

Minutes of the Financial Stability Oversight Council

March 12, 2023

PRESENT:

Janet L. Yellen, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)

Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)

Martin Gruenberg, Chairman, Federal Deposit Insurance Corporation (FDIC)

Gary Gensler, Chair, Securities and Exchange Commission (SEC)

Rostin Behnam, Chairman, Commodity Futures Trading Commission (CFTC)

Rohit Chopra, Director, Consumer Financial Protection Bureau (CFPB)

Michael J. Hsu, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)

Todd M. Harper, Chairman, National Credit Union Administration (NCUA)

James Martin, Acting Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)

Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member)

Adrienne Harris, Superintendent, New York Department of Financial Services (non-voting member)

GUESTS:

Department of the Treasury (Treasury)

Wally Adeyemo, Deputy Secretary of the Treasury

Didem Nisanci, Chief of Staff

Josh Frost, Assistant Secretary for Financial Markets

Graham Steele, Assistant Secretary for Financial Institutions

Sandra Lee, Deputy Assistant Secretary for the Council

Laurie Schaffer, Principal Deputy General Counsel

Eric Froman, Assistant General Counsel (Banking and Finance)

Sean Hoskins, Director of Policy, Office of the Financial Stability Oversight Council

Alyssa O'Connor, Senior Advisor to the General Counsel

Board of Governors of the Federal Reserve System

Michael Barr, Vice Chair for Supervision

Federal Deposit Insurance Corporation

James McGraw, Senior Deputy Director, Division of Complex Institution Supervision and Resolution

Securities and Exchange Commission

Amanda Fischer, Chief of Staff

Commodity Futures Trading Commission
David Gillers, Chief of Staff

Consumer Financial Protection Bureau
Gregg Gelzinis, Advisor to the Director

Federal Housing Finance Agency
Naa Awaa Tagoe, Deputy Director, Division of Housing Mission and Goals

Comptroller of the Currency
Jay Gallagher, Senior Deputy Comptroller for Supervision Risk and Analysis

National Credit Union Administration
Catherine Galicia, Chief of Staff

Federal Reserve Bank of New York
John Williams, President
Richard Crump, Financial Research Advisor, Macrofinance Studies

Office of Financial Research
Sriram Rajan, Associate Director, Research and Analysis Center

New York Department of Financial Services
Karen Lawson, Executive Vice President for Policy and Supervision, Conference of State Bank Supervisors

Maryland Office of the Attorney General, Securities Division
Vincente Martinez, General Counsel, North American Securities Administrators Association

PRESENTERS:

Update on Market Developments

- *Michael Kiley, Deputy Director, Division of Financial Stability, Federal Reserve*
- *Laurie Schaffer, Principal Deputy General Counsel, Treasury*
- *Charles Gray, Deputy General Counsel, Federal Reserve (available for questions)*
- *Ryan Tetrick, Deputy Director, Resolution Readiness, Division of Complex Institution Supervision and Regulation, FDIC (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 7:30 P.M. The Council convened by videoconference. The Chairperson began by outlining the meeting agenda, which had previously been distributed to the members. The agenda for the executive session was an update on developments in the banking sector and recent actions taken by the FDIC, Federal Reserve, and Treasury.

1. Update on Market Developments

The Chairperson noted that she had convened this meeting so that Council members could share information regarding the latest developments in the banking sector and recent actions taken by the FDIC, Federal Reserve, and Treasury. She noted that regulators had convened on the morning of March 10 after the FDIC placed Silicon Valley Bank (SVB) into receivership. She stated that regulators had considered possible options on March 11 and 12 and that Treasury, the Federal Reserve, and the FDIC had issued a joint statement shortly before the Council meeting regarding actions designed to stabilize the financial system and protect depositors. She called on Martin Gruenberg, Chairman of the FDIC, to provide an update on these actions.

Chairman Gruenberg stated that while SVB had experienced difficulties over time, the events that precipitated its failure had developed very quickly, forcing the FDIC to move rapidly to put it into receivership. He said that while the events at SVB alone might not have warranted the government's response, the potential for a contagion effect created a vulnerability. He said that the combination of events at SVB and Signature Bank, which had also failed, had led to the conclusion there was a meaningful contagion effect that had the potential to impact additional institutions and warranted extraordinary intervention. He said that the leadership of the FDIC, Treasury, and Federal Reserve had arrived at this conclusion collectively. He noted that the Treasury Secretary, after receiving unanimous recommendations from the boards of the FDIC and the Federal Reserve, and after consulting with the President, had approved a systemic risk exception, which enabled the FDIC to provide support to both insured and uninsured depositors of SVB and Signature Bank. He said that regulators would continue focusing on these efforts and monitoring the situation during the coming days.

The Chairperson then turned to Jerome Powell, Chair of the Federal Reserve. Chair Powell stated that over 90 percent of deposits at SVB were uninsured, and he noted that similar firms had started to experience runs. He said that the Federal Reserve supported the measures described by Chairman Gruenberg. He stated that the Federal Reserve had publicly announced on March 12 that it would make available additional funding to eligible depository institutions, through the Federal Reserve's Bank Term Funding Program (BTFP).

Chair Powell then turned to Michael Kiley, Deputy Director of the Division of Financial Stability at the Federal Reserve. Mr. Kiley described the BTFP in more detail. He said that the BTFP complements the systemic risk exception, which had been recommended by the boards of the Federal Reserve and FDIC and approved by the Treasury Secretary, that enabled the FDIC to complete its resolution of SVB and Signature Bank in a manner that fully protected all depositors, insured and uninsured. He said that the BTFP had been approved by the Federal Reserve and the Treasury Secretary, and he noted it would further relieve the pressure that banks may experience if a bank run dynamic begins to develop, by limiting the incentive for deposit withdrawals.

Mr. Kiley said that the BTFP expands the backstop liquidity available to eligible depository institutions through the Federal Reserve's discount window. He said the BTFP would provide funding to banks that pledge U.S. Treasury securities and other high-quality securities, including agency securities and agency mortgage-backed securities. He said that loans could be made up

to the par value of the securities pledged as collateral rather than their market value. He said the BTFP would expand available liquidity in cases where increases in interest rates have caused the market values of securities to decline. He said that Treasury had provided \$25 billion to support the facility. He said that the BTFP would make loans for a maturity of up to one year, longer than the standard Federal Reserve discount window terms.

The Chairperson then introduced Laurie Schaffer, Principal Deputy General Counsel at Treasury, for the next update. Ms. Schaffer described actions that Treasury had taken in connection with the actions described above. She said that the Treasury Secretary had approved the systemic risk exceptions for SVB and Signature Bank after determining that least-cost resolution of the two institutions would have serious adverse effects on economic conditions or financial stability. She said that, pursuant to statute, the Chairperson would notify Congress of this determination. She said that the Chairperson also consented to the creation of the BTFP.

The Chairperson stated that it would be essential for Council members to maintain open lines of communication. She asked that staff from all member agencies closely monitor developments in financial institutions and markets and confer on an as-needed basis.

Members of the Council then asked questions and had a discussion about events related to SVB and Signature Bank, including member agencies' ongoing efforts to monitor market stability and potential contagion effects, and to protect against market misconduct; actions taken by depositors at SVB, Signature Bank and other regional banks; efforts by member agencies to monitor the impact on smaller banks, credit unions, and the Federal Home Loan Banks; and the potential need for an assessment of the regulatory structure to mitigate risks to the financial system.

The Chairperson adjourned the meeting at approximately 7:57 P.M.