forward now into this sort of new phase.

But we're also looking at liquidity and contingency planning. You may have understood that the FHFA has come out with some potential changes. You know, they might have some rulemaking about usage of their funds. I heard some folks talking earlier about collateral management and difficulties that some of our banks experienced. So we're looking very closely at contingency planning guidance from institutions as well as instructions for our examiners on how to examine for those contingency plans.

So I think with that, Jenny, I think I'll stop.

MR. POGACH: All right. Great. Thanks very much. Good afternoon. My name is Jonathan Pogach. I'm a senior economic researcher in the Center for Financial Research along with Rosalind Bennett, who is also an economist in the center. I co-led a team of staff economists and analysts in the writing of the options for deposit insurance reform report that was released in May of this year.

The report is a comprehensive overview of the deposit insurance system. And it presents options for reform to address the current risks facing the system.

So on the first slide, you can see that the report analyzes the trends in deposits. In particular uninsured deposits have trended up over the recent years and have increased the risk of bank runs.

At their peak in 2021, the proportion of uninsured deposits was roughly 47 percent, which was larger than at any time prior to 1949. Large concentrations of uninsured deposits increased the potential for bank runs and can therefore threaten financial stability.

Next slide. We also discussed the technological changes such as the speed with which information is disseminated, and the speed with which depositors can withdraw funds can also increase the risk of runs.

The report also exams the objectives

of deposit insurance. One of the primary objectives, of course, is to promote financial stability. Banks fund long-term assets, like loans, with short-term liabilities, like demand deposits and the mismatch is what results in the risk of runs.

Bank runs destroy value and disrupt the provision of credit. In addition, a run at one bank can lead to confusion as depositors at similar banks also look to withdraw their funds. And even for those banks that don't experience a run, fears of contagion can nevertheless lead to a contraction of credit and can reduce economic activity and lead to job losses. And deposit insurance is designed to reduce some of these risks.

Another objective of deposit insurance is protecting small depositors. As of the year end 2022, more than 99 percent of deposit accounts were below the $250,000 deposit insurance limit. So deposit insurance protects the savings of small depositors.

The report also discusses the possible consequences of deposit insurance. Deposit insurance increases moral hazard, which is the incentive to take on greater risk as a result of being protected from the consequences of that risk taking.

Because deposit insurance insulated insured depositors from bank risk, they don't need to monitor their bank. And banks that practice sound risk management will incorporate the risks associated with deposit withdrawals into their decision-making. Deposit insurance reduces the need for banks to manage their risk-taking in response to the risk of uninsured deposit withdrawals.

So changes to deposit insurance, as we highlight in the paper, must consider both the financial stability benefits of more coverage as well as the potential implications for risk-taking in the banking system.

It's very important to note also as we do in the report that the effectiveness of deposit insurance will depend on how it is used with other policy tools. It does not exist in a vacuum.

So on the next slide and in the report we discuss some of the important tools that can be used alongside deposit insurance to help promote its objective while mitigating some of the consequences.

Regulation and supervision play important roles in constraining moral hazard and supporting financial stability. So, of course, tools like capital requirements and the supervision of bank growth can reduce the moral hazard that might arise from deposit insurance. And the supervision of liquidity can also help reduce run risks.

Expansion of long-term debt requirements can both increase financial stability by facilitating bank resolution and can also reduce moral hazard by increasing the market discipline from debt holders.

The report also discusses new policies such as requiring the collateralization of large uninsured deposits or limiting their withdrawal capacity, which could potentially complement other reforms.

The report also discusses the implication of deposit insurance to the Deposit Insurance Fund. Increases to deposit insurance limit -- increases to the deposit insurance limit would increase the size of the Deposit Insurance Fund that's necessary for a given target reserve ratio. And increasing the size of the Deposit Insurance Fund must be done through increased assessments on banks.

So on the next slide, we have an overview of the three options that we discussed in the report, the order on both the slide and in the report is just for the clarity of the discussion.

The first option that we discussed is what we call limited coverage. Limited coverage maintains the current structure in which there is a finite deposit insurance limit. In the report, that could be the $250,000 but potentially could also be a higher number. But this is one number that applies to accounts equally.

The second option, unlimited coverage, provides unlimited deposit insurance to all depositors.

The third option that we discussed in the report we call targeted coverage, which allows for different levels of deposit insurance across different types of accounts. And in the report we focus on what we call business payment accounts.

Although each of the options has relative strengths and weaknesses, we argue in the report that targeted coverage that focuses on business payment accounts captures many of the financial stability benefits of expanded coverage while mitigating many of the more undesirable consequences.

However, each option has relative strengths and weaknesses, and the report cautions that each of the options should be viewed alongside the other policies or policy changes.

So let me discuss a little bit more each of these options. The first, limited coverage, maintains the current system of deposit insurance, and by itself does not address the run risk that is associated with the high concentrations of uninsured depositors.

Increasing the coverage even by an order of magnitude to say millions may benefit certain depositors, for example some small and medium-sized businesses that hold deposits above the current limit but is likely insufficient to cover many of the larger uninsured deposit accounts.

Therefore, achieving financial stability goals under limited coverage would likely require other policy tools.

Unlimited coverage in which all depositors are fully covered effectively removes run risks but may have larger implications for bank risk taking, deposit insurance assessments on banks and broader financial market effects.

Insurance backed by the federal government provides the strongest deterrent. However, it would remove depositor discipline and may induce excessive risk-taking by banks.

However, other policy tools could be used to reduce moral hazard in the context of unlimited coverage. And for a little bit of context, unlimited coverage using fourth quarter 2022 balance sheets would have required an increase in assessments of about 70 to 80 percent in order to maintain a target reserve ratio.

Targeted coverage provides substantial additional coverage to business payment accounts without extending similar insurance to all deposits. Payment accounts, we argue, rarely involve a risk return tradeoff that's typical of investment accounts that form the basis of more desirable forms of market discipline.

Further, losses on business payment accounts are the ones that are most likely to spill over to payroll, other business expenses and therefore other businesses. Therefore, increased coverage to business payment accounts yields larger financial stability benefits relative to its costs on moral hazards.

However, and we note in the report that there are significant challenges to targeted coverage around establishing a practical definition that would allow for higher coverage while also limiting the ability of depositors and banks to circumvent whatever distinctions one might create.

Extending considerably higher deposit insurance coverage to business payment accounts may also lead to a significant increase in deposit insurance assessments although it would be less if the benefit were raised similarly for all accounts.

So in conclusion, next slide, I want to underscore that the deposit insurance system at its current levels is limited in its ability to achieve financial stability objectives due to the large concentrations of uninsured depositors.

The policy options that we presented in the report can be considered to help reform the deposit insurance system and meet those objectives.

Of course, it's important to note that changes to the deposit insurance system require congressional action, although other policy tools that we discuss in the report, at least some of them, lie within the rulemaking authority of the banking regulatory agencies. For example long-term debt requirements, which leads us to the next presenter.

MR. FELTON: Thank you, John. My name

is Andy Felton. I am the Deputy Director for Systemic Risk in the Complex Institution Supervision and Resolution Division.

Yes, thank you. So the last time this committee met, we had recently issued an advance notice of proposed rulemaking to impose a long-term debt requirement on regional banks. And in August we have since moved forward and issued a Notice of Proposed Rulemaking jointly with the Federal Reserve and the OCC based on comments received to the ANPR as well as lessons learned from the failures this spring.

The proposed rulemaking is for all banks with more than $100 billion in assets along with their holding companies to issue enough bonds to absorb losses and refill their capital stack in the event of failure.

We think that this requirement can improve financial stability and mitigate a number of the resolution challenges that we encountered with the failure of these large regional banks.

The proposal is similar to TLAC, but it does have some differences. And the most important of these differences is that we require the bank subsidiaries to issue debt to the holding company, which then issues externally to the market. For this category of banks, the cause of failure will almost certainly be in the bank and that is what will need to be recapitalized.

The U.S. G-SIBs are not subject to this rule as they already have TLAC in place. And intermediate holding companies, subsidiaries of foreign G-SIBs, already have holding company requirements through TLAC but would still be required to downstream the debt to their IDIs.

Similar to TLAC, the proposal would also impose clean holding company standards on regional bank holding companies. The requirement would be phased in over three years and include grandfathering for existing debt.

I would note that the comment period is still open for this proposal as we recently extended the submission deadline to January 16.

So I will discuss -- we think that this policy will have a number of beneficial impacts on financial stability.

First of all, the long-term debt absorbs losses before depositors. For the debt that is issued out of the IDI, we also require that it be subordinated to general creditors, which includes most types of counterparties and foreign depositors. That means at a minimum, the deposit insurance fund would have lower losses and therefore result in reduced premiums on the rest of the industry to make up losses in the event of a bank failure.

Second, because uninsured depositors know that there is this additional layer of protection for them, they are less likely to run. Since the debt is long-term, it won't be a source of liquidity pressure when problems become apparent. And unlike uninsured depositors, investors in this debt know that they will not be able to run when problems arise.

And third, the bonds will serve as an additional source of market discipline on the banks. The investors will be sophisticated institutional investors, and they will be incentivized to ensure that the bank is being run safely and will be able to monitor prices in the market as a signal of confidence and stability of the bank.

Fourth, if we can avoid haircutting uninsured depositors and also if the public has more confidence in other banks and they are less likely to run from other banks, then that will make it less likely in the future that we won't need to make that gut-wrenching decision to invoke the systemic risk exception.

And then finally it creates additional options in resolution such as recapitalizing the failed bank under new ownership or breaking up the bank and selling portions of it to different acquirers as an alternative to another large institution. So several of the speakers, Ryan was speaking before about, you know, how important it is that we have optionality and the ability to -- this will expand the alternatives that are available for us so that we can -- to satisfy the least cost test requirement and then we'll be able to take decisions that are based on maximizing financial stability.

At the time of the NPR, we estimated that the total shortfall was about $70 billion out of a total of $250 billion requirement. And we think that the impact, the cost to the banks issuing the debt will be fairly low. It would be estimated between 3 to 11 basis points of net interest margin, and I think it's probably closer to the lower end of that estimate.

And with that, I will turn it to my colleague Betsy who will discuss another policy proposal.

MS. FALLOON: Thanks, Andy. I'm bringing up the rear of a great day for focus like me interested in resolution matters.

I'm Betsy Falloon. I'm a senior advisor for resolution readiness. And the last topic of the day I want to talk about is our proposed rulemaking for IDI resolution plans. We see that as being a really important complement to the long-term debt proposal in terms of the expanding options that we have and we need to develop as we've been talking about throughout the day. Those options need to be expanded, but they also need to be actionable, and we need to be prepared to exercise those options in unknown and uncertain future scenarios.

So resolution planning ahead of time, I think there has been a lot of talk about the importance of that. And this proposed rulemaking is intended to put the FDIC in a better position to execute on these different options.

There is an IDI resolution plan currently in place. And like that rule, this rulemaking focuses on the resolution of the IDI itself, using the FDIC's ordinary resolution powers under the FDIA. It requires detailed resolution plans from all IDIs with $50 billion or more in total assets. And it will restate the current rule to incorporate lessons learned through the plan reviews and submissions and feedback that we've undertaken over the years as well as the lessons we've learned from bank resolutions both recently and in years gone by.

We're hoping to make the rulemaking clear, comprehensive, and we've published it for notice and comment. The comment period ended on November 30. So we're eagerly reviewing comments now.

I will just mention that these resolution plans were intended to be complementary to the Title I plans. They serve a different purpose. This is for FDIC's preparation to exercise a resolution of the IDI itself under the FDIA in a way that maximizes the return and minimizes the cost of DIF in an early and efficient resolution.

Next slide, please? Thank you. I mentioned that the current rule applies to all banks over $50 billion. The proposed rulemaking would have the same scope, but would reduce the requirements for the banks with $50 to $100 billion in total assets as compared to the banks over $100 billion. The 50 to 100 category would be asked to provide informational content that will help us with resolution readiness but not a full resolution plan.

In terms of what is required, we relied very much on the existing rule, but a lot of the things that have been mentioned here today as being important things to understand in resolution and preparing for resolution are areas that we have tried to focus on. Ryan mentioned the importance of being able to offer and market banks in different configurations and components with an emphasis on franchise components that are actionable and separable out of the gate as close thereto as possible.

The statutory and due diligence rule has been talked about a lot. And having that capability, not setting up the room but having the capability to set up the room is one that we're looking to emphasize and develop.

Other things that have been talked about today that we have included in our proposed rulemaking, more on communications and reaching out to key stakeholders. A clear explanation of the organizational structure that is expanded beyond the material entities which sometimes has been interpreted to be retail banking and commercial bank, but get more granular information on that both legal entity and functional organization, and I think Tim and Mike talked about the usefulness of that kind of information.

So, you know, we're looking at the comments, and we're eager to see what we can do that is most effective and most useful in being prepared for resolution.

I will just mention quickly that this will also expressly include engagement and capabilities testing for the banks around the information that's being provided. That's not new. We've been doing that. But it is intended to provide an expectation and a little bit more predictability around that process.

But to the extent that the bank describes what they can do to set up a virtual data room in 24 hours or a week or whatever it is, checking their work we found to be a very useful element of resolution planning.

So, you know, we think that this rulemaking will put us in a better position to be ready. And we're looking forward to reviewing the comments and issuing a final rule. And with that, you all have successfully been through an entire day, but not quite because we would love to have any inputs, questions or comments you have for any of us.

CHAIR GRUENBERG: Sheila?

MEMBER BAIR: So I just want to say I'm widely enthusiastic about all of this. It's great work. It's exactly the kind of thing you should be doing right now. And commendations to all of you. I am particularly enthusiastic about the long-term debt requirement. That's something we tried to provide some additional incentives for that through the premium structure. But I think requiring it is absolutely the right thing. And the only thing about that is as you pointed out, will provide extra levels of protection for industry deposits without the moral hazard. It actually increases market discipline.

That said, I'm also wildly enthusiastic about TAG. I wish Congress would give me the temporary authority now as they did during the pandemic. I think it would be nice to have you in the hip pocket just in case -- we don't know what's going to happen next year -- but pursuing more permanent changes. You're absolutely right. Those deposit accounts invariably always go above the insured deposit limits just by their nature, and they are very important to the real economy.

The enhancements to IDI planning, and Rae-Ann your comments on the supervisory responses, I was very impressed with the division supervision's response to the IG report. I thought that was brilliant. So kudos to all of you.

There is just one question I wanted to focus on with you, Rae-Ann because you probably heard the comments earlier, the concern that maybe we're not acting fast enough, that maybe the metrics are not as reliable as they need to be for early warning and also are supervisors empowered and enabled to act quickly when a bank starts to deteriorate? If you maybe could just comment your thinking on that, that would be great. Thank you.

MS. MILLER: I didn't hear those

comments, but I've heard them before. And certainly we're concerned.

One thing that I challenged the industry when we talk to bankers, is what are you willing to do to make yourself safer and make the system safer?

We've had a lot of pushback when we've tried to gather information. But I really do think that frequency and the lack of information we have on the liability side of the balance sheet in particular hampered us.

A big fat number for only a segment of the institutions about what uninsured deposits are, nobody paid any attention until they did. And, in fact, we found a lot of inaccuracies in that reporting because it was really just for RCO, which is the assessments. It wasn't even in the major part of the call report.

So I agree. I think, you know, having better and disaggregated information will make our jobs easier and frankly will make the banking system hopefully at least safer or at least more transparent in those issues. Thank you.

CHAIR GRUENBERG: Thanks. Sandy?

MEMBER O'CONNOR: So really just fantastic work. I couldn't agree more with Rae-Ann in particular. I'm a big supporter of the long-term debt requirement, not just because it adds real shock absorbency, but it also forces folks who may not be subject to lots of other things to term out their liabilities. That's what we're really talking about here. So keep pushing on that. I think it's fantastic.

A couple of thoughts to explore further. And I loved it as a starting point your chart on 37, where you look at the growing proportion of uninsured deposits. And there are a couple pieces which you may have, and I would just challenge us to continue to look at that because the environment continues to evolve is what's that proportion of uninsured deposits and how much other daily call money is out there because in aggregate that's the pile of money that can run. And that now is inside the banking system and outside the banking system. And I know we have one set of responsibilities here, but because of the way the ecosystem works, just being cognizant of the flow of money could be really productive.

The second question that I would encourage all of us to be thinking about is, you know, where is the money going? So of this insured deposit growth, is it going to the G-SIBs or is it going to pockets that aren't because that's another important piece of information, right?

And the next question I would ask is where is it coming from? Because these have not been your traditional retail or professional money managers. These are sort of different groupings. You have a lot of fintech money, which is new money. You have a lot of technology money, which is new money. And everybody wants it available every single day.

And I think those behavioral characteristics, I think we might find the same solutions that are relevant for them, but you may not necessarily need to be putting them in all the same places. And I say that because if we continue to put those all in the same places and not in a more nuanced way, we may very well just push more of those deposits somewhere. And where will they go? And it might be out of this sphere but ultimately will impact other spheres.

And I think -- thinking about where is that daily call money? Maybe parts of solutions are not only in the banking sector. Maybe parts of solutions are, you know, on uninsured deposits, the classification of are they operating or not? Payments are not that so, so, so important and may be requiring some level of term out of those based on your examination and your understanding of how they're really performing.

So I think there's not one silver bullet here. We've got a big ecosystem. We've got an open economy. It's complicated stuff, but those -- I'm grateful for the prompting of all those questions. I'm sure you have all of those answers. But fantastic work and, you know, keep it up. Fortitude.

CHAIR GRUENBERG: Thank you. Meg?

MEMBER TAHYAR: Thank you. I agree with Sheila and Tim on TAG. It feels to me like TAG worked. After the financial crisis the FDIC used that authority well. Very few people know that in the CARES Act it was secretly and silently put back in. But now, of course, it's hard to push because there is no appetite in Congress for it. But I just want to call out, it's the right thing. It worked. It wouldn't require a 70 percent increase in fees.

And then let me chat a little bit about resolution planning in the proposed IDI rule. In my view, resolution planning, whether it's Title I or the IDI rule, has been an extremely successful collaboration between the private sector and the agencies since it went into place in about 2012.

And there has been a lot that has happened behind the scenes in terms of capabilities testing and operational work where I think most of it is now. And I would just hope and -- two points. I would hope and urge that it continues in this cooperative way. There are some who have interpreted the revised rule as being more of an enforcement rule than a cooperation capabilities testing. I hope we can stay within this concept of cooperation.

I have also heard and read media, which I think is relatively uninformed that draws from the events in the spring resolution plans didn't work. And I think that that's very false. The institutions that failed, two of the three didn't have resolution plans. It's always been clear that the agencies aren't going to exactly use them because every situation is different.

Plan beats no plan as former Secretary Geithner said. And I think we learned that, and we have learned a few bits and pieces on the IDI plan rule.

One point about the IDI plan rule and how it intersects with the Title I rule, which is I would urge you to think about what is overlapping and how capabilities testing and other operational elements, including, by the way, operational and capabilities testing at the FDIC can be done in a way that aligns among the plans.

And I would also urge you to think about -- right now the IDI rule has become an English test, not a math test. You're taking it back to being a math test, which is probably the right thing.

The Title I plan is a math test. But to the extent you're asking for one series or a set of financial projections in the Title I and yet another series in the Title II, to the extent that those can be aligned and made so that there's not, you know, overlapping requirements, particularly on regional banks who have much, you know, smaller staffing than G-SIBs, I hope that you all would consider that.

And finally, and I realize I don't have a question, but feel free to push back on any of my comments, on the corporate governance guidance that you have thankfully, and we thank you for that, pushed back the comment period because there are a lot of other things in the mix at the moment, the OCC and the Fed have come up with really wise ways of looking at this. And I think your intent was to align to them.

But I think you'll see when our comment letters come in that there is a lot of places in which there are variants. It's the end of a long day so I'm not going to bore you with them. But I hope that you will keep an open mind on understanding, again, the more that these can be aligned with each other the better it is as a policy matter. And I will stop there and invite your comments back. Apologies for not inventing a question.

MS. FALLOON: Thank you. I will just say that it is important for the rulemakings to be complementary, for them to build upon each other. They don't have the same exact goal. And it's, I think, appropriate for the IDI rule to in some cases have more depth. It certainly covers a wider range of firms.

And where the bank resolution must be undertaken by the FDIC, the standard is can we do it? Do we have options that we can execute on, which is different than, you know, is there a credible path, you know, under ordinary resolution machines?

At the same time, there is overlap. And certainly for some firms, you know, the bank resolution is part of their Title I plan, and in those cases we do want to be cognizant. And, you know, continuing to take on comments to try to make sure that we're doing this in a way that is thoughtful. Certainly, we don't want to be inconsistent, and we don't want to double burden. But we want to keep the different purposes of the two rules in mind. So we're trying to keep that balance and, you know, I appreciate your comments on that.

MEMBER TAHYAR: And I think that's exactly right. When it is an FDIC resolution, the burden is solely on the FDIC to be running that whereas that's quite different from a Chapter 11 bankruptcy.

But, I mean, it's very thoughtful to think, of course, they have different purposes. But not being inconsistent and not doubling the burden when in the line burden would work. Certainly different purposes in the two rules and certainly a very, very different -- I think a lot of people fail to appreciate that a Chapter 11 -- not in this room, I'm sure, but a Chapter 11 bankruptcy is very different creature than an FDIC resolution.

MS. MILLER: And our corporate governance regulations, you know, obviously we will keep an open mind and are looking forward to the comment letter.

I would ask you to keep an open mind, too, since the OCC's and Fed's regulations were written certainly before three large banks failed, and we've learned a lot.

MEMBER TAHYAR: That is definitely a fair point and lessons learned from the screen should be brought to bear.

MR. BERNANKE: This question was partially asked before, but you didn't respond to it. I understand why the FDIC would be interested in insured and uninsured deposits. But, of course, banks have other runnable sources of liquidity. And my question is to what extent when you're evaluating the stability of deposits, to what extent do you take into account these other runnable liabilities and how does it affect the way you think about liquidity requirements for the stable banks?

MS. MILLER: I think that's me. Yeah, I mean, it's a holistic view. You know, and we obviously have LCR and, you know, NSFR regulations. But just from a supervisory perspective, we've been looking at -- and I would say about 10 years ago, we felt like the examiners really weren't focusing on the liability side of the balance sheet in taking a holistic view of that side. And I think we've done a better job but obviously not 100 percent there.

And so we do. I mean, we have procedures where -- and it's part of our forward-looking supervision changes that we made where most of the exam is an exception-based examination. But for concentrations, we don't have an exception-based. You will write up an analysis of concentrations that hit certain metrics on the asset side and the liability side.

So to the extent that there are other

concentrations on the liability side, we would expect an analysis. And we've got four different factors for that. And, you know, that together should give you a picture of what the funding side looks like.

I think one of the -- as a repeat recommendation in some of these reports is we have to challenge what some of those assumptions are and how some of those things move.

Just with federal home loan bank borrowings, I mean, a lot of banks felt like they would be there, and things are changing. And, you know, the way that they are looking at their credit risk is changing.

So, you know, we can't be static. And I feel like maybe we had been a little static. And getting back to the data issue that Sheila had asked about, another thing that we're thinking about is are we looking at the right just liquidity ratios? And we've been using the same on balance sheet liquidity, secondary sources of liquidity.

A secondary source of liquidity is not going to be there if it is loaded with unrealized losses in this environment.

So getting examiners to think to change is something that it's not always easy. We have, you know, sort of embedded views and ways of doing things. But we're going to have to change, and we're going to have to change more frequently, I think, as things unfold. I hope that was helpful.

CHAIR GRUENBERG: Dick?

MEMBER HERRING: I had a question that reflects my lack of full understanding of the bank holding company requirements. But as I understood you, you want a clean bank holding company, which I understand very well from the G-SIB arguments. But you want to apply it to regionals. And you want the long-term debt issued from the bank itself to the holding company and the holding company then interfaces with the market.

And I bear scars from 15 years of arguing for long-term debt requirements. And the usual argument made against is that these are just not large enough institutions to be able to go to market with long-term debt. I'm sure you've thought about it, but I didn't know to what extent you've weighted it in thinking about how to structure this. I like the idea. And I think it makes a lot of sense. But I also am puzzled about the SVB case where there clearly was no attempt to look at the holding company with the bank itself.

MR. FELTON: Thank you. So first of all just in terms of actual market participation. The majority of the banks that would be covered by this proposal already have debt issued outside. So they are not as large players.

MEMBER HERRING: Is it marketable debt?

MR. FELTON: Yes, that's correct,

bonds, publicly traded bonds. These are generally the banks have fallen into Category 2, 3 and 4 holding company categorizations. And not all of them, but as I mentioned, we think that the total requirement would be sort of roughly in the $250 billion range. And there is something like $180 billion already outstanding. So they are already sort of two-thirds almost three-quarters of the way there.

And then with regard to SVB, you know, it is always difficult to know what the counterfactual would have been. But we can be very certain that Ryan would have really liked to have several billion dollars outstanding that could have been used to absorb losses and really given him a lot of other options.

MS. FALLOON: So just to add to that, you know, the pre-position requirement, the fact that it has to be at the bank is, you know, an important element. So if you're resolving SVB, the resources are there at the bank under an FDIA resolution so to be clear about that.

MEMBER HERRING: Yes, thank you.

MS. FALLOON: That's a real important part of it for an FDIA resolution that we expect for these regional banks.

CHAIR GRUENBERG: Don?

MEMBER KOHN: Thanks, Marty. Three questions, one about your own staffing. So one of the points raised in these after action reports is the difficulty of FDIC and other regulators with FDIC staying staffed up. So do you guys have enough flexibility and recruiting to staff up?

And you've outlined a number of really encouraging things that you will be doing on the supervisory side, but they all require more and more sophisticated people. So that's one about your own staffing.

The second one on the deposit insurance, I don't understand the law, but in October of '08, we just had unlimited insurance.

I'm looking at Ben since he was making that decision alongside the whole board, on demand deposits, zero interest deposits, which I think would have covered Gary's payroll and similar things.

So was that -- maybe this is a question for Marty. So was that consideration given to limiting the systemic risk thing to those deposits, which seemed to work in '08 to limit the things. And then was that one of the targeted proposals, you say business payment accounts and you say how hard it is to target that but if you do it by the characteristic of the account, that would be one thing.

And the third argument, I am strongly supportive of the TLAC proposal. But the argument I have heard against it is once you start -- we haven't had -- unfortunately, we didn't have the experiment of bailing then. And some opposition to the TLAC is once you bail in -- in an idiosyncratic situation, no problem. But if it's in the middle of stress, you're going to cause other kinds of runs, maybe on the sorts of things Ben was thinking about or at least you will close off the TLAC market for some time after that. So how do you counter that particular potential problem?

MS. MILLER: So I'm a line person. So from my mouth to God's ears to the administrative people on staffing, you know, we -- it's our job. An examiner job is really hard. And there is a lot of accountability. So we are definitely working on making those jobs more attractive and appealing. But it is difficult. Like I said there is a lot of work that we need to do.

One thing for sort of bean counters, if you will, that we have been trying to get across, like I said earlier, we have accounts of banks. Those banks are coming down and accounts we can all see that. Assets are going up. But within those banks or within the portfolio that I'm most concerned about, which is frankly, you know, the teens and twenties, just like children, they can be the toughest institutions to deal with. They start building risk and at that point is when we really need to attack, you know, some of the issues that are occurring there.

So, you know, understanding that not all banks are the same size-wise, complexity, geographically has been very, very helpful. And we've got some -- we can't really get into it in this type of venue, but some ways to make the job more attractive, but just know that it is a very, very difficult job. And it is a constant struggle. We really never solve the issue.

MR. POGACH: With respect to transaction account guaranty program, I'm sure that there are people in this room that are better equipped than I am to answer what a regulatory -- what our legal authority is to do the same program.

My understanding is that was not something we could do following some of the legislation after the last financial crisis. But other people in the room should confirm that for me.

MS. BAKER: I think his question was, you're right, for any kind of across-the-board guaranty. I think his question was the systemic risk exception for those two banks, could you have limited it to just protecting uninsured deposits and transaction accounts, specifically legal authority to do that or were you forced to protect all uninsured? You are right. That's a lawyer question.

MR. POGACH: Right, that's a lawyer question so I won't take that one. And as far as defining things along those terms, there is also a regulatory change or a legislative change following the removal of Reg Q so business accounts, transaction business accounts at that time were inherently non-interest bearing, but that's no longer the case. That doesn't mean that you could not have those same kinds of accounts today, but it could present some difficulties in definitions.

It also covered non-business accounts, the transaction account guaranty program, which isn't inherently problematic from the perspective of the report. But I think from the perspective of the report, everything that were really the characteristics of the accounts that most warrant additional coverage from the perspective of financial stability. And I don't think households trust accounts were necessarily high on that list. That doesn't mean they couldn't be incorporated for the perspective of whoever does the legislative rule writing to make it more practical.

MR. FELTON: And I'll take your third question about the issuance. You know, potentially whether the window might close for some period during a more systemic crisis.

So, you know, first of all these are long-term liabilities. We would expect that the banks would be able to, you know -- we assume they would probably maintain, you know, some sort of buffer such that if they had -- if the market conditions were more or less favorable that they could, you know, perhaps wait a month or two to reissue their bonds.

You know, it obviously depends on the facts and circumstances at the time. I do think it's somewhat relevant maybe that after Credit Suisse failed and the AT1 market came under a lot of criticism, we have already seen UBS issue new AT1s. So I think that the -- you know, ideally even if there is a big problem that things can rebound and the public will have confidence in the banking system again.

CHAIR GRUENBERG: Frank?

MEMBER LA SALLA: Thanks, Marty. Just for what it is worth, I think the direction of travel on the LTD is the right way to go. I concur with what everybody said.

Pardon my naiveté on the uninsured

deposits, but it's been a little bit of an eye opener for me today listening to it. And the question that I have is, would an LCR type or could an LCR type mechanism help because we really haven't brought it up. And I was just curious about whether it's even a consideration.

MR. POGACH: Isn't that more of a supervisory question?

MS. MILLER: Yeah. I think the problem with the LCR in this case was that the secondary sources of liquidity didn't hold, right? So, you know, you had the securities that were sort of under water and that was the issue.

So, yeah, I'm not really sure. I think from a supervisory perspective, the issue was they had too many uninsured and that started becoming a lightning rod. And I don't think at some point, you know, we were living at that evening and over the weekend it didn't matter how much liquidity you had. You know, if you had a high level of uninsured it was just a lightning rod.

So maybe. I don't know. You know, we're certainly looking at that, and like I said, we're not done. I talked about supervisory issues. We're not done looking at our regulations in other areas. But, yeah, I think it's more about at least from a supervisory perspective really understanding the risks, and those levels were just simply too high.

MEMBER LA SALLA: Yeah. Actually, if you think about it, deposits are a critical part of the business model. It's got to be factored into the economics, right? And I was thinking -- and, again, I could be totally off the reservation on this one. On a prospective basis, is it worth the conversation?

MS. MILLER: I think it is. And the LCR talks about, you know, the types of depositors and the types of deposits. And not all the companies that were -- you know, it goes down to, you know, who is a hedge fund and the different types of companies. They weren't all covered. Maybe there is room there. But again, I think it goes down to basic risk management and understanding what's on the liability side of the balance sheet.

You know, what we did learn from banks that were exposed, I mentioned that we got into this mode where we were monitoring institutions. And they were building up their cash. They were building up ways to offload some of those uninsured deposits.

You know, there are services -- I am not recommending any service -- but ways to, you know, reduce their amount of uninsureds, and that seemed to reduce the pressure. But, again, I sort of -- LCR really wasn't -- it didn't really -- it wasn't binding in this case.

CHAIR GRUENBERG: Gary?

MEMBER COHN: I may be wrong because it's been six years, and I won't say thank goodness, but since I've done a stress test, but thank goodness.

But I think I believe, and you guys will correct me very quickly, in the highly stressed scenario, like, the rule is that all of your insured deposits stay in their good capital and all your uninsured deposits leave and they're not capital. So they sort of do that in essence. Like, I guess, I'm still --

MEMBER O'CONNOR: No, that's pretty close too, which is I am really -- it's surprising that like 90 percent concentration end and an LCR calculation worked for some of those institutions. There is something there to look further in. And similarly, I go back to the behavioral characteristics.

Like you could -- I am really supportive of long-term debt issuance at these institutions. But it's not even fully clear that the type of depositors and the money there, it's not necessarily the case that they will stay. It's a different kind of participant in the market. I think we should still do it, but there are so many things evolving that the assumptions are very different on behavioral characteristics. They may just not want to deal, right? Because you could ask the opposite question, too, why did anybody have that much money at one organization? That's an important question from a risk management of a company's perspective.

MS. MILLER: To your point, there was some anecdotal information that even institutions that had -- excuse me, customers that had secured deposits, right? So they had -- securities pledged were fully covered. If they were dealing with money for somebody else, like for an escrow, they just didn't want to deal, even though our resolution people are great and, you know, things were smooth, they just didn't want to deal with that. So you had a lot of that behavior as well, which we wouldn't -- you know, secured deposits, people are arguing that they don't want to be even included in uninsureds, you know, which of course they're still uninsureds.

So yeah, I mean, I think we really do need to -- and we need to look at the characteristics and understand that they change, and they change more frequently than we were expecting.

MEMBER COHN: And the other point I would make, and we haven't touched on it, although it was touched on earlier this morning, is we got to understand the power of this. I can move all of my deposits sitting right here, from every different bank I'm in. I'm in lots of banks.

And you can go to, you know, sweep accounts, and I can send money to one aggregates, and they will move it to 40 different banks for me and get it on the insurance levels. And I can decide with one, probably two keystrokes, move it.

And so when the old stress test assumes all these deposits stay, I'm not sure that's as good an assumption as it was when I had to write a check or walk into a branch or wire money because the old adage of banking is, you know, just slow it down, and we'll forget to send those wires out tonight, and we'll work on it tomorrow.

MEMBER O'CONNOR: Like, Gary, you know, you're totally on it. And I think it goes back to maybe collectively we are promising too much overnight liquidity to too many. And that's the piece that we need to collectively be thinking about, which is not the traditional approach.

CHAIR GRUENBERG: Dick?

MEMBER HERRING: The numerator of the LCR, which -- I'm sorry, the denominator, which is certainly appropriate. But I think we have to worry about the numerator as well because every government security, no matter whether it's held in a maturity account or available for sale account or just an investment account is counted as high liquid assets with 100 percent. And that clearly wasn't true in practice.

If you've got an underwater held to maturity asset, you are going to have trouble liquidating it without incurring a loss unless you have a friendly Fed that will discount it at face value. But we can't always count on that being true.

MEMBER O'CONNOR: I'm not sure it's at 100 percent. And I think the way I understand LCR is that you actually have to -- much like previous speakers talked about, the responsibility of moving large positions.

So if you're liquefying in the marketplace, you have to look at market depth to determine how much liquidity value you can actually get.

I think there is plenty of room for improvement, but it's not as I have to liquidate a trillion dollars, and I can do it all overnight. It's not like that at all. But that was -- go back to my earlier comment of, I think we need to really look at the depth of the market and its ability to bear the sale of assets.

MEMBER HERRING: That's certainly true for a G-SIB. It was probably a whole lot less relevant for the three banks in question.

CHAIRMAN GRUENBERG: Jon?

MR. CUNLIFFE: So in the UK we saw sight deposits, the most runnable sight, grow between the financial crisis and the start of interest rates going up. And the reason seems to be obvious that if you weren't getting very much on deposits at banks, you might as well keep it all in a sight deposit. That started -- it's quite large numbers. I think, sight deposits quadrupled in the period 2010 to 2022, something like that.

What we are seeing now and because it's not -- I can't say if the money was short because they're not quite the same thing. What we're seeing now is the banks, when they're offering higher rates when they're passing through the increase in bank rates, are roughly much more on term deposits when they pass through that 95 percent on term in the UK but only pass through about 50 percent of the rate increases on sight.

So this question of terming out, which is another way to reduce the immediately runnable is partly to do with kind of the incentives the banks have.

Are you seeing that here? I mean, I'm not suggesting that this is a problem that will solve itself. But as rates go up, you know, you may find some of this problem is the kink problem goes away because banks are able basically to look up deposits for longer by differentiating the returns they have.

So I saw a little kink down at the end of this chart. But I don't know if that is related to this then.

MS. MILLER: Yeah, I don't know about

the chart. But I like the on sight. We don't use that term, but I get what you're saying.

Yeah, thanks. Prior to this, I mean, we were seeing banks, including at least one that we supervise that eventually failed were totally trying to term out.

You know, we saw that rates were rising and had a lot of checking accounts and had been trying to term out through the FHLB. And that was purposeful and actually had some pretty decent low priced FHLB that was sitting on its balance sheet when the bank failed as well engaged in a CD program to try to term it out.

It's hard to do all of your accounts. But certainly they were making some headway.

I would say now it's not like voluntary. We are seeing them have to term out some things and even just pay better rates.

And so right now when you've got money market. You know, you can write checks off of money market accounts. You got treasurers that are looking for overnight, you know, they can get 5 percent Raymond James. The banks are having to pay that. So we are seeing really quite a squeeze in NIMs, non-interest margins, because of the cost to funds.

It's delayed. We were talking a little bit about challenging assumptions, you know, things like decay rates and betas -- my friend would say beta shmeta -- when things happened.

You know, so yes it's happening regardless of what this chart says, the cost of funds are up across the industry. The NIMs have been, you know, narrowing. And certainly unless you've got the most -- you know, there are some banks that still have the old -- you know, they're in a small town, and they've this very loyal base. But, like you said, this thing really has changed competition.

MR. CUNLIFFE: Sight and checking.

MS. MILLER: I got that after a

minute.

MEMBER COHN: So I was just going to add to that. So this thing will actually provide you treasury rates. And treasury rates are, you know, 400 plus basis points over most bank rates today, which is a new phenomenon.

Last time we had this treasury to bank deposit rate spread, none of us knew how to buy a treasury, me included, and I ran a bank. I didn't know how to buy a treasury. Now I use my dad as an example, my 91-year-old dad can buy treasuries. You know, he's got a Fidelity account, and he can just sit and buy a treasury.

So this device has allowed almost anyone to open an account that allows them to buy a liquid higher yield instrument versus the banks traditionally would put you in a CD, and there was a penalty to break the term, even if it was a 30-day, 60-day, 90-day, 120, 360-day, you would get more of the treasury rate but then there was a breakage clause.

So there is a non-breakage clause way to do it. And, you're right, a lot of people will allow you to have a government money market fund and write a certain amount of checks against it during the month.

So there is -- this thing has provided a lot more competition for the world today. And we've seen the trillion plus dollars move out of the bank deposits into money markets.

CHAIR GRUENBERG: Anyone else? Jenny, anything? I think that brings us to the end of our agenda for today. I don't know how to thank all of you for your participation. You're a terrific group, and we learned a lot from you all. We really do. So the value of the conversation and the recommendations, money can't buy. And we're not trying to do that.

I also really want to express our gratitude to the staff for putting together a thoughtful and thought-provoking agenda that I think really elicited some exceptional conversation today. So thank you all.

And I also want to thank our guest speakers who added so much to the conversation. This has been an eventful year for the banking industry. We've got a lot of lessons to learn. We are in the process, as this panel suggested, of implementing a lot of the lessons that I think will make a difference in terms of the safety and soundness and stability of the system. And it goes to supervision. It goes to regulation. It will go to resolution as well. So to be continued, if I may say.

Next time around, we will come back, as I indicated, to G-SIB resolution and Title II and our work around that issue. Frank, I suspect we will come back to CCP resolution as well.

And let me say we invite any of you who have any thoughts to share following up on this meeting, looking at any of the materials, any thoughts, any additional recommendations to make, we very much invite that.

And thank you again, and we look forward to seeing you next time. Thank you all.

(Whereupon, the above-entitled matter went off the record at 4:13 p.m.)