FedFin Daily Briefing

Monday, March 27, 2023

FDIC Adopts New IDI-Resolution Policy

The FDIC's announcement late yesterday that it had sold portions of SVB to First-Citizens indicate that a provision also in its Signature bridge-bank sale reflect a new FDIC resolution policy: a willingness to take warrants. In each case, the FDIC has acquired significant equity-appreciation rights, giving it a major upside if the acquiring banks do well with their new, discounted deposit and asset base. The FDIC historically never took warrants not only because its view of the least-cost test was far from stringent, but also because of a strong and longstanding aversion to any federal role in private enterprise. These deals make it clear that, to the extent failed-bank acquisitions benefit larger regional banks, the DIF will recoup funds from these profits, not only protecting premium-paying banks and the taxpayer, but limiting the acquirer's market power via capital distributions or other activities not related to organic growth.

Global Authorities Press FX Payment Redesign

The BIS Committee on Payments and Market Infrastructures (CPMI) today issued a final report offering a number of recommendations to central banks to facilitate the adoption of PvP systems. To mitigate regulatory barriers, the report recommends that central banks strengthen regulatory incentives for FX market participants to use PvP arrangements, improve settlement risk exposure reporting, and enact robust settlement finality protection. The report also urges central banks to explore interoperability between jurisdictions and ease liquidity constraints. CPMI also implores the relevant authorities to coordinate with the private sector to address structural problems and with jurisdictions not engaged in existing PvP arrangements to identify key barriers.

Barr Defends Fed, Promises Review

Ahead of what is sure to be two raucous days of Congressional hearings, FRB Vice Chairman Barr's testimony emphasizes that the Federal Reserve will use "all its tools" to protect banks of all sizes and that all deposits at all banks are safe. The Vice Chairman's testimony also defends his investigation sure to be criticized by progressive Democrats who believe that it can only be credible if conducted by an unconflicted outsider. Mr. Barr follows Chairman Powell's lead last week, blaming SVB's failure on poor management and then on an "unexpected" run "ironically" caused by delayed efforts to enhance liquidity that was then amplified by social media. Fed supervisors spotted these issues in 2021 and briefed the Board on SVB and certain other banks in mid-February, but Mr. Barr does not address why no corrections were mandated other than to say that management is responsible for remediation. Mr. Barr does plan a thorough review of supervisory lapses that failed to ensure remediation. The Board is also reviewing current rules, with Mr. Barr indicating that those finalized in 2019 regarding tailoring will also be critically evaluated in light of recent events. The extent to which current supervisory and regulatory standards address rapid growth and technological change is also under review.

Gruenberg Mounts Vigorous FDIC Defense, Presses For Significant Rule, Premium-Assessment Rewrite

FDIC Chairman Gruenberg's testimony ahead of Congressional hearings describes the Signature and SVB actions, rebutting bailout assertions on grounds that the banks in fact failed and banks – not taxpayers – will make up any FDIC losses. He also indicates that the FDIC can and will investigate insiders to determine responsibility and pursue penalties if appropriate. The FDIC will conduct an investigation also of its own supervision of Signature Bank, releasing its report on May 1 in conjunction with the Fed's SVB analysis, with the agency then not only issuing a proposal to recoup DIF losses but also assessing the need to rewrite the way in which AOCI is treated at larger banks and how resolution planning is conducted and reviewed. The agency is also planning to review its risk-based premium assessment standards (see FSM Report **DEPOSITINSURANCE116**).

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click here.

- **RESCUE79:** Recent editorials and other media have often said that the FRB and/or FDIC have powers or taken actions that is not the factual case as we understand it.
- **GSIB21:** In this report, we assess the implications of recent events on two assumptions underlying current U.S. and global policy affecting GSIBs and those considered domestic SIBs: first, all are likely to be well insulated from illiquidity and/or insolvency and, when this is not the case, then orderly resolution without taxpayer bailout can be readily deployed.
- **LIQUIDITY33:** Among the most vexing issues in the wake of SVB's failure is the extent to which social media may have led to the first "viral run," a run akin to the meme-stock volatility that lead the SEC and others to fear a new form of "flash-crash" risk.
- **GSE-032023:** In this report, we build on FedFin's in-depth reports about recent bank failures to detail new risks for all of the innocent bystanders in the U.S. mortgage market along with a not so-innocent bystander: the Federal Home Loan Banks.
- **REFORM216:** In this report, we continue our policy postmortem of SVB/SBNY and, now, so much more.
- **DEPOSITINSURANCE118:** As promised in our first post-SVB impact assessment (see *Client Report* **RESOLVE49**), this report begins a series of analyses of specific policy issues.
- **RESOLVE49:** As we noted last night, the President concurred with Treasury, the Fed, and FDIC in deciding that SVB's Friday failure and imminent runs on Signature Bank and, most likely, others posed a systemic risk.
- **GSE-030923:** As detailed in our reports earlier this week on Powell's appearance before Senate

Banking and HFSC, much was said about the pending rewrite of big-bank capital standards.

- **FEDERALRESERVE73:** At today's HFSC hearing, Chairman Powell modulated his hawkish stance just a bit, continuing as he long has done to refuse to take a stand on fiscal policy while advocating for rapid debt-limit action.

- **FEDERALRESERVE72:** Although Chairman Powell's testimony kept exclusively to monetary policy, today's Senate Banking hearing seemed only to go through the motions set at previous hearings with regard to inflation, growth, and the Fed's long-term objectives.

- **GSE-030123:** A recent FRB-Atlanta study finds that closing the racial homeownership gap alone would not redress housing market racial disparities because minority homeowners cannot equitably access home equity and thus enjoy comparable access to the economic opportunities afforded by homeownership.

- **SANCTION20:** In a remarkably bipartisan session, the Senate Banking Committee today made it clear that Congress wants tougher sanctions against Russia, near-term action against hold-out nations to oil-price caps and other efforts, and perhaps even confiscation of Russian assets to fund U.S. Ukraine aid.

- **CRYPTO40:** In the wake of revelations by Silvergate and other banks about significant deposit exposures to cryptoasset entities, federal banking agencies have issued a statement about the need to manage liquidity risk associated with cryptoassets.

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