STATEMENT OF RANDAL QUARLES REGARDING THE FEDERAL RESERVE REPORT ON THE FAILURE OF SILICON VALLEY BANK

APRIL 28, 2023

The review published today of the Federal Reserve's supervision of Silicon Valley Bank provides a great deal of useful detail on events surrounding the bank's failure. There are definitely lessons to be learned from Silicon Valley Bank, and the report mentions some of them. The report confirms that the bank failed in its management of interest rate risk, had an unusually high percentage of uninsured deposits, and that the uninsured depositors behaved quite differently from what history would have led us to expect. That meant that both the longstanding, pre-2019 regulatory framework, and the expectations and practices of supervisors, might need to be updated to reflect why that happened.

This level of detail makes it quite surprising that the report provides no evidence at all for what it describes as one of its main conclusions – that a "shift in the stance of supervisory policy" impeded effective supervision of the bank. **The report frankly acknowledges at the very outset, on page 11, that there was "no policy" leading to a change of supervision, but rather that the staff "felt" a shift in expectations on the basis of no communication at all, which is like the ancients asserting they could describe the world by interpreting the flights and cries of birds.** Having acknowledged that there is no evidence, the rest of the 102-page report makes no effort to pretend to find any. Moreover, reading the report, you would have no idea of the very specific and detailed supervisory instructions that the Board had issued repeatedly over the years to guide examiners on the specific risks that faced Silicon Valley Bank, instructions that had never been changed since 2010. The single concrete action the report refers to is the so-called Guidance on Guidance. This document -- which was supported and voted for by all the relevant principals at all the banking agencies, including Martin Gruenberg and Lael Brainard —doesn't limit any action an agency wants to take. It simply clarifies existing law on guidance, which is why it was universally supported.

As the former Vice Chairman for Supervision, I have the highest respect for the staff of the Federal Reserve – they are the cream of the federal civil service. Much of today's report reflects that tradition. I am disappointed that the conclusion on supervisory policy does not meet that high standard.