RESEARCH

Failure of SVB Oversight: Reacting to Incurred Losses Versus Risks Taken

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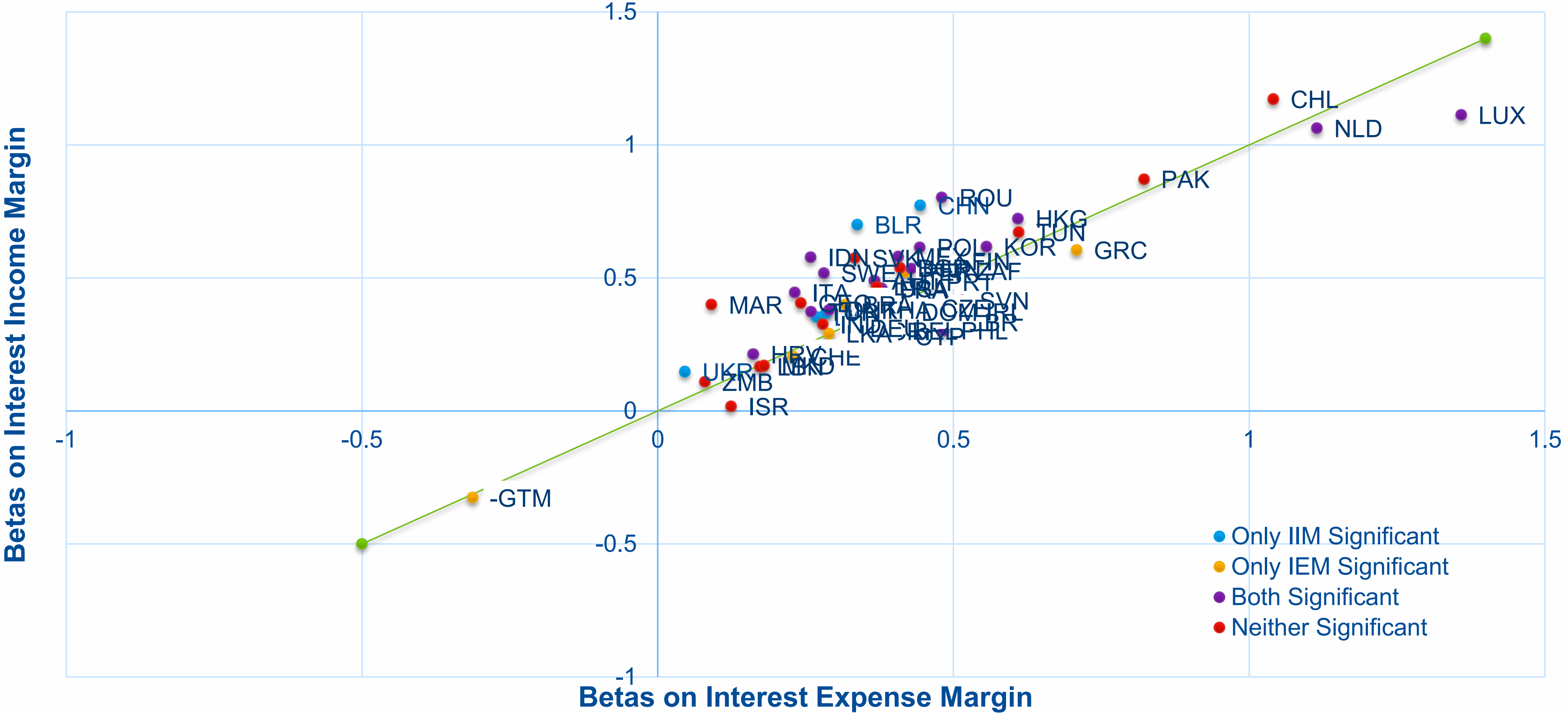
General Comments

- I liked the paper very much:
  - Very-well written. Interesting description of long-term building of risk and lack of supervisory attention
  - Link between accounting standards/rules and effectiveness of supervision
  - Suggests practical way forward: Greater use of market data – Focus on risk rather than outcomes
- Focus of this discussion:
  - Duration/maturity mismatches and exposure to interest rate shocks
  - International evidence on supervisory standards
  - Challenges with “proportionality” in banking regulation: Not systemic “in life” / systemic “in death”?
  - Role of capital requirements?

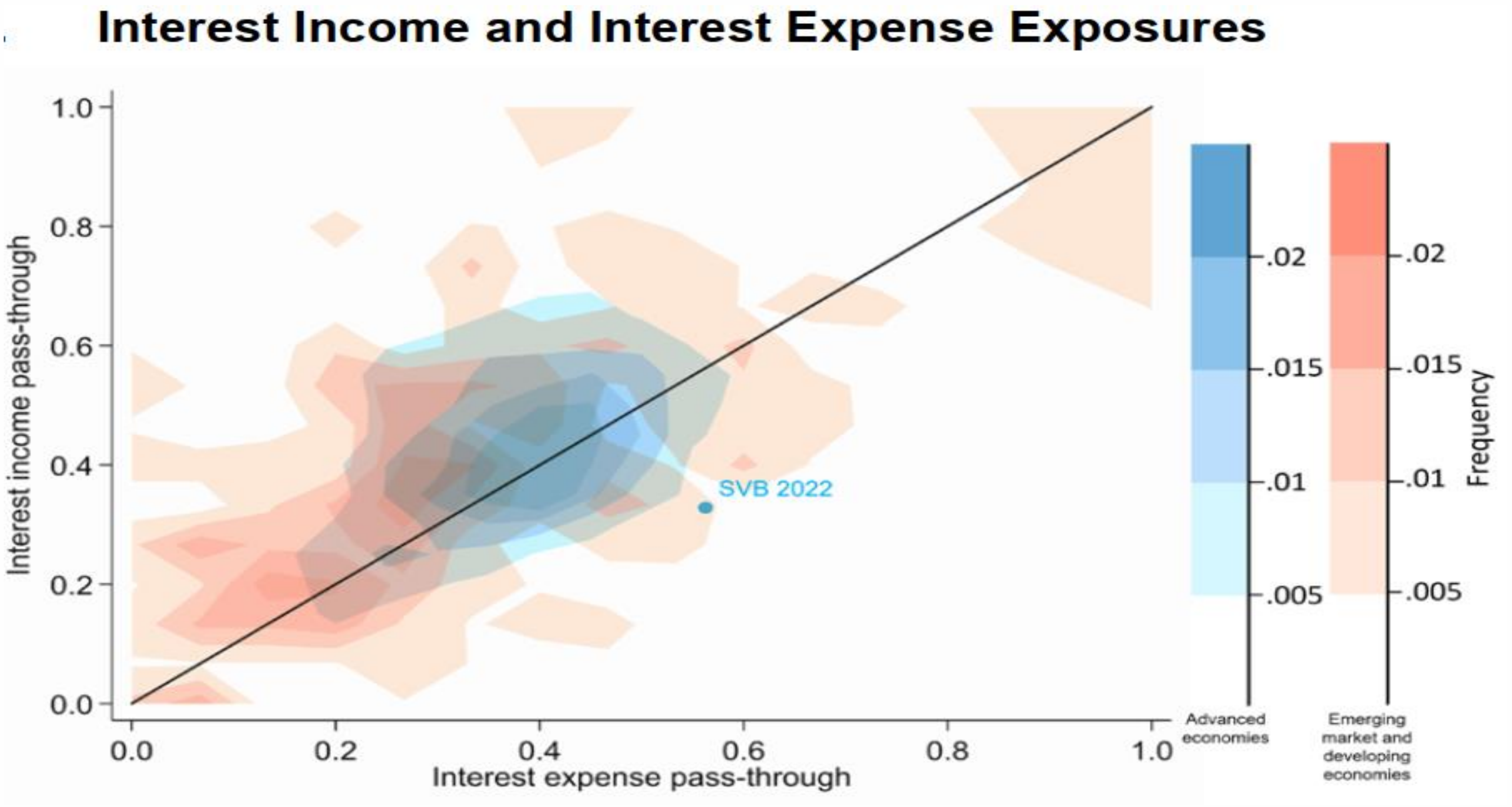
Banking Systems Appear At Least Partly Hedged

Interest margins and policy rates



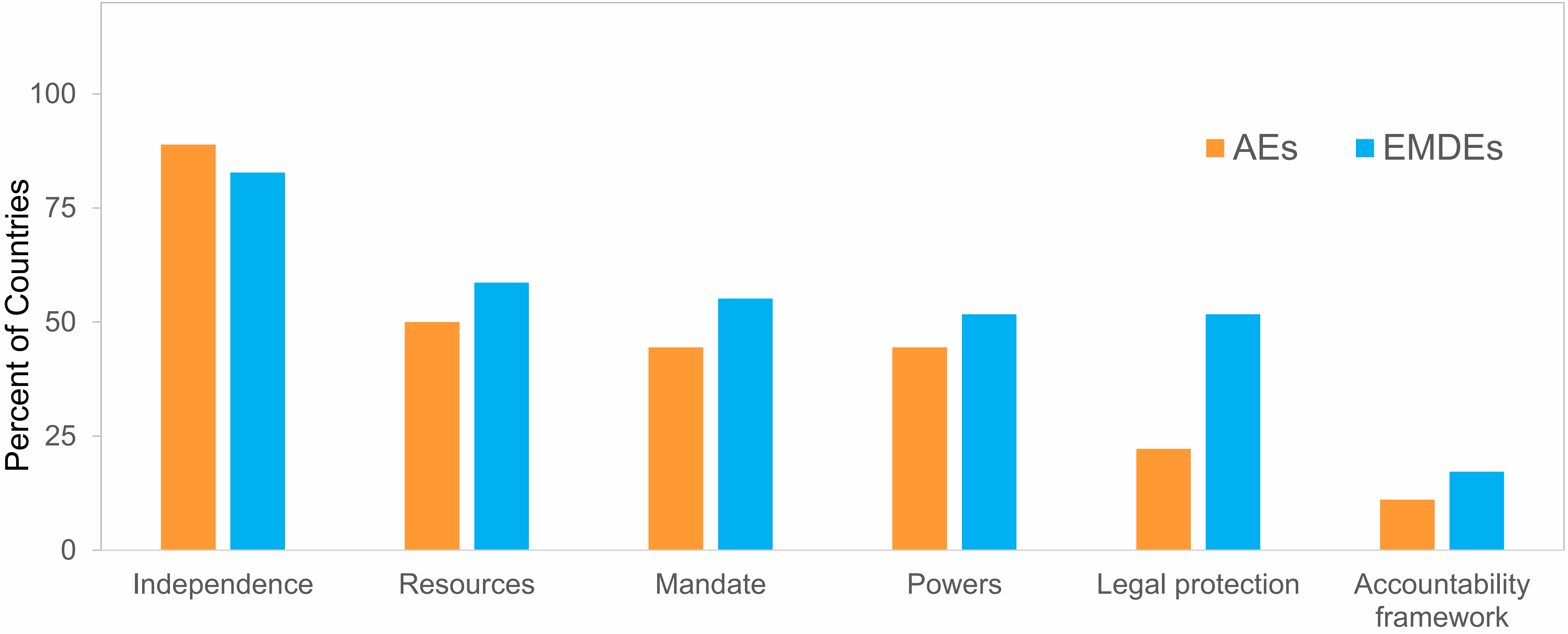
Source: Bergant et al. 2025, IMF SDN

But bank-level picture more heterogenous



Source: Bergant et al. 2025, IMF SDN

Weaknesses in Bank Supervision Frameworks



Source: Adrian et al. 2023, IMF WP

Challenges to Proportionality: Systemic is in the Eye of the Beholder…

- On the premise that cash is at more risk than we previously assumed, we are taking the following steps…

    - *… setting up operating accounts with different banks in case, yet again, there is a need to quickly move funds from one bank to another.*

    - *… We are being extremely careful when selecting these new banking relationships to mitigate bankruptcy risk. Some say too big to fail is the way to go – maybe, maybe not.*

    - *… <u>We are sweeping all – and I mean all – excess cash not needed for working capital purposes, and purchasing six-month T-bills every Monday at auction.</u>*

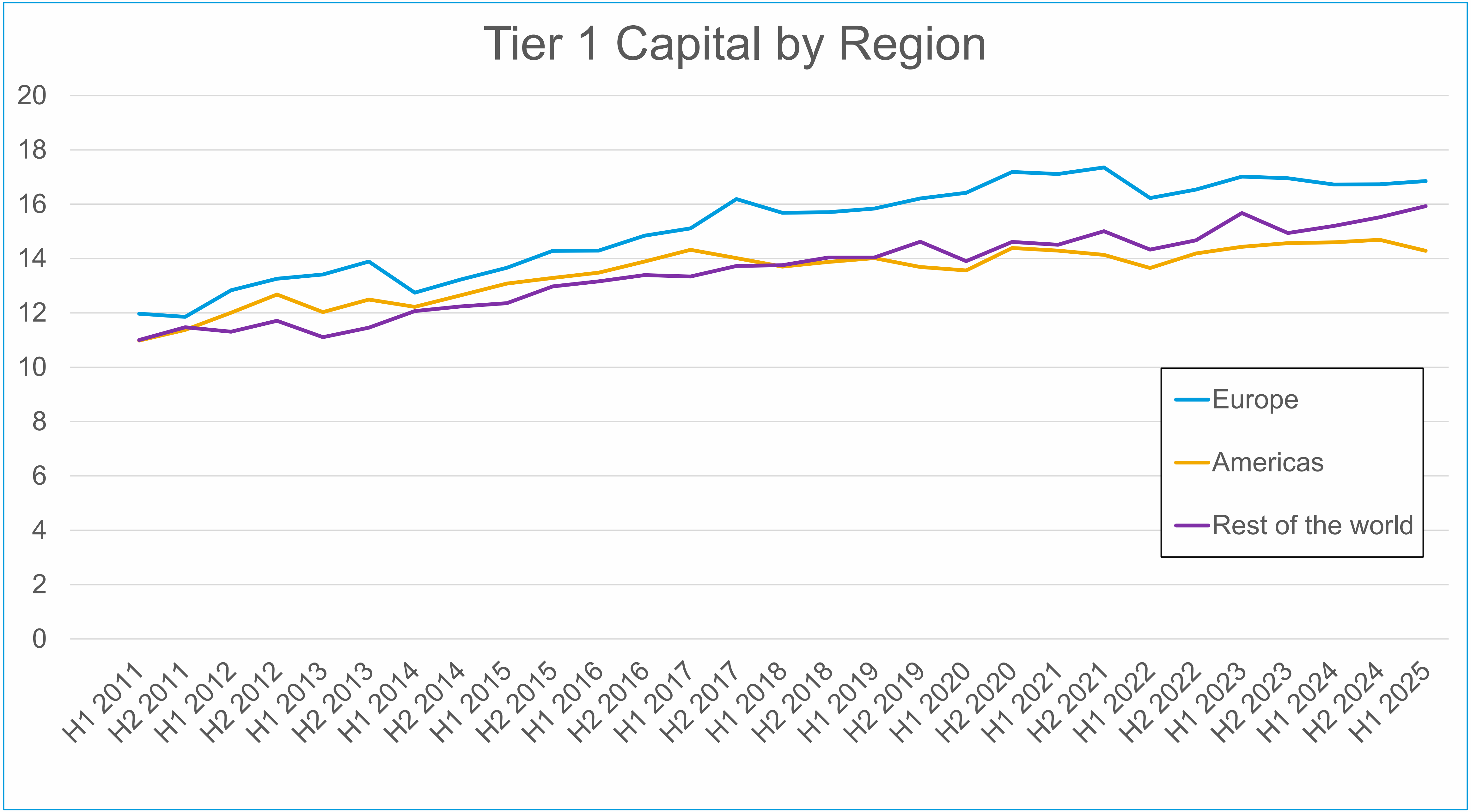
- **A challenge to the idea of proportional prudential frameworks?**

The way forward

- Take a more systematic approach to requiring banks to go beyond quantitative regulatory thresholds and prudential rules when business and macro-financial risks are high.

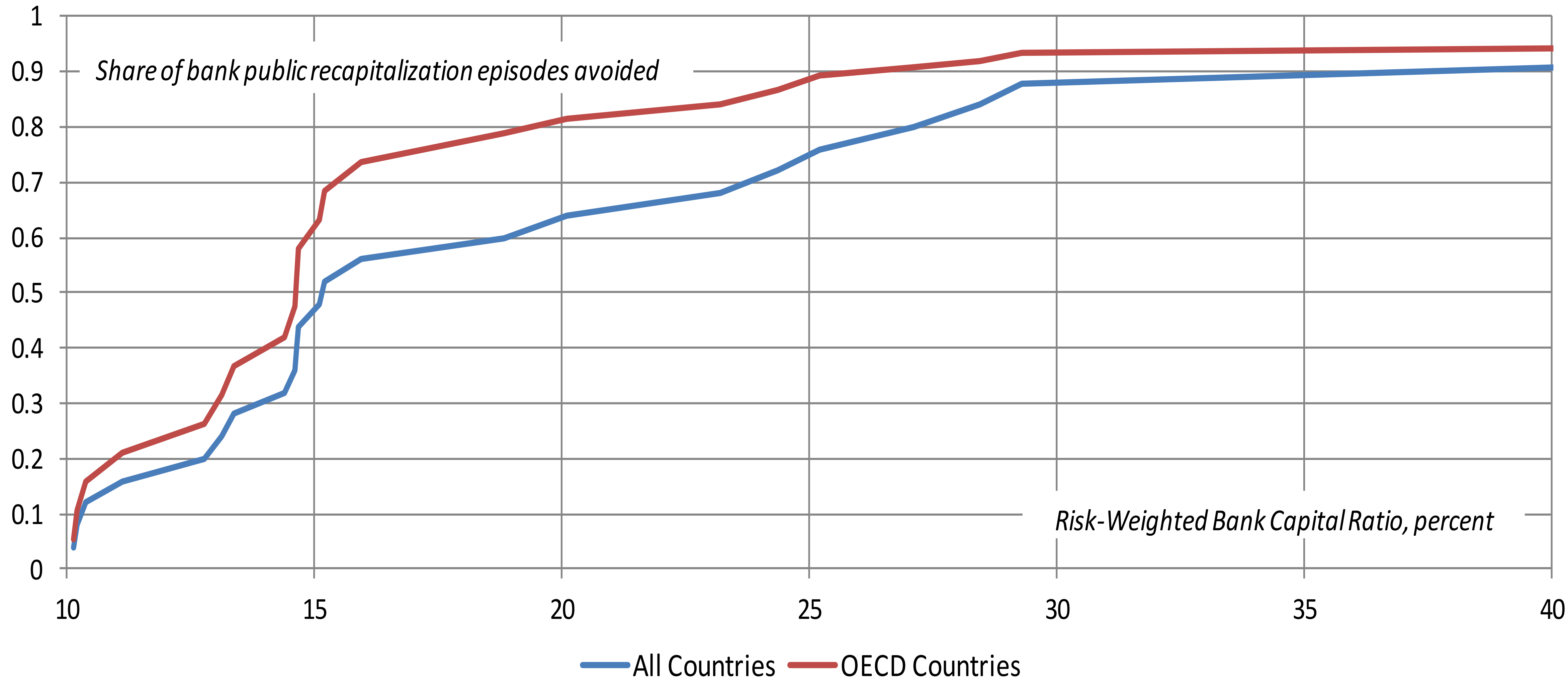
- Overcome the tendency to under-allocate resources and attention to all but the largest of banks, as vulnerabilities at smaller banks can also trigger or amplify adverse systemic impact.

- Ensure that supervisors:
  - Supervisors are sufficiently independent and accountable
  - Have access to necessary resources including experienced personnel
  - Focus on governance, business models, and risk management at banks
  - Develop clear and effective processes for decision making and escalation of actions



Source: Basel Committee on Banking Supervision 2026

Should We Reconsider Capital Requirements?



Source: Dagher et al. 2016.

Concluding

- Very interesting and clearly written paper: Highly recommended reading
- Uses SVB episode to build the case for more effective supervision
- Findings for the US likely true in some other jurisdictions