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"Policy lessons from the Silicon Valley Bank failure"

Plenary intervention

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The failure of the Silicon Valley Bank is attributable to the bank's mismanagement and its particular risk profile.

However, the bank's mismanagement went unnoticed because the bank was not captured by the regulatory scrutiny, as it was not under the scope of prudential rules.

This is why - while the ultimate fault rest with the bank itself - there are important lessons for the regulators, and two in particular.

The first message is that a politically-motivated watering down of prudential rules and safeguards must be avoided and agreed international standards should be implemented faithfully and promptly.

After the 2008 crisis, a series of strict rules for banks were introduced in many countries. In the US, the 2010 Dodd–Frank Act defined any bank with $50 or more billion in assets as "systemically important" and subject to the strictest scrutiny.

In 2018, the Trump's administration decided to loosen requirements for regional banks by raising this threshold fivefold ($250 billion).

Conveniently, SVB stayed just under that $250 billion level in 2021 and 2022, and, therefore, escaped regulatory scrutiny and was not subject, amongst other things, to the full Liquidity Coverage Ratio requirements. This could have prevented the lack of liquidity that caused the bank's demise.

We are currently negotiating CRR and CRD, which implements Basel IV rules and we see once more calls for EU specificities, exemptions, long transitional arrangements. In other words, there is a real risk of watering down the internationally agreed rules.

There are risks in such approach, as these rules would protect our banks and economies.

The second message is my expectation that, in the review of the EU crisis management and deposit insurance (CMDI) framework, we will ensure that mid-size banks do not become a source of systemic risk.

We need an ambitious CMDI framework urgently. With today's rules, if we had a similar situation in Europe, the ECB will not have the same capacity to intervene or the same tools to do so as the US authorities.

Our banking union remains incomplete.

The Commission should put aside national and particular interest, which would weaken a common framework, and include the ECB's recommendations on the CMDI revision – including a bigger role for deposit guarantee schemes (DGS). Yet, what is needed most is an agreement on the European Deposit Insurance Scheme (EDIS).