GAO Highlights

Highlights of GAO-25-107023, a report to congressional committees

Why GAO Did This Study

In March 2023, the federal government worked to stabilize the banking sector following the failure of Silicon Valley Bank and Signature Bank. Based on recommendations from FDIC and the Federal Reserve and in consultation with the President, the Treasury Secretary invoked the systemic risk exception in the Federal Deposit Insurance Act. This decision allowed FDIC to protect all deposits, including uninsured deposits, at both failed banks.

The Federal Deposit Insurance Act includes a provision for GAO to review Treasury's decision. This report examines (1) steps taken by FDIC, the Federal Reserve, and Treasury to invoke the systemic risk exception for Silicon Valley Bank and Signature Bank; (2) the likely effects of invoking the exception for these two banks; and (3) potential unintended consequences of the systemic risk exception on the incentives and conduct of insured depository institutions and uninsured depositors and proposals that may help mitigate such effects.

GAO reviewed agency documentation; analyzed financial market and banking data; and reviewed relevant laws, proposed regulatory reforms, proposed legislation, and prior GAO reports. GAO also reviewed 18 academic articles or research studies related to the potential effects of the systemic risk exception. Additionally, GAO interviewed agency staff and four academics (selected for their expertise in financial markets and regulation).

View GAO-25-107023. For more information, contact Michael E. Clements at (202) 512-8678 or clementsm@gao.gov.

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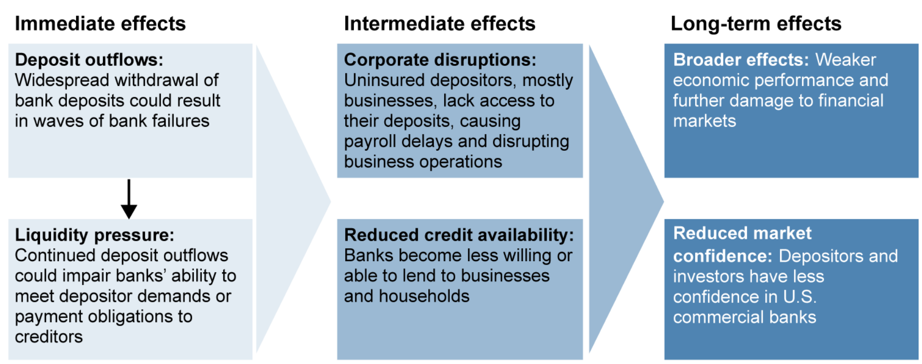
FEDERAL DEPOSIT INSURANCE ACT

Federal Agency Efforts to Identify and Mitigate Systemic Risk from the March 2023 Bank Failures

What GAO Found

Under the systemic risk exception, the Federal Deposit Insurance Corporation (FDIC) can provide certain emergency assistance when resolving a failed bank if, upon the recommendation of FDIC and the Board of Governors of the Federal Reserve System, and in consultation with the President, the Secretary of the Department of the Treasury determines that it would avoid or mitigate serious adverse effects on the economy or financial stability. FDIC and the Federal Reserve established six bases (see figure) to support their recommendations to invoke the exception for Silicon Valley Bank and Signature Bank, which failed in March 2023. The two regulators coordinated to gather information from market participants and corporate firms. They also analyzed financial markets and economic conditions, such as bank liquidity.

FDIC and the Federal Reserve Established Six Bases for Recommending the Systemic Risk Exception in 2023



Source: Federal Deposit Insurance Corporation (FDIC) and the Board of Governors of the Federal Reserve System. | GAO-25-107023

GAO's analysis found that the Treasury Secretary invoked the systemic risk exception for each of the banks after taking into consideration the regulators' recommendations and consultations with the President. The decision was also informed by a review of Treasury staff analysis of public financial filings data and views of external parties, such as asset management firms. The decision allowed FDIC to protect all deposits at the two failed banks, including uninsured deposits.

GAO's analysis of selected financial and economic indicators suggests that FDIC's actions likely helped prevent further financial instability. For example, deposit outflows from commercial banks other than the 25 largest banks slowed in the week after the bank failures and stabilized the following week. How these indicators would have performed without the systemic risk exception is unclear.

Protecting all deposits can create moral hazard by reducing bank and depositor incentives to manage risk, as they may expect future bailouts, according to selected literature. Financial regulatory reforms proposed by regulators and introduced in Congress, including changes to deposit insurance and to capital requirements, may help address these concerns.