ATTN: Journalists, Academics, Federal Officials, And Members Of The Public
IN RE: Federal Reserve Report On Failure Of Silicon Valley Bank
FROM: Revolving Door Project
DATE: April 26, 2023

The Federal Reserve's official response to the collapse of Silicon Valley Bank (SVB) in March will be a forthcoming report on its regulation and supervision failures. The report is being led by Vice Chair for Supervision Michael Barr, who directs the Fed's regulation and supervision work. Barr was given this task by Federal Reserve Chair Jerome Powell, who supported the deregulatory S.2155 in 2018, and other rollbacks under Barr's predecessor, Randal Quarles.

In summary, the Fed's response to its own failures is for **the man in charge of the failures to *investigate himself***. He is doing so **under orders from the man, *himself implicated* in *what* went wrong, who heads the notoriously insular institution *where* things went wrong**. This should raise eyebrows from the start.

The joke goes that if you want everyone in Washington to forget about something, you write an official report about it. This is true at any institution, but given the multiple ethics scandals at the Powell Fed,[1] and the Fed's decades-long obsession with controlling its public perception,[2] it would be foolish to take the forthcoming Barr report purely at face value. **The public deserves a genuinely independent investigation of the Fed's failures to regulate and supervise SVB.**

Barr's report will need to not only address what went wrong in the Fed's bank regulation and supervision work, but also explain **why the public should consider the report itself credible.** The remainder of this memo includes specific questions which we believe the Barr report must address to be considered credible. Broadly, these questions cover the following themes:

- **Fed Chair Jerome Powell.** What did he know about the brewing crisis at Silicon Valley Bank, what did he *seek* to know, and when did he know it? The Fed is highly hierarchical: it follows the lead of the chair, so the tone set by Powell is a vital issue.

[1] Revolving Door Project, "Letter Calls On Senators to Grill Powell on Ethics Failures," 1/10/22, https://therevolvingdoorproject.org/letter-calls-on-senators-to-grill-powell-on-fed-ethics-failures/
[2] Max Moran, "The Little-Known Power Brokers At The Federal Reserve," *The American Prospect*, 10/12/21, https://prospect.org/economy/little-known-power-brokers-at-the-federal-reserve/

- **Vice Chair Michael Barr.** Barr was confirmed six months after his predecessor, Randal Quarles, resigned, and about 10 months before Silicon Valley Bank collapsed. When he took office, did he actually work to end Quarles' light-touch, deregulatory approach? Did he send a clear message within the institution, as former Fed Gov. Dan Tarullo did after botched Fed policy helped fuel the 2008 crisis?[3]

- **Kneecapping The Fed's Own Supervision Staff.** Under Powell and Quarles, the Fed tied the hands of its own bank supervisors with "10,000 more steps"[4] for forcing changes on risk-heavy banks. Does the report document how Fed leaders made it harder for their own staff to do their job? If so, does it name which leaders in particular were responsible?

- **Congressional Mandates vs. Fed-Driven Changes.** While implementing a 2018 deregulatory law, the Fed eased oversight of banks beyond what Congress required. What does the report attribute to congressional mandates, and what does the report acknowledge the Fed could have done differently on its own?

- **Slow-Walking Discretionary Oversight.** Defenders of S.2155 have repeatedly stressed that the law permitted the Fed to re-apply more stringent supervision to banks in the $100-$250 billion range. In 2018, former Fed governor Sarah Bloom Raskin called this "legislative fool's gold,"[5] arguing the Fed would move too slowly to make use of this authority. But Powell explicitly promised it would.[6] When, if ever, did the Fed consider using this authority? If it never did, what did Powell give as the reason for that failure?

- **Lessons Learned And Policies Changed.** Does the Fed conclude that S.2155 should be modified or repealed? Does the Fed need structural changes around regulation and supervision in response to this crisis? What are Powell and Barr's personal views on these points?

The remainder of this memo includes more specific questions to consider while reading the report, broken down into several categories:

- **On The Structure Of The Report Itself**
- **On The Fed's Actions Before SVB Collapsed**
- **On The Fed's Actions After SVB Collapsed**

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[3] Craig Torres and Cheyenne Hopkins, "Daniel Tarullo, A Fed Regulator Who Actually Regulates," Bloomberg, 3/22/12 https://www.bloomberg.com/news/articles/2012-03-22/daniel-tarullo-a-fed-regulator-who-actually-regulates?sref=6OyUvLUJ
[4] Andrew Ackerman Angel Au-Yeung and Hannah Miao, "How Bank Oversight Failed: The Economy Changed, Regulators Didn't", *The Wall Street Journal*, 3/24/23, https://www.wsj.com/articles/how-bank-oversight-failed-the-economy-changed-regulators-didnt-7dbb842d
[5] Governor Sarah Bloom Raskin, Letter To Senator Sherrod Brown, Accessed via Senator Sherrod Brown website, 2/26/18, https://www.brown.senate.gov/download/bloom-raskin-letter-to-sen-brown
[6] Americans for Financial Reform, "Fact Sheet: Powell Owns This Crisis", 4/26/23, https://ourfinancialsecurity.org/2023/04/fact-sheet-powell-owns-this-crisis/

ON THE STRUCTURE OF THE REPORT ITSELF

1) This report has been assembled by Vice Chair for Supervision Michael Barr. Yet, as the top coordinator of bank regulation and supervision at the Fed, he is deeply implicated in the Fed's failures to prevent the collapse of SVB.
    a) How many reports of supervisory staff's concern about interest rate risks to regional banks made it to Barr's desk? What responses did Barr order, if any?
    b) How many reports of supervisory staff's concerns about SVB made it to Barr's desk? What responses did Barr order, if any?
    c) If the Vice Chair of Supervision could or should have been more responsive to risks to regional bank stability from interest rate hikes, why did he not recuse himself from this review?
    d) Were any ethics officials consulted about the propriety of Barr conducting a review of, in part, his own inaction?

2) This report concerns regulatory failures which occurred under Federal Reserve Chair Jerome Powell. Many of these failures relate to a deregulatory bill, S.2155 from 2018, which Powell endorsed at the time of its passage. And yet, this report's authors answers directly to Powell, and the report is being released with Powell's personal approval.
    a) Has Powell had any influence over the content of this report, including but not limited to: editorial input and/or final edit authority, controlling access to documents or witnesses, determination of scope and framework of the report prior to Barr's investigation and writing?
    b) Does this report address what Powell knew about the brewing crisis at SVB, when he knew it, whether he sought out additional information on the topic, and whether he ordered Fed officials to take action on the crisis?
    c) Powell, a former private equity executive, said that the Fed had been "tough enough" on banks it supervises before he was even confirmed in January 2018.[7] Is this still Powell's view? If not, when did his views change, and why?
    d) Were any ethics officials consulted about the propriety of Powell overseeing a review of, in part, his own inaction?

3) This report presumably entails a review of documents, interviews with witnesses, and other investigative documentation of the Fed's actions ahead of SVB's collapse. It may shape legislative action, internal changes in Fed procedure, and public perception of the central bank. Yet it is being written, edited, and released by the institution itself.
    a) Will the Fed release the underlying documents discussed in the report, including confidential supervisory information? Barr already discussed confidential information at a congressional hearing.

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[7] Heather Long, "Trump's Fed Chair Nominee Says Wall Street Regulations Are 'Tough Enough'," *The Washington Post*, 11/28/17, https://www.washingtonpost.com/news/wonk/wp/2017/11/28/trumps-fed-chair-nominee-says-wall-street-regulations-are-tough-enough/

b) Did the report authors interview former or current Fed governors for this probe? If so, will the Fed release transcripts of these interviews? Did these governors have authority to edit or withhold aspects of their interviews from publication?
c) Did the report authors interview Powell and Barr? If so, will the Fed release transcripts of those interviews? Did Powell or Barr have authority to edit or withhold aspects of their interviews from publication?
d) Did the report authors ensure that no Fed official would suffer retribution for blowing the whistle on a colleague?

ON THE FED'S ACTIONS BEFORE SVB COLLAPSED

4) The 2010 Dodd-Frank Act charged the Fed with a much larger and more direct role in bank supervision and regulation than it previously held.
   a) What portion of the San Francisco Fed leadership's time was taken up by regulatory and supervisory matters?
   b) What influence, if any, did SVB CEO Gregory Becker have as a Director of the San Francisco Fed in setting the San Francisco Fed's regulatory framework, including for SVB itself?[8]
   c) What portion of the San Francisco Fed's staff is dedicated to regulatory and supervisory matters? Is this a comparable level of staffing to California's Department of Financial Protection and Innovation? To other regional Fed banks? What is the proportion of supervisory staff per bank supervised at the San Francisco Fed?
   d) What portion of the Federal Reserve Board of Governors' time is taken up by regulatory and supervisory matters? Do Governors besides Vice Chair Barr involve themselves in regulatory and supervisory matters, or are these matters left exclusively to Barr's judgment?
   e) What portion of the Federal Reserve's staff is dedicated to regulatory and supervisory matters? Is this a comparable level of staffing to other federal bank regulators? What is the proportion of supervisory staff per bank supervised across the Federal Reserve System?

5) *The New York Times* reported in March that in 2021, Fed supervisors issued six citations to SVB for its lack of preparation for a potential crisis scenario.[9] By 2022, SVB had not corrected these issues and was designated deficient for governance and controls.
   a) Why did these supervisory flags not rise past the level of "matter[s] requiring attention" and "matter[s] requiring immediate attention"? Why did the Fed not

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[8] Office of Senator Bernie Sanders, "NEWS: After Silicon Valley Bank Collapse, Sanders Introduces Legislation to Prevent Big Bank Executives from Serving on Federal Reserve Boards," Senator Bernie Sanders Press Office, 3/23/23, https://www.sanders.senate.gov/press-releases/news-after-silicon-valley-bank-collapse-sanders-introduces-legislation-to-prevent-big-bank-executives-from-serving-on-federal-reserve-boards/

[9] Jeanna Smialek, "Before Collapse of Silicon Valley Bank, the Fed Spotted Big Problems," *The New York Times*, 3/19/23, https://www.nytimes.com/2023/03/19/business/economy/fed-silicon-valley-bank.html

mandate shifts in the bank's conduct, instead of merely raising concerns and suggestions?
    b) Is it common for the Fed to flag "matter[s] requiring (immediate) attention" and for banks to not act upon them, and then for the Fed to do nothing in response? How often does the Fed exert its authorities as a regulator to mandate changes to businesses' conduct, instead of merely suggesting or warning about it?

6) The Fed's 2018 "guidance on guidance", which was codified into policy in 2021[10], created "10,000 more steps" for Fed examiners to force changes on banks, according to *The Wall Street Journal.*[11]
    a) Did these extra steps prevent action to force changes at SVB?
    b) Has the Fed undone these changes? If not, why not? What is the proposed timeline for reversing these changes?

7) Interest-rate risk played a crucial role in the collapse of SVB. This is a type of risk which is almost entirely controlled by the Fed itself.
    a) How frequently do supervisory and regulatory staff coordinate with the rest of the Fed, including on preparation for potential interest rate changes? Are supervisory and regulatory staff informed of the probability of interest rate changes, and told to prepare the banks they oversee accordingly?
    b) How much turnover is there in the Fed's regulatory and supervisory staff? When staffers exit this division of the Fed, do they often take positions at banks regulated by the Fed working on matters related to Fed oversight? If so, are these positions typically focused on technical implementation of Fed mandates, or on lobbying and political/regulatory influence, including at the Fed?

ON THE FED'S ACTIONS AFTER SVB COLLAPSED

8) *The New York Times* and *The American Prospect* both reported that Federal Reserve Chair Jerome Powell personally prevented mention of regulatory failures and accountability from appearing in the joint statement by the Fed, Federal Deposit Insurance Corporation, and Treasury Department which announced that SVB and Signature Bank depositors would be fully insured.[12]

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[10] Van Der Weide et al, "Final Rule on the Role of Supervisory Guidance," Board of Governors of the Federal Reserve System, 3/12/21, https://www.federalreserve.gov/newsevents/pressreleases/files/board-memo-20210312.pdf

[11] Andrew Ackerman Angel Au-Yeung and Hannah Miao, "How Bank Oversight Failed: The Economy Changed, Regulators Didn't", *The Wall Street Journal*, 3/24/23, https://www.wsj.com/articles/how-bank-oversight-failed-the-economy-changed-regulators-didnt-7dbb842d

[12] Jim Tankersley Jeanna Smialek and Emily Flitter, "Fed Blocked Mention of Regulatory Flaws in Silicon Valley Bank Rescue," *The New York Times*, 3/16/23, https://www.nytimes.com/2023/03/16/business/fed-regulation-svb.html
David Dayen, "Powell Blocked Mentions of Supervisory Failures From Bank Rescue Statements," *The American Prospect*, 3/16/23, https://prospect.org/economy/2023-03-17-powell-fed-supervisory-failures-banks/

a) Why did Powell prevent these mentions from appearing in the joint statement?
b) Why did he press the White House to have Biden avoid the subject as well?

9) The Fed, FDIC, and Treasury Department ultimately resolved to fully insure SVB and Signature Bank depositors in order to head off any risk of a broader financial crisis. This came after a significant lobbying effort by SVB depositors and other financial sector actors.[13]
    a) With whom did Fed leaders, particularly Powell and Barr, speak in the period between the FDIC taking SVB into receivership and the Fed, Treasury, and FDIC issuing their joint statement? Were any of those people affiliated with the Silicon Valley circles in which Barr has been personally involved?[14]
    b) Did Fed leaders, particularly Powell and Barr, find the argument that SVB's collapse could trigger a broader financial crisis to be credible? Why or why not?

10) In 2018, S.2155 raised the threshold for more extensive macroprudential oversight of banks from $50 billion in assets to $250 billion in assets. The theory was that regulation should be "tailored" to the size of banks, since smaller institutions theoretically cannot trigger a financial crisis. Powell expressed support for this theory three days before SVB, a bank with less than $250 billion in assets, was taken into receivership and triggered tremors across the financial system.[15]
    a) Is it still the view of Chair Powell, and other Fed leaders, that banks below $250 billion should not be subject to more extensive macroprudential regulation? Why or why not?
    b) Is it still the view of Chair Powell, and other Fed leaders, that regulation should be "tailored" to the size of the bank? Why or why not?
    c) Does Chair Powell support Congressional efforts to reverse S.2155's new, higher threshold, and to restore the prior $50 billion threshold for more extensive macroprudential regulation?

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[13] Rappeport et al, "How Washington Decided to Rescue Silicon Valley Bank's Depositors," *The New York Times*, 3/14/23 https://www.nytimes.com/2023/03/14/us/politics/inside-silicon-valley-bank-rescue.html
[14] Timi Iwayemi, "Michael Barr's Fintech Partnerships May Cloud Judgment of SVB Autopsy," Revolving Door Project, 3/15/23, https://therevolvingdoorproject.org/release-michael-barrs-fintech-partnerships-may-cloud-judgment-of-svb-autopsy/
[15] Jon Hill, "Fed's Powell Says Capital Standards Will Be 'Strong,' Tailored," *Law360*, 3/7/23, https://www.law360.com/articles/1583189/fed-s-powell-says-capital-standards-will-be-strong-tailored