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FDIC Chair Speaks on Resolution of Large Regional Banks

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On Monday, Federal Deposit Insurance Corporation ("FDIC") Chair Martin Gruenberg gave remarks to the Brookings Institution on "The Resolution of Large Regional Banks." Chair Gruenberg did not say "I told you so" in his prepared remarks, but Brookings basically did it for him. The Brookings Institution's description of Chair Gruenberg's remarks note his 2019 speech to the Brookings Institution when he was a member of the FDIC Board "warning about the underappreciated resolution challenges and financial stability risks that would emerge upon the failure of a large regional bank … [calling for] require[ing] loss absorbing debt at these types of banks and urged stronger resolution planning requirements." Brooking went on to say that "[h]is words proved prophetic this March when Silicon Valley Bank and Signature Bank failed, resulting in regulators exercising systemic risk authority to protect uninsured deposits."

Now in 2023, Chair Gruenberg called again for rulemaking to improve that ability to resolve larger regional banks without the expectation of invoking the systemic risk exception, as occurred this spring. He stated that he believes that changes are needed in four main areas to improve the resolvability of large regional banks: (1) capital regulation; (2) resolution planning requirements, including long-term debt; (3) bank supervision; and (4) deposit insurance pricing.

With regard to capital regulation, Chair Gruenberg noted the July 27 proposal to implement the Basel III Endgame capital rules included an important provision that would address the three bank failures this spring – recognition of unrealized losses on available for sale securities for all banks larger than $100 billion in assets. On long-term debt, Chair Gruenberg stated that "the banking agencies will in the near future propose a long-term debt requirement for banks with $100 billion or more in assets." He also noted that the FDIC "will soon propose changes to the IDI plan requirements that would make them significantly more effective." Chair Gruenberg stated that while SVB and First Republic Bank had filed IDI plans, one of the lessons learned from those failures was that "far more robust plans would have been helpful in dealing with the failure of these institutions." Chair Gruenberg then noted that bank supervision and deposit-insurance pricing are areas that the FDIC will be focusing on to address the risks of uninsured deposits and the contagion risk that became very apparent this spring.

In concluding his remarks, Chair Gruenberg stated, with regard to the lessons learned this spring (and perhaps the closest he came to actually saying "I told you so"), "[t]hese are perhaps lessons we should have learned from the 2008 financial crisis. The events of earlier this year provide us with another opportunity. This time I don't think we'll miss."
