

Deloitte Banking Alert

October 2023

2023 Bank Failures: Preliminary lessons learnt for resolution

The Financial Stability Board (FSB) published on the 10th of October a review of the 2023 bank failures and an assessment of potential implications for the operation of the international resolution framework as set out in the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions. The report identifies preliminary lessons learnt for the Key Attributes' framework for resolving G-SIBs and other systemically important banks, drawing on an analysis of the Credit Suisse case and the recent bank failures in the United States.

Key takeaways

The report identifies several areas for further analysis and improvements in the implementation of the international resolution framework, namely:

- Effective public sector backstop funding mechanisms to support resolution and restore market confidence.
- Choice of resolution strategies and optionality of resolution tools.
- Communications, coordination, and speed of bank runs.
- Operationalisation of bail-in.
- Post-stabilisation restructuring.
- Resolution of banks that could be systemic in failure.
- Uninsured deposits and the role of deposit insurance in resolution.

Banks and authorities also need to:

- (i) address the legal issues identified in the execution of bail-in across borders during resolution planning;
- (ii) better operationalise a range of resolution options such as transfer and sale of business tools alone or in combination with bail-in; and
- (iii) understand the impact of bail-in on financial markets.

The failures of Silicon Valley Bank (SVB), Signature Bank and First Republic Bank showed that banks not identified as G-SIBs can still be systemically significant or critical upon failure.

The three US regional banks were effectively resolved without bailing out shareholders and unsecured creditors. Nevertheless, a number of issues deserve attention as part of the FSB's future work. These include:

- **The need to explore whether the scope of resolution planning requirements and loss-absorbing capacity requirements needs to be expanded.**

SVB, Signature Bank and First Republic Bank would have benefited from having in place loss-absorbing capacity in the form of long-term debt, which is an area of work that was already underway by the FDIC (Federal Deposit Insurance Corporation) and Federal Reserve before the recent events. The US bank failures illustrated that the availability of sufficient loss-absorbing capacity, ranking below uninsured deposits and thus providing an additional layer to absorb losses before uninsured deposits, could have forestalled, or largely reduced, deposit runs on these banks or the need for using the systemic risk exception.

- **Increased speed of bank runs.**

The role of social media in the SVB depositor run illustrates the dynamics that can arise. Social media posts advised depositors to withdraw funds from SVB, and many uninsured depositors did so all at once. The ease of using 24/7 available digital banking applications allowed depositors to withdraw funds even during weekends. The associated dynamics made predictions of liquidity movements more difficult and allowed for very large deposit withdrawals within hours.

- **The role of deposit insurance in resolution arrangement.**

The longer it takes for insured depositors to regain access to their deposits, the more likely depositor confidence will be impacted. Maintaining continuity of depositors' access to their deposits has become more important in a digitalised world and means that authorities need to explore further how continuity can be achieved and how reimbursement can be accelerated further.

Conclusions

The FSB will conduct work to further explore the lessons from the recent bank failures in the areas identified. Where appropriate, the FSB will continue to coordinate closely with the other standard-setting bodies, as they pursue work on lessons learnt from their perspectives.

For further questions regarding the aspects mentioned in this alert, please don't hesitate to contact us:



Dimitrios Goranitis
Deloitte Global leader FSI Risk and Regulatory
Central Europe FSI leader
Tel: +40 751 250 884
Email: digoranitis@deloittece.com



Cristina Tache
FSI Risk & Regulatory Advisory
Manager, Deloitte Central Europe
Tel: +40 73 377 11 04
Email: ctache@deloittece.com

Sources:

<https://www.fsb.org/2023/10/fsb-review-of-2023-bank-failures-assesses-implications-for-the-operation-of-the-international-resolution-framework/>

<https://www.fsb.org/wp-content/uploads/P101023.pdf>