

Evaluation Report
2023-SR-B-013
September 25, 2023

Board of Governors of the Federal Reserve System

Material Loss Review of Silicon Valley Bank



Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Executive Summary, 2023-SR-B-013, September 25, 2023

Material Loss Review of Silicon Valley Bank

Findings

Silicon Valley Bank (SVB) failed because of several factors. SVB's business model contributed to concentrations in its customer base and in uninsured deposits. Its management emphasized growth and failed to implement the controls necessary to effectively mitigate the risks associated with significant growth and concentrations. During a period of low interest rates, the bank invested a large portion of the influx of deposits in securities with long-term maturities, creating another concentration risk. When interest rates started to rise, SVB did not heed the early signs of market risk, removed its hedges, and had significant unrealized losses on its held-to-maturity investment securities. Further, the bank exhibited weaknesses in corporate governance and risk management. SVB's board of directors and senior management failed to appreciate the significance of the multiple layers of risks or recognize the vulnerabilities inherent in the bank's condition. Ultimately, management's ineffective public communications of its plan to raise additional capital coupled with other market events resulted in significant deposit outflows and a liquidity crisis that contributed to the bank's failure.

The Federal Reserve Bank of San Francisco (FRB San Francisco) and the Board of Governors of the Federal Reserve System conducted several examinations of SVB and identified various issues while it was under the Regional Banking Organization (RBO) and Large and Foreign Banking Organization (LFBO) Supervision sections. Despite these identified weaknesses, the Board and FRB San Francisco did not downgrade the bank's CAMELS composite and certain component ratings until August 2022.

Our review resulted in three findings. First, the RBO supervisory approach for SVB did not evolve with SVB's growth and increased complexity. Second, the Board and FRB San Francisco did not effectively transition SVB from the RBO portfolio to the LFBO portfolio. Third, examiners should have closely scrutinized the risks from rising interest rates on SVB's investment securities portfolio.

Recommendations

Our report contains recommendations designed to improve supervisory processes related to RBO and LFBO supervision and transitioning banks from the RBO to the LFBO portfolio. In its response to our draft report, the Board concurs with our recommendations and outlines actions to address them. We will follow up to ensure that the recommendations are fully addressed.

Purpose

In accordance with the requirements of section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we conducted a material loss review of SVB to determine why SVB's failure resulted in a material loss to the Deposit Insurance Fund (DIF); to assess the Board's and FRB San Francisco's supervision of SVB during our period of review, January 2018 through March 2023; and to make recommendations, as appropriate.

Background

Silicon Valley Bank Financial Group (SVBFG) began operations in 1983 and was headquartered in Santa Clara, California. SVB was a state member bank and SVBFG's principal subsidiary. It specialized in providing services to technology and venture capital-backed start-ups. FRB San Francisco, under delegated authority from the Board, and the California Department of Financial Protection and Innovation (CDPFI) supervised SVB. On March 10, 2023, the CDPFI took possession of SVB and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. On May 12, 2023, the FDIC's Office of Inspector General formally notified us that SVB's failure would result in a material loss to the DIF.



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Recommendations, 2023-SR-B-013, September 25, 2023

Material Loss Review of Silicon Valley Bank

Finding 1: The RBO Supervisory Approach for SVB Did Not Evolve With the Institution's Risk Profile

Number	Recommendation	Responsible office
1	Assess the current RBO supervision framework and determine whether adjustments should be made based on a supervised institution's size and complexity, such as unique or concentrated business models or rapid growth. Based on the determination, develop and implement training for RBO Supervision staff that emphasizes the need for varying approaches based on an institution's size, complexity, and business model.	Division of Supervision and Regulation
2	Assess whether the BETR models are appropriate for RBOs, specifically those that are large or complex or that present unique risk factors such as concentrated business models or rapid growth, and determine whether a different approach to determining the scope and resources for examinations is needed.	Division of Supervision and Regulation
3	Assess the current RBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.	Division of Supervision and Regulation

Finding 2: The Board and FRB San Francisco Did Not Transition SVB From the RBO Portfolio to the LFBO Portfolio Effectively

Number	Recommendation	Responsible office
4	Develop an approach for transitioning institutions from the RBO portfolio to the LFBO portfolio and determine how best to involve LFBO Supervision earlier, such as through joint reviews with RBO Supervision, and how to more timely form a DST. Based on the approach developed, finalize and issue formal guidance on transitioning RBOs to the LFBO portfolio that includes steps and a timeline for forming a DST, approaches for the two Supervision sections to collaborate, and a list of potential RBO and LFBO joint reviews to conduct to better prepare an institution for the transition.	Division of Supervision and Regulation

Finding 3: Examiners Should Have Closely Scrutinized the Risks From Interest Rate Changes

Number	Recommendation	Responsible office
5	Reiterate to examination teams the purpose of the Risk and Surveillance Sections' reports and the need to closely reflect on their contents to help inform their ongoing supervisory activities.	Division of Supervision and Regulation
6	Assess the current LFBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.	Division of Supervision and Regulation
7	Develop guidance for LFBO Supervision staff that outlines the importance of a balanced approach to supervising institutions and requires a focus on assessing both forward-looking risks and relevant financial indicators.	Division of Supervision and Regulation



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM

DATE: September 25, 2023

TO: Michael S. Gibson
Director, Division of Supervision and Regulation
Board of Governors of the Federal Reserve System

Ann E. Misback
Secretary of the Board
Board of Governors of the Federal Reserve System

FROM: Michael VanHusen Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2023-SR-B-013: *Material Loss Review of Silicon Valley Bank*

We have completed our report on the subject evaluation. We conducted this evaluation to satisfy our statutory mandate to review the Board of Governors of the Federal Reserve System's supervision of a failed institution when the loss to the Deposit Insurance Fund is material. This mandate is in section 38(k) of the Federal Deposit Insurance Act, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that will be taken to address our recommendations. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from the Board and the Federal Reserve Bank of San Francisco during our evaluation. Please contact me if you would like to discuss this report or any related issues.

cc: Jennifer Burns
Kate Fulton
Richard Naylor
Todd Vermilyea
Azher Abbasi
Ricardo A. Aguilera
Cheryl Patterson
Ryan Lordos

Jennifer Herring
Jherylris Herron
Ying Wang
Michele Fennell
Lila Stitely



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Introduction

Objective

Our objective for this evaluation was to determine why Silicon Valley Bank's (SVB) failure resulted in a material loss to the Deposit Insurance Fund (DIF); to assess the Board of Governors of the Federal Reserve System's and the Federal Reserve Bank of San Francisco's (FRB San Francisco) supervision of SVB during our period of review, January 2018 through March 2023; and to make recommendations, as appropriate.¹

Background

Silicon Valley Bank Financial Group (SVBFG, or holding company) began operations in 1983 and was headquartered in Santa Clara, California.² SVB was a state member bank and SVBFG's principal subsidiary. FRB San Francisco, under delegated authority from the Board, and the California Department of Financial Protection and Innovation (CDPFI) supervised SVB.

SVB specialized in providing services to the technology industry and to venture capital-backed start-up companies. In 2017, SVB had total deposits of approximately \$45 billion and total assets of approximately \$50 billion. In 2020, growth in the technology sector and a liquidity boom for venture capital activities benefited SVB's clients, and the bank experienced a significant influx of deposits. SVB's deposits exceeded \$200 billion as of March 31, 2022, and its total assets increased to \$217 billion. SVB had a large concentration in uninsured deposits.³ As of year-end 2022, over 94 percent of SVB's total deposits were uninsured.

During a period of low interest rates, SVB invested a large amount of this influx of deposits in securities with long-term maturities, specifically U.S. Treasury bonds and agency-issued mortgage-backed securities. SVB classified these securities as held to maturity (HTM).⁴ As of March 2022, the bank's HTM portfolio represented roughly 46 percent of its total assets. As interest rates rose from 0.25 percent in March 2022 to 4.5 percent in December 2022, the bank's unrealized losses from HTM securities significantly increased while funds from venture capital activities decreased. On March 8, 2023, SVBFG publicly announced the sale of substantially all of its available-for-sale (AFS) securities at a \$1.8 billion loss and its plans for a capital raise of \$2 billion. Following the announcement, on March 9, 2023, SVB experienced a liquidity crisis: Customers requested deposit withdrawals totaling approximately \$42 billion, which was almost 25 percent of SVB's approximately \$166 billion in total deposits and almost 300 percent of its capital of

¹ This review fulfills a statutory mandate and does not serve any investigatory purposes.

² In 1988, SVBFG became a publicly traded company.

³ The Federal Deposit Insurance Corporation (FDIC) insures deposits up to at least \$250,000 per depositor, per FDIC-insured bank, per ownership category. An *uninsured deposit* refers to the portion of any deposit of a customer at an insured depository institution that exceeds the applicable FDIC insurance coverage for that depositor at that institution.

⁴ In an annual report, SVBFG described *HTM securities* as debt securities purchased with the positive intent and ability to hold to its maturity.

\$15.5 billion.⁵ The deposit outflow requests continued to accumulate, and SVB was unable to fulfill these additional withdrawal requests, which totaled \$100 billion, on March 10, 2023.

On March 10, 2023, the CDFPI took possession of SVB and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. In a March 26, 2023, press release, the FDIC estimated that the loss to the DIF resulting from SVB's failure would be approximately \$20 billion.⁶ On May 12, 2023, the FDIC's Office of Inspector General formally notified us that SVB's failure would result in a material loss to the DIF. Section 38(k) of the Federal Deposit Insurance Act, as amended by section 987 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, defines a material loss to the DIF as an estimated loss in excess of \$50 million.

When a loss to the DIF is considered material, section 38(k) of the Federal Deposit Insurance Act requires that the inspector general of the appropriate federal banking agency

- ascertain why the institution's problems resulted in a material loss to the DIF
- review the agency's supervision of the failed institution
- make recommendations, as appropriate

⁵ SVB reported total equity capital of \$15.5 billion in its 2022 year-end call report.

⁶ In May 2023, the FDIC revised the loss estimate from \$20 billion to approximately \$16.1 billion.



Causes of the Failure

SVB failed because of the convergence of several factors. The bank's business model contributed to concentrations in its customer base and in uninsured deposits. Management emphasized growth and failed to implement controls to mitigate the risks associated with the bank's concentrated business model and rapid growth. During a period of low interest rates, the bank invested a large portion of the influx of deposits in securities with long-term maturities, creating another significant concentration; however, SVB did not heed early signs of market risk from rising interest rates and removed its interest rate hedges as interest rates started to rise. The bank had significant unrealized losses on its HTM investment securities portfolio because of sustained increases in interest rates. Further, the bank exhibited weaknesses in corporate governance and risk management. Its board of directors lacked large bank experience and did not fully understand or appreciate the significance of the multiple layers of concentration risks that had accumulated. The board of directors also failed to hold management accountable for appropriate risk management, and the bank had an ineffective line-of-defense framework and inadequate risk management practices. The board of directors and senior management failed to recognize the vulnerabilities inherent in the bank's condition. Ultimately, management's ineffective communication of its plan to raise additional capital coupled with other market events resulted in significant deposit outflows that contributed to the bank's insolvency and failure.

SVB Had a Concentrated Business Model, Grew Rapidly, and Had Additional Concentration Risks

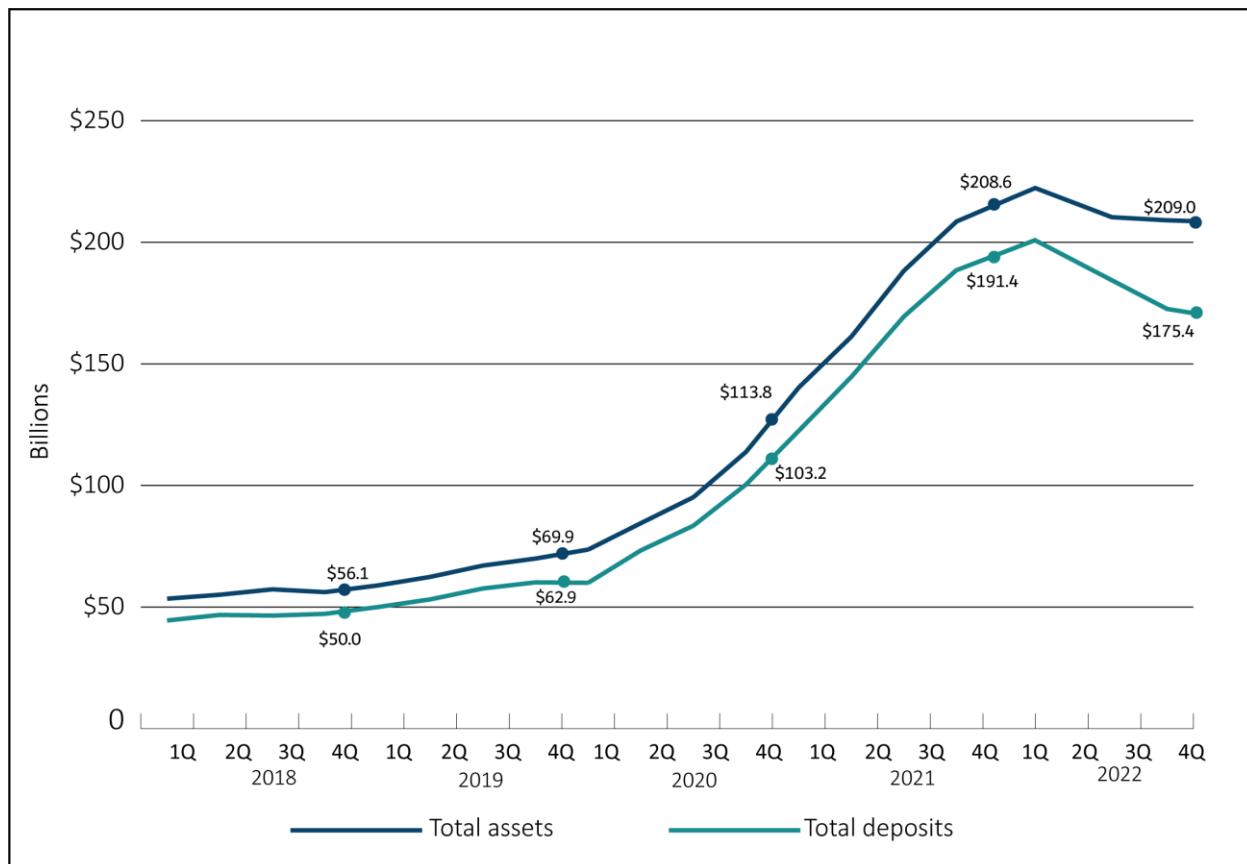
Concentrated Business Model

SVB described itself as a financial partner of the innovation economy, and its customer base reflected this strategic focus. SVB served clients primarily in the technology, life sciences, and venture capital industries for nearly 40 years. According to SVBFG's October 2022 corporate overview, the bank served nearly half of the venture-backed technology and life sciences companies in the United States. The FRB San Francisco and CDFPI April 2020 joint examination report states that SVB worked to create and maintain a dominant market position in the venture capital community. Its funding structure was primarily concentrated in private equity and venture capital firms. A March 2019 joint examination report notes that private equity and venture capital firms' deposits typically experience irregular, larger-volume cash flows and that the bank's funding sources were concentrated and potentially volatile on short notice. During the COVID-19 pandemic, SVBFG reported a record year with strong profitability and unprecedented balance sheet growth and commented that its core business performed well as a result of its ongoing focus on innovation companies and their investors. In 2022, when interest rates started to rise, SVBFG reported that prolonged market volatility pressured its balance sheet growth. In our opinion, the concentrations in SVB's funding structure made the bank particularly vulnerable to the business cycles of the customers it served.

Rapid Growth

SVB experienced rapid and unchecked growth: Its total assets doubled twice in a 5-year period, from just over \$50 billion at the start of 2018 to over \$100 billion in 2020 and then to more than \$200 billion in 2021 (figure 1).

Figure 1. SVB's Total Assets and Deposits, 2018–2022



Source: OIG analysis of SVB and FRB San Francisco data, 2018–2022.

SVB's total deposits increased from \$103.2 billion in 2020 to \$191.4 billion in 2021. In its fourth quarter 2021 *Financial Highlights* presentation, SVBFG reported record earnings and growth supported by thriving markets. SVBFG also noted that average client funds increased by \$36 billion as venture capital investment activity fueled its clients' liquidity. Office of the Comptroller of the Currency guidance notes the following:

Uncontrolled, rapid, or significant growth can be a sign of risk management weaknesses and can increase a bank's risk exposure, stretch the expertise of bank management, and strain the bank's resources, which, in turn, can lead to numerous and sometimes sudden bank failures as sectoral economic conditions change.⁷

⁷ Office of the Comptroller of the Currency, *Examination Process: Problem Bank Supervision Version 1.0*, September 2021.

Concentration of Uninsured Deposits

The bank's venture capital and private equity firm clients had significant levels of cash from liquidity events such as venture capital funding and initial public offerings, resulting in substantial deposit inflows to SVB. The bank had a high concentration of uninsured deposits, which represented approximately 94 percent of its total deposits as of year-end 2022. Uninsured deposits are significantly volatile in times of stress and expose banks to significant flight risk. SVB management and the supervisors did not appreciate the risks associated with this concentration and seemed to presume that SVB's depositors would remain at SVB because of their perceived loyalty and the strength of those customer relationships.

Concentration in the Investment Portfolio

During a period of low interest rates from 2018 to 2021, SVB invested a large portion of its client deposits in securities with long-term maturities, and the bank's investment portfolio grew more significantly than its lending activity. SVB's total investment in securities increased from \$23 billion in 2018 to \$125 billion in 2021—a 443 percent increase. SVB's AFS securities increased by 257 percent during this period, and its HTM securities grew from \$15 billion in 2018 to \$98 billion in 2021, an increase of over 500 percent. Approximately 65 percent of the HTM investment securities had maturities of over 5 years. Accordingly, SVB's considerable investment in primarily long-duration securities created another significant concentration risk and exposed SVB to the risks associated with the value of those securities declining significantly in a sustained rising interest rate environment.⁸ The composition of SVB's investment portfolio amplified the importance of effectively managing the bank's considerable interest rate risk (IRR).

SVB Exhibited Weaknesses in Corporate Governance and Risk Management

As the bank significantly increased its deposits and total assets from 2019 to 2021, SVB leadership did not fully appreciate or understand the risks associated with the bank's rapid growth and concentrations. SVB exhibited several corporate governance weaknesses that created an unstable foundation to support the bank's rapid growth and escalating risk profile. These corporate governance weaknesses included ineffective board of directors' oversight and significant weaknesses in the bank's lines of defense.⁹ Further, SVB's management and board of directors failed to effectively manage the bank's developing and escalating risks.

Ineffective Board of Directors Oversight

Management's ability to mitigate risk did not keep pace with the bank's rapid growth, and the board of directors failed to hold management accountable for implementing effective risk management programs

⁸ Market interest rates and bond prices generally move in opposite directions; when market interest rates rise, fixed-rate bond prices fall.

⁹ According to the Office of the Comptroller of the Currency, a common risk management system used in many banks, formally or informally, involves three lines of defense: (1) frontline units, business units, or functions that create risk and are accountable for assessing and managing that risk; (2) independent risk management that oversees risk taking and assesses risks independent of the frontline units, business units, or functions that create risk; and (3) internal audit, which provides independent assurance to the board of directors on the effectiveness of governance, risk management, and internal controls.

and controls commensurate with the bank's increasing size and risk profile. For example, examiners noted that the bank's incentive compensation program and executive officer performance evaluations did not meaningfully consider the bank's risk management deficiencies. In other words, risk management weaknesses or deficiencies would not detract from an executive's incentive compensation. Further, board of directors' committees did not sufficiently challenge management on the design and content of the risk information presented to directors. Examiners noted that members of SVB's board of directors lacked relevant large financial institution risk management experience, which hindered its ability to provide effective oversight.

Weaknesses in SVB's Line-of-Defense Framework

An independent and effective line-of-defense framework consisting of a frontline function that assesses and manages risk, an independent risk management function, and an independent internal audit function is fundamental to a board of directors' and management's ability to plan for and respond to risks arising from changing business conditions, new activities, accelerated growth, and increasing complexity. In 2022, examiners noted that the bank did not maintain a risk management function commensurate with the bank's growing size and complexity. Further, examiners noted that SVB's risk management framework was not effective; did not incorporate coverage of all risk categories; and did not address foundational, enterprise-level risk management matters. For example, SVB's third line of defense, the internal audit program, did not provide sufficient coverage of the second-line independent risk function for several years and exhibited a slow, reactive approach to testing the effectiveness of the bank's risk management programs.

Ineffective Risk Management

SVB's management and board of directors failed to effectively manage several risks. Examiners noted that the institution lacked several foundational liquidity risk management elements. For example, the bank should have used a more-granular deposit segmentation to model deposit outflows during times of stress, conducted comprehensive testing of its contingent funding plan to assess the feasibility of funding options under stress, and had an independent review function that more effectively challenged its liquidity risk management framework. Further, examiners noted weaknesses in management's ability to effectively identify and monitor key risks and continued to identify instances across business lines in which risk management processes did not keep pace with the bank's growth.

In an April 2020 examination report, examiners highlighted that management needed to enhance the bank's risk management framework to an appropriate maturity level and to pay closer attention to appropriate governance and monitoring activities related to technology and operations functions. In May 2022, examiners noted that the long-dated supervisory findings related to enterprise risk management, technology risk management, and information security risk management, as well as the additional liquidity risk management findings previously identified, indicated weaknesses in the bank's ability to proactively manage risks. Further, in 2022, SVB management removed its chief risk officer based on concerns about the individual's experience and qualifications for the position.

As noted previously, during a period of low interest rates, SVB invested a large portion of the influx of deposits in securities with long-term maturities. Management classified these securities as HTM. According to both the 2021 and 2022 *Uniform Bank Performance Report* for SVB, its percentage of HTM

securities to total assets was almost six times higher than its peers. When interest rates started to rise in 2022, SVB did not heed the early signs of market risk and the rising rates adversely affected the value of SVB's investments in securities with long-term maturities.

In the second quarter of 2022, interest rates had risen from 0.25 percent to 1.75 percent and funding from venture capital activities declined. As SVB's clients started to withdraw cash to fund their operations, SVB projected that the rising interest rates would reverse direction and removed its interest rate hedges in 2022. We believe that the complete removal of these interest rate hedges was a significant error by SVB management that should have been a further red flag for FRB San Francisco and the Board about the bank's risk management practices. After SVB management removed the hedges, interest rates continued to rise and the bank experienced a significant increase in unrealized losses on its investment securities, from approximately \$1.3 billion and \$313 million for its HTM and AFS portfolios, respectively, at year-end 2021 to approximately \$15.2 billion and \$2.5 billion for its HTM and AFS portfolios, respectively, at year-end 2022.

Management's Ineffective Communication of Its Plan to Raise Capital and Other Market Events Led to Significant Deposit Outflows

On March 8, 2023, SVBFG publicly announced that the bank sold substantially all of its AFS investment securities at a loss of \$1.8 billion and that it planned to raise capital of \$2 billion. That same day, Silvergate Capital Corporation announced it would be winding down operations and voluntarily liquidating Silvergate Bank.¹⁰ Interviewees noted that SVBFG could have more effectively managed the messaging and timing of its announcement by discussing completed actions rather than its intentions. Further, interviewees noted that SVB management assumed that SVB's depositors would remain at the bank based on their perceived loyalty and the strength of those customer relationships.

While management and the board of directors were unaware of the vulnerabilities inherent in the bank's condition and significantly overestimated the stability of the bank's deposit base, SVB clients became concerned by SVBFG's announcement and began to speculate about the bank's solvency on various social media platforms. On March 9, 2023, SVB customers withdrew deposits totaling \$42 billion, nearly 25 percent of the bank's \$166 billion total deposits. The withdrawal requests pending for the following day amounted to \$100 billion. Ultimately, SVB was unable to meet the pending withdrawal requests, and on March 10, 2023, the CDFI took possession of SVB and appointed the FDIC as receiver.

¹⁰ Silvergate Capital Corporation, "Silvergate Capital Corporation Announces Intent to Wind Down Operations and Voluntarily Liquidate Silvergate Bank," press release, March 8, 2023.



Supervision of SVB and SVBFG

Federal Reserve System Supervision Structure

The Board plays a significant role in supervising and regulating banking organizations, including bank holding companies and state member banks.¹¹ The Board seeks to ensure that the banking organizations under its supervisory authority have safe and sound business practices and comply with all applicable federal laws and regulations. Within the System, the Board delegates to each Federal Reserve Bank the authority to supervise financial institutions located within the Reserve Bank's District. The Board's Division of Supervision and Regulation (S&R) oversees the Reserve Banks' execution of these responsibilities and issues supervisory policy and guidance to assist the Reserve Banks in executing that authority. The Board uses a risk-focused approach to supervise financial institutions by scaling supervisory work according to the size and complexity of an institution.

Board S&R's Regional Bank Supervision (RBS) section supervises regional banking organizations (RBOs), which are U.S. firms with \$10 billion to \$100 billion in total consolidated assets. For each supervised institution, the respective Reserve Bank's RBO Supervision section assigns a central point of contact (CPC) to lead the institution's supervision. RBO supervision consists of continuous monitoring and institution-specific examinations.¹² According to the Board's Supervision and Regulation Letter (SR Letter) 19-9, *Bank Exams Tailored to Risk (BETR)*, the System enhanced its process for determining the scope of supervisory work for safety and soundness examinations of community and regional state member banks through BETR models, which build on the System's risk-focused approach to supervision. SR Letter 19-9 notes that the BETR process combines surveillance metrics with examiner judgment to classify the levels of risk at a state member bank, and examiners tailor the examination to reflect the levels of risk present and minimize the regulatory burden for the institution. The BETR metrics classify a bank's activity into one of three risk tiers: *low, moderate, or high*. Low risk indicates that the expected incidence of an adverse outcome under unfavorable market conditions is low, while high risk indicates the greatest chance of adverse results under such conditions. The BETR metrics results guide RBO supervisory staff in allocating examination hours and planning the frequency and intensity of continuous monitoring and point-in-time examinations.

Board S&R's Large and Foreign Banking Organization (LFBO) Firm Oversight section supervises U.S. institutions with total assets of more than \$100 billion and all foreign banking organizations operating in the United States regardless of size that are supervised by the Board but not subject to Large Institution Supervision Coordinating Committee portfolio supervision.¹³ For each LFBO, the Reserve

¹¹ A *bank holding company* is a company that owns or controls a bank. A *state member bank* is a depository institution that is chartered as a bank by a state and is a member of the Federal Reserve System.

¹² *Continuous monitoring activities* are nonexamination and noninspection supervisory activities primarily designed to develop and maintain an understanding of the organization, its risk profile, and its associated policies and practices. These activities also provide information that is used to assess inherent risks and internal control processes. Such activities include meeting with banking organization management, analyzing management information systems and other internal and external information, and reviewing internal and external audit findings.

¹³ The Large Institution Supervision Coordinating Committee portfolio is responsible for overseeing the supervision of the largest, most systemically important financial institutions under the Board's purview.

Bank's LFBO Supervision section selects a CPC and assigns a dedicated supervisory team (DST), a team of supervisory staff focused on a single institution. LFBO supervision consists of continuous monitoring, institution-specific examinations, and horizontal target examinations that use the same examination scope across multiple LFBOs to compare risk management practices.

The System uses its safety-and-soundness surveillance program for state member banks and bank holding companies to monitor individual institutions, analyze industry conditions and trends, and distribute surveillance results to supervisory staff. The surveillance program includes risk classification algorithms that provide supervisory staff with early signals of an institution's risk taking and an early-warning model for financial weaknesses at state member banks and holding companies.

The System shares supervisory and regulatory responsibility for federally insured state member banks with individual state banking departments. The System communicates and coordinates with state banking supervisors to oversee state banks of all sizes and to minimize the regulatory burden placed on banks. A local Reserve Bank and a state banking agency divide their respective oversight and supervisory activities and may jointly conduct examinations.

The System assesses the safety and soundness of state member banks using the Uniform Financial Institution Rating System or CAMELS (capital, asset quality, management, earnings, liquidity, and sensitivity to market risk) rating system.¹⁴ The System has two frameworks for rating bank holding companies: RFI/C(D) (referred to as the RFI rating system) and LFI rating systems.

- The RFI rating system applies to bank holding companies with total consolidated assets less than \$100 billion and comprises three main components: (R) risk management practices, (F) financial condition of the consolidated organization, and an assessment of the potential (I) impact of a holding company's nondepository entities on its subsidiary depository institutions.¹⁵
- The System uses the LFI rating system to evaluate and communicate the supervisory condition of bank holding companies with total consolidated assets of \$100 billion or more. The LFI rating system has three components: (1) capital planning and positions, (2) liquidity risk management and positions, and (3) governance and controls.¹⁶ The LFI rating system represents a supervisory evaluation of whether an institution possesses sufficient financial and operational strength and resilience to maintain safe-and-sound operations and comply with laws and regulations through a range of conditions.

When assigning ratings to state member banks or holding companies within the RBO portfolio, the Reserve Bank examination team and a Board analyst assigned to the institution hold local vetting meetings to discuss the proposed ratings for a specific institution. For state member banks or holding

¹⁴ For state member banks, examiners assign a numerical composite rating as well as individual component ratings. Ratings range from 1 to 5, with 1 indicating the least regulatory concern and 5 indicating the greatest concern.

¹⁵ Under the RFI rating system, examiners assign a holding company numerical ratings for the three main components. They also assign a numerical composite rating (C) based on the holding company's managerial and financial condition and an assessment of future potential risk to its subsidiary depository institution and a numerical depository institution (D) component rating that generally reflects the primary regulator's assessment of the subsidiary depository institution.

¹⁶ Under the LFI rating system, examiners rate each component on a four-point nonnumeric scale: *broadly meets expectations, conditionally meets expectations, deficient-1, and deficient-2*.

companies within the LFBO portfolio, the Reserve Bank DSTs, Board officials and staff, and the LFBO Management Group (LFBO MG) hold Systemwide vettings to discuss the ratings for those institutions.¹⁷

2018 Economic Growth, Regulatory Relief, and Consumer Protection Act

In 2014, the Board issued a final rule titled *Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations* and implemented enhanced prudential standards (EPS) required under section 165 of the Dodd-Frank Act for large U.S. and foreign banking organizations with total consolidated assets of \$50 billion or more. The Board strengthened prudential standards to mitigate the potential threat of the failure of large, leveraged, interconnected financial companies to U.S. financial stability and to address significant weaknesses in the banking sector that were evident during the financial crisis. EPS includes enhanced risk-based and leverage capital, liquidity, risk management, and risk committee requirements; a requirement to submit a resolution plan; stress testing requirements; and single-counterparty credit limits.

In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) amended the Dodd-Frank Act by raising the \$50 billion minimum asset threshold for general application of EPS to bank holding companies with \$250 billion in total assets. The act provided the Board with discretion to apply EPS to bank holding companies with total assets of \$100 billion to \$250 billion. In July 2018, the Board raised the total asset threshold for heightened supervision by the LFBO Supervision section from \$50 billion to \$100 billion, consistent with that law. Further, in October 2019, the Board finalized a rule that revised the thresholds for applying prudential standards to large domestic and foreign banks and tailored the stringency of those standards based on their risk profiles. Consistent with EGRRCPA, this tailoring rule raised the EPS threshold from \$50 billion in total assets to \$100 billion in total assets.

Supervision of SVB

From January 2018 through March 2023, FRB San Francisco complied with the examination frequency requirements outlined in section 1000.1 of the System's *Commercial Bank Examination Manual* (CBEM) (table 1).

¹⁷ The LFBO MG serves as a forum to conduct comparisons of supervisory approaches, ratings, and actions to support consistency across the System.

Table 1. Supervision of SVB and SVBFG, January 2018–March 2023

Start date	Report issue date	Scope	Subject
02/26/2018	05/24/2018	Bank	Full-scope information technology (IT) exam (joint)
05/07/2018	08/03/2018	Bank	Asset quality target (joint)
09/10/2018	12/21/2018	Bank	Bank Secrecy Act/Anti–Money Laundering (BSA/AML) and Office of Foreign Assets Control (OFAC) exam (joint)
10/01/2018	03/06/2019	Bank	Full-scope CAMELS exam (joint, CDFPI-led) ^a
12/03/2018	02/22/2019	Bank	Internal audit target
12/31/2018	04/11/2019	Holding company	Holding company inspection
02/25/2019	06/05/2019	Bank	Full-scope IT exam (joint)
04/22/2019	06/27/2019	Bank	BSA/AML and OFAC (joint)
05/06/2019	07/17/2019	Bank	Asset quality target (joint)
07/29/2019	11/19/2019	Holding company	Target corporate governance and global risk management
10/07/2019	01/23/2020	Bank	Credit risk target (joint)
11/04/2019	02/05/2020	Bank	BSA/AML and OFAC (joint)
11/29/2019	04/13/2020	Bank	Full-scope CAMELS exam (joint)
12/30/2019	05/08/2020	Holding company	Holding company inspection
02/18/2020	06/03/2020	Bank	Target IT exam (joint)
09/28/2020	12/01/2020	Bank	BSA/AML and OFAC exam (joint)

Start date	Report issue date	Scope	Subject
11/30/2020	05/03/2021	Bank	Full-scope CAMELS exam (joint)
11/30/2020	02/11/2021	Bank	Target IT exam (joint)
03/22/2021	07/09/2021	Holding company	Nonbank review ^b
04/05/2021	07/09/2021	Holding company	Holding company inspection
04/26/2021	08/06/2021	Bank	Target IT exam (joint)
05/24/2021	08/17/2021	Bank	Asset quality target (joint)
07/26/2021	03/07/2022	Bank	BSA/AML and OFAC exam (joint)
08/16/2021	11/02/2021	Holding company	Liquidity target
09/07/2021	08/17/2022	Bank	Supervisory CAMELS ratings letter (joint)
09/07/2021	08/17/2022	Holding company	Supervisory LFI ratings letter
09/07/2021	11/09/2021	Holding company and bank	Capital target
10/12/2021	02/18/2022	Bank	Target IT exam (joint)
03/14/2022	05/31/2022	Holding company and bank	Governance and risk management practices (joint)
04/11/2022	06/24/2022	Holding company	BSA/AML and OFAC exam (joint)
04/25/2022	08/19/2022	Holding company	Horizontal capital review
06/13/2022	10/07/2022	Holding company	Horizontal cybersecurity review
07/18/2022	08/11/2022	Holding company	Model risk management ^c

Start date	Report issue date	Scope	Subject
08/01/2022	01/31/2023	Holding company	LFBO third-party risk management horizontal review
08/08/2022	10/11/2022	Holding company	LFI rating
08/22/2022	11/15/2022	Bank	CAMELS supervisory letter (joint)
09/12/2022	11/21/2022	Bank	Trust and fiduciary services target (joint)
09/12/2022	12/21/2022	Bank	Target IT exam (joint)
10/03/2022	12/27/2022	Holding company and bank	Internal audit target (joint)
10/03/2022	n.a.	Holding company	LFI roll-up examination
01/03/2023	n.a.	Bank	Horizontal liquidity review
02/13/2023	n.a.	Bank	Shared national credits
02/27/2023	n.a.	Bank	Horizontal cybersecurity

Source: Reports and supervisory letters of FRB San Francisco and CDFPI examinations and FRB San Francisco inspections that started between January 2018 and March 2023.

Note: This table does not include consumer compliance and Community Reinvestment Act examinations.

^a The CDFPI was previously the California Department of Business Oversight and became the CDFPI in September 2020.

^b The results of the review were included in the report of the holding company inspection issued in July 2021.

^c FRB San Francisco did not issue a report because there were no supervisory findings, and therefore, a report was not required. FRB San Francisco verbally communicated the results to the institution.

n.a. not applicable—SVB failed before the completion of these examinations.

FRB San Francisco conducted 5 full-scope and roll-up CAMELS bank examinations or ratings assessments jointly with the CDFPI; 5 holding company inspections or ratings assessments; and over 30 other full-scope and target examinations, including consumer compliance, Community Reinvestment Act, information technology (IT), and trust examinations, jointly with the CDFPI.¹⁸

¹⁸ FRB San Francisco started one examination in 2022 and three examinations in 2023, but SVB failed before the examination results were finalized.

FRB San Francisco, jointly with the CDFPI, issued CAMELS component ratings for SVB from January 2018 to March 2023 (table 2).

Table 2. SVB CAMELS Ratings, January 2018–March 2023

Examination			CAMELS composite, component, and risk management ratings								
Start date	Report issue date	Scope	Agency conducting examination	Composite	Capital	Asset quality	Management	Earnings	Liquidity	Sensitivity	Risk management
10/01/2018	03/06/2019	Full	FRB San Francisco, CDFPI ^a	2	2	2	2	2	1	2	No rating
11/29/2019	04/13/2020	Full	FRB San Francisco, CDFPI	2	2	2	2	2	1	2	2
11/30/2020	05/03/2021	Full	FRB San Francisco, CDFPI	2	2	2	2	2	1	2	No rating
09/07/2021	08/17/2022	Supervisory ratings letter	FRB San Francisco, CDFPI	3	2	2	3	2	2	2	No rating
08/22/2022	11/15/2022	Supervisory letter CAMELS examination	FRB San Francisco, CDFPI	No rating	No rating	No rating	No rating	No rating	No rating	No rating	No rating

Source: FRB San Francisco and CDFPI examination reports, January 2018 to March 2023.

^a The CDFPI was previously the California Department of Business Oversight and became the CDFPI in September 2020.

FRB San Francisco assigned bank holding company ratings for SVBFG from January 2018 to March 2023 (table 3).

Table 3. SVBFG Ratings, January 2018–March 2023

Examination		RFI rating					LFI rating		
Start date	Report issue date	Risk management	Financial condition	Impact rating	Composite	Bank	Capital	Liquidity	Governance and controls
12/31/2018	04/11/2019	2	2	2	2	2	n.a.	n.a.	n.a.
12/30/2019	05/08/2020	2	2	2	2	2	n.a.	n.a.	n.a.
04/05/2021	07/09/2021	2	2	2	2	2	n.a.	n.a.	n.a.
09/07/2021	08/17/2022	n.a.	n.a.	n.a.	n.a.	n.a.	BME	CME	D-1
08/08/2022	10/11/2022	n.a.	n.a.	n.a.	n.a.	n.a.	BME	n.a.	n.a.

Source: FRB San Francisco inspection reports, January 2018 to March 2023.

n.a. not applicable

BME broadly meets expectations

CME conditionally meets expectations

D-1 deficient-1

RBO Supervision of SVB

At the end of 2017, SVB had approximately \$50 billion in total assets and was in the RBO portfolio. RBO examiners and SVB management started to discuss SVBFG's transition to the LFBO portfolio; however, once EGRRCPA became law, RBO Supervision continued its oversight of the bank after SVB's total assets exceeded \$50 billion. As such, SVB management did not develop a plan to prepare the institution for EPS. The RBO Supervision section used the BETR results to plan examiner hours for SVB and continued to follow the RBO supervisory framework, even though both BETR and the framework were originally designed for institutions with total assets below \$50 billion. FRB San Francisco RBO Supervision assigned a CPC and three to four dedicated staff members to conduct continuous monitoring; hold regular meetings with SVB management; and analyze bank-produced information, such as internal audit reviews.

In October 2018, FRB San Francisco and the CDFPI started a full-scope CAMELS joint examination. Examiners found SVB's condition satisfactory and assigned the bank a composite rating of 2. Examiners cited the bank's sound financial condition as evidence of satisfactory management and board of directors' oversight. However, examiners noted that management needed to enhance the bank's risk management framework to an appropriate maturity level. Examiners explained that although the bank had made progress in some aspects of the framework, other areas, such as the design, staffing, and implementation

of a second line of defense for credit and the development of a corporate compliance team, were yet to be addressed.

The March 2019 examination report also highlighted liquidity risk management concerns and noted that the bank's funding structure was primarily concentrated in private equity and venture capital firms whose deposits experience larger-volume, irregular cash flows. The report notes that management had not formally addressed the risks associated with these funding concentrations and that SVB's liquidity risk management should be consistent with the bank's risk appetite, complexity, risk profile, and scope of operations. As a result, examiners issued SVB a Matter Requiring Attention (MRA) related to liquidity risk management.¹⁹ Despite noting these concerns, FRB San Francisco examiners assigned SVB a CAMELS liquidity component rating of 1 because SVB had ample sources of funds on favorable terms to meet liquidity needs. In our opinion, examiners did not balance the lack of appropriate liquidity risk management with the bank's financial results. We believe examiners missed an opportunity to downgrade the liquidity component.

The November 2019 joint FRB San Francisco–CDFPI CAMELS examination found that SVB's overall financial condition remained satisfactory. Although the composite rating remained a 2, examiners commented on weaknesses in risk management. Examiners encouraged management to increase efforts in nonfinancial risk management functions and governance practices to provide transparency and ensure effective board of directors' oversight of SVB's risk management program. Examiners also noted that SVB had some very large depositors with large volatile movements of funds and that SVB continued to experience intermittent large and volatile fund flows; however, examiners commented that SVB analyzed its volatile fund flows and implemented a \$6 billion liquidity buffer requirement to ensure sufficient funding for unexpected liquidity stress events. Examiners assigned the institution a CAMELS liquidity component rating of 1, noting strong liquidity levels and a generally well-diversified deposit base.

The COVID-19 pandemic began in March 2020, and the System initially paused onsite supervisory activities for RBOs. The System conducted a prioritization process to focus supervisory efforts on institutions determined to be at risk, including institutions lending to businesses in industries most affected by the pandemic, such as restaurants and hotels. The prioritization process assessed SVB to be low risk and not directly affected by the pandemic. RBO Supervision instructed examiners to pause onsite supervisory activities for SVB and cancel five target examinations but to proceed with continuous monitoring.²⁰ The bank's total assets continued to grow during the pandemic; by the end of 2020, total assets had increased to \$113 billion.

In November 2020, RBO examiners, jointly with examiners from the CDFPI, started a full-scope CAMELS examination and an IT target examination. Examiners found that SVB's IT function deteriorated to "less than satisfactory." They noted that overall technology risk management functions were not commensurate with the bank's increasing risk profile and urged management to prioritize addressing supervisory issues and to complete a holistic assessment to quickly identify and resolve additional weaknesses. When examiners issued a supervisory letter for the IT target examination in February 2021,

¹⁹ The CBEM defines MRAs as matters that the System expects a banking organization to address over a reasonable period of time.

²⁰ RBO supervision canceled the following planned 2020 target examinations: (1) Bank Secrecy Act, (2) asset quality, (3) international discovery, (4) nonbanking activities, and (5) asset quality.

including three Matters Requiring Immediate Attention (MRIs) on technology risk management, IT asset management, and vendor management, the CPC notified SVB management that the supervisory team was pursuing an enforcement action to ensure SVB's commitment to address the issues identified during the examination.²¹ FRB San Francisco and the Board RBS section considered downgrading the CAMELS management component to 3 with the issuance of a memorandum of understanding (MOU) on the IT findings. The section consulted with the Board and learned that because SVBFG had total consolidated assets over \$50 billion, the MOU would require review by the Board's Legal Division. According to a February 2021 communication, Board staff from RBS and LFBO Supervision discussed whether findings from an IT examination warranted a downgrade of the CAMELS management component. After discussing with CDFPI officials, the Board and FRB San Francisco decided to monitor the bank's progress in addressing the examination findings through continuous monitoring and not issue an enforcement action or downgrade the CAMELS management component. In our opinion, examiners missed an opportunity to convey the importance and urgency of addressing the IT examination findings by not downgrading the management component and not issuing the planned MOU.

In May 2021, FRB San Francisco and CDFPI examiners issued a joint November 2020 CAMELS examination report. The report noted that examiners found SVB's overall condition satisfactory and that management continued to effectively oversee financial risks, including during the pandemic and a period of accelerated asset growth, and again assigned the bank a composite rating of 2. Despite examiners' earlier attempt to downgrade the CAMELS management component to 3, this component remained 2. Examiners assigned SVB a CAMELS liquidity component rating of 1 and noted that liquidity levels and funds management practices remained strong. Examiners also stated that liquid assets were ample at 51 percent of total assets and that levels had notably increased since the prior examination because of deposit growth. However, examiners noted that the bank's significant asset growth was outpacing its risk management practices, which required improvement. Examiners expressed concern with management's ability to evolve SVB's risk management processes, including creating a fully independent risk management function, and issued two MRAs directing SVB to implement internal frameworks and formalize internal credit review. The report discusses the anticipated SVB/SVBFG transition to the LFBO portfolio and mentions management's efforts to prepare for the transition. Examiners did not downgrade the CAMELS management component and missed an opportunity to send SVB a stronger message about management's need to proactively identify and manage risk.

LFBO Supervision of SVB

SVB and SVBFG attained a four-consecutive-quarter average of \$100 billion in total consolidated assets in the second quarter of 2021, thereby subjecting SVB to EPS and officially transitioning it to the LFBO portfolio.²² In March 2021, FRB San Francisco requested 12 additional examination staff members, which would increase the supervisory team to 20, to support the supervision of SVBFG in the LFBO program. After FRB San Francisco followed up with the Board about its staffing request, the Board approved 6 of

²¹ MRIs are matters of significant importance and urgency that the System requires banking organizations to address immediately.

²² According to the applicable statutory tailoring rules, a firm triggers the asset threshold for EPS after reaching that threshold as an average over four consecutive quarters. As such, the Board does not subject an institution to EPS until the firm has reached a four-consecutive-quarter average of \$100 billion or more in total consolidated assets.

the 12 requested positions in May 2021 to be included in FRB San Francisco's 2021 forecast and the other 6 positions in June 2021 to be included in the 2022 forecast.

In June 2021, FRB San Francisco selected a CPC, who started recruiting SVB's supervisory team. The CPC selected two senior managers in August 2021 and gradually added other key team members through August 2022. Meanwhile, SVB's total assets continued to grow, reaching \$208.6 billion in December 2021.

While FRB San Francisco's Large Institution Supervision section was staffing the SVB DST, FRB San Francisco examiners started a liquidity target examination of SVBFG in August 2021. Examiners identified foundational weaknesses in key areas, such as internal liquidity stress testing and the contingency funding plans, and determined that SVB's liquidity risk management practices did not meet supervisory expectations. Examiners commented that the weaknesses identified indicated that management should reassess the liquidity risk management project plan established to meet the EPS, as well as its independent review functions because the functions did not provide effective oversight.

In September 2021, LFBO Supervision began its 2021 supervisory cycle to assess SVB and SVBFG against the large bank supervisory expectations. FRB San Francisco examiners identified several supervisory issues, proposed a downgrade of the CAMELS liquidity component rating, and discussed whether to downgrade SVB's CAMELS management component rating and SVBFG's LFI governance and controls rating during the System LFBO vetting. However, Board S&R, the LFBO MG, and the LFBO DST decided to defer issuing the ratings for the 2021 cycle by 6 months and conduct additional reviews to better assess the root causes of the issues and to have sufficient evidence to support downgraded ratings. According to interviewees, LFBO Supervision felt that it needed additional evidence to downgrade the ratings that the RBO examination team assigned to SVB just 4 months prior in May 2021. Specifically, the RBO examination team assigned ratings of 2 on the CAMELS composite and management component and 1 on the liquidity component. FRB San Francisco officials communicated an urgent need to address the identified issues in January 2022 at the bank's first board of directors meeting since SVB joined the LFBO portfolio. We believe LFBO Supervision missed an opportunity to take stronger supervisory action sooner to communicate the urgency of the issues by proceeding with the downgrades they initially proposed and discussed.

In March 2022, FRB San Francisco examiners began a governance and risk management practices review at SVBFG and the bank, focused on the board of directors' effectiveness and the risk management program. Examiners found that the board of directors did not provide effective oversight to ensure that senior management implemented risk management practices commensurate with the institution's size and complexity. The review also found that the lack of effective board of directors' oversight hindered SVB's ability to self-identify internal control weaknesses and manage risks proactively. Examiners found deficiencies in enterprise risk management, technology risk management, information security risk management, and liquidity risk management and commented that the internal audit program did not provide appropriate coverage as an independent risk function. The review resulted in three new MRAs addressing board of directors' effectiveness, the risk management program, and internal audit effectiveness.

In June 2022, the Board's surveillance team issued a special topic report discussing the high level of unrealized losses on the investment securities at many banks as a result of interest rate increases. The surveillance team identified SVBFG as one of the institutions with the highest levels of unrealized losses and with a large portion of investments in its HTM portfolio. The report cautioned that those institutions

with a high level of unrealized losses and a large share of HTM investment securities may need to realize sizable losses when they sell investment securities in their HTM portfolios in case of liquidity needs, such as a large deposit outflow. As of June 2022, the Board's surveillance team also placed SVBFG on the Systemwide holding company watch list with a high adverse change probability warning, indicating the likelihood of a downgrade to its supervisory rating in the near future.

In August 2022, FRB San Francisco examiners issued LFI ratings for SVBFG and, jointly with the CDFPI, issued CAMELS ratings for SVB. Examiners downgraded SVB's composite rating and management component rating to 3 and the liquidity component to 2. Based on the results of the March 2022 review, examiners assigned the holding company a *deficient-1* rating on its governance and controls.²³ The supervisory letter indicated that FRB San Francisco and the CDFPI planned to initiate an MOU to hold the board of directors and executive management accountable for addressing the root cause deficiencies contributing to ineffective governance and risk management. Despite the surveillance team's reports, examiners commented in the supervisory letter that SVB's balance sheet structure mitigated some of the risks associated with the recent rapid growth by having 64 percent of the bank's total assets in cash and fixed income securities, of which 93 percent were invested in U.S. Treasuries and government agency-issued securities and did not consider the changing market environment and its potential effect on the bank's financial condition.

In September 2022, the Board notified the institution that it determined that SVBFG and SVB were not well managed, citing the *deficient-1* rating for the holding company's governance and controls component and the bank's CAMELS 3 ratings for the composite and the management component. The Board issued a letter requiring the holding company to execute an agreement to correct the deficiencies that caused the institution to be less than well managed and restricting it from engaging in certain activities under section 4(k) of the Bank Holding Company Act, such as acquiring control or shares of any company engaged in activities that are financial in nature.

In October 2022, FRB San Francisco issued a supervisory letter communicating the capital component rating of the LFI rating system for SVBFG and assigning a rating of *broadly meets expectations*. The supervisory letter noted that the rating reflected the conclusions from the April 2022 horizontal review and SVBFG-specific examination work, continuous monitoring, engagement with other regulators, and meetings with management and directors. In this review, examiners focused on assessing the effectiveness of internal audit programs over capital planning and the approaches used to project allowances in capital projections under stress at firms subject to the System's capital plan rule.²⁴

After identifying SVB as one of the institutions most at risk, the Board surveillance team continued to warn of the effect of rising rates on banking conditions through surveillance reports available to System examiners and presentations and communications to supervision officials and staff. However, the SVB DST did not shift its attention to the rising interest rates and SVB's unrealized losses on investment securities and did not sufficiently assess the extent of the potential effect to the bank's capital and liquidity. In our opinion, examiners should have heeded the warning signs and taken immediate actions to

²³ *Deficient-1* is the third rating on the LFI rating system's four-point nonnumeric scale.

²⁴ The capital plan rule requires certain large bank holding companies to submit an annual capital plan to the Board. 12 C.F.R. § 225.8.

closely scrutinize the risks of rising interest rates on SVB's investment securities portfolio and the sufficiency of the bank's liquidity.

In November 2022, FRB San Francisco and the CDFPI issued a supervisory letter notifying SVB that they had completed the bank's 2022 annual CAMELS examination and would formally communicate the ratings in the first quarter of 2023 along with the LFI ratings for the holding company. In the letter, examiners noted that SVB's IRR simulations were not reliable and that unreliable IRR modeling directly impaired bank management's and the board of directors' ability to make sound management decisions.

Our review of internal documents from CAMELS rating vetting meetings indicate that examiners met in October 2022 and again in November 2022 to discuss SVB. Specifically, examiners held a second meeting in November 2022 to discuss new information that became available after the first meeting in October. While examiners proposed maintaining a 2 rating on the CAMELS sensitivity to market risk component in October, they proposed downgrading it to 3 in November, noting the update given by the bank on declining net interest income due to rising interest rates. Examiners noted that high interest rates prompted SVB customers to move their deposits from noninterest-bearing to interest-bearing accounts, increasing SVB's deposit and borrowing costs. The meeting documents show that SVB's wholesale borrowings increased from \$121 million in the first quarter of 2022 to \$18.4 billion in October; examiners noted that SVBFG's recent earnings call created concerns among the public, leading to an almost 30 percent decline in the institution's stock price. During the November meeting with the bank and before issuing the supervisory letter, examiners communicated a planned MRA to require SVB to correct the IRR modeling deficiencies. However, examiners did not communicate the new CAMELS sensitivity to market risk component rating and planned to do so when formally issuing the CAMELS ratings in the first quarter of 2023, again delaying downgrades to the bank's ratings.

In December 2022, FRB San Francisco and the CDFPI completed a joint target examination of the internal audit program at SVBFG and SVB that started in October 2022. The review found that the internal audit program was not fully effective and cited material weaknesses in the risk assessment process. Among the eight objectives covered in this review, two resulted in "generally consistent" with supervisory expectations, two were "partially consistent," and four were "below" supervisory expectations, indicating severe weaknesses.²⁵

FRB San Francisco started its annual horizontal review of LFBO institutions' liquidity risk management practices in January 2023. In February 2023, FRB San Francisco began the first quarter 2023 shared national credit examination to assess the adequacy of credit risk management.²⁶ FRB San Francisco also started a horizontal review of cybersecurity practices at the end of February 2023.

Additionally, in January 2023, FRB San Francisco and the Board discussed the CAMELS and LFI ratings for the bank and the holding company for the 2022 supervisory cycle. Supervisory staff proposed a downgrade to SVB's sensitivity to market risk component to 3 because of the bank's interest rate sensitivity and the IRR modeling deficiencies noted in the November 2022 supervisory letter. Supervisory

²⁵ The objectives of the review were (1) internal audit risk assessment; (2) audit universe; (3) audit committee reporting and oversight; (4) independence, professional competence, and quality of the internal audit function; (5) quality assurance function; (6) continuous monitoring; (7) audit execution; and (8) issues tracking and validation.

²⁶ The Shared National Credit Program assesses credit risk and trends as well as risk management practices associated with the largest and most complex credits shared by multiple regulated financial institutions.

staff did not appear to factor in SVB's high concentration in uninsured deposits, which represented approximately 94 percent of its total deposits as of year-end 2022, and did not propose a downgrade to the liquidity component rating. Supervisory staff proposed SVBFG's governance and controls component remain at *deficient-1*, and the Board concurred with the rating. The Board anticipated issuing an MOU in the first quarter of 2023.²⁷

Around the same time, in February 2023, System supervisory staff presented to the Board of Governors on the effect of rising interest rates on certain banks. The presentation noted that rising interest rates were creating significant unrealized losses in investment securities and that banks with large unrealized losses could experience increased financial and risk management challenges. The presentation included SVB as an example of a bank facing financial risks, illustrating that (1) as of the third quarter of 2022, total unrealized losses amounted to 110 percent of capital; (2) SVB lost nearly 8 percent of its deposits since the onset of rising interest rates; (3) SVBFG was executing on its contingency funding plan to maintain appropriate liquidity; and (4) the institution's IRR measurement system failed to estimate sensitivity to rising rates, resulting in higher funding costs.

On March 9, 2023, SVB experienced a significant run on its deposits totaling \$42 billion, nearly 25 percent of the bank's \$166 billion total deposits, following SVBFG's announcement a day earlier of the sale of substantially all of its investment securities at a loss of \$1.8 billion and its plan to raise \$2 billion in capital.²⁸ The withdrawal requests pending for the following day amounted to \$100 billion. Ultimately, SVB was unable to meet the pending withdrawal requests, and, on March 10, 2023, the CDFPI took possession of SVB and appointed the FDIC as receiver. At the time of its failure, SVB had CAMELS composite and management component ratings of 3 and liquidity and sensitivity to market risk component ratings of 2; FRB San Francisco and the CDFPI had not issued the ratings from the examination concluded in November 2022 because they planned to do so in the first quarter of 2023. In our opinion, these ratings at the time of SVB's failure did not align with the bank's true condition.

Conclusion

From January 2018 through March 2023, FRB San Francisco complied with the examination frequency requirements outlined in section 1000.1 of the CBEM. With the benefit of hindsight, for both RBO Supervision and LFBO Supervision, we noted multiple instances in which the Board and FRB San Francisco should have acted earlier or taken stronger action to address identified weaknesses at SVB. Specifically, we identified several instances in which the Board and FRB San Francisco should have downgraded the bank's CAMELS ratings.

²⁷ The Board did not issue the MOU before the bank's failure.

²⁸ As previously noted, on March 8, 2023, Silvergate Capital Corporation announced that it would be winding down operations and voluntarily liquidating Silvergate Bank.



Finding 1: The RBO Supervisory Approach for SVB Did Not Evolve With the Institution's Risk Profile

The RBO supervisory approach for SVB did not evolve commensurately with its growth and increased complexity. According to the CBEM, examination approaches are risk-focused processes that rely on an understanding of the institution, the performance of risk assessments, the development of a supervisory plan or examination scope, and examination procedures tailored to the institution's risk profile. We attribute the lack of evolution in RBO's supervisory approach for SVB to several factors. First, after EGRRCPA's enactment and the Board's 2019 tailoring rule, firms with assets under \$100 billion, including SVB, were no longer subject to EPS. We learned that the expectation was for RBO examination teams to similarly supervise the larger and smaller RBOs. Second, management allocated an insufficient number of RBO examiner resources. Also, RBO Supervision's resource hours for SVB decreased from 2018 to 2020 as the bank's assets were increasing. Third, RBO examiners assigned to SVB did not have sufficient expertise in supervising large, complex institutions. Fourth, in 2020, System RBO Supervision paused onsite examinations at the beginning of the COVID-19 pandemic. We believe that a more-tailored supervisory approach may have uncovered the severity of the issues and prompted SVB to act earlier.

RBO Supervision's Approach Did Not Evolve With SVB's Growing Size and Increased Complexity

From January 2018 to June 2021, while SVB was still in the RBO portfolio, the bank's assets grew from \$50 billion to over \$100 billion. SVB continued to take risks to grow its concentrated business. As early as 2018, examiners noted the bank's rapid growth and the need for the risk management structure to be commensurate with the bank's growing size, complexity, and risks. Another examination report noted the complexity of the bank's activities as well as the bank's concentrated funding structure and weaknesses in the bank's liquidity risk management.

Interviewees noted that SVB was growing rapidly while facing liquidity and risk management issues. Specifically, one interviewee described growth as its own risk because it creates problems that are not foreseeable; the interviewee noted that "everyone underappreciated that rapid growth always exposes cracks." Despite SVB's rapid growth and increased complexity, RBO Supervision continued to assign satisfactory ratings despite escalating risks and did not evolve its approach to supervising SVB. For example, we learned that RBO Supervision canceled various target examinations during the Systemwide examination pause for RBOs and continued to rely on the bank's financial results when supervising and assigning ratings, despite identifying repeat weaknesses in SVB's risk management. A Reserve Bank official noted that given SVB's unique characteristics, growth rate, concentrated business model, liquidity risk management issues, and risk management issues, earlier supervisory attention may have been helpful. A Board official stated that the intensity of supervision should be commensurate with a bank's size and complexity and that supervisors should expect more from a bank's risk management as the bank increases in size and complexity.

The CBEM notes that examination approaches are risk-focused processes that rely on an understanding of the institution, the performance of risk assessments, the development of a supervisory plan or examination scope, and examination procedures tailored to the institution's risk profile. It also notes that evaluations of the CAMELS components take into consideration the institution's size and sophistication, the nature and complexity of its activities, and its risk profile. Further, the attachment to SR Letter 16-11, *Supervisory Guidance for Assessing Risk Management at Supervised Institutions with Total Consolidated Assets Less than \$100 Billion*, states that managing risks is fundamental to banking and that an institution's risk management processes are expected to evolve in sophistication commensurately with the institution's asset growth, complexity, and risk. The letter notes that an institution's failure to establish a management structure that adequately identifies, measures, monitors, and controls the risks of its activities has long been considered unsafe and unsound conduct. Despite this guidance, FRB San Francisco rated SVB as satisfactory long after detecting significant risk management weaknesses.

Several Factors Kept the RBO Supervisory Approach From Evolving With the Bank's Growth and Complexity

The RBO's supervisory approach for SVB did not keep pace with SVB's growth and complexity because of several factors. First, after EGRRCPA's enactment and the Board's 2019 tailoring rule, firms with assets under \$100 billion, including SVB, were no longer subject to EPS. Second, management allocated an insufficient number of RBO examiner resources and hours to supervise SVB. Third, RBO examiners assigned to SVB did not have sufficient expertise with supervising a large, complex institution. Fourth, in 2020, System RBO Supervision paused onsite examinations at the start of the COVID-19 pandemic.

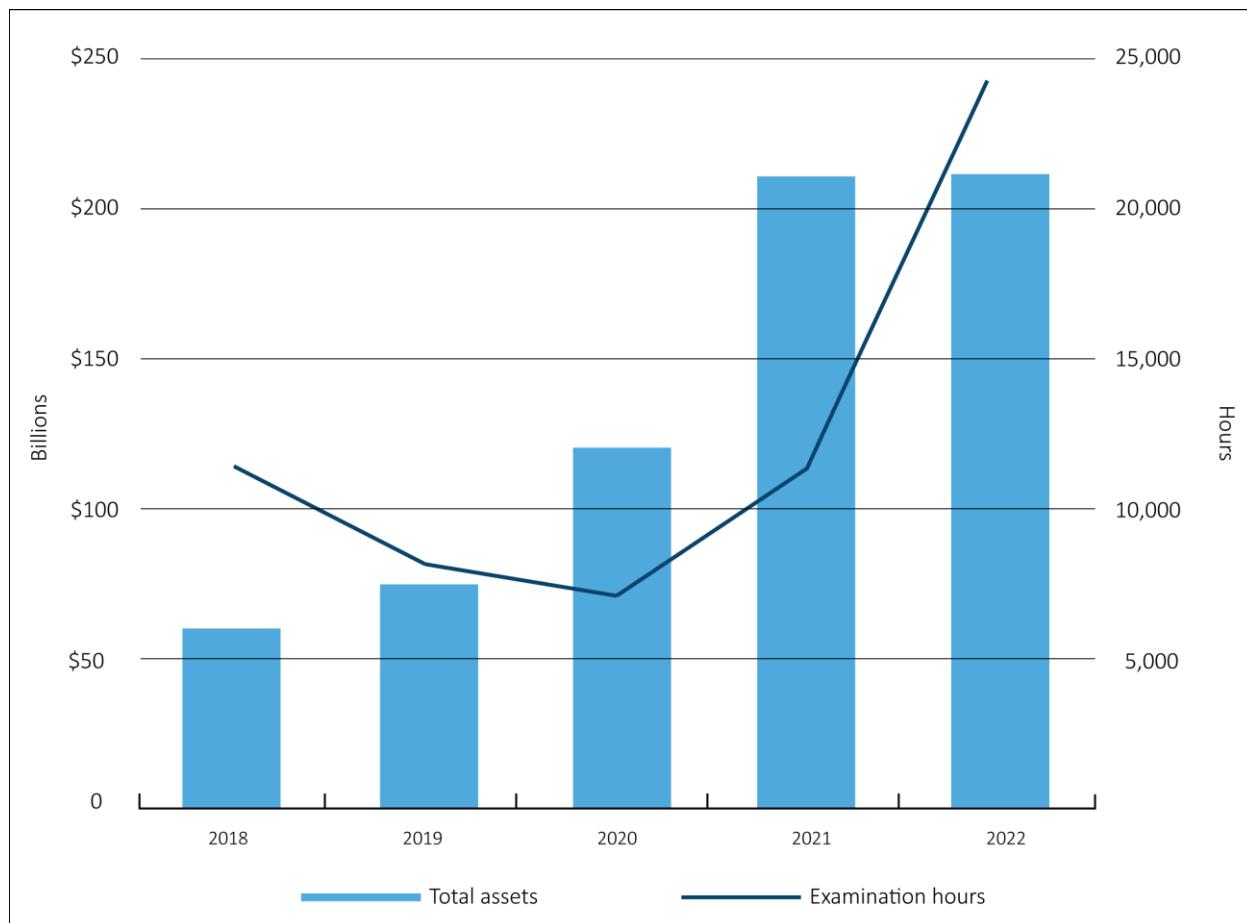
Revised Framework Following 2018 EGRRCPA and 2019 Tailoring Rule

After EGRRCPA's enactment and the Board's 2019 tailoring rule, firms with assets under \$100 billion, including SVB, were no longer subject to EPS. We learned that the expectation was for RBO examination teams to similarly supervise the larger and smaller RBOs. For example, a Board official noted that the examination framework changed when the RBO portfolio expanded to include firms with up to \$100 billion in assets, becoming more "small bank like" and less intense because banks with \$10 billion or \$95 billion in assets are treated the same. Another Board official noted that the Board has not clearly established expectations for large regional banks in capital planning because before EGRRCPA became law in 2018, firm-run, internal stress testing was part of the regime when an institution crossed the \$50 billion threshold. Interviewees noted that the Board did not provide additional guidance or training to RBO examiners after expanding the portfolio to include institutions with \$50 billion to \$100 billion in assets. A Board official confirmed that the Board did not provide RBO Supervision with additional skills for supervising institutions with up to \$100 billion as opposed to institutions up to \$50 billion. A Board official stated that the message the Board took from EGRRCPA becoming law in 2018 was to reduce the regulatory and supervisory burden; the intensity for firms below the \$100 billion threshold was to be much lower than for those firms above \$100 billion.

Insufficient Examiner Resources and Hours

RBO Supervision management allocated an insufficient number of RBO examiner resources and hours to supervise SVB. Multiple Reserve Bank interviewees noted that approximately three examiners were dedicated to the supervision of SVB and additional examiners were allotted to staff specific examinations while SVB was in the RBO portfolio. Many interviewees shared that the RBO examination team was understaffed. A Reserve Bank official stated that the supervision team probably could have done more work but was doing the best it could with the resources allotted based on the portfolio. RBO Supervision's resource hours decreased significantly from 2018 to 2019 and further in 2020 as SVB's assets were increasing (figure 2).

Figure 2. SVB's Resource Hours Versus Total Assets, 2018–2022



Source: OIG analysis of FRB San Francisco and SVB data, 2018–2022.

The BETR outputs guide the supervisory activities for RBO Supervision and generate the recommended number of hours for specific topics. SR Letter 19-9 notes that surveillance metrics provide examiners with a data-driven starting point for determining the scope of a state member bank's examination. The guidance notes that when examiners are aware of factors indicating a more appropriate risk classification for a particular risk dimension, they should exercise supervisory judgment and adjust the risk tier during the scoping process. The guidance further notes that examiners should then record their rationale in the appropriate work papers and plan the examination work program accordingly.

The BETR-recommended resource hours for SVB in 2019 and 2020 were 4,870 and 3,920, respectively, and were broken down further for different risks. For example, of those total hours, BETR recommended 50 hours for supervising liquidity for both years and 3,920 and 2,880 hours for supervising credit in 2019 and 2020, respectively. During this time, SVB's assets increased from almost \$70 billion in 2019 to over \$100 billion in 2020. RBO Supervision spent 7,919 and 6,872 resource hours supervising SVB in 2019 and 2020, respectively. Both amounts were above the BETR-recommended hours; however, they were lower than prior years' hours when the bank's assets were lower. Further, the resource hours more than tripled from 2019 to 2022 when LFBO Supervision was solely responsible for the bank's supervision. In 2022, LFBO Supervision spent 24,719 hours supervising SVB.

While RBO Supervision allocated more hours to SVB than what BETR had recommended, we learned that there may be conflicting interpretations of how to use the BETR outputs. While some interviewees noted that examination teams can challenge BETR outputs and request exceptions, others indicated that they had to accept the BETR outputs. A Reserve Bank interviewee described the BETR-recommended hours as "a detrimental handcuff." A Board official noted that if FRB San Francisco was doing what it was supposed to do, it would have been following the BETR program, which would not have allowed for the amount of work needed for SVB. The official further noted that the Reserve Bank was told to follow the supervisory program and, because SVB had a lot of liquidity, the RBO examiners did not look at risk management in detail. A Reserve Bank official noted that Systemwide, the expectation was for examination teams' hours to approximate the BETR-recommended hours.

Several Board and Reserve Bank interviewees expressed the following concerns about using the BETR models for RBOs:

- BETR was developed for community banking organizations (CBOs).²⁹ For example, a Board official stated that BETR was developed solely for CBOs, was back tested from the 2008 financial crisis period for CBOs only, and was never tested on RBOs because the population of RBOs was not large enough to test at the time.
- RBO examination teams should probably be doing more work than they are because a firm with over \$50 billion in assets is too complex to rely on metrics like the BETR outputs, which were developed for CBOs. For example, a Reserve Bank interviewee stated that the BETR recommendations are unreasonable and should not be used for RBOs because a \$12 billion institution is significantly different from a \$50 billion institution. Further, a Board official noted that BETR does not make sense for institutions with concentrated business models.
- BETR does not account for the potential need to do atypical examination work. A Reserve Bank official said that BETR does not allow examiners the flexibility to tailor the examination plan and conduct activities outside the typical work.

We learned that while FRB San Francisco RBO Supervision did allocate more hours than BETR had recommended, it still did not allocate sufficient resources or hours to supervising SVB as its assets were rapidly increasing. The insufficient allocation of resources and hours constrained what the RBO examination team could cover.

²⁹ CBOs are institutions with less than \$10 billion in total consolidated assets.

Lack of Large, Complex Banking Experience

Interviewees shared that RBO examiners assigned to SVB did not have sufficient expertise supervising an evolving, large, complex institution. While the RBO examination team identified risk management deficiencies, it may have underestimated the severity of the issues given SVB's increased size and complexity. Despite issuing MRAs for some risk management deficiencies, RBO supervision continued to rate the bank and the bank's management as satisfactory based on the bank's financial condition and results. Interviewees noted that RBO supervision focuses more on a bank's financial condition than its risk management. For example, one interviewee noted that examiners relied on SVB's favorable financial performance indicators when assigning the CAMELS management component rating. Other interviewees noted that RBO examiners' perspectives of SVB were based on their knowledge of smaller institutions and that certain weaknesses were not as apparent given those limited perspectives.

A Reserve Bank official stated that the Reserve Banks need to get examiners with large bank expertise into the regional banks that are growing rapidly. A Board official noted that the RBO Supervision section needs more sophisticated risk management expertise. Further, other interviewees shared that they would like staff to cross-train and allow community and regional bank examiners to do more horizontal work instead of being in siloes and limiting their work to institutions in either the CBO portfolio or the RBO portfolio.

Examination Pause During the COVID-19 Pandemic

In 2020, System RBO Supervision paused onsite examinations at the start of the COVID-19 pandemic. The System conducted a prioritization exercise to determine an approach for scheduling supervisory activities for all portfolios. As part of the Board's *Supervision Crisis Response Framework Operational Plan*, issued in July 2020, the Board established supervisory prioritization tiers, with tier 1 including the most important supervisory activities and tier 5 including the least important supervisory activities.³⁰

The prioritization exercise determined SVB to be low risk, so SVB was low in the hierarchy of supervisory work to be conducted during the pandemic. According to interviewees, the System determined that SVB was low risk because its customer base was highly concentrated in the technology and private equity industries, which were not as directly affected by the COVID-19 pandemic as the hotel, restaurant, or tourism industries. We learned that as a result of the System's prioritization and examination pause, RBO Supervision canceled five examinations for SVB and shifted to more continuous monitoring at a time when SVB was growing substantially.

Tailored Supervision Could Have Uncovered the Severity of Issues and Prompted SVB to Act Earlier

We believe that better tailoring of RBO Supervision's examination approach and planning activities, including increasing examiner resources and hours, enhancing expertise, and conducting more robust examination work, could have helped examiners identify issues sooner or have a greater appreciation for

³⁰ Tier 1 and tier 2 priorities did not include RBO supervisory work. Tier 3 priorities included RBO high-risk supervisory activities for state member banks and complex holding companies. Tier 4 priorities included RBO moderate- and low-risk supervisory activities, and tier 5 priorities included all other scheduled supervisory activities not categorized in the other tiers.

the severity of the issues and could have led them to take more decisive supervisory actions, such as downgrading the CAMELS ratings earlier. One important outcome of the CAMELS supervisory rating for banks is to identify institutions whose operations raise concern or require special attention. Earlier composite and component ratings downgrades would have better communicated to SVB the severity of the concerns and the urgency of the need to remediate them.

Recommendations

We recommend that the director of S&R

1. Assess the current RBO supervision framework and determine whether adjustments should be made based on a supervised institution's size and complexity, such as unique or concentrated business models or rapid growth. Based on the determination, develop and implement training for RBO Supervision staff that emphasizes the need for varying approaches based on an institution's size, complexity, and business model.
2. Assess whether the BETR models are appropriate for RBOs, specifically those that are large or complex or that present unique risk factors such as concentrated business models or rapid growth, and determine whether a different approach to determining the scope and resources for examinations is needed.
3. Assess the current RBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.

Management Response

In its response to our draft report, the Board concurs with our recommendations and states that it is already considering necessary changes to its supervisory programs and that aspects of its efforts are reflected in its responses to the recommendations.

Specifically, to address recommendation 1, the Board states that the System plans to complete a comprehensive review of the RBO supervisory program to ensure the program and its execution appropriately reflect the risks and characteristics of a supervised institution and to incorporate a greater degree of peer perspective into the RBO supervisory framework. Further, the Board states it will develop training as appropriate on the new RBO supervisory approaches and plans to complete this project work by December 31, 2024.

To address recommendation 2, the Board states it is assessing the supervisory framework for RBOs to ensure activities are appropriately tailored to the risks of individual firms, which may entail a move away from BETR for some or all RBOs. The Board notes that where BETR is retained, it will implement appropriate controls to ensure its usage accounts for unique risk factors, including concentrated business models and rapid growth. The Board states that it will complete the project work by December 31, 2024.

To address recommendation 3, the Board states it intends to address this recommendation through the project described in response to recommendation 1, and states that it will complete the project work by December 31, 2024.

OIG Comment

The planned actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 2: The Board and FRB San Francisco Did Not Transition SVB From the RBO Portfolio to the LFBO Portfolio Effectively

The Board's and FRB San Francisco's transition of SVB from the RBO to the LFBO portfolio was ineffective. Specifically, LFBO Supervision was not timely in staffing the LFBO DST for SVB. Despite the bank having over \$100 billion in assets in December 2020, forecasting continued growth, and planning an acquisition of a private banking and wealth management business, LFBO Supervision did not begin staffing its DST until SVB formally exceeded the total asset threshold in accordance with expectations in June 2021. Further, RBO Supervision and LFBO Supervision did not effectively collaborate before the transition, despite clear indicators that the transition was imminent. We attribute the ineffective transition of SVB to the Board's lack of guidance at the time for transitioning banks from the RBO portfolio to the LFBO portfolio and FRB San Francisco's and the Board's desire to avoid the perception that EPS had been applied before SVB had to meet those standards. We believe that delays in forming the DST and ineffective coordination between the RBO and LFBO Supervision sections resulted in gaps in supervision and an inaccurate depiction of SVB's true condition as it transitioned to the LFBO portfolio. Earlier involvement of LFBO Supervision could have better prepared the institution for portfolio requirements and provided LFBO Supervision with a more accurate assessment of SVB's condition.

LFBO Supervision Did Not Timely Staff the DST

LFBO Supervision did not begin the process to fully staff its DST until the bank formally transitioned to the LFBO portfolio. In December 2021, after SVB's transition, the Board developed an internal transition guide for DSTs with new institutions entering the LFBO portfolio. While the LFBO transition guide states that a DST should be established in as timely a manner as possible, the guide does not provide any specifics on how long that should take. The internal guidance states that the applicable Reserve Bank should work with the Reserve Bank's Budget Office, the Board S&R Budget Office, and Board LFBO senior leadership to assess the needs to effectively oversee the transitioning institution and to understand the sizes and resource allocations of DSTs overseeing comparable institutions.

While SVB did not attain a four-quarter average of \$100 billion in total consolidated assets, rendering it subject to EPS, until June 2021, its rapid growth and its imminent transition to LFBO Supervision was evident. SVB first exceeded \$100 billion in assets in December 2020, and SVB management forecasted continued growth and a planned acquisition. However, LFBO Supervision did not begin staffing the DST until SVB officially became an LFBO in June 2021. FRB San Francisco submitted a request to the Board for 12 additional resources to staff its LFBO DST for SVB on March 9, 2021, and started recruiting for a CPC on March 24, 2021, while waiting for the Board's approval. In May 2021, the Board approved 6 of the 12 requested resources for SVB's DST to be forecasted for 2021. In June 2021, the Board approved the remaining 6 requested resources to be forecasted for 2022. FRB San Francisco selected a CPC in June 2021 and two senior managers in August 2021. FRB San Francisco continued to staff the team through the remainder of the year; however, the DST and risk team were not fully staffed until August 2022, over a year after the institution transitioned to the LFBO portfolio. From SVB's transition to

the LFBO portfolio in June 2021 to August 2022, when the LFBO DST and risk team were fully staffed, SVB's assets grew from approximately \$161 billion to \$211 billion.

Interviewees shared their perspectives about the formation of the LFBO DST for SVB. One interviewee noted that FRB San Francisco should have staffed its DST sooner; another interviewee noted that the DST was built after the transition but that it would be beneficial to not have a gap in supervision while a DST is being built.

The RBO Supervision and LFBO Supervision Collaboration Was Ineffective

The RBO and LFBO Supervision sections did not effectively collaborate leading up to SVB's transition to the LFBO portfolio. LFBO Supervision was slow to become involved in the bank's supervision despite the early indicators—before the bank formally became subject to EPS—of the bank's imminent transition. As previously noted, SVB's assets grew beyond \$100 billion in December 2020 and were projected to continue to grow organically and through an upcoming acquisition. Further, SVB had begun working with an outside consultant in 2020 to assess the bank's readiness for LFBO supervision.

We did learn that RBO Supervision included LFBO Supervision leadership in internal discussions about SVB in early 2021; however, we did not see evidence of LFBO examiners participating in examinations or reviews of SVB before its transition to the LFBO portfolio. According to FRB San Francisco's proposed 2021 supervisory plan, LFBO Supervision was planning to conduct EPS readiness reviews on liquidity risk management, capital, management of business line, and board of directors' effectiveness in the third and fourth quarters of 2021.³¹

Multiple interviewees noted that earlier involvement of LFBO Supervision would have been beneficial. For example, one interviewee noted that a more formal way to transition a firm that includes joint work between RBO Supervision and LFBO Supervision before a firm's full transition would be helpful. A Reserve Bank official noted that the System needs to do a better job transitioning firms to the LFBO portfolio and that the RBO examination team should be able to bring in additional expertise earlier, such as when a growing institution reaches \$75 billion in total consolidated assets. We acknowledge that supervisors should not hold an institution accountable for EPS before an institution is subject to those requirements; however, given SVB's rapid growth, LFBO Supervision should have been involved earlier in assessing the bank's condition and determining the bank's readiness for EPS requirements.

³¹ The proposed supervisory plan noted that the readiness reviews were intended to help LFBO Supervision assess the bank's ability to meet certain EPS requirements even though full compliance was not required until 2022. LFBO Supervision began liquidity and capital target examinations in the third quarter of 2021 and a governance and risk management practices review in the first quarter of 2022.

The Board's Lack of Guidance and EPS Supervision Concerns Led to an Ineffective Transition

We attribute the ineffective transition of SVB from the RBO portfolio to the LFBO portfolio to the Board's lack of guidance, at the time, for transitioning banks and the need to avoid the perception of applying EPS before SVB was required to meet those standards.

We learned that SVB was the first bank to transition from the RBO portfolio to the LFBO portfolio since the Dodd-Frank Act's adoption of EPS. At the time of SVB's transition, the Board did not have guidance for Board and Reserve Bank supervision staff on transitioning an institution from the RBO portfolio to LFBO portfolio. Multiple interviewees noted that Board guidance for transitioning banks from the RBO portfolio to the LFBO portfolio did not exist at the time SVB transitioned. One Board official stated there was no playbook on how to transition an RBO to an LFBO, noting the complexities associated with this type of transition.

We have learned that steps are being taken to address this lack of guidance. For example, a Board official stated that the Board is currently working on developing guidance for managing this transition. Other interviewees noted that the System is using SVB as a case study for how to better transition banks in the future. Additionally, in December 2021, after SVB's transition, the Board developed an LFBO onboarding toolkit that serves as an internal guide for DSTs with new institutions entering the LFBO portfolio.

In addition to the lack of formal guidance at the time of SVB's transition, interviewees noted the need to avoid the perception of applying EPS before the institution was required to meet those expectations. One interviewee stated that the System would try to prepare firms for the transition but felt it was placing requirements on those firms prematurely, noting a constant "tug of war" between industry and supervisors. A Reserve Bank official noted that the System cannot hold a bank to heightened standards if the bank has not transitioned to the LFBO portfolio but that highlighting when a bank is far from ready could be useful.

A More Effective Transition Could Have Prevented Gaps in Supervision

We believe that delays in forming the DST and ineffective coordination between RBO Supervision and LFBO Supervision resulted in gaps in supervision and an inaccurate picture of SVB's condition as it transitioned to the LFBO portfolio. Earlier involvement of LFBO Supervision could have better prepared the institution for portfolio requirements and provided LFBO Supervision with a more accurate assessment of SVB's condition.

Recommendation

We recommend that the director of S&R

4. Develop an approach for transitioning institutions from the RBO portfolio to the LFBO portfolio and determine how best to involve LFBO Supervision earlier, such as through joint reviews with RBO Supervision, and how to more timely form a DST. Based on the approach developed, finalize and issue formal guidance on transitioning RBOs to the LFBO portfolio that includes steps and a timeline for forming a DST, approaches for the two Supervision sections to collaborate, and a list of potential RBO and LFBO joint reviews to conduct to better prepare an institution for the transition.

Management Response

In its response to our draft report, the Board concurs with our recommendation. The Board states that the revisions to the RBO supervisory framework being developed in response to finding 1 will incorporate practices to ensure collaboration between the RBO and LFBO portfolios in preparing institutions for crossing the \$100 billion asset threshold, potentially including coordinated cross-portfolio reviews. The Board notes that it will complete the RBO project work by December 31, 2024. In addition, the Board notes that it will develop guidance that will establish timeliness expectations for establishing a CPC and supervisory team and expectations for information sharing and outreach. The Board states that it will also provide examiner training on this guidance as appropriate. The Board notes that it will issue the guidance by December 31, 2024.

OIG Comment

The planned actions described by the Board appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 3: Examiners Should Have Closely Scrutinized the Risks From Interest Rate Changes

Despite the warning signs, LFBO examiners did not sufficiently scrutinize the risks from rising interest rates on SVB's HTM investment securities portfolio. Specifically, LFBO examiners did not conduct an IRR review despite warnings about the risks of rising interest rates and did not identify or appreciate the significance of SVB's financial deterioration. Board S&R's Risk and Surveillance Sections began identifying the risks associated with rising rates at the end of 2020, and by 2022, the Board noted that high inflation and rising interest rates were affecting banking conditions and the effect was expected to intensify as rates continued to rise. In addition, in June 2022, the Board's Surveillance section cautioned that banks that choose to hold a large share of their investment securities as HTM limit their ability to sell those securities before maturity and may need to sell securities at sizable losses should a liquidity need arise. The CBEM states that examiners should evaluate unrealized losses in an institution's securities caused by changes in market rates and assess how those losses would affect the institution's ability to function as a going concern. Interviewees noted that the LFBO Supervision section tends to take a forward-looking approach and focuses on risk management and associated processes more than financial results. We believe that LFBO examiners did not sufficiently scrutinize the risks from changing interest rates because they were focused on risk management. A greater emphasis on assessing the effect of rising interest rates could have helped reveal the vulnerabilities inherent in the bank's condition more timely, resulting in additional CAMELS composite and component ratings downgrades and a heightened supervisory focus on SVB before its failure.

LFBO Examiners Did Not Sufficiently Scrutinize the Effect of Rising Interest Rates on SVB's HTM Investment Securities

Despite the warning signs, LFBO examiners did not sufficiently scrutinize the effect of rising interest rates on HTM investment securities. As outlined in the supervisory history, LFBO Supervision conducted liquidity and capital target examinations of SVBFG and a joint CAMELS review of SVB with the CDFPI following SVB's transition to the LFBO portfolio.³² Based on issues uncovered during these reviews, LFBO Supervision and CDFPI conducted a joint governance and risk management review of SVB and SVBFG. However, LFBO Supervision did not conduct an IRR review despite warnings about the risks of rising interest rates and did not identify or appreciate the significance of SVB's financial deterioration.

Board S&R's Risk and Surveillance Sections began identifying rising rates as a risk in the fourth quarter of 2020. The Board's mid-year 2022 and year-end 2022 *Supervision Risk Reports* listed interest rates and inflation as "watch list" issues and "top risks," respectively. The year-end 2022 report identified the

³² FRB San Francisco and the CDFPI also jointly conducted a BSA/AML and OFAC target examination of SVB and SVBFG in July 2021.

potential effect of higher rates on asset values, liquidity and earnings, and credit conditions. Additionally, in June 2022, the Board's Surveillance section cautioned that banks that choose to hold a large share of their investment securities as HTM limit their ability to sell those securities before maturity and may need to sell securities at sizable losses should a liquidity need arise.

The Surveillance section identified SVB as one of the institutions with the highest levels of unrealized losses on its HTM investment securities. As of June 2022, SVBFG was also placed on the holding company watch list with a high adverse change probability warning.³³ Further, an October 2022 Board presentation to the System Supervision Committee noted that high inflation and rising rates were already affecting banking conditions and were expected to have an increased effect as rates continue to rise. The presentation noted that banks with long-duration fair-valued assets were experiencing an erosion of capital and could face increased liquidity and funding challenges. As noted previously, during a period of low interest rates, SVB invested a large portion of its client deposits in securities with long-term maturities; its percentage of HTM securities to total assets was almost six times higher than that of its peers in both 2021 and 2022. The composition of SVB's investment portfolio amplified the importance of assessing the effect of the changing interest rate environment on the institution.

In November 2022, FRB San Francisco and the CDFPI issued a supervisory letter for the August 2022 CAMELS joint examination notifying SVB that its IRR simulations were not reliable and issuing an MRA to address the issue. The supervisory letter notes that unreliable IRR modeling outputs impaired management's and the board of directors' ability to make important asset liability management decisions and that in SVB's case, simulation results gave a false sense of safety in a rising rate environment and masked the need to act earlier in the rate cycle. In November 2022, examiners held a vetting meeting and discussed downgrading SVB's sensitivity to market risk component rating to 3; however, examiners did not communicate that intended downgrade to SVB management because they planned to do so when formally issuing the CAMELS ratings in the first quarter of 2023. Further, in December 2022, examiners assessed SVB's readiness in the event of a recession and identified the bank's liquidity as presenting the greatest exposure in a recession. While LFBO Supervision reviewed liquidity and IRR through routine continuous monitoring, LFBO Supervision did not conduct an IRR review. One interviewee noted that they wish that the LFBO Supervision section would have begun work on IRR immediately after discovering the model deficiencies, but by the time LFBO Supervision scheduled the review for May 2023, it was too late. Another interviewee said that the LFBO DST proposed an in-depth IRR review, but the review did not take place because the team identified serious issues in other areas, such as enterprise risk management, governance and controls, and internal audit, and prioritized those issues. SVB's decision to remove its interest rate hedges in 2022 based on its projection that the rising interest rates would reverse direction should have further alerted LFBO Supervision of the need for an increased focus on IRR.

The CBEM states that when evaluating capital adequacy, examiners should consider the effect of changes in market rates and prices on the economic value of the institution by evaluating any unrealized losses in an institution's securities or derivative positions. It further notes that this evaluation should assess the institution's ability to hold its positions and function as a going concern if recognizing unrealized losses would significantly affect the institution's capital ratios. In addition, the CBEM states that the level of prevailing market interest rates can significantly affect the costs of assets and liabilities, which in turn

³³ As noted previously, a high adverse change probability warning indicates the likelihood of a downgrade to the supervisory rating in the near future.

significantly affect an institution's funding structure or liquidity needs, and changes in the market rates can result in acceleration or deceleration of deposit flows.

LFBO Supervision Tends to Focus on Risk Management and Associated Processes

Interviewees noted that the LFBO Supervision section tends to take a forward-looking approach and focuses on risk management and associated processes more than financial results. We believe that LFBO Supervision did not sufficiently act to mitigate the risks from interest rate changes because it was focused on risk management and associated processes. Interviewees noted that while the LFBO Supervision team was focused on SVB's risk management and associated processes, it did not pay close attention to changes in the financial condition of the institution. For example, interviewees shared that when evaluating components for LFI ratings, LFBO examiners tend to focus more on risk management than the institution's financial condition. A Board official noted that LFBO Supervision was highlighting risk management deficiencies when more serious problems were emerging and that LFBO Supervision missed the deficiencies in the bank's financial condition.

The Board's Community and Regional Supervision function held an internal training and issued guidance to examiners for assessing interest rate, investment, liquidity, capital, and risk management-related risks and assigning bank and holding company ratings in a rising interest rate environment in November and December 2022, respectively. We did not identify similar training or guidance from the Board's LFBO Supervision section.

Further Emphasis on the Effect of Rising Interest Rates Could Have Prompted Earlier Supervisory Action

While we agree that examiners should focus on an institution's risk management and associated processes, especially when an institution has increased in size and complexity, we believe that examiners should pay close attention to an institution's financial condition and any imminent and pressing potential threats to an institution's viability. As interest rates continued to rise in 2022, SVB reported a significant increase in unrealized losses on its HTM investment securities. Coupled with accelerated deposits outflows, the bank's liquidity became subject to further strain. Further emphasis on assessing the effect of rising interest rates could have helped reveal the vulnerabilities inherent in the bank's financial condition, resulting in further downgrades of the bank's CAMELS composite and component ratings and earlier supervisory actions to communicate the urgency of addressing these issues. For example, although examiners discussed downgrading the sensitivity to market risk component to 3 in November 2022 and planned to formally communicate the downgrade to bank management in the first quarter of 2023, the bank's CAMELS composite rating was 3 and the liquidity and sensitivity to market risk component ratings were 2 at the time of SVB's failure in March 2023. By definition, a CAMELS composite rating of 3 signifies that the financial institution exhibits some degree of supervisory concern in one or more component areas but is unlikely to fail. Liquidity and sensitivity to market risk component ratings of 2 signify satisfactory liquidity levels and adequately controlled market risk sensitivity, respectively. The ratings at

the time of the bank's failure did not align with the bank's true condition. Earlier downgrades may have heightened the supervisory focus on SVB before its failure.

Recommendations

We recommend that the director of S&R

5. Reiterate to examination teams the purpose of the Risk and Surveillance Sections' reports and the need to closely reflect on their contents to help inform their ongoing supervisory activities.
6. Assess the current LFBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.
7. Develop guidance for LFBO Supervision staff that outlines the importance of a balanced approach to supervising institutions and requires a focus on assessing both forward-looking risks and relevant financial indicators.

Management Response

In its response to our draft report, the Board concurs with our recommendations.

To address recommendation 5, the Board states that it will improve communication of surveillance results and analyses to all supervised portfolios, specifically for firms included on high-risk surveillance lists. The Board notes that the improvements will include working with each portfolio to enhance existing portfolio-specific, repeatable processes for timely discussion and integration of surveillance analytics into examination planning, risk monitoring, and rating vettings. The Board states it will complete this work by December 31, 2024.

To address recommendation 6, the Board states that by year-end, LFBO leadership will undertake discussions with the LFBO MG and the DSTs for each high-risk firm identified through collaboration with the Risk and Surveillance Sections. The Board notes that these discussions will focus on proposed supervisory activities for the coming year and whether the activities address known and emerging risks at these firms. The Board also notes that financial risks as well as risk management will be considered in the supervisory planning process. The Board states that it will develop communication to LFBO Supervision staff on how to balance known risks, emerging risks, and financial risks for the 2024 supervisory planning cycle as part of the annual supervisory planning process and will incorporate improvements and learnings from the discussions conducted this year. The Board states that it will complete this project by December 31, 2024.

To address recommendation 7, the Board states that in addition to the projects described in the response to recommendation 6, the agency plans to provide formal direction to DSTs regarding the ratings assessment and examination findings processes as a result of the projects described in the response to recommendation 6. The Board states that it will complete these projects by December 31, 2024.

OIG Comment

The planned actions described by the Board appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Matter for Management Consideration

Section 4 of the Federal Reserve Act provides that each Reserve Bank is subject to the supervision of a nine-member board of directors, six of which are elected by the Reserve Bank District's member banks and three of which are appointed by the Board of Governors. The Board's policy governing Reserve Bank directors' access to confidential supervisory information states that Reserve Banks cannot provide confidential supervisory information to any director and directors cannot participate in any bank supervisory matters. This policy further provides that directors may not be consulted regarding bank examination ratings, potential enforcement actions, application matters, and other such supervisory matters.

SVB's chief executive officer (CEO) was elected to FRB San Francisco's board of directors because of his knowledge of the technology and venture capital sectors. During interviews with Board and FRB San Francisco staff and officials, we did not hear of any conflicts of interest or issues with the CEO's service as a board member influencing any aspect of FRB San Francisco's or the Board's supervisory activities. However, a senior official did note that a Reserve Bank does not want a CEO of a bank whose ratings are falling serving as a board member at that Reserve Bank. We also learned that FRB San Francisco and Board senior officials considered removing SVB's CEO from FRB San Francisco's board of directors following the discussions to downgrade SVB's ratings; they ultimately decided that the CEO should remain on the board of directors to avoid revealing confidential supervisory information and potentially signaling to the market the bank's declining condition. Another official noted their surprise that SVB's CEO remained on FRB San Francisco's board of directors following the bank's downgrade but explained that there is no System policy that requires a bank official to be removed from a Reserve Bank board of directors when their bank is rated less than satisfactory.

We believe that the CEO's service on the FRB San Francisco board of directors created an appearance of a conflict of interest for the System. Given the potential for market-signaling challenges when removing a Reserve Bank board member, we encourage the Board to consider assessing the current policy. Specifically, to fulfill the Federal Reserve Act requirements for class A directors, we suggest the Board encourage member banks to consider having retired bank executives serve as class A directors more frequently to mitigate the potential for conflict of interest appearance issues.³⁴ Further, we encourage the Board to consider whether standards for service and removal can be established for class A directors currently employed by supervised institutions that appropriately balance all competing interests, including avoiding signaling to the public a bank's declining condition.

³⁴ According to Section 4 of the Federal Reserve Act, member banks in the District elect class A directors to represent those banks. The nine-member board of directors includes three class A directors.



Appendix A: Scope and Methodology

To accomplish our objectives, we reviewed the Board's and FRB San Francisco's supervision of SVB and SVBFG from January 2018 until its failure in March 2023. We reviewed the System's CBEM and relevant supervisory guidance. We also reviewed relevant documentation from FRB San Francisco, the CDFPI, Board S&R, and the Board's Legal Division. We reviewed supervisory documentation related to SVB and SVBFG, including enforcement actions, MRAs, MRAs, examination reports and associated examination workpapers, inspection reports and associated inspection workpapers, surveillance reports, correspondence, and relevant FDIC documents. In addition, we obtained and reviewed publicly available information for SVB, including local market data.

To gather perspectives on the supervision of SVB, we conducted interviews with 25 Board and FRB San Francisco officials and staff, including the following:

- current and former senior Board officials
- S&R officials and staff responsible for overseeing the supervision of RBOs and LFBOs
- current and former FRB San Francisco officials and staff involved in the supervision of SVB

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. We conducted our evaluation from March 2023 through August 2023.

Appendix B: Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

September 14, 2023

Michael VanHuysen
Associate Inspector General for Audits and Evaluations
Office of Inspector General
Board of Governors of The Federal Reserve System
Washington, DC 20551

Dear Mr. VanHuysen,

Thank you for the opportunity to comment on your draft report, *Material Loss Review of Silicon Valley Bank*. We appreciate the effort that the Office of Inspector General (OIG) put into this report and the recommendations provided to improve supervisory processes related to Regional Banking Organization (RBO) and Large and Foreign Banking Organization (LFBO) supervision and transitioning banks from the RBO to the LFBO portfolio.

The report is clear that SVB management did not implement the controls needed for a firm of increasing size and complexity, and that SVB leadership failed to demonstrate effective corporate governance and risk management practices. We agree with these facts and the role they played in the failure of the bank. Your review also found that our supervision did not evolve commensurately with the growth and increasing complexity of SVB; that the transition of SVB from the RBO portfolio to the LFBO portfolio was ineffective; and that LFBO examiners did not sufficiently scrutinize the risks from rising interest rates on SVB's HTM investment securities portfolio. We agree with these findings, which reinforce the results of the internal *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank*, conducted by Vice Chair for Supervision Barr. In response to the findings of that review, we are already considering necessary changes to our supervisory programs, and aspects of these efforts are reflected in our responses to your recommendations. Among the changes are improving the speed, force, and agility of supervision; ensuring that our supervision intensifies at an appropriate pace as a firm grows or becomes more complex; and being attentive to the particular risks posed by firms that exhibit rapid growth, concentrated business models, or other special factors, regardless of the firms' size.

Please see our responses below to the recommendations.

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Finding 1: The RBO Supervisory Approach for SVB Did Not Evolve With the Institution's Risk Profile

Recommendation 1: Assess the current RBO supervision framework and determine whether adjustments should be made based on a supervised institution's size and complexity, such as unique or concentrated business models or rapid growth. Based on the determination, develop and implement training for RBO Supervision staff that emphasizes the need for varying approaches based on an institution's size, complexity, and business model.

Management Response: We concur with the recommendation. To address all the recommendations under this finding, the Federal Reserve is completing a comprehensive review of the RBO supervisory program. The goal of the project is to ensure the program and its execution appropriately reflect risk, size, complexity, growth, and business model, with increased supervisory activity for RBOs consistent with these characteristics. While specific improvements are currently being identified, we expect they will increase the depth of supervision for a segment of RBOs in important areas such as capital planning, enterprise risk management, and liquidity resilience. We also plan to incorporate a greater degree of peer perspective into the RBO supervisory framework. Training will be developed as appropriate on the new RBO supervisory approaches. The project work will be completed by December 31, 2024.

Recommendation 2: Assess whether the BETR models are appropriate for RBOs, specifically those that are large or complex or that present unique risk factors such as concentrated business models or rapid growth and determine whether a different approach to determining the scope and resources for examinations is needed.

Management Response: We concur with the recommendation. As noted in our response to recommendation 1, we are assessing the supervisory framework for RBOs to ensure activities are appropriately tailored to the risks of individual firms. This may entail a move away from BETR for some or all RBOs. Where BETR is retained, appropriate controls will be implemented to ensure its usage accounts for unique risk factors including concentrated business models and rapid growth. The project work will be completed by December 31, 2024.

Recommendation 3: Assess the current RBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.

Management Response: We concur with the recommendation. We intend to address this through the project described in response to recommendation 1. The project work will be completed by December 31, 2024.

Finding 2: The Board and FRB San Francisco Did Not Transition SVB From the RBO Portfolio to the LFBO Portfolio Effectively

Recommendation 4: Develop an approach for transitioning institutions from the RBO portfolio to the LFBO portfolio and determine how best to involve LFBO Supervision earlier, such as through joint reviews with RBO Supervision, and how to more timely form a DST. Based on the approach developed, finalize and issue formal guidance on transitioning RBOs to the LFBO portfolio that includes steps and a timeline for forming a DST, approaches for the two Supervision sections to collaborate, and a list of potential RBO and LFBO joint reviews to conduct to better prepare an institution for the transition.

Management Response: We concur with the recommendation. The revisions to the RBO supervisory framework being developed in response to finding 1 will incorporate practices to ensure collaboration between the RBO and LFBO portfolios in preparing institutions for crossing the \$100 billion asset threshold, potentially including coordinated cross-portfolio reviews. As noted above, the RBO project work will be completed by December 31, 2024.

In addition, we will develop guidance that will establish timeliness expectations for establishing a CPC and supervisory team and expectations for information sharing and outreach. We will also provide examiner training on this guidance as appropriate. We will issue the guidance by December 31, 2024.

Finding 3: Examiners Should Have Scrutinized the Risks From Interest Rate Changes

Recommendation 5: Reiterate to examination teams the purpose of the Risk and Surveillance Sections' reports and the need to closely reflect on their contents to help inform their ongoing supervisory activities.

Management Response: We concur with the recommendation. We will improve communication of surveillance results and analyses to all supervised portfolios, specifically for firms included on high-risk surveillance lists. This will include working with each portfolio to enhance existing portfolio-specific, repeatable processes for timely discussion and integration of surveillance analytics into examination planning, risk monitoring, and rating vettings. This will be completed by December 31, 2024.

Recommendation 6: Assess the current LFBO supervisory planning process and implement measures to tailor supervisory plans to better promote a timely focus on salient risks.

Management Response: We concur with the need to re-assess the LFBO supervisory planning process to ensure that risks are being supervised according to the risk profile of each LFBO. By year-end, LFBO leadership will undertake discussions with the LFBO Management Group and the DSTs for each high-risk firm identified through collaboration with the Risk and Surveillance Sections. These discussions will focus on proposed supervisory activities for the coming year and whether the activities address known and emerging risks at these firms. Financial risks as well as risk management will be considered in the supervisory planning process. Communication to LFBO supervision staff on how to balance known risks, emerging risks, and financial risks will be developed in time for the 2024 supervisory planning cycle as part of the annual supervisory planning process and will incorporate improvements and learnings from

the discussions conducted this year. This project will be completed by December 31, 2024.

Recommendation 7: Develop guidance for LFBO Supervision staff that outlines the importance of a balanced approach to supervising institutions and requires a focus on assessing both forward-looking risks and relevant financial indicators.

Management Response: We concur with the recommendation. In addition to the projects described in the response to recommendation 6, we plan to provide formal direction to DSTs regarding the ratings assessment and examination findings processes as a result of the projects described in the response to recommendation 6. These projects will be completed by December 31, 2024.

We appreciate the effort that went into this report and the guidance it provides as we continue to evolve and strengthen our RBO and LFBO supervision programs.

Regards,



Michael S. Gibson
Director, Division of Supervision and Regulation
Board of Governors of the Federal Reserve System



Abbreviations

AFS	available-for-sale
BETR	Bank Exams Tailored to Risk
BSA/AML	Bank Secrecy Act/Anti–Money Laundering
CBEM	<i>Commercial Bank Examination Manual</i>
CBO	community banking organization
CDFPI	California Department of Financial Protection and Innovation
CEO	chief executive officer
CPC	central point of contact
DIF	Deposit Insurance Fund
DST	dedicated supervisory team
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
EPS	enhanced prudential standards
FDIC	Federal Deposit Insurance Corporation
FRB San Francisco	Federal Reserve Bank of San Francisco
HTM	held to maturity
IRR	interest rate risk
IT	information technology
LFBO	large and foreign banking organization
LFBO MG	LFBO Management Group
MOU	memorandum of understanding
MRA	Matter Requiring Attention
MRIA	Matter Requiring Immediate Attention
OFAC	Office of Foreign Assets Control
RBO	regional banking organization
RBS	Regional Bank Supervision
S&R	Division of Supervision and Regulation
SR Letter	Supervision and Regulation Letter
SVB	Silicon Valley Bank
SVBFG	Silicon Valley Bank Financial Group

Report Contributors

Chie Hogenmiller, Project Lead and Senior Auditor
Safal Bhattarai, Auditor
Carissa Haynes, Auditor
Taylor Winzenburg, Auditor
Jennifer Ksanznak, OIG Manager, Supervision and Regulation
Laura Shakarji, Senior OIG Manager for Supervision and Regulation
Cynthia Gray, Deputy Associate Inspector General for Audits and Evaluations
Michael VanHuysen, Associate Inspector General for Audits and Evaluations

Contact Information

General

Office of Inspector General
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Center I-2322
Washington, DC 20551

Phone: 202-973-5000
Fax: 202-973-5044

Media and Congressional

OIG.Media@frb.gov



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OIG Hotline by mail,
web form, phone, or fax.

OIG Hotline
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Center I-2322
Washington, DC 20551

Phone: 800-827-3340
Fax: 202-973-5044