



FDIC Signature Bank Report Summary

Background: On April 28, 2023, the Federal Deposit Insurance Corporation (FDIC) issued its report examining the failure of Signature Bank, a state-chartered bank that was not a member of the Federal Reserve System. The FDIC was the appropriate Federal banking agency for Signature Bank.

Report Themes: Overall, the FDIC report concluded that Signature Bank's board of directors and senior management was primarily responsible for the bank's failure because of poor management and attention to risks.

The FDIC identified three main causes of Signature Bank's failure:

- The **primary cause** of failure was illiquidity in the face of a bank run.
- The **root cause** of failure was Signature Bank's poor management.
- Failures in FDIC, due largely to staffing shortages, were **a contributing factor**.

The FDIC report identified the following Signature Bank management deficiencies:

- Signature Bank management did not prioritize good corporate governance practices, did not always heed FDIC examiner concerns, and was not always timely or responsive in addressing supervisory recommendations.
- Signature Bank management failed to pay appropriate attention to risk management while pursuing rapid growth through an overreliance on uninsured deposits.
- Signature Bank management failed to appreciate the risk of association and reliance on digital assets industry deposits.

The FDIC report identified the following problems with the FDIC's supervision of Signature Bank:

- Despite downgrading in 2017 Signature Bank's Liquidity component to a 3-Fair rating, a less than satisfactory rating, Signature Bank was repeatedly assigned a composite rating of 2-Satisfactory until 2023. The report concluded that it would have been prudent to downgrade the firm's Management component rating to 3-Fair.
- The FDIC's communication of examination results to Signature Bank was often not timely.
 - Of 36 targeted reviews for which Supervisory Letters were issued, 24 took 100 or more days to issue the letter after discussion with Signature Bank management (these letters should generally be issued within 50-60 days).

- These failures were largely blamed on staffing shortages at the New York regional office, which were known and highlighted internally as a concern within the FDIC.
 - Since 2020, an average of 40% of the large financial institution supervision positions in the FDIC's New York regional office were vacant.
 - While resource shortages were a significant factor in the FDIC's supervision, FDIC management is ultimately responsible for prioritizing and risk-focusing the use of resources.

The FDIC report noted that the speed of deposit withdrawals from Signature Bank was unexpected and surprised regulators and the bank.

- The report suggests Signature Bank should have been more measured in its growth (the report details the rapid growth of digital assets related deposits).
- The report highlights digital asset deposits and cites them for their volatility and flightiness, along with the reputational risk they posed to SBNY.

FDIC Recommendations: The report makes 13 individual recommendations, grouped into three buckets:

- **Guidance:** Consider (i) reinforcing the forward looking supervision philosophy, (ii) enhancing exam guidance when supervising banks overly reliant on uninsured deposits, and (iii) enhancing exam guidance related to liquidity risk management practices.
- **Process:** Consider more prescriptive requirements on response timeliness from both the FDIC and banks, along with additional process considerations for enhancing the usefulness of exams.
- **Resources:** Consider bolstering FDIC staff and improving the retention of regional employees.

In addition, although not a formal recommendation, the report notes that failures of both Signature Bank and Silicon Valley Bank may lead to changes in regulation and supervision and reevaluating liquidity risk management.

Finally, on May 1, 2023, the FDIC published an additional report detailing the roll of deposit insurance and potential new options.