Silicon Valley Bank

European regulators criticise US ‘incompetence’ over Silicon Valley Bank collapse

Critics label handling of Californian lender’s failure a ‘disaster’ and claim Washington is failing to adhere to global rules

A European regulator called the US claim that Silicon Valley Bank’s failure will not impact taxpayers a ‘joke’ © Dado Ruvic/Reuters

Laura Noonan in London 7 HOURS AGO

Europe’s financial regulators are furious at the handling of the Silicon Valley Bank collapse, privately accusing US authorities of tearing up a rule book for failed banks that they had helped to write.

While the disapproval has yet to be conveyed in a formal setting, some of the region’s top policymakers are seething over the decision to cover all depositors at SVB, fearing it will undermine a globally agreed regime.

One senior eurozone official described their shock at the “total and utter incompetence” of US authorities, particularly after a decade and a half of “long and boring meetings” with Americans advocating an end to bailouts.

Europe’s supervisors are particularly irate at the US decision to break with its own standard of guaranteeing only the first $250,000 of deposits by invoking a “systemic risk exception” — despite claiming the California-based lender was too small to face rules aimed at preventing a rerun of the 2008 global financial crisis.

“This is the US version of the small Venetian banks,” said one French policy expert, referring to the US’s criticism of Europe’s handling of the Monte dei Paschi debacle. “You are always systemic for somebody.”

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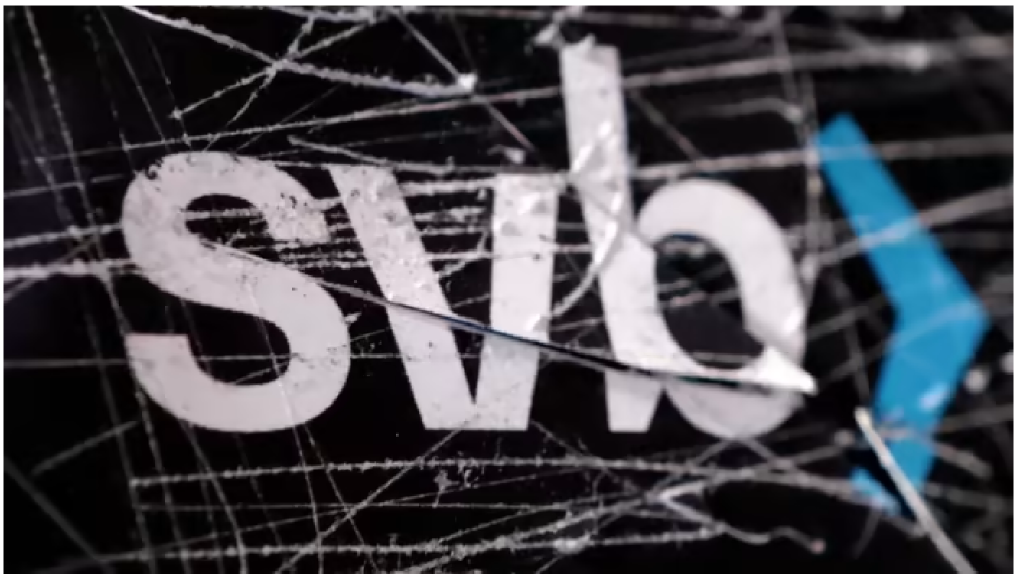

Explore the latest news and analysis on the fallout from the failure of Silicon Valley Bank, the lender to start-ups which became the second-largest bank collapse in US history

“From a financial stability perspective, they really killed a fly with a sledgehammer,” said Nicolas Véron, a regulation expert at the Washington think-tank the Peterson Institute. Designating SVB as systemic was, Véron added, a “very questionable” decision that set a dangerous precedent for further bailouts of uninsured deposits.

A former senior UK policymaker who helped negotiate global standards for bank resolution described the SVB handling as a “disaster”.

The 2008 crisis triggered a sea change in how to handle the collapse of banks, with policymakers meeting often at the Basel-based headquarters of the Bank for International Settlements to create regimes designed to minimise the wider fallout from failures.

Central to those regimes was imposing losses on owners, bondholders and other unsecured creditors, including depositors with funds exceeding their country’s guarantee limit.

The US was a key proponent of such policies, according to people who took part in talks. However — unlike EU and UK lenders of a similar size — US banks with balance sheets below $250bn, including SVB, are deemed too small to have to comply with global standards on capital, liquidity and resolution.

While the Federal Reserve is now considering tougher rules for midsized lenders, in 2019 it and the Federal Deposit Insurance Corporation were behind the relaxation of resolution regimes for banks with assets ranging from $50bn to $250bn.

The Systemic Risk Council, a body of former senior regulators, warned the Fed’s chair Jay Powell and the former head of the FDIC Jelena McWilliams against the move, saying it was “unclear that all of the affected banking businesses could be resolved in an orderly way”.

“If ever a large regional bank failed, that uncertainty creates the possibility of the authorities resorting to a taxpayer bailout in order to contain disruption to the regional and national economy and losses to the Deposit Insurance Fund,” the letter, authored by then SRC chair and former Bank of England deputy governor Paul Tucker, stressed.

The US has claimed SVB’s failure will not hit taxpayers because other banks will cover the cost of bailing out uninsured depositors — over and above what can be recouped from the lender’s assets.

However, a European regulator said that claim was a “joke”, as US banks were likely to pass the cost on to their customers. “At the end of the day, this is a bailout paid for by the ordinary people and it’s a bailout of the rich venture capitalists which is really wrong,” he said.

Despite the lack of formal disapproval, Europeans’ fury is being felt on the other side of the Atlantic.

“The risk to global financial regulatory co-operation is that this episode reinforces lingering suspicions that when times get tough the US won’t adhere to globally agreed reforms,” said Matt Swinehart, a former US treasury official and managing director at Rock Creek Global Advisors, a consultancy in Washington.

Others, however, are more understanding of Washington’s approach, arguing that not fully bailing out depositors would have risked broader peril.

“If unsecured depositors are not protected it can be the overall confidence that is eroded and you can easily be creating contagion to other banks,” said a resolution head at a eurozone regulator. “This case seems to be the perfect proof of this.”

Additional reporting by Brooke Masters in New York, and James Politi and Colby Smith in Washington