The Meeting of the Systemic Resolution Advisory Committee

of the

Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation In Person and Via Webcast

December 5, 2023 - 9:00 A.M.

The meeting of the FDIC Systemic Resolution Advisory Committee (Committee) was called to order by Martin J. Gruenberg, Chairman of the Board of Directors, Federal Deposit Insurance Corporation (FDIC or Corporation).

Committee Members present in person at the meeting: Sheila Bair, Former Chairman, FDIC; Dr. Ben S. Bernanke, Distinguished Fellow in Residence, Economic Studies Program, Brookings Institution and Former Chairman of the Board of Governors of the Federal Reserve System; Hon. Shelley C. Chapman, Senior Counsel, Willkie Farr & Gallagher and Former U.S. Bankruptcy Judge, Southern District of New York; H. Rodgin Cohen, Senior Chairman, Sullivan & Cromwell LLP; Gary Cohn, Former Assistant to the President, Economic Policy and Director of the National Economic Council; Sir Jon Cunliffe, Former Deputy Governor of Financial Stability for the Bank of England, Former United Kingdom Permanent Representative to the European Union, and Former International Economic Advisor to the Prime Minister; Hon. Robert D. Drain, Of Counsel, Skadden, Arps, Slate, Meagher & Flom and Former U.S. Bankruptcy Judge, Southern District of New York; Dr. Richard J. Herring, Co-Director, The Wharton Financial Institutions Center and Professor of Finance, The Wharton School, University of Pennsylvania; Dr. Elke Koenig, Former Chair of the Single Resolution Board (SRB) and Former President of the German Federal Financial Supervisory Authority (BaFin); Dr. Donald Kohn, Former Vice Chairman, Board of Governors of the Federal Reserve System and Senior Fellow, Economic Studies Program, Brookings Institution; Frank LaSalla, President, Chief Executive Officer (CEO) and Director, Depository Trust & Clearing Corporation (DTCC), and President and Chief Executive Officer of DTCC’s principal subsidiaries Depository Trust Company (DTC), Fixed Income Clearing Corporation (FICC) and National Securities Clearing Corporation (NSCC); Timothy J. Mayopoulos, Former President of Blend and

Former President and CEO of Fannie Mae and Former General Counsel of Bank of America; Sandie O'Connor, Former Chief Regulatory Affairs Officer, JPMorgan Chase & Co.; Douglas L. Peterson, President and CEO, S&P Global; John S. Reed, Former Chairman and CEO of Citigroup, Former Chairman, New York Stock Exchange, and Former Chairman, Corporation of Massachusetts Institute of Technology; and, Margaret E. (Meg) Tahyar, Partner and Co-Head of Financial Institutions, Davis Polk LLP.

Committee Members attending by video conference: Jay Clayton, Former Chairman, U.S. Securities and Exchange Commission (SEC).

Committee Members absent from meeting: Tim P. Clark, Distinguished Senior Banking Advisor, Better Markets and Former Deputy Director of Supervision and Regulation, Federal Reserve Board of Governors and D. Wilson Ervin, Former Vice Chairman, Credit Suisse.

Members of the Corporation's Board of Directors present at the meeting: Martin J. Gruenberg, Chairman; Travis J. Hill, Vice Chairman; Rohit Chopra, Director (Director, Consumer Financial Protection Bureau); and Michael J. Hsu, Director (Acting Comptroller of the Currency).

Corporation staff in attendance at the meeting: Kent R. Bergey, Felita N. Boldin, Jereon M. Brown, Sylvia W. Burns, Kymberly K. Copa, Laura C. Crawford, Timothy J. Davin, Angela Dean, Debra A. Decker, Keith L. Edens, Elizabeth (Betsy) Falloon, Andrew J. (Andy) Felton, Sheila R. Finlayson, Gregory Gelzinis, David Gonzalez, Patricia S. Gurneau, Mark L. Handzlik, Sean M. Healey, Bruce W. Hickey, Krista Hughes, Monique A. Hunter, Veronique R. James, Lia Johnson, Dena S. Kessler, Shawn Khani, David E. (Dave) Kiddney, Rosilyn L. King, Cassandra T. Knighton, Camille A. Little, Alexandria T. Luk, Nicole L. McFarland, Rae-Ann Miller, Patrick M. Mitchell, Dr. Arthur J. (Art) Murton, Jhon E. Ochoa Espitia, Dr. Jon Pogach, Laura D. Porfiris, Ariana L. Rambuyan, Kami Schexnayder, Alfred L. Seivold, Nirali R. Shah, James P. Sheesley, Richard P. (Pen) Starke, Nathan C. Steinwald, Brian E. Sullivan, Maureen E. Sweeney, Ryan P. Tetrick, Mona L. Thomas, Amy C. Thompson, Jenny G. Traille and Aaron W. Wishart.

Other guests in attendance: Dr. Eva Hüpkes, Secretary General, International Association of Deposit Insurers (IADI);

Sebastiano Laviola, Board Member, SRB; and J. Michael Shepherd, Former Chairman and CEO of Banc West Corporation.

Welcome and Introduction

Chairman Gruenberg presided at the meeting. He offered welcoming remarks, including an overview of the meeting's topics. The Chairman introduced and welcomed the two newest members of the Committee. The Chairman also thanked and welcomed back the returning members of the Committee, and recognized FDIC Board Members, Vice Chairman Hill, Director Chopra, and Acting Comptroller Hsu, who were also in attendance.

Vice Chairman Hill, Director Hsu, and Director Chopra made welcoming remarks. The Chairman then recognized Art Murton, Deputy to the Chairman for Financial Stability and Director of the FDIC's Division of Complex Institution Supervision and Resolution (CISR), and Jenny Traille, Senior Deputy Director of CISR, to lead the staff presentation.

After Mr. Murton gave introductory remarks, Ms. Traille reviewed the agenda and made a statement regarding the FDIC's obligations under the Government in the Sunshine Act (Sunshine Act) and the Administrative Procedure Act (APA). Regarding the Sunshine Act, she confirmed that this was not a meeting to conduct business of the FDIC Board of Directors and that the Board members present would only engage in general or preliminary discussions that do not relate to specific proposals for action pending before the FDIC. Regarding the APA, she made an announcement about several recently-issued notices of proposed rulemakings (NPRs), that are currently pending, regarding various topics that are expected to arise during the meeting. These NPRs include a proposal to require certain financial institutions to maintain certain amounts of long-term debt; proposed revisions to the capital rules for certain banking organizations; proposed corporate governance and risk management guidelines that would apply to certain FDIC-supervised depository institutions; and proposed revisions to the FDIC's Resolution Planning Rule for insured depository institutions (IDIs). She also mentioned proposed guidance to Category II and III covered companies regarding their Title I resolution plans.

She noted that the FDIC is in the process of collecting and reviewing comments associated with these proposals, and will consider all comments before the Board finalizes any of these proposals. She said staff would give presentations during the meeting 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 proposals are likely to take with respect to these matters. She advised that staff will publish a high-level summary of the meeting's discussions on the FDIC website following the meeting.

Session 1A: Spring Bank Failures

Ms. Traille introduced staff members for the first session: Alfred Seivold, Deputy Director, CISR; Ryan Tetrick, Deputy Director, CISR; Dave Kiddney, Associate Director, CISR; and Pen Starke, Acting Deputy General Counsel, Legal Division.

Mr. Seivold stated he would discuss bank failures that occurred in the spring of 2023, detailing some root causes, the timeline of events, and lessons learned; highlighting regulatory developments; and providing insights into how the FDIC is proceeding. Mr. Seivold discussed how the use of social media evolved during the COVID period as a tool for market participants to communicate, and how the instantaneous spread of information via social media, as observed in March 2023, may have fundamentally changed how bankers and regulators must prepare for future bank runs.

In addition, in 2022, the federal funds rate increased from near zero to more than 4.25 percent, which was the steepest increase in more than a generation. The dramatic change in rates put pressure on firms' balance sheets, especially for those that invested in longer-term assets. The March failures highlighted important questions about how banks manage their interest rate risk, and also raise questions about appropriate treatment of unrealized losses for capital purposes.

The three regional banks that failed in spring 2023 shared some common characteristics that made them more vulnerable to a run, as discussed in reports previously issued by the Federal Reserve Board (Federal Reserve) and FDIC. First, the three banks grew rapidly and relied heavily on uninsured deposits for funding. Two had uninsured deposits approximating 90 percent of their funding; the third, roughly 70 percent.

Additionally, Silicon Valley Bank (SVB) and First Republic Bank (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, SVB and Signature Bank demonstrated management failings and were not responsive to supervisory feedback.

Mr. Tetrick described circumstances that prevailed prior to SVB's failure, and compared the scale of withdrawals from SVB, which amounted to $42 billion in just six hours, to prior bank runs, such as withdrawals from Washington Mutual before it failed in 2008. As it became apparent SVB would fail, the FDIC worked with the Federal Reserve and the California Department of Financial Protection and Innovation to prepare for a resolution.

Mr. Tetrick described the consideration of strategies for the resolution. SVB had a high percentage of uninsured deposits, a high level of unrealized losses in its securities portfolio, and a relatively small amount of unsecured debt to absorb losses, all of which would lead to a high level of loss for uninsured depositors. This would mean there was no way to protect uninsured depositors that would comport with the Least Cost Test and that this would have resulted in one of the largest absolute losses for uninsured depositors in U.S. history.

The FDIC decided to form a deposit insurance national bank (DINB) to allow depositors to more easily withdraw their insured deposits. The FDIC also decided to announce an advance dividend, based on a conservative estimate of eventual recoveries from the bank's assets, to ease the impact on uninsured depositors. SVB was then placed into receivership on Friday morning, March 10, 2023. As the FDIC began resolving SVB, including preparing a marketing process for the failed bank, it learned of the severity of the deposit run at Signature Bank. Over that weekend, deposit outflow requests continued at Signature Bank, SVB, and First Republic, which was also on the brink of failure.

Over the weekend, the FDIC began a formal bidding process for SVB, which differed from prior such processes, such as for Washington Mutual, by being compressed into a weekend instead of over several months. Some potential bidders chose not to bid, and other bids were lower than the estimated cost of liquidating the bank's assets and paying out insured depositors. The FDIC simultaneously began preparing to activate bridge banks for Signature Bank, SVB, and First Republic. First Republic secured borrowing that allowed it to remain open the following week.

On Sunday, March 12, 2023, authorities took steps to address the contagion that was spreading broadly through the banking system. The Bank Term Funding Program was launched by the Federal Reserve on March 12, and allowed banks to borrow against securities collateral for up to one year. In addition, a systemic risk exception was recommended unanimously by the boards of the FDIC and Federal Reserve, respectively, and then

invoked by the Secretary of the Treasury, after consultation with the President. Factors supporting this decision included the impact on uninsured depositors, including companies that had large uninsured deposits at these banks and were concerned about making payroll in the coming week, and particularly the potential for deposit outflows to continue at other banks and increase the series of bank failures. The systemic risk exception allowed authorities to protect all depositors of the failed banks, transfer deposits to bridge banks, and provide assurance to the financial system.

Regarding lessons learned from the experience, Mr. Tetrick highlighted the ability to respond to atypical events, and to adjust responses as needed.

Member Kohn commented on the subject of banks using the Federal Reserve's discount window as part of their liquidity planning, and referred to potential perceptions of stigma for such banks. He asked what regulators and supervisors are doing to get banks better prepared to use the discount window, and whether supervisors are more open to using the window as part of liquidity planning and liquidity stress tests.

Mr. Seivold advised that subject was a focus of supervisors over the summer and fall, and Director Hsu discussed the challenge of having banks ready to use the window, but not over-reliant on it. Chairman Gruenberg agreed, and stated the banking agencies are focused on liquidity issues, including managing access to the discount window and the issue of prepositioning collateral at the discount window.

Member Herring asked whether consideration was given to not using the systemic risk exception, and instead only giving uninsured depositors an advance dividend. Chairman Gruenberg stated that was considered, and noted that when SVB failed on Friday morning, March 10, the FDIC announced (i) the creation of a DINB from which insured depositors could withdraw their deposits on Monday, March 13, and (ii) that uninsured depositors would be eligible for an advance dividend. He noted that authorities' views changed on Friday evening, March 10, when it became clear that contagion was occurring and deposit runs at Signature Bank and First Republic were resulting. He said serious consideration was given to the approach Member Herring asked about, but that the contagion effect and the concern of a

broadening of the problems to other institutions led to the decision to invoke the systemic risk exception.

Director Chopra mentioned that other events occurring at the same time as SVB's failure, including the liquidation of Silvergate, following a few months after the failure of FTX and other institutions, led to additional concerns about the problems spreading to other institutions that were involved in more traditional banking lines than SVB. He noted that a lot of thought had been given to avoiding the systemic risk exception.

Member Bernanke asked if any of the banks had Federal Home Loan Bank (FHLB) advances and, if so, how that would have affected the resolution strategy. Mr. Tetrick said the banks had FHLB advances, some of which were transferred to the bridge banks.

Member Cunliffe asked about supervisory treatment of SVB and the other banks prior to their failures. Mr. Seivold noted that the post-failure reports had stated that authorities should have been more forceful in taking supervisory actions, because bank management was not addressing problems quickly enough, including SVB's interest rate risk. Mr. Tetrick noted that authorities were concerned about these particular banks, but that the banks' deterioration had not progressed to a level that authorities had mobilized for resolution in advance.

Member Koenig asked about the potential that, prior to the failures, more stringent liquidity requirements could have been implemented. Mr. Seivold noted a potential lack of anticipation, at the time, of the speed with which deposits would leave the bank, and said the supervisory toolkit provided authorities with the tools to have done more.

Member Cohen noted the operational risk issues regarding access to the Federal Reserve's discount window, and collateral issues when dealing with FHLB advances. He stated he hoped the system would overcome any stigma applied to primary credit, but thought such stigma would not be overcome regarding secondary credit, and that the Federal Reserve would have to be willing to exercise discretion, when appropriate, to not classify borrowing as secondary. He also stated authorities should not second-guess the decision to invoke the systemic risk exception, because in his opinion if it was not invoked, multiple banks

would have failed, and potentially additional problems would have occurred.

Member Cohn agreed with Member Cohen's comments. He stated that authorities and the banking industry might have different views of uninsured and insured deposits, and that for large corporations it was essential that they have the ability to safely deposit large sums for their payroll payments; for this reason he also thought the systemic risk exception decision should not be second-guessed. He also highlighted the detrimental impact on SVB of customers suggesting that other customers withdraw their funds.

Member Peterson noted that in some ways SVB was more like a securities company than a bank. He asked about coordination among authorities regarding SVB, and whether certain banks should cease being treated as banks if they were more similar to a securities company. Mr. Tetrick answered that coordination did occur among the FDIC, the Federal Reserve, and the California Department of Financial Protection and Innovation, and that SVB had some aspects typical to a bank, as well as other aspects that were atypical, such as extensive loans to start-up corporations.

Member LaSalla stated that the systemic risk exception was probably the right decision, but he asked whether SVB and the other failures represented an instance of a run on a particular business model, and whether, in the future, institutions with similar business models should be treated as part of a particular category. He also asked if there were elements of the regulatory structure that impacted the oversight of SVB. Mr. Tetrick said the failed banks had similarities, but also some differences. He also opined that there was not a particular impediment in the regulatory structure. He said the FDIC was quite active in engaging with the Federal Reserve, the Office of the Comptroller of the Currency (OCC), and State regulators in New York and California. Mr. Seivold echoed those comments.

Director Hsu commented that, regarding the idea of a run on a particular business model, there is a risk of oversimplification. He said there were various ways to think of contagion; one is the risk of loss, and one is the idea of guilt by association. He discussed various aspects of these perceptions, both now and going back to the financial crisis of

2008. Director Chopra discussed the topic of regulatory cooperation, as well as the FDIC's self-appointment authority.

Member Peterson opined that Global Systemically Important Banks (G-SIBs) benefited from the outflow of deposits in spring 2023. Chairman Gruenberg said the FDIC had tracked that issue in its quarterly banking profiles, and that the flow of deposits to the G-SIBs was limited and then actually reversed; the principal recipients of flows were instead money market funds.

Member Cohn remarked that it was perhaps not correct to say SVB and the other failed banks were "dependent" on uninsured deposits; rather, their high levels of uninsured deposits meant they did not know what to do with those funds. He said that in similar circumstances he would have bought zero-risk rated assets, of short duration, but he would have hedged the interest rate risk.

Member Cunliffe acknowledged that uninsured deposits might "run" from a bank faster, and also discussed the sharp rise in interest rates over the prior year. He discussed prior experiences in the U.K. that similarly showed the potential for a social media message to cause a fast bank run. He noted that an event that is idiosyncratic in one situation can be contagious in another. Chairman Gruenberg noted that insured deposits increased rather than declined during the 2023 events.

Ms. Traille noted that, if there were no other pending comments, the agenda would proceed to discuss stabilizing the bridge banks.

Session 1B: Stabilizing the Bridge Banks

Mr. Kiddney discussed operating and stabilizing the bridge banks. Mr. Kiddney discussed how staff worked in March 2023 to resolve SVB, and to prepare to possibly resolve other banks, in a short period of time, including such actions as chartering the bridge bank for SVB, preparing to open additional bridge banks in the subsequent week, and identifying leadership for the bridge banks. Based on prior work to identify potential leadership for future bridge banks, the FDIC contacted three potential executives from this "standby pool" (Greg Carmichael, Member Mayopoulos, and Michael Shepherd) about the possibility of serving as CEOs of the three potential bridge banks, respectively. Mr. Kiddney noted Mr. Carmichael could not attend today's meeting because of a scheduling conflict.

Member Mayopoulos expressed his gratitude to the FDIC for being given the chance to be the CEO of the Silicon Valley Bridge Bank (SVBB). He discussed his experience as CEO of SVBB,and opined that the bridge bank had facilitated an orderly sale process that mitigated the negative effect of SVB's failure on uninsured depositors and on the FDIC's Deposit Insurance Fund (DIF). He expressed his support for the authorities' treatment of the uninsured deposits at SVB, and noted the negative impact that might otherwise have occurred, especially for corporations that needed their deposits to fund payrolls.

He praised the FDIC for giving the CEOs of the bridge banks discretion to make many decisions, including in communicating with employees of the failed banks. He also complimented the FDIC's decisions to engage a knowledgeable communications firm to help SVBB, and to retain at SVBB much of the failed bank's executive leadership, other than the CEO and Chief Financial Officer. He particularly praised the dedication of the failed bank's employees, and of the FDIC staff that assisted SVBB. He thought the bridge bank was a success, especially as it met most customer needs and was able to operate for several weeks, allowing the FDIC to execute a more successful resolution.

Regarding aspects that could have gone better, Member Mayopoulos mentioned that some counterparties failed to recognize SVBB as "standing in the shoes" of SVB, which increased obstacles for SVBB. In particular, some payroll processors initially declined to work with SVBB to process payroll transactions, and SVBB's ability to execute foreign exchange transactions was hampered.

Another difficulty for SVBB was the need to initiate new indemnification agreements and Director and Officer (D&O) insurance for executives. A challenge was that there was no compensation plan in place for most senior executives at SVBB.

He encouraged the FDIC to develop public guidance that could be used in future cases to reassure domestic and foreign counterparties of failed banks that the bridge bank "stood in the shoes" of its predecessor for contractual purposes, and he suggested consideration be given to the idea of insuring very large deposits, for an appropriate fee, such as in the case of corporations needing to hold large deposits at banks prior to issuing payroll to their employees.

Mr. Kiddney noted that the employees of SVB did receive retention plans when working for SVBB, but the executives did not. Regarding communications to counterparties considering transacting with the bridge bank, he stated that a Financial Institution Letter (FIL) issued by the FDIC the Tuesday after SVB's failure helped to provide more clarity on that topic.

He said the FDIC was incorporating lessons from SVB's failure into operations in real time in March 2023, as the FDIC was planning to resolve First Republic. The FDIC had communicated with Michael Shepherd in March 2023 and asked him to serve as CEO of a bridge bank for First Republic.

Mr. Shepherd, former Chairman and CEO of Bank of the West, addressed the meeting participants. He praised the idea of a standby pool of potential executives for failed banks. He was asked on March 12, 2023, to be CEO of the bridge bank for First Republic , but the bank received an influx of funds shortly afterwards, and did not fail at that time. He described being prepared, for a period of about six weeks, to serve as a bridge bank CEO if needed, although ultimately that did not become necessary. He explained the process of educating the standby pool members about the bank, its internal and external communications, and its assurances to counterparties. He praised the idea of having informational packets about a failed bank that could be provided to the standby pool members who might assist with that bank.

Member Tahyar, who was the outside counsel for both bridge banks, spoke about suggestions she might make, with the benefit of hindsight, to improve the process. First, the FIL that was released the Tuesday after SVB's failure would have been more helpful, especially in dealing with other banks, if it had been released two days earlier: on Sunday, after the bank's failure the preceding Friday. The CEOs of the other banks were willing to keep dealing with the bridge banks; the problem was that subordinates within the other banks, such as employees in the wire room, were reluctant to send funds to the bridge banks because of fears the funds might be lost. She also noted that the time spent on indemnifications and D&O insurance for executives was a distraction, and that those arrangements potentially could have been worked out in advance. Finally, she suggested the FDIC's documentation for bridge banks and its resolution handbook be updated.

Mr. Laviola asked a question regarding solvency and liquidity requirements for bridge banks, and whether timing requirements are waived for bridge banks. He said the European Banking Union is currently considering similar issues.

Mr. Starke replied that there are no capital requirements for bridge banks. The bridge bank is backed by the FDIC and its DIF, and its obligations are backed by the full faith and credit of the United States. He added that the DIF had been able to provide liquidity.

Member LaSalla asked if this would be the case even if the sale of the bridge bank were to occur up to five months or a year later, rather than in two weeks. Mr. Starke confirmed that this was correct.

Member Cohen commented that he wondered whether there could be an appendix to banks' resolution plans that listed information that would be pertinent to an interim CEO of a bridge bank. Member Mayopoulos agreed that would be useful, and perhaps could have informed him about the legal entities in the bank structure, the organizational chart, size of the assets, etc.

Mr. Tetrick said that on the initial weekend after SVB's failure, there was not time to prepare such materials before contacting the potential CEO for SVBB. For First Republic, on the other hand, there was time to get much of that information for Mr. Shepherd. He also added that the FDIC had internally updated much of the documentation for bridge banks, but had not yet finalized them with the OCC. In the case of SVB's failure, the FDIC had zero days to prepare, whereas in other cases, the FDIC generally has had several weeks at least.

Chairman Gruenberg thanked Member Mayopoulos and Mr. Shepherd for their presentations, and for their willingness to assist when the regional banks failed.

At the conclusion of this discussion, the meeting stood in recess from 11:01 a.m. to 11:18 a.m.

Session 2: International Perspectives and Lessons Learned On G-SIBs and Regional Banks

Ms. Traille introduced the two presenters for the next session. The first presenter was Dr. Eva Hüpkes, the Secretary

General of IADI. She was previously the head of Regulatory and Supervisory Policies at the Financial Stability Board (FSB), and prior to that was the head of policy and regulation at the Swiss Financial Market Supervisory Authority (FINMA), and FINMA's predecessor organization, the Swiss Federal Banking Commission. She was also recently a member of the Swiss Expert Group on Banking Stability (Swiss Expert Group) commissioned by the Federal Department of Finance of Switzerland to focus on financial market and stability issues.

The second presenter was Mr. Sebastiano Laviola. Mr. Laviola is a member of the SRB in Europe and the SRB's Director of Resolution Strategy and Cooperation. Prior to that, he was a Central Director of the Bank of Italy, Italy's central bank. He currently chairs the FSB's Cross Border Crisis Management Group for banks (BankCBCM), which is part of the FSB's Resolution Steering Group (ReSG). The FSB recently published a report on the 2023 bank failures, including lessons learned for resolution.

For this session, FDIC panelists were Mr. Murton, Mr. Tetrick, Susan Baker, Corporate Expert, CISR, and Bruce Hickey, Senior Counsel, Legal Division.

Dr. Hüpkes stated that she participated in both the FSB review and the Swiss Expert Group established by the Federal Department of Finance of Switzerland, which included bankers, academics, and former FINMA and FSB officials. She began by summarizing some of the facts of Credit Suisse's difficulties, which involved a gradual deterioration over several years. Specifically she noted an erosion of confidence and a combination of issues including weakness in its business model and its governance, reflecting a lack of effective controls.

Credit Suisse had also not been responsive to supervisory action. In addition, it experienced many changes in its risk and compliance leadership, and a fast turnover of senior management in recent years. It had three different Chairmen over three years, and four CEOs over seven years.

The bank's announcement of a revised strategy that included raising four billion Swiss francs in 2022 to fund a restructuring did not restore market confidence. Credit Suisse did not have the strength and ability to manage a turnaround, despite the reported solid group capital liquidity figures. Dr.

Hüpkes reported that the market started to question the bank’s financial strength and viability in late 2020 and substantially lost confidence in the early fall of 2022, as reflected in significant outflows in the fourth quarter.

On 15 March 2023, FINMA confirmed that Credit Suisse still met capital and liquidity requirements, and the Swiss National Bank (SNB) was ready to provide emergency liquidity assistance to Credit Suisse. Credit Suisse then announced it was drawing 50 billion Swiss francs, which seemed modest in size and did not reassure the markets.

On March 19, after intervention by Swiss authorities, UBS and Credit Suisse reached a merger agreement. It was fully completed in June and FINMA approved the takeover, 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 government emergency regulation also contained arrangements for the SNB to provide liquidity assistance and a default guarantee covering 100 billion Swiss francs. Those arrangements were terminated in August 2023. The emergency regulation also enabled the government to enter into a loss protection agreement with UBS. The state would have incurred a loss of up to several billion francs, if any definitive loss arose from the sale of certain assets after UBS took over Credit Suisse. The loss protection agreement was also terminated in August 2023.

The emergency regulation enabled the SNB to provide additional emergency liquidity, the so-called “ELA plus”. The priority was up to 100 billion in the creditor hierarchy, but it was otherwise un-collateralized. The emergency regulation also allowed for the merger to go ahead with approval of UBS, and without the approval of UBS and Credit Suisse shareholders and without other requirements, such as the preparation of interim balance sheets. The emergency regulation also authorized FINMA to order Credit Suisse to write down AT1 bonds.

The Swiss authorities chose not to execute the resolution plan that had been developed jointly with the members of Credit Suisse’s crisis management group (CMG), which included the FDIC. That resolution strategy, which was a single point of entry (SPOE) open-bank resolution strategy, would have entailed the

full write-down of capital, the full write-down of AT1 bonds, and the conversion of bail-in bonds issued by the holding company, which would have generated 57 billion in fresh capital.

That strategy was deemed executable by FINMA, a conclusion shared by the Swiss Expert Group and also the members of the CMG. Dr. Hüpkes noted that it would not have been without risk. Bondholders could have claimed a lack of proportionality, given the intact capital base, or the way it was 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 other jurisdictions.

It seems that those factors were not the ones that were really decisive. The Swiss public reacted negatively to the merger, perhaps because it increased the dominance of UBS in the Swiss market; they would have preferred the creation of a standalone and much smaller bank. However, the Swiss authorities stressed that this was the best solution under the circumstances. The alternative might have been nationalization or a further delay in coming to a decision.

Dr. Hüpkes commented that the resolution option might not have been well communicated in advance. It sounded more like a bankruptcy that could have severe systemic consequences. However, the Swiss Expert Group's conversations with market participants resulted in the view that there would not have been major systemic consequences.

A number of lessons may be drawn from this experience, both as to supervision and as to resolution. Dr. Hüpkes first offered three points on supervision.

First, capital and liquidity metrics were not transparent, as they did not provide a good view of the health of the bank and actually-available resources. Some capital and liquidity resources were trapped in particular entities, whether in host jurisdictions or in the bank's subsidiary in Switzerland. These were not freely usable and could not be moved where they were actually needed.

Second, the Swiss Banking Act provides a legal basis for early intervention that is fairly broad and provides wide discretion. The Swiss Expert Group's review wondered whether the discretion was too broad and therefore resulted in FINMA not acting early enough, out of fear of legal challenges. From a

Swiss perspective, it could be helpful to have specific quantitative but also qualitative criteria, similar to prompt corrective action triggers. For example, these might have considered other factors such as profitability, market value, or a business model, to enable the supervisor to intervene early and mitigate forbearance.

Third, recommendations have been made to strengthen FINMA's enforcement powers and strengthen individual accountability at senior management levels through a regime similar to that in the U.K.

Dr. Hüpkes also made three points regarding resolution. The first related to flexibility and optionality in resolution. FINMA had only prepared for a single resolution strategy: an SPOE bail-in strategy. The Swiss banking law gives FINMA a range of resolution powers, including the power to set up a bridge bank. These could have allowed FINMA to implement the merger in resolution. However, without preparation, this would have been difficult to arrange in a very short period of time. It is clearly not possible to prepare for all possible scenarios, but advance consideration as to which resolution tools could be applied in different scenarios could help authorities to be better prepared.

Dr. Hüpkes opined that the Credit Suisse case also demonstrated challenges associated with an open bank bail-in strategy in which the debt-to-equity conversion has to be essentially executed over one weekend, leaving very little time to meet SEC requirements regarding exemptions and disclosures, given that the Credit Suisse TLAC bonds were traded in the U.S.

Dr. Hüpkes noted that consideration had occurred as to whether the use of a bridge would have allowed more time. She noted the issue of whether the assumption by the bridge bank of operations of the failed bank, including in foreign jurisdictions, would require approval from host regulators regarding change of control. She suggested, however, that having a bridge bank might have allowed for more time in preparing post-resolution restructuring options, transferring operations to other market participants, and finding a buyer.

Another key finding was that the public liquidity backstop is critical for an effective resolution and for its credibility. There is now a new legislative proposal in Switzerland, which

would include a fee that systemically important banks would have to pay to compensate the state.

A key recommendation of the Swiss Expert Group's review was that banks and supervisors need to be able to ensure banks are better prepared to access liquidity and prepositioned collateral. FINMA has the sole authority to place a bank into resolution, and the group found it difficult to see how FINMA, on its own, could exercise this power with respect to a G-SIB that would need extremely large amounts of liquidity from the SNB, and the failure of which could have also had significant economic repercussions for the entire country. These factors would suggest that the lender of last resort (SNB) and the Swiss executive government should have a part in the decision, similar to the "three keys" approach in the U.S. under Title II of the Dodd-Frank Act (DFA). The Swiss Expert Group recommended the Swiss decision-making process be reviewed.

Dr. Hüpkes concluded by highlighting two points. First, she noted that on the weekend Credit Suisse was merged with UBS, the Swiss authorities held a press conference on Sunday to communicate the assisted merger plan to the public at 7:30 pm (Swiss time)(or, in Japan, at 3:30am local time on Monday), while the Japanese authorities had been working to potentially refinance Credit Suisse. The Japanese authorities only learned about the Swiss authorities' plan shortly before the Swiss press conference, which was also shortly before the opening of the Japanese markets. She suggested thought might be given to how authorities operate during crises, including communications with authorities in different time zones. She noted the Swiss had been working closely with the CMG members, including the U.K. and U.S. authorities.

She also noted the significant need for resources and staff with relevant expertise. FINMA is leanly staffed compared to authorities in other jurisdictions, and relying on outside auditors does not compensate for this fact. She suggested thought needs to be given to how to augment available resources quickly in times of stress and also during normal supervision.

Mr. Laviola stated that he had been tasked with leading an FSB group to assess the implications for the international resolution framework and to identify initial lessons learned from the recent crisis events. He said his comments to the SRAC

were based on that group's report, which were approved by the ReSG members and then by the entire FSB membership.

The report's findings regarding resolution were consistent with those reported by Dr. Hüpkes. This was the first major test of the international resolution framework after the financial crisis of 2008-09, and involved over $1.1 trillion in total assets.

The review upheld the appropriateness and feasibility of the resolution framework, while also identifying several implications both for G-SIBs and for other systemically important banks. The decade-long work on resolution planning and capabilities, and the accumulation of loss-absorbing capacity (LAC), proved very useful. Credit Suisse's case provided an executable alternative to the solution the authorities chose. The preparation in building up operational continuity, access to financial infrastructures, and cross-border cooperation and crisis management worked well. After Credit Suisse's liquidity crisis in October 2022, FINMA prepared for a potential resolution by coordinating with authorities in Switzerland, the U.S., and U.K. When the crisis arose, financial stability was preserved, and contagion effects prevented, in those jurisdictions.

He stressed the need to have good communication and coordination among authorities, and also with the firm. The Credit Suisse case also showed that, in certain circumstances, the communication has to go beyond the core CMG, in order to deal with indirect effects. He mentioned that it might be worth reassessing our consideration of jurisdictions' host entities that may be domestically systemic, even if not internationally systemic. In addition, authorities would benefit from increased awareness of the potential impact of bail-in on financial markets.

Mr. Laviola noted these topics are addressed in the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions, including in its annexes. In addition, the work program of the FSB's ReSG includes consideration of resolution planning to preserve optionality of resolution tools.

Another aspect shown by the review is the importance of the availability of an effective public sector funding backstop, as well as the importance of preparation for cross-border

recognition and the execution of a cross-border bail-in. The FSB has ongoing work in this regard. In addition, authorities have to be able to communicate and execute a credible restructuring plan to regain market confidence.

He highlighted the need to analyze which institutions might be systemic in certain circumstances, and also the need for sufficient LAC. European legislation contains mandatory long-term debt requirements for the largest banks. There is also analysis necessary regarding the interaction of insured and uninsured deposits, and deposit insurance levels.

Overall, the Banking Union banks were not significantly affected by the volatility in spring 2023. A review of the European crisis management framework is still ongoing, however. Key issues under consideration are the resolution of mid-size banks, communication and confidence, and liquidity in resolution. Mr. Laviola also discussed the interaction of national deposit guarantee systems with the Single Resolution Fund in Europe.

Member Herring expressed appreciation for the presentations, which helped explain the events in Europe. He asked about a comparison between the report and the sentiment, expressed by a Swiss official during the crisis, that the preferred resolution strategy was not workable, and about how Switzerland approaches the "too big to fail" issue. He opined that producing a restructuring plan immediately after opening a bridge bank seemed a difficult task. He also mentioned that the effectiveness of TLAC might be questioned if, during a crisis, additional exemptions or prospectuses would have to be arranged.

Dr. Hüpkes noted that it was unclear the extent to which, prior to the crisis, all the Swiss authorities had been briefed about the resolution plan. After the events, FINMA has confirmed it was ready to proceed with a resolution plan, and FINMA was supported at the time by authorities in the U.K. and U.S. FINMA also confirmed that the existence of the resolution plan assisted authorities in ultimately deciding upon the assister merger of Credit Suisse and UBS, which has in fact preserved financial stability in Switzerland.

Mr. Laviola discussed the difficulty of knowing how market participants would have reacted to a resolution of Credit Suisse, but he noted indications in the reports that investors

were prepared for a resolution. He also reiterated that more work needs to be done to increase awareness of authorities and market participants regarding impacts of bail-in.

Member Cunliffe thanked the presenters, and stated that the U.K. had been prepared to assist a resolution. He spoke about the background of Credit Suisse's problems, and whether a new environment prevailed in which a long-term reduction in trust in a bank could, in some circumstances, transform into a liquidity problem for that bank. He wondered whether consideration had to be made of a bank's "investability", i.e., the view investors have of the bank, and he also asked about the views of Credit Suisse shareholders.

Mr. Laviola agreed that there had been a long-term concern among investors about Credit Suisse's business model. He added that it was worth considering whether there was a new paradigm, especially with social media and panic-driven behavior, in which profitability and sustainability of the business model had to be considered, along with capital and liquidity.

Member Cohen discussed the issue of bail-in and securities laws, and suggested that a no-action letter or an exemption could be used to facilitate a bail-in.

Member Koenig commented that it would be difficult in the European Union to enact legislation in the manner that Switzerland did during Credit Suisse's difficulties, and she discussed the issue of whether G-SIBs should be merged with each other.

Member Bair commented on whether the approach taken regarding Credit Suisse would impact perceptions of the possibility of other resolution plans being carried out. Mr. Laviola agreed that some of the bank's problems perhaps should have been anticipated, but noted that it is difficult to address crises as they occur, especially when they develop quickly.

Member Bair and Dr. Hüpkes commented on the issue of ascertaining whether TLAC will actually be executable, including disclosure requirements.

Member Herring noted that Credit Suisse and the U.S. regional banks that failed in 2023 had been sufficiently capitalized not long before their difficulties, and he suggested the importance of trying to identify a definition of non-

viability that facilitated an earlier intervention. Mr. Laviola agreed that in addition to capital, liquidity, and other objective measures, it would be helpful to view factors in a holistic method, including the business model.

Member Kohn asked what members thought the implications of the 2023 events might be for G-SIBs. He stressed the importance of effective restructuring planning to address the problems, and of anticipating the risk of negative market reactions.

Mr. Tetrick noted that, in the case of Credit Suisse, authorities had several months in which to consider a potential failure, in contrast to the failures in the U.S., which occurred very quickly. Some of Credit Suisse's core metrics (CET1 ratio, liquidity coverage ratio) were relatively healthy, which showed banks can fail in a variety of ways. As noted in the two reports, authorities were able to prepare in advance for a potential resolution, in a process led by the Swiss authorities. As noted earlier, the U.K. authorities were prepared to assist a resolution, as were the U.S. authorities. He also commented that there needed to be an improvement to the firm's business model and risk management, and Swiss authorities were aware of that.

For this reason, in banks' resolution plans, U.S. authorities place importance on the topic of separable components and objects of sale, so a variety of options exist in a failure. No resolution will be without costs; however, in a G-SIB resolution costs will be borne by TLAC holders, and authorities need to manage issues so there are not knock-on effects. Mr. Tetrick thought the authorities had key pieces in place to resolve a G-SIB under Title II of the DFA, and the FDIC would be publishing a paper on that topic in the near future.

Chairman Gruenberg noted that Credit Suisse was the first G-SIB to fail since the 2008 crisis. Although a resolution plan was in place, the assisted merger option was chosen instead. He went on to note that, as Mr. Tetrick had said, in the United States the pieces are in place to execute an orderly resolution of a G-SIB and the FDIC would be issuing a paper on that topic.

Member Reed mentioned that one tool potentially available to authorities would be to communicate with a bank's board to express concerns about the bank. He said that, in his

experience, such a communication from authorities would result in a notable reaction by the board.

There being no more comments, Chairman Gruenberg thanked Dr. Hüpkes and Mr. Laviola for their presentations.

The Chairman then adjourned the meeting for lunch at 12:37 p.m. The meeting resumed at 1:52 p.m.

Session 3: Large Bank Strategy and Resolution Options

Mr. Tetrick began by discussing some of the challenges experienced when marketing large regional banks this past spring, which included dealing with expedited timelines and the lack of strong bids. He mentioned welcoming non-conforming bids, but that for each transaction, cost was the determinative factor. He then briefly described some of the unique features of each of the recent transactions: Signature Bank, SVB, and First Republic.

Mr. Tetrick then recognized Shawn Khani, Deputy Director, Division of Resolutions and Receiverships, to discuss the work FDIC staff has been doing to dispose of the remaining assets of these transactions. Mr. Khani emphasized that the FDIC had to resolve these assets in an orderly way in order to avoid further disruption or knock-on effects.

Mr. Khani also mentioned the FDIC’s statutory obligations as receiver to maximize recoveries, minimize losses, ensure adequate competition, prohibit discrimination, and maximize preservation of the availability and affordability of low- and middle-income affordable housing. He then noted how FDIC staff ensured these obligations were met.

Mr. Tetrick described some of the strategic problems moving forward for the resolution of large banks and potential opportunities for the FDIC to take action to make large bank sales more likely and less costly.

Member Reed noted the importance of understanding bank customers when trying to market these transactions to potential acquirers.

Member Herring questioned whether the FDIC drove a hard enough bargain when marketing SVB given the market value of its acquirer, First Citizens Bank, went up by forty percent shortly after the transaction. He also asked whether the FDIC staff

considered “too-big-to-fail" aspects of bids in their evaluation.

Mr. Tetrick noted that JP Morgan’s bid on First Republic was clearly the least-cost bid, which gave staff no choice but to accept it. However, he emphasized that staff are looking for opportunities for regional banks to be more competitive in this process.

Member Tahyar commented that the bidding history for these transactions demonstrated that FDIC staff are being tough negotiators in trying to get to least-cost outcomes. She also noted the importance of data rooms in facilitating this process, and her agreement with the IDI rule’s new data room requirements. She asked whether the estimated number announced as loss to the DIF from a bank failure includes the results from later sales. Mr. Tetrick responded that yes, it is a projected number.

Member O’Connor emphasized that we should avoid characterizing everything “too-big-to-fail" in the same way, noting that new liquidity and capital rules and resolution plans should make people feel better. She asked how FDIC staff was thinking about market depth for zero-risk-weighted assets such as treasuries and how regulatory requirements target those particular assets. Mr. Tetrick noted that FDIC staff had observed this problem, but that the FDIC was not entirely in a position to solve it.

Member Mayopoulos added additional context on why the First Citizens Bank transaction was so complicated and difficult to evaluate.

Member Cunliffe asked if there were any difficulties with Anti-Money Laundering (AML) or Countering the Financing of Terrorism (CTF) regulation or conduct. He also questioned whether the FDIC kept the crypto-related assets because of any certain concerns. Mr. Tetrick responded that bidding banks had the option to purchase the digital and crypto assets but did not want to take on an association with the crypto-related assets of the failed banks.

Member Cohn asked if a bank charter was required to get to the final bidding stage or if the FDIC was willing to grant bank charters to entities that had better bids. Mr. Tetrick responded that bank charters are required to assume deposits, but that the

FDIC does not grant bank charters unless in the context of a G-SIB failure. Mr. Cohn followed up by suggesting the FDIC consider potentially creating a bank relatively quickly to solve one of these problems in lieu of creating a bigger G-SIB by having a third party put up risk capital.

Member Peterson asked about FDIC staff incentives and how value capture is balanced with speed when evaluating these transactions. Mr. Tetrick responded that value is prioritized and every decision is made based on the cost to the DIF.

Member Bair asked if there were any crypto-related assets at SVB and how those were dealt with. Mr. Tetrick responded that he was not aware of any crypto assets, but that all deposits were assumed.

Member Bair asked if there was still outstanding guidance related to what entities needed to do to get a new bank charter and bid on a failing institution, and if there has been thought on updating it. Mr. Starke said that guidance was still available, but that interest in that issue had waned. Instead, he noted, recently firms were more interested in partnering with banks.

Member O'Connor asked how many bank charters are issued on a twelve-month basis. Chairman Gruenberg responded that, over the last five years, there have been fifty or sixty de novo institutions.

Chairman Gruenberg highlighted the significant amount of multi-family housing properties the FDIC came to own as a result of the Signature Bank failure and the excellent job that Mr. Khani and his team have done in managing those assets.

After this discussion, the meeting stood in recess from 2:45 p.m. to 3:01 p.m.

Session 4: Large Bank Policy Considerations

Ms. Traille recognized Rae-Ann Miller, Senior Deputy Director, Division of Risk Management Supervision; Jon Pogach, Senior Economic Researcher, Division of Insurance and Research; Andy Felton, Deputy Director, CISR; Betsy Falloon, Senior Resolution Readiness Advisor, CISR; and Dena Kessler, Acting Senior Counsel, Legal Division.

Ms. Miller discussed supervisory policy changes and priorities for 2024 as well as general background information on how bank examinations are conducted. She noted changes to examiner instructions on concentrations and guidance for examiners as it relates to escalation of supervisory matters. She also mentioned the recently issued rulemaking on corporate governance requiring a "three lines of defense" type of risk management system.

Mr. Pogach described the deposit insurance reform report that was released in May which provides a comprehensive overview of the deposit insurance system and presents options for reform to address current risks facing the system. He noted that targeted coverage, which allows for different levels of deposit insurance across different accounts, captures many of the financial stability benefits of expanded coverage while mitigating many of the more undesirable consequences of other options.

Mr. Felton described the NPR to establish long-term debt requirements for regional banks, which was issued jointly with the Federal Reserve and OCC in August. He noted that the requirement is likely to improve financial stability and mitigate a number of resolution challenges the FDIC has encountered with the failure of large regional banks.

Ms. Falloon described the FDIC's proposed rulemaking for IDI resolution plans. The proposed rulemaking will restate the current rule and will incorporate lessons learned through plan reviews, submissions and feedback that the FDIC has undertaken over the years, as well as the lessons learned from recent bank resolutions.

Member Bair expressed her enthusiasm and support for these proposals. She raised a concern regarding reliability of early warning metrics and whether the FDIC is acting fast enough when banks begin to deteriorate. Ms. Miller acknowledged the concern and agreed that better and more disaggregated information will make the banking system safer and more transparent. She also noted, however, that the industry has pushed back when the FDIC has tried to gather disaggregated liability-side information.

Member O'Connor expressed support for the long-term debt requirement and challenged the FDIC to continue monitoring the

growing proportion of uninsured deposits including understanding where this money is going and coming from.

Member Tahyar expressed her support for resolution planning in general and for maintaining the cooperative nature of the process. She urged the FDIC to try to align like-policy initiatives—such as Title I and Title II plans, as well as the OCC, Federal Reserve, and FDIC corporate governance rules—as best as possible so as not to double burden entities.

Member Bernanke asked to what extent the FDIC was evaluating other runnable liabilities, besides deposits, when thinking about liquidity requirements for stable banks. Ms. Miller responded that the FDIC takes a holistic approach to the liability side of the balance sheet, and that the review is forward-looking. She also noted that FDIC examiners are expected to analyze each identified concentration. She also noted the need to update methods as circumstances change.

Member Herring asked how much FDIC staff had thought about how to structure the long-term debt requirement as it relates to a bank's holding company. Mr. Felton responded that the majority of banks covered by the proposal already have debt issued to the market.

Member Kohn asked about the FDIC's ability to have staff flexibility. He also asked if consideration was given to limiting the systemic risk exception to demand deposits and zero-interest deposits only. Lastly, he stated that he was strongly supportive of the long-term debt proposal, but wondered if the FDIC had considered the potential problem arising from bailing in debt during a period of market stress. Ms. Miller highlighted the FDIC's ongoing focus on examination staffing, to include working to make the position more attractive. This will contribute to the needed flexibilities. Mr. Felton responded that when it came to issuing long-term liabilities, banks could wait a month or two if market conditions were less favorable, but that it depends on the facts and circumstances at the time.

Member LaSalla asked whether a liquidity coverage ratio mechanism might be a solution to thinking about issues with uninsured deposits. Ms. Miller responded by saying that secondary sources of liquidity did not hold because the amount of uninsured deposits was just too high. She also noted the

importance of understanding the liability side of the balance sheet and of appropriately applying risk management principles.

Member Kohn discussed the impact of bank clients' ability to quickly move money in and out of accounts and how old stress tests did not really take this into consideration. Additionally, he noted that there is increasing competition for certain types of runnable assets.

Member Herring emphasized the need to re-evaluate liquidity stress testing assumptions. The current assumptions may overestimate the ability to liquidate high quality liquid assets at face value in stress. Member O'Connor reiterated the need to consider the depth of the market and its ability to bear the sale of assets.

The Chairman asked if there was anything else for today's meeting.

Closing Remarks

Following the presentations and all of the related discussion, Chairman Gruenberg thanked the members for participating in the meeting and for their very helpful feedback. He expressed that he is looking forward to meeting with the Committee again next year.

The meeting was adjourned at 4:13 p.m.

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Debra A. Decker
Executive Secretary
and Committee Management Officer
Federal Deposit Insurance Corporation
FDIC Systemic Resolution Advisory
Committee

Minutes

of

The Meeting of the Systemic Resolution Advisory Committee

of the

Federal Deposit Insurance Corporation

Held on the 7th Floor

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation in Person and via Webcast

December 5, 2023 – 9:00 A.M.

I hereby certify that, to the best of my knowledge, the attached minutes are accurate and complete.

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Martin J. Gruenberg
Chairman
Board of Directors
Federal Deposit Insurance Corporation