Office of Inspector General

Material Loss Review of Signature Bank of New York

October 2023 **EVAL-24-02**

Evaluation Report

Audits, Evaluations, and Cyber

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Office of Inspector General

NOTICE

Pursuant to Pub. L. 117-263, section 5274, non-governmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference. Comments must be submitted to comments@fdicoig.gov within 30 days of the report publication date as reflected on our public website. Any comments will be appended to this report and posted on our public website. We request that submissions be Section 508 compliant and free from any proprietary or otherwise sensitive information.

Federal Deposit Insurance Corporation
Office of Inspector General

Date: October 23, 2023

Memorandum To: Doreen R. Eberley
Director, Division of Risk Management Supervision

/s/

From: Terry L. Gibson
Assistant Inspector General for Audits, Evaluations, and Cyber

Subject **Material Loss Review of Signature Bank of New York |**
Report No. EVAL-24-02

This memorandum transmits Cotton & Company Assurance and Advisory, LLC's (Cotton) Material Loss Review of Signature Bank of New York. Under a contract monitored by this office, we engaged Cotton to perform this Material Loss Review. The contract required that the Material Loss Review be performed in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation.

The objectives of the engagement were to (1) determine why the bank's problems resulted in a material loss to the Deposit Insurance Fund and (2) evaluate the FDIC's supervision of the bank, including the FDIC's implementation of the Prompt Corrective Action (PCA) requirements of section 38 of the Federal Deposit Insurance Act, and make recommendations for preventing any such loss in the future.

In its Material Loss Review, Cotton determined:

- Signature Bank failed due to insufficient liquidity and contingency funding mechanisms and inadequate risk management practices by bank management;
- The FDIC missed opportunities to downgrade Signature Bank's Management component rating and further escalate supervisory concerns;
- The FDIC did not consistently perform supervisory activities in a timely manner and was repeatedly delayed in issuing supervisory products;
- The FDIC appropriately downgraded Signature Bank's Liquidity component rating, but changing market conditions warrant the FDIC's review and potential revision to supervisory guidance; and
- The FDIC found that Signature Bank was well capitalized for PCA purposes.

The report contains six recommendations intended to improve the FDIC's supervision processes and its ability to apply effective forward-looking supervision in a changing banking environment. The FDIC concurred with all of these recommendations and plans to complete corrective actions by March 31, 2024.

Cotton is responsible for the attached report dated October 23, 2023, and the information and conclusions expressed in the report. As a result, with the oversight provided by our office, we relied upon the statements and conclusions derived by Cotton. Cotton performed its work from April through September 2023. This review fulfills a statutory mandate and does not serve any investigatory purposes.

We appreciate the cooperation and courtesies provided to Cotton and our office during the Material Loss Review. If you have any questions, please do not hesitate to contact me at (703) 562-2529.

Executive Summary

Material Loss Review of Signature Bank of New York

Section 38, *Prompt Corrective Action*, of the Federal Deposit Insurance Act requires the Inspector General (IG) of the appropriate federal banking agency to conduct a review and issue a written report when there is a material loss to the Deposit Insurance Fund (DIF) related to an insured depository institution for which the Federal Deposit Insurance Corporation (FDIC) is appointed receiver. On March 12, 2023, the New York State Department of Financial Services (NYSDFS) closed Signature Bank of New York (SBNY) and appointed the FDIC as receiver. On April 28, 2023, the FDIC estimated the loss to the DIF to be approximately $2.4 billion.

The FDIC supervises insured state-chartered banks that are not members of the Federal Reserve System, state-chartered savings associations, and insured state-chartered branches of foreign banks. SBNY was a state-chartered nonmember commercial bank headquartered in New York, New York, with no holding company or affiliates. SBNY was regulated jointly by the FDIC and the NYSDFS.

The FDIC Office of Inspector General (OIG) engaged the professional services firm of Cotton & Company Assurance and Advisory, LLC (Cotton) to conduct this MLR. The objectives of the engagement were to (1) determine why the bank's problems resulted in a material loss to the DIF and (2) evaluate the FDIC's supervision of the bank, including the FDIC's implementation of the Prompt Corrective Action (PCA) requirements of section 38 of the FDI Act, and make recommendations for preventing any such loss in the future.

Results

Causes of Failure and Material Loss to the Deposit Insurance Fund

SBNY's failure was caused by insufficient liquidity and contingency funding mechanisms, which impeded the bank's ability to withstand a run on deposits. In addition, SBNY management prioritized aggressive growth over the implementation of sound risk management practices needed to counterbalance the liquidity risk associated with concentrations in uninsured deposits.

The FDIC's Supervision of SBNY

Leading up to the failure of SBNY, the FDIC, in coordination with the NYSDFS, identified and communicated supervisory findings across a variety of areas with a total of 3 open Matters Requiring Board Attention and 49 open Supervisory Recommendations. These findings pertained to Liquidity, Model Risk Management, Sensitivity to Market Risk, Credit Risk Management, Enterprise Risk Management, the Bank Secrecy Act, Current Expected Credit Loss, Commercial & Industrial Lending, Information Technology, Strategic Planning, and several aspects of corporate governance. Most notably, supervisory concerns and recommendations related to SBNY's liquidity were continuously raised since the 2018 examination cycle. While supervisory ratings had remained stable for several years, the FDIC downgraded SBNY's ratings the day before its failure.

Cotton found that the FDIC:

- Missed multiple opportunities to downgrade SBNY's Management component rating and further escalate supervisory concerns;

- Did not consistently perform supervisory activities in a timely manner and was repeatedly delayed in issuing supervisory products; and

- Appropriately downgraded the SBNY's Liquidity component rating, but changing market conditions warrants the FDIC's review and potential revision to its examination guidance.

With respect to PCA, Cotton determined that the FDIC found that SBNY was well capitalized throughout each examination cycle prior to its failure based on defined capital measures.

Recommendations

This report contains six recommendations intended to improve the FDIC's supervision processes and its ability to apply effective forward-looking supervision in a changing banking environment. Specifically, Cotton recommended training to examination staff on the timely escalation of supervisory concerns, evaluating and improving existing guidance, reassessing the FDIC's examination staffing strategy, and implementing and monitoring metrics for the FDIC's supervision of large banks. Additionally, Cotton recommended that the FDIC reevaluate its guidance with respect to deposit stability and liquidity stress testing.

The FDIC concurred with the six recommendations. The FDIC plans to complete all corrective actions by March 31, 2024.

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Part I

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Report by Cotton & Company Assurance and Advisory, LLC

SUBMITTED TO
FEDERAL DEPOSIT INSURANCE CORPORATION
OFFICE OF INSPECTOR GENERAL

MATERIAL LOSS REVIEW OF SIGNATURE BANK OF NEW YORK

OCTOBER 23, 2023

Cotton
A SIKICH. COMPANY
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October 23, 2023

Terry L. Gibson
Assistant Inspector General for Audits, Evaluations, and Cyber
Office of Inspector General
Federal Deposit Insurance Corporation

Subject: Material Loss Review of Signature Bank of New York

Cotton & Company Assurance and Advisory, LLC (Cotton) is pleased to submit the attached report detailing the results of our material loss review (MLR) of Signature Bank of New York, New York to the Federal Deposit Insurance Corporation's (FDIC's) Office of Inspector General (OIG).

We conducted this MLR in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (commonly referred to as the Blue Book). In addition, we conducted this engagement in accordance with the American Institute of Certified Public Accountants' *Statement on Standards for Consulting Services*.

We performed our work from April through September 2023 at the Cotton office in Alexandria, Virginia and remotely.

Sincerely,

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC

/s/ Steven M. Koons, CPA
Partner

/s/ Jesse J. Carpenter, CPA
Partner

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MATERIAL LOSS REVIEW OF SIGNATURE BANK OF NEW YORK

INTRODUCTION

The following sections present Federal Deposit Insurance (FDI) Act, 12 U.S.C. § 1831o, requirements and our objectives for this material loss review (MLR) of Signature Bank of New York, New York (i.e., "SBNY", "Signature Bank", or "the Bank").

FDI Act Requirements

Section 38, *Prompt Corrective Action*, of the FDI Act requires the Inspector General (IG) of the appropriate federal banking agency to conduct a review and issue a written report when there is a material loss[1] to the Deposit Insurance Fund (DIF) related to an insured depository institution for which the Federal Deposit Insurance Corporation (FDIC) is appointed receiver.

Engagement Objectives

On March 12, 2023, the New York State Department of Financial Services (NYSDFS) revoked SBNY's charter, thereby closing the Bank, and appointed the FDIC as receiver. On April 28, 2023, the FDIC recorded a final estimated loss to the DIF of $2.4 billion. As of December 31, 2022—according to the Bank's most-recent quarterly *Consolidated Reports of Condition and Income* (Call Report)—SBNY reported approximately $110.4 billion in total assets and $88.6 billion in total deposits. Based on size of total assets, the SBNY failure was the third largest bank failure in U.S. history at the time. By the time of this report's issuance, SBNY became the fourth largest failure following the failure of First Republic Bank on May 1, 2023.

The FDIC Office of Inspector General (OIG) engaged Cotton & Company Assurance and Advisory, LLC (i.e., "Cotton", "we", "us", or "our") to conduct the SBNY MLR in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (commonly referred to as the Blue Book). In addition, we conducted this engagement in accordance with the American Institute of Certified Public Accountants' *Statement on Standards for Consulting Services*. The objectives of our engagement were to (1) determine why the Bank's problems resulted in a material loss to the DIF and (2) evaluate the FDIC's supervision of the Bank, including the FDIC's implementation of the Prompt Corrective Action (PCA) requirements of section 38 of the FDI Act, and make recommendations for preventing any such loss in the future.

We conducted this MLR independent from other audits and evaluations of SBNY, but sometimes refer to other audits and evaluations in this report. The information in this report was obtained during the period April through September 2023. In conducting our work and preparing the report, we relied primarily on supervisory records, bank documents, and other information

[1] FDI Act, Section 38(k), *Reviews Required When Deposit Insurance Fund Incurs Losses*, defines the term "material loss" as any estimated loss in excess of "$50,000,000, if the loss occurs on or after January 1, 2014, provided that if the inspector general of a Federal banking agency certifies to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives that the number of projected failures of depository institutions that would require material loss reviews for the following 12 months will be greater than 30 and would hinder the effectiveness of its oversight functions, then the definition of 'material loss' shall be $75,000,000 for a duration of 1 year from the date of the certification." 12 U.S.C. § 1831o(k).

provided by the FDIC's Division of Risk Management Supervision (RMS). This review fulfills a statutory mandate and does not serve any investigatory purposes. Our Objectives, Scope, and Methodology are presented in **Appendix I**. Acronyms and abbreviations are presented in **Appendix II**.

BACKGROUND

This section presents information on the supervision of SBNY and a brief summary of events, the attention SBNY's failure has received, and an overview of the FDIC's supervisory activities, including those pertinent to large banks such as SBNY.

Supervision of SBNY and Brief Summary of Events

The FDIC supervises insured state-chartered banks that are not members of the Federal Reserve System, state-chartered savings associations, and insured state-chartered branches of foreign banks. SBNY was a state-chartered nonmember commercial bank headquartered in New York, New York, with no holding company or affiliates. The Bank was regulated jointly by the FDIC and NYSDFS.

SBNY began operations in 2001 as a *de novo* bank.[2] SBNY was a full-service commercial bank and, as of December 31, 2022, had 40 branches and 136 Private Client Group (PCG) teams, which is how SBNY managed its clients. SBNY was located in the New York metropolitan area as well as California, Connecticut, Nevada, and North Carolina. SBNY's main business lines principally consisted of commercial real estate and commercial & industrial lending, funded through uninsured deposits accumulated from mid-sized commercial companies. As part of its growth strategy, as discussed in more detail below, the Bank expanded its business into the Digital Asset Banking Industry[3].

During 2019, the Bank launched its Signet platform which was a blockchain-based digital payment platform that allowed SBNY's commercial clients to make real-time payments to one another. After launching Signet, the Bank experienced significant growth. Moreover, deposits had increased across the banking industry related to stimulus money for the pandemic of Coronavirus Disease 2019 (COVID-19). During 2020 and 2021, SBNY grew primarily due to deposit growth, with total assets increasing by about $23.3 billion and $44.6 billion, respectively.

As of December 31, 2022, total assets were $110.4 billion, down from $118.4 billion at the end of 2021, primarily as a result of deposit runoff by digital asset-related customers contemporaneous with volatility in the digital asset-related industry. The industry had experienced the collapse of two cryptocurrencies in May 2022 and the failure of digital asset

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[2] In the FDIC's publication *Applying for Deposit Insurance: A Handbook for Organizers of De Novo Institutions* (December 2019), the FDIC defines *de novo* institutions as, "newly established institutions with no existing operations and new institutions that result from the conversion of an operating, non-insured entity."

[3] According to the Financial Industry Regulatory Authority, digital assets cover a wide range of investments. A common characteristic is that entities in the digital asset-related industry use distributed ledger technology (blockchain) to store, record, and validate transactions. There are many types of digital assets, including cryptocurrencies, non-fungible tokens, stablecoins, and security tokens.

exchange company, FTX,[4] and its related hedge fund, Alameda Research, in November 2022. On November 15, SBNY's press release announced that "its deposit relationship with FTX and their related companies is less than 0.1 percent of the Bank's overall deposits as of November 14, 2022". In December 2022, SBNY announced, in light of the then-current events, plans to reduce concentration levels in deposits from the digital asset-related industry.

Widespread Attention on SBNY's Failure

Prior to the issuance of this MLR report, the SBNY failure received much attention in the public domain. Three reports each issued on April 28, 2023, discuss SBNY, its failure, and the supervision of the Bank.

- The U.S. Government Accountability Office (GAO) issued *BANK REGULATION: Preliminary Review of Agency Actions Related to March 2023 Bank Failures*, (GAO-23-106736).[5]
- The FDIC's Chief Risk Officer (CRO) issued *FDIC'S Supervision of Signature Bank*.[6]
- NYSDFS issued *Internal Review of the Supervision and Closure of Signature Bank*.[7]

In addition, the FDIC's New York Regional Director issued a Lessons Learned memorandum dated April 12, 2023, to the New York Regional Office (NYRO) Regional Review Committee, which included recommendations to improve bank supervision in the region.

Matters for further study from the FDIC's CRO and recommendations from the NYSDFS and NYRO are presented in **Appendix III**. The aforementioned GAO product did not make new recommendations to the FDIC.

There also have been multiple congressional hearings related to SBNY's failure, including by the U.S. House of Representatives Financial Services Committee on May 16, 2023, and by the U.S. Senate Banking, Housing and Urban Affairs Committee on May 18, 2023. The House Financial Services Committee also held a hearing with the leadership of recently-failed banks on May 17, 2023, including the co-founder and former Chairman of SBNY.

Overview of the FDIC's Supervisory Activities

Responsibility for supervising and overseeing large state nonmember banks is shared between the FDIC's Regional Offices[8] and its Large Bank Supervision Branch within the Division of Risk Management Supervision (RMS). The FDIC's *RMS Manual of Examination Policies* (the Manual) explains that the FDIC "conducts bank examinations to ensure public confidence in the banking system and to protect the Deposit Insurance Fund" and that Sections 10(b) and (c) of

[4] On August 18, 2022, the FDIC had issued a cease and desist letter to FTX alleging potential violations of the FDI Act stating, "…FTX US is not FDIC-insured, the FDIC does not insure any brokerage accounts, and FDIC insurance does not cover stocks or cryptocurrency." See https://www.fdic.gov/news/press-releases/2022/ftx-harrison-letter.pdf.
[5] See https://www.gao.gov/products/gao-23-106736.
[6] See https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf.
[7] See https://www.dfs.ny.gov/system/files/documents/2023/04/nydfs_internal_review_rpt_signature_bank_20230428.pdf.
[8] The FDIC's Regional Offices are located in Atlanta, Georgia; Chicago, Illinois; Kansas City, Missouri; Dallas, Texas; New York, New York; and San Francisco, California.

the FDI Act "empower examiners to make a thorough examination of a bank's affairs". As part of the examination process, the FDIC rates the institutions it supervises using the Uniform Financial Institutions Rating System (UFIRS). UFIRS contains six component ratings, described in detail below. Those component ratings are referred to by the acronym CAMELS, which is a commonly used term when referring to UFIRS ratings.

CAMELS Ratings

The FDIC is part of the Federal Financial Institutions Examination Council (FFIEC)[9] which has adopted the CAMELS rating system for those insured depository institutions whose primary federal supervisory agency is represented on the FFIEC.[10] Under CAMELS, the supervisory agency, such as the FDIC, assigns each institution an overall composite rating based on the agency's evaluation of six component areas, which also are rated individually.

The component ratings reflect an institution's **C**apital adequacy, **A**sset quality, **M**anagement capabilities, **E**arnings sufficiency, **L**iquidity position, and **S**ensitivity to market risk (and thus are referred to as **CAMELS** ratings). As explained in UFIRS:

> *The composite and component ratings are assigned on a 1 to 5 numerical scale. A 1 indicates the strongest performance and management practices and the lowest degree of supervisory concern. A 5 indicates the weakest performance and management practices and the highest degree of supervisory concern.*

Each component rating is based on a qualitative analysis of certain related factors. A bank's composite rating generally has a close relationship to the individual component ratings. Examiners do not, however, simply assign composite rating by averaging the individual component ratings. In addition, examiners may give more weight to some components than to others, depending on the perceived risk at a given institution. For example, the Manual, Section 4.1, *Management*, explains:

> *A bank's performance with respect to asset quality and diversification, capital adequacy, earnings performance and trends, liquidity and funds management, and sensitivity to fluctuations in market interest rates is, to a very significant extent, a result of decisions made by the bank's directors and officers. Consequently, findings and conclusions in regard to the other five elements of the CAMELS rating system are often major determinants of the management rating*.

Large Bank Supervision and the FDIC's Continuous Examination Process

For most institutions under the FDIC's supervision, such as community banks, full-scope examinations are performed at a point in time. For such institutions, examiners plan the examination, conduct examination procedures, assign CAMELS ratings, and communicate

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[9] FFIEC is a formal interagency body empowered, among other things, to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System, the FDIC, the National Credit Union Administration, the Office of the Comptroller of the Currency (OCC), and the Consumer Financial Protection Bureau (CFPB).

[10] The FDIC's Board approved the updated Uniform Financial Institutions Rating System developed through the FFIEC as a policy statement of the FDIC on December 20, 1996, and it became effective on January 1, 1997.

findings. At the conclusion of this process, a Report of Examination (ROE) is issued to the institution.

Alternatively, for certain institutions that are larger, more complex, or present a higher risk profile—such as SBNY—the FDIC performs full-scope examinations continuously over the course of a year. This is known as the Continuous Examination Process (CEP). For continuous examinations, the planning phase describes the types of supervisory activities to be performed and evaluation of the CAMELS components over the year. The FDIC uses a risk-based approach when producing supervisory plans. The purpose of supervisory planning is to develop an efficient, risk-focused examination strategy that is tailored to the institution's business model, risk profile, and complexity. The CEP includes onsite target reviews of areas that examiners determine necessary to complete a full-scope examination. CEP also includes ongoing monitoring (OGM), conducted quarterly, and assessment of the institution's risks, policies, procedures, and financial condition as well as frequent communication with institution management. The Manual also explains that a dedicated Examiner-In-Charge (EIC) oversees the CEP and may be supported by additional dedicated examination staff and other staff depending on the size, complexity, and risk profile of the institution.

The FDIC issues supervisory letters (SLs) to the institution's board and management after each target review that convey the findings and can include supervisory recommendations (SRs) when appropriate. Other written communications to the institution's management may be issued based on OGM activities or other intervening supervisory events. The ROE is addressed to the institution and aggregates and summarizes findings from examination and other supervisory activities performed throughout the cycle. It also assigns the CAMELS ratings.

Supervisory Actions

The FDIC employs various supervisory actions with respect to an institution under its supervision. SRs are FDIC communications with an institution intended to inform the bank of the FDIC's views about changes needed in its practices, operations, or financial condition. When the institution has more material issues and the FDIC issues recommendations[11] that require the attention of the institution's board of directors and senior management, examiners communicate using Matters Requiring Board Attention (MRBAs), which are considered to be a subset of SRs.[12] MRBA are intended to help the board prioritize efforts to address examiner concerns, identify emerging problems, and correct deficiencies before the bank's condition deteriorates.

In addition, the FDIC can escalate supervisory concerns by using both formal and informal enforcement actions. According to the FDIC's *Formal and Informal Enforcement Actions Manual*:

> *Informal actions should be used when discussions with management or findings and recommendations in the ROE will not, by themselves, accomplish the FDIC's goal of attaining timely corrective action from management. However, informal actions generally*

[11] According to the Manual, "It is FDIC policy to make supervisory recommendations in writing in the ROE, in a transmittal letter, or in other correspondence under official FDIC letterhead. Supervisory recommendations may not be solely verbal, but should be discussed with, and explained to bank management."

[12] Although MRBAs are considered to be a subset of SRs, within this report, we count MRBAs and SRs separately.

are not appropriate when an institution's problems present serious concerns and risks, in which case a formal action should be pursued.

The FDIC's informal actions include Bank Board Resolutions (BBRs) and Memoranda of Understanding (MOUs). BBRs are informal commitments adopted by an institution's board (usually at the FDIC's request) directing the institution's personnel to take corrective action regarding specific deficiencies. When the board's proposed BBR does not effectively address concerns, the FDIC may elect to pursue an MOU, which the *Formal and Informal Enforcement Actions Manual* explains is an informal agreement between the institution and the FDIC and is signed by both parties. The state regulatory agency may also be party to the MOU. In addition, the FDIC may request that an insured depository institution submit a plan to conform to safety and soundness standards under Section 39 of the FDI Act as an informal action.

The FDIC's use of an informal enforcement action does not preclude it from subsequently pursuing formal enforcement action if such formal action is legally required or if the FDIC believes the institution's management is unwilling or unable to take necessary corrective action. Formal enforcement includes such actions as the termination of federal deposit insurance, cease-and-desist orders, and civil monetary penalties.

Large Insured Depository Institution Ratings and Outlooks

For insured depository institutions with total assets of at least $10 billion, such as SBNY, the FDIC separately assigns large insured depository institution (LIDI) Ratings. These ratings reflect (1) the institution's potential risk to the DIF and incorporate assessments of risk of failure assuming stressed conditions (referred to as "Vulnerability to Stress") and (2) FDIC losses assuming failure (referred to as "Loss Severity").[13] Vulnerability to Stress considers both vulnerability to asset stress and vulnerability to funding stress. The FDIC also assigns LIDI Rating Outlooks (i.e. Positive, Stable, or Negative) which are projections of where the LIDI Rating appears likely to be in 12 months based on current information.

[13] Ratings are from "A" through "E", where "A" rated institutions pose a low risk to the DIF under stressed conditions and "E" rated institutions are in troubled condition and pose a pronounced risk of loss to the DIF.

CAUSES OF FAILURE AND MATERIAL LOSS TO THE DEPOSIT INSURANCE FUND

This section details SBNY's insufficient liquidity and contingency funding mechanisms and SBNY management's prioritization of aggressive growth over appropriate risk management practices and the implementation of SRs. Collectively, these issues put the Bank in a position in which it was unable to withstand the run on deposits from the contagion caused by the announced self-liquidation and failure of other large similarly-situated banks. Ultimately these issues resulted in SBNY's failure and a material loss to the DIF.

Insufficient Liquidity and Contingency Funding Mechanisms Impeded the Bank's Ability to withstand a Run on Deposits

The proximate cause of SBNY's failure was contagion from the announced self-liquidation and failure of other large similarly-situated banks, sparking a run on deposits at SBNY on March 10, 2023. SBNY did not have sufficient liquidity and contingency funding mechanisms in place to withstand the velocity and magnitude of the run on deposits.

Disruption in Cryptocurrency Markets

SBNY's deposits included concentrations with cryptocurrency-related customers. The FDIC documented in its unissued, draft 2022 Liquidity Target Review of SBNY:[14]

> *Digital asset deposits were significant drivers of liquidity events on July 19, 2022, and September 2, 2022. Management successfully managed these events by slowing loan originations and revising loan and investment growth down by $3 to $4 billion. Then again in November 2022, the bank faced a potential reputational event driven by the FTX bankruptcy, a crypto exchange client of the bank. Management addressed the issue with a press release to inform the public that the bank holds less than 0.01 percent of FTX's deposits, and they prepared for potential deposit runoff by seeking an additional $10 billion in funding from the Federal Home Loan Bank [FHLB].*

The FDIC's examination documentation shows that because SBNY developed a reputation of having digital asset-related customers, including FTX, there was heightened negative publicity surrounding SBNY, even though SBNY did not hold cryptocurrencies. As the concern spread through mainstream and social media, the outflows of deposits during 2022 persisted. **Table 1** presents SBNY's year-end deposit balances for the past five years, including the decline from 2021 to 2022.

Table 1: SBNY's Year-End Deposit Balances

Historical SBNY Deposits as of December 31 ($s in Millions)					
	2022	2021	2020	2019	2018
Total Deposits	$88,613	106,154	63,323	40,386	36,382

Source: Summary of data for Signature Bank of New York (SBNY) from the *Uniform Bank Performance Report* (UBPR) Schedule, *Balance Sheet $.*

The Bank's stock price also reflected the negative publicity. During January 2022, the stock reached a high of $366 per share, which declined through March 2023 when the stock reached a 1-year low of $103 on Wednesday, March 8, 2023, prior to the significant deposit outflows.

[14] The 2022 Liquidity Target Review was not completed before SBNY failed.

Bank Closures Caused Contagion Effect

Silvergate Bank announced on March 8, 2023, that it would voluntarily wind down operations and liquidate itself. Additionally, the California Department of Financial Protection & Innovation closed Silicon Valley Bank (SVB) and named the FDIC as receiver on Friday, March 10, 2023. Subsequent to the closure of SBNY, an NYSDFS official explained to us that there was a panic created in the banking market. The official said that after the SVB collapse, investors speculated that SBNY would be the next institution to collapse due to similarities between the banks. Like SVB, SBNY had significant concentrations in uninsured deposits. Additionally, the official explained, there was a belief in the market that SBNY was similar to these other banks given assumptions that SBNY was a “crypto bank” even though the Bank’s business model differed from Silvergate Bank and SVB.

SBNY’s Sources of Liquidity

Similar to other institutions, SBNY experienced erosion in its liquidity position during 2022. As of December 31, 2022, the FDIC assessed that SBNY had $10.3 billion in highly-liquid assets and $1.6 billion in marginally-liquid assets, as shown in **Table 2**:[15]

Table 2: SBNY’s Declining Liquidity Position During 2022

Quarterly Liquidity Position ($s in Millions)	12/31/2022	9/30/2022	6/30/2022	3/31/2022	12/31/2021
Assets:					
Highly Liquid Assets[a]	$ 10,324	$ 31,082	$ 34,591	$ 46,609	$ 44,878
Marginally Liquid Assets[b]	1,578	1,680	1,759	1,775	1,650
Illiquid Assets[c]	98,952	82,172	80,063	73,925	72,392
Total Assets (gross of Allowance for Credit Losses (ACL))	$ 110,854	$ 114,934	$ 116,413	$ 122,309	$ 118,920
Liabilities:					
Unstable Funding (Level 1)	$ -	$ -	$ -	$ -	$ -
Unstable Funding (Level 2)[d]	76,703	90,381	91,925	97,794	94,770
Stable Funding[e]	34,150	24,552	24,487	24,514	24,150
Total Liabilities and Capital	$ 110,853	$ 114,933	$ 116,412	$ 122,308	$ 118,920
Liquidity Ratio Analyses (%)	**12/31/2022**	**9/30/2022**	**6/30/2022**	**3/31/2022**	**12/31/2021**
Total Liquid Assets / Total Unstable Funding	15.5	36.2	39.5	49.5	49.1
Highly Liquid Assets / Total Assets (Gross of ACL)	9.3	27.0	29.7	38.1	37.7
Total Liquid Assets / Total Assets (Gross of ACL)	10.7	28.5	31.2	39.6	39.1

Source: The FDIC’s 2022 Quarterly Large Insured Depository Institution (LIDI) Reports for Signature Bank of New York (SBNY).
[a] Includes cash and due from banks; Loans Held-for-Sale; U.S. Treasury, Agencies, and Government-Sponsored Enterprise securities (market value) excluding pledged securities and trading assets.
[b] Includes corporate bonds (market value) and municipal securities, excluding pledged securities.
[c] Includes all other loans and securities (e.g., illiquid and pledged), and other assets.
[d] Includes uninsured deposits (excluding pledged uninsured deposits) and brokered deposits.
[e] Includes core/other deposits not reflected above (including FDIC insured deposits), unsecured long-term debt > 3 years, secured borrowings (including repurchase agreements), total equity capital + ACL, and other liabilities.

SBNY had established secondary liquidity sources with the Federal Reserve Bank of New York (FRBNY), FHLB, and other institutions. As of December 31, 2022, FDIC documentation shows

[15] As demonstrated in **Table 2**, highly-liquid assets decreased significantly in Q4 2022. Illiquid assets increased by more than $16 billion, largely due to loan and securities growth.

that SBNY had pledged loans and securities for $23.5 billion in remaining borrowing capacity at the FRBNY and FHLB. FDIC documentation also shows that SBNY established unsecured and repurchase agreement credit lines of $4.6 billion with other institutions.

Lack of Sufficient Liquidity and Contingency Funding to Meet Deposit Withdrawal

Facing insufficient liquidity, SBNY lacked the contingency funding mechanisms needed to gain access to additional liquidity. On Friday, March 10, 2023, customers withdrew $18.6 billion, comprising 20 percent of SBNY's total deposits. After SBNY depleted its liquid assets, the FHLB subordinated its interest in SBNY collateral in favor of borrowings from the FRBNY Discount Window[16] to cover a $3.4 billion shortfall in SBNY's end-of-day settlement.[17]

Over the weekend, the amount of outgoing wire transfers expected for Monday, March 13, 2023, grew to as much as $7.9 billion. SBNY struggled to identify and pledge assets to raise needed liquidity to meet both outstanding and new deposit withdrawal requests to be able to open in a safe and sound manner on Monday. SBNY's efforts to raise liquidity were hampered by its lack of pre-approved collateral to pledge with the FRBNY given Discount Window collateral eligibility and diligence requirements, which the Bank was unable to satisfy. As such, it was unable to obtain sufficient additional liquidity.

Minutes before NYSDFS revoked SBNY's charter on Sunday, March 12, 2023, the FDIC's best case estimate of SBNY's available liquidity was $3.0 billion (or 4% of deposits). At 5:30 p.m. EDT on Sunday, March 12, 2023, the NYSDFS closed SBNY and appointed the FDIC as receiver.

The NYSDS report, *Internal Review of the Supervision and Closure of Signature Bank*, and the FDIC report, *Supervision of Signature Bank*, explain in further detail SBNY's struggle to identify and pledge collateral to meet deposit outflows.

Bank Management Prioritized Aggressive Growth over Implementation of Adequate Risk Management Practices and Supervisory Recommendations Needed to Counterbalance the Liquidity Risks Associated with Concentrated, Uninsured Deposits

SBNY management adopted a strategy that embraced rapid growth among its various PCGs and expansion of its customer base to include those in the digital asset-related industry without concurrently prioritizing the establishment of internal controls, modeling, or stress testing mechanisms necessary to keep pace with the Bank's rapidly-changing size and complexity. The

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16 The Discount Window refers to Federal Reserve lending to depository institutions to help them manage liquidity risk. Depository institutions have access to discount window credit from their regional Federal Reserve Bank. Discount window loans need to be collateralized to the satisfaction of the lending Reserve Bank.

17 According to the FRBNY, "In a banking transaction, settlement in (sic) the process of recording the debit and credit positions of the parties involved in a transfer of funds; in a financial instrument transaction, settlement includes both the transfer of securities by the seller and the payment by the buyer." See https://www.newyorkfed.org/banking/payment_glossary.html.

FDIC's examination documentation from the 2022 Corporate Governance Target Review, which focused on SBNY's Digital Assets Bank Group PCG,[18] notes:

> *The Board and executive management have adopted a strategic position of rapid growth and expansion into digital asset markets; a strategy that creates greater susceptibly to liquidity, reputation, and regulatory risk as the digital asset markets and any related contagions can impact access to needed capital and funding markets. Recent volatility in the crypto markets and the bank's related stock performance is evidence of the reputation risk Signature Bank is willing to accept to pursue its strategy.*

SBNY's growth strategy yielded a reliance on relationships with large depositors, resulting in concentrations of uninsured deposits and concentrations specific to a small number of large depositors and deposits from digital asset-related customers, as discussed in the subsections that follow.

In a Confidential Problem Memorandum[19] dated March 11, 2023, the day before the Bank's failure, the FDIC's NYRO noted:

> *SBNY's vulnerability to funding stress is high due to declining asset liquidity over the past year, funding concentrations, and elevated off-balance sheet exposure. Over the past week, the bank has been exposed to significant funding volatility and reputation risk. Management's response to these emerging risks has been insufficient and hampered by wholly inadequate management information systems and contingency funding plans. Although management states that it enacted its contingency funding plan in mid-2022, management did not establish sufficient daily cash flow and liquidity metric reporting, develop and test a comprehensive asset pledging and sales plan, or perform adequate stress testing of uninsured deposits. Many of the weak practices can be attributed to management's failure to adequately remediate several longstanding liquidity risk management deficiencies*.

SBNY's Board and management pursued their strategy without ample regard for the requisite risk management practices necessary to protect the Bank and counterbalance the exposures relating to its deposit concentrations that resulted from the Bank's growth. The following subsections detail SBNY's aggressive growth strategy, deposit concentrations, and the insufficient risk management practices that accompanied the Bank's incorrect assumptions about the loyalty of its depositors.

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[18] The FDIC's documentation lists the on-site dates for the 2022 Corporate Governance Target Review as March 26 through May 13, 2022. The FDIC issued the resultant SL on January 23, 2023. SBNY had announced on December 6, 2022, that it was reducing its exposure to the digital assets market.

[19] According to the FDIC's *Case Manager Procedures*, "A problem bank memorandum documents the FDIC's concerns with an institution and the corrective action in place or to be implemented. While an institution assigned a composite rating of "3" is not formally considered a problem financial institution, the potential risk to the deposit insurance fund is such that a problem bank memorandum is required on larger institutions assigned a composite rating of "3" as a means to document our concerns and plans. The problem bank memorandum is also used to effect interim rating changes on the FDIC's systems; therefore, a problem bank memorandum may be required in situations that do not involve problem banks."

Aggressive Growth Strategy

SBNY management adopted a strategy that embraced rapid deposit and loan growth and expansion. This included deposit growth due to expansion among a customer base involved in the digital asset-related industry and from an increase in deposits related to COVID-19 stimulus funding. The growth also included loans related to private equity firms.

For example, as noted above, SBNY expanded its business into the digital asset-related industry. During 2019, the Bank launched its proprietary Signet platform which was a blockchain-based digital payment platform that allowed SBNY's commercial clients to make real-time payments to one another 24 hours per day, 365 days per year. Subsequent to the launch of Signet, the Bank experienced significant growth in its Digital Assets Bank Group PCG, which was responsible for handling SBNY's digital asset-related deposits and clients. The FDIC's examination documentation notes that in the period June 2020 to June 2021, deposits from digital asset-related customers increased by more than 800% to about $15 billion.

Moreover, deposits had increased across the banking industry related to stimulus money for COVID-19. SBNY's significant growth was primarily due to the overall deposit growth of about $23 billion and $43 billion in 2020 and 2021, respectively. Total assets increased by about $23 billion and $45 billion, respectively.

In addition, SBNY had established its Fund Banking Group during 2018, and this division of the Bank experienced significant growth during 2020 and 2021. Substantially all of the Fund Banking Group's portfolio consisted of loans to private equity firms and their general partners. SBNY had noted the Fund Banking Group as being the largest driver of loan growth in 2021, three years in a row, with Fund Banking Group loans totaling about $26 billion as of December 31, 2021.

Deposit Concentrations

As noted, SBNY experienced significant growth leading up to the Bank's failure. That growth was accompanied by a continued concentration of uninsured deposits as well as concentrations specific to a small number of large depositors and deposits from digital asset-related customers.

Concentrations of Uninsured Deposits

SBNY had a longstanding reliance on uninsured deposits. In the years leading up to the Bank's failure, SBNY's liabilities primarily consisted of demand deposits, money market deposits, and other savings deposits. High percentages of the deposits were uninsured—89.2 and 89.7 percent as of December 31 2021 and 2022, respectively. Based on data provided by the FDIC, as of December 31, 2022, Signature Bank ranked first in the proportion of uninsured deposits to total deposits amongst U.S. banks with at least $100 billion in assets. The average proportion for this group at that time was about 44 percent. Uninsured deposits inherently present a higher risk to banks during times of actual or perceived stress because depositors are more likely to withdraw funds because their balance exceeds the FDIC's statutory $250,000 insurance limit.

Table 3 demonstrates the high levels of SBNY's uninsured deposits from the completion of 2019 through 2022:

Table 3: Summary of SBNY's Uninsured Deposits

$s in Millions					
Call Report Date	Estimated Uninsured Deposits[a]	Total Deposits[b]	Uninsured Deposits as a % of Total Deposits	Total Assets[b]	Uninsured Deposits as a % of Total Assets
12/31/2022	$ 79,459	$ 88,613	89.7	$110,364	72.0
9/30/2022	93,561	102,800	91.0	114,469	81.7
6/30/2022	95,172	104,140	91.4	115,967	82.1
3/31/2022	100,669	109,176	92.2	121,847	82.6
12/31/2021	97,642	106,154	92.0	118,445	82.4
9/30/2021	87,443	95,587	91.5	107,851	81.1
6/30/2021	77,647	85,571	90.7	97,210	79.9
3/31/2021	66,045	73,983	89.3	85,382	77.4
12/31/2020	55,897	63,323	88.3	73,888	75.7
9/30/2020	47,207	54,347	86.9	63,760	74.0
6/30/2020	42,566	50,235	84.7	60,350	70.5
3/31/2020	34,857	42,244	82.5	53,075	65.7
12/31/2019	33,292	40,386	82.4	50,621	65.8

Source: Summary and analysis of *Consolidated Reports of Condition and Income* (Call Report) data for Signature Bank of New York (SBNY).
[a] Call Report Schedule RC-O, *Other Data for Deposit Insurance and FICO Assessments*.
[b] Call Report Schedule RC, *Balance Sheet*

<u>Small Number of Large Depositors</u>

The FDIC noted in the SBNY ROE as of December 31, 2021, the concentration of a relatively small number of very large depositors, primarily clients in New York, New Jersey, and California. The ROE stated:

> *In addition to having a high volume of uninsured deposits, there is also a concentration of very large depositors. Approximately 60 clients hold a deposit account balance (sic) that exceed $250 million, which represents approximately 40 percent of total deposits. In addition, there are currently 290 clients with deposit account balances exceeding $50 million for a total of $65 billion which represent 61 percent of total deposits.*

In the industry funding concentration section of the same ROE, the FDIC documented that there were four clients—three of which being in digital asset-related industries—with aggregate balances exceeding two percent of SBNY's total assets each. When combined, the deposits of these four clients represented 14 percent of total assets.

<u>Concentration in Deposits from Digital Asset-Related Customers</u>

As of December 31, 2021, deposits at SBNY related to the digital asset industry totaled about $29 billion. According to FDIC examination documentation, this constituted 22 percent of uninsured deposits and represented 24 percent of total assets. These deposits had grown by $21 billion during 2021, or about 263 percent, resulting in a funding concentration. Digital asset-related depositors included digital asset exchanges, digital custody platforms, mining operations, digital lenders, stable coin issuers, and other related businesses, many of which used SBNY's Signet platform.

As of December 31, 2022, deposits included $17.79 billion from SBNY customers in the digital asset industry. Based on the total asset balance of $110.4 billion as of December 31, 2022, deposits related to the digital asset industry represented about 16 percent of total assets. Although the percentage of SBNY's deposits from digital asset-related customers declined in 2022 amidst disruption in the market and SBNY management's announced plans to reduce that exposure[20], a concentration risk remained.

Insufficient Risk Management Practices and Incorrect Assumptions on the Loyalty of Depositors and "Stickiness" of Deposits

SBNY lacked sufficient risk management practices and incorrectly assumed its deposits were stable. We found that SBNY's strategy documents indicated, for example, that onboarding clients to the Signet platform has "enhanced the user experience" and brought a "stickiness" to deposits. NYSDFS officials told us the majority of SBNY's new deposits during its growth period were large and uninsured, and that SBNY did not have a formal process in place to analyze risk.

Going back to at least the 2018 ROE, the FDIC documented concerns with risks related to uninsured deposits. The FDIC's ROE as of December 31, 2021, noted:

> *Management believes that the deposits base is considerably stable based on the length of time of relationships, the volume of client accounts, and the various types of products that clients utilize at the Bank. However, management's assumptions are not well documented and have not been substantiated. As such, improved liquidity stress testing and contingency funding planning is needed to provide sufficient identification, measurement, monitoring, and control of the uninsured deposits concentration*.

SBNY assumptions around the stability of its deposits continued up to the point NYSDFS revoked the Bank's charter. FDIC officials met with SBNY's Board on Saturday, March 11, 2023, when the Board blamed the FHLB for the Bank's liquidity situation. The FDIC's meeting minutes documented that FDIC officials told the Bank's Board that the FDIC disagreed and that SBNY management had not taken seriously the conversations and SLs identifying the Bank's concentration in uninsured deposits and the supervisory findings around liquidity risk management. Both FDIC and NYSDFS officials independently informed us that, in the days leading up to the Bank's failure, it was difficult to obtain accurate liquidity information from the Bank and that they found the Bank's assumptions were not realistic. The events of March 2023 proved assumptions around the "stickiness" of deposits ultimately were unfounded.

SBNY's risk management processes were not commensurate with the liquidity, funding, and reputational risks that accompanied the Bank's growth. This is demonstrated by SBNY having one MRBA (related to liquidity contingency planning) and 11 liquidity SRs from the 2019 examination cycle still open at the time of SBNY's failure. Examiners had warned SBNY's Board and management that liquidity risk management required improvement years prior to the Bank's demise.

In a July 6, 2020, Liquidity SL, an outcome of the 2019 examination cycle, the FDIC and NYSDFS downgraded SBNY's CAMELS Liquidity component rating to a "3", concluding:

[20] SBNY had announced on December 6, 2022, that it was reducing its exposure to the digital assets market.

> *Funds management practices need improvement. Current practices are not commensurate with the institution's complexity, risk profile, and scope of operations due to weaknesses with liquidity contingency planning, liquidity stress testing (LST), and internal controls. While the Board and management adequately monitor the daily liquidity position of the bank, identified weaknesses prevent the bank from appropriately understanding the potential effects of adverse liquidity events and emergency cash flow needs*.

In addition, at that same time, regulators issued a new MRBA (related to liquidity contingency planning) calling for a well-developed and supported liquidity stress testing (LST) framework as well as a comprehensive contingency funding plan. There were two open MRBAs (one existing MRBA related to compliance with the Board-approved risk liquidity appetite and the new MRBA concerning liquidity contingency planning) and 22 open liquidity SRs as of the issuance of this SL. In the same SL, the regulators updated a 2017 SR as a 2019 SR, providing a broader discussion of material assumptions behind SBNY's LST. Regulators also updated a 2018 SR which originally recommended that bank management ensure that funding shortfalls are fully resolved in the LSTs with an expanded discussion of the LST model. The FDIC had documented that LST assumptions lacked appropriate support; these assumptions pertained to deposit run-offs, deposit growth, and the value of liquid assets in the Bank's stressed cash close forecast.

Subsequently, in the 2021 ROE, in the area of liquidity, there was one open MRBA (related to liquidity contingency planning) and 11 SRs all stemming from the 2019 examination cycle. The reduction in the number of open findings demonstrated that SBNY had made some progress in this area.

Nonetheless, although the 2022 Liquidity Target Review was still in process and was not issued prior to the Bank's failure, the draft SL continued to note problems with the Bank's liquidity risk management practices. It noted that the "liquidity risk appetite statement is incongruent with the liquidity risk tolerance of the bank". The SL also contained a new MRBA around Independent Review, noting "The Board and Examining Committee must ensure that the Audit Program for liquidity and funds management is commensurate with the size, complexity, and liquidity risk profile of the bank".

Overall, we found that SBNY's assumptions around the liquidity of deposits were disproved. Moreover, the duration of open findings—in addition to new findings—demonstrated an insufficiency on the part of the Bank's management to address examiners' concerns related to liquidity risk management practices.

THE FDIC'S SUPERVISION OF SIGNATURE BANK OF NEW YORK

In this section, we provide an overview of the recent supervisory history of SBNY. We also present our findings related to the FDIC's supervision of SBNY, including the underlying causes of the findings and our recommendations to the FDIC intended to help prevent future losses to the DIF.

Recent Supervisory History

Leading up to the failure of SBNY, there were supervisory findings across a variety of areas with a total of 49 open SRs and 3 open MRBAs.[21] Although we discuss what we determined to be the most relevant SRs and MRBAs, a list of outstanding SRs and MRBAs is summarized in **Appendix IV**. Findings pertained to Liquidity, Model Risk Management, Sensitivity to Market Risk, Credit Risk Management, Enterprise Risk Management, the Bank Secrecy Act (BSA), Current Expected Credit Loss, Commercial & Industrial Lending, Information Technology, Strategic Planning and several aspects of corporate governance. The earliest SRs dated back to the 2018 examination cycle. Most notable among these were longstanding supervisory concerns related to the Bank's liquidity as well as newly-identified concerns pertaining to corporate governance (part of the CAMELS Management component) from a target review focused on the Digital Assets Bank Group PCG, as discussed in more detail below.

Liquidity

The FDIC's examination documentation demonstrates a longstanding pattern of examiner concerns around liquidity raised continuously since at least 2017 and a clear pattern of outstanding recommendations unresolved by bank management through the time of SBNY's failure.

For example, a July 2019 Asset and Liability Management SL (pertaining to the 2018 examination cycle) communicated one MRBA and four SRs concerning the Liquidity component. The MRBA indicated that SBNY's Board had a "low" risk appetite related to liquidity; however, there were several on-going breaches of Board-approved risk metrics. Examiners communicated to SBNY's Board that it should institute processes to help ensure that liquidity strategies align with the Board's risk appetite. Examiners also communicated that, "…an analysis of the impact should be completed at shorter intervals, so that the [Bank's] true survival horizon can be observed." In the 2018 ROE, examiners reported that SBNY management had developed a satisfactory LST policy, but reported that material assumptions used in stress testing required further development, calling for additional documentation to support assumptions such as deposit outflow projections.

A July 2020 Liquidity SL (pertaining to the 2019 examination cycle) downgraded the CAMELS Liquidity component rating to "3" and introduced a new MRBA related to liquidity contingency planning along with new SRs related to documentation of liquidity stress testing assumptions, the deposit modeling framework, liquidity stress test model, contingency funding planning, the

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[21] There were 42 SRs as of the 2021 ROE plus four new SRs from the 2022 Corporate Governance SL, and five new SRs and one closed SR from the 2022 Information Technology Target Review. In addition, one of the SRs open in the 2021 ROE was elevated to become an MRBA in the 2022 Corporate Governance SL. Therefore, there were three open MRBAs (one as of the 2021 ROE, plus one new MRBA from the 2022 Liquidity Target Review, and the one elevated from SR status). The 2022 ROE was never issued to SBNY because the bank failed before the report's completion and issuance.

system of effective challenge for the liquidity stress modeling methodology, and internal controls. This MRBA was still outstanding as of SBNY's failure on March 12, 2023.

One year later, a Liquidity SL (pertaining to the 2020 examination cycle) communicated the need for improvement of the Bank's funds management practices and stated, "Weaknesses in liquidity contingency planning and internal controls continue to hinder management's ability to identify adverse liquidity events and establish appropriate mitigating actions". The liquidity MRBA from the 2019 examination cycle and 15 liquidity SRs from the 2019 examination remained open.[22]

A July 2022 Liquidity Risk Management SL (pertaining to the 2021 examination cycle) reported that SBNY management had not updated its contingency funding plan since the 2019 Liquidity Target Review. Ultimately, the 2021 ROE issued in December 2022 reported that one liquidity MRBA and 11 liquidity SRs remained open from the 2019 examination cycle. These recommendations remained open at the time of SBNY's failure.

Although the FDIC completed a Liquidity Target Review in November 2022, it did not complete and issue the corresponding SL or hold an exit meeting with the Bank prior to the SBNY's failure. We reviewed the FDIC's internal documentation and found that the FDIC's Summary Conclusion Memorandum for this target review indicated that the liquidity MRBA from the 2019 examination cycle would have remained open. The memorandum also identified a new, related MRBA.

Corporate Governance

An SL issued in January 2023 communicated findings from the March 2022 Corporate Governance Target Review which was designed as a "bottom-up" approach to determine the effectiveness of SBNY management's governance over operations and products offered within the Bank's Digital Assets Bank Group PCG. The SL contained two new MRBAs and four new SRs. These weaknesses were in the areas of issues and event management,[23] organizational structure and decision-making processes, product implementation processes, key risk indicators and risk monitoring metrics, operational risk management oversight, and risk and control self-assessments and control environment. The SL noted, "The Board's decision to allow a strategic position of rapid growth and concentrated expansion into digital asset markets has brought increased susceptibility to liquidity, reputation, and regulatory risks."

The FDIC Missed Multiple Opportunities to Downgrade SBNY's Management Component Rating and Further Escalate Supervisory Concerns

The FDIC missed opportunities to downgrade SBNY's CAMELS Management component rating and further escalate supervisory concerns. Missed opportunities occurred with the issuance of

[22] The SL had reported the closure of the liquidity MRBA from the 2018 examination cycle along with several other SRs.

[23] The SL noted that "The Board has not implemented a sufficient Issues and Event Management process that elicits accountability for management's long-term lack of issues remediation. The outstanding *Issues Tracking SR #04-2018* is being elevated to an MRBA. Management's inability to implement sufficient issues tracking has led to an inadequate identification of issues throughout the organization, inconsistent tracking, and a lack of timely remediation of numerous recommendations, findings, and deficiencies that have far exceeded their expected remediation dates."

specific FDIC supervisory products and were underscored by concurrent risk indicators and identified weaknesses.

Missed Opportunities for a CAMELS Management Component Downgrade Existed with the Issuance of Specific Supervisory Products

The FDIC missed multiple opportunities to downgrade SBNY's CAMELS Management component rating. After SBNY's failure, as detailed below, the FDIC's own analysis concluded there were opportunities for a more-timely downgrade.

UFIRS describes the Management component rating. In part it says:

The capability of the board of directors and management, in their respective roles, to identify, measure, monitor, and control the risks of an institution's activities and to ensure a financial institution's safe, sound, and efficient operation in compliance with applicable laws and regulations is reflected in this rating…. Sound management practices are demonstrated by: active oversight by the board of directors and management; competent personnel; adequate policies, processes, and controls taking into consideration the size and sophistication of the institution; maintenance of an appropriate audit program and internal control environment; and effective risk monitoring and management information systems.

As shown in **Table 4**, the FDIC's CAMELS Management component and composite ratings for SBNY remained at "2" until the day before the Bank failed on March 12, 2023. The FDIC maintained the "2" ratings despite longstanding liquidity findings without sufficient management remediation and emerging corporate governance concerns from a 2022 target review focused on the Digital Assets Bank Group PCG. Nonetheless, these ratings—unchanged until just before the Bank's failure—were contrary to the FDIC's forward-looking approach to supervision.

Table 4: SBNY's Historical CAMELS Ratings

Rating Type	2018	2019	2020	2021	2022	March 10, 2023	March 11, 2023
Capital Adequacy	2	2	2	2	2	2	3
Asset Quality	2	2	2	2	2	2	2
Management Capabilities	2	2	2	2	2	2	5
Earnings Sufficiency	2	2	2	2	2	2	2
Liquidity Position	2	3	3	3	3	3	5
Sensitivity to Market Risk	2	2	2	2	2	2	2
Composite	2	2	2	2	2	2	5

Source: The FDIC's examination documentation for Signature Bank of New York (SBNY).

The concept of forward-looking supervision is explained in the Manual which states:

Forward-Looking Supervision Risk-focused supervision employs a forward-looking supervisory approach where control weaknesses or other risk management conditions or problems are assessed early, and when necessary, corrected, in order to prevent or mitigate serious problems to an institution's financial condition in the future.

… For more significant problems, examiners should discuss the deficiencies with management and the board of directors during the examination and at subsequent exit meetings, and address the problems in the ROE. Such discussions and written

commentary should clearly convey the issue that is cause for concern and explain the risks to the institution's operations or financial performance if not addressed in a timely manner. Significant issues that require immediate attention should be identified as [MRBA] in the ROE. If circumstances warrant and after discussing with appropriate FDIC regional management, examiners should make recommendations for informal or formal agreements or actions if they identify unacceptable risk levels or risk management practices, even in 1 or 2 rated institutions.

A forward-looking supervisory approach that identifies and seeks to correct objectionable conditions requires serious thought and a balanced response by examiners. Critical comments must be well supported and based on facts, logic, and prudent supervisory standards. Although examiners cannot predict future events, they should consider the likelihood that identified weaknesses will cause material problems in the future, and consider the severity of damage to an institution if conditions deteriorate. In circumstances where formal action is considered, examiners should consult with the regional office while the examination is in progress regarding the material needed to support a potential action.

We believe the Management component rating could have been downgraded to a "3" as early as the 2021 examination cycle which ultimately concluded in late 2022. A more-timely downgrade to the Management component rating to "3", in addition to the already "3" rated Liquidity component, likely would have prompted the FDIC to consider downgrading the Bank's composite rating.

However, the FDIC did not downgrade SBNY's CAMELS Management component rating timely or consistent with its forward-looking approach to supervision, thereby missing the opportunity to lower SBNY's Composite rating. Our assessment is that such action would have better positioned the FDIC to consider informal and formal enforcement actions. According to the *FDIC's Formal and Informal Enforcement Actions Manual*, if an institution has a composite rating of "3" or higher, the FDIC generally initiates some type of formal or informal enforcement action. A more-timely and more-forceful supervisory response would have placed increased pressure on SBNY to rectify its liquidity and management weaknesses which may have better positioned the Bank to address the deposit withdrawals thereby reducing or eliminating the loss to the DIF.

UFIRS provides the following composite rating descriptions:

Composite 2: *Financial institutions in this group are fundamentally sound. For a financial institution to receive this rating, generally no component rating should be more severe than 3.* ***Only moderate weaknesses are present and are well within the board of directors' and management's capabilities and willingness to correct.*** *…* ***Overall risk management practices are satisfactory relative to the institution's size, complexity, and risk profile****. There are no material supervisory concerns and, as a result, the supervisory response is informal and limited.*

Composite 3: *Financial institutions in this group exhibit some degree of supervisory concern in one or more of the component areas. …* ***Management may lack the ability or willingness to effectively address weaknesses within appropriate time frames****. Financial institutions in this group generally are less capable of withstanding business fluctuations and are more vulnerable to outside influences than those institutions rated a composite 1 or 2. ...* ***Risk management practices may be less than satisfactory relative to the institution's size, complexity, and risk profile****. These financial institutions require more than normal supervision, which may include formal or informal enforcement actions. Failure appears unlikely, however, given the overall strength and financial capacity of these institutions* (emphasis added).

Opportunities for Downgrading Management

Leading up to the March 2023 failure of SBNY, there were longstanding supervisory concerns related to the Bank's liquidity as well as emerging concerns pertaining to corporate governance from a target review focused on the Digital Assets Bank Group PCG. Collectively, if not individually, these areas of supervisory concern warranted a downgrade to SBNY's CAMELS Management component rating.

UFIRS specifies that:

> *The capability and performance of management and the board of directors is rated based upon, but not limited to, an assessment of the following evaluation factors: …*
>
> - *The ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products.*
> - *The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.*
> - *The accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity, and risk profile.…*
> - *Responsiveness to recommendations from auditors and supervisory authorities;…*

The FDIC's examination documentation demonstrated a longstanding pattern of examiner concerns and communication of liquidity matters raised continuously since at least 2017, and a clear pattern of outstanding SRs and a MRBA unresolved by bank management through the time of SBNY's failure. Specifically, the MRBA and numerous SRs related to the CAMELS Liquidity component rating remained open for as many as three consecutive examination cycles, demonstrating untimely resolution of supervisory findings and a management weakness at SBNY. Additional emerging weaknesses were communicated to SBNY in two new MRBAs and four new SRs in corporate governance from the target review focused on the Digital Assets Bank Group PCG which the FDIC issued in January 2023.

Table 5 summarizes selected concerns documented in certain supervisory products that were communicated by the FDIC to SBNY, which demonstrates the repeated communication to the Bank of supervisory concerns over liquidity.

Table 5: Summary of Selected Supervisory Products Issued to SBNY

Supervisory Product	Issuance Date	Exam Cycle	Information Communicated to SBNY Relevant to this MLR
Report of Examination (ROE)	October 2, 2020	2019	Liquidity: 2 Matters Requiring Board Attention (MRBAs) and 18 Supervisory Recommendations (SRs)
November 30, 2020 Liquidity Supervisory Letter (SL)	July 9, 2021	2020	Liquidity: 1 MRBA and 15 SRs open from 2019 exam cycle
ROE	November 19, 2021	2020	Liquidity: 1 MRBA and 15 SRs open from 2019 exam cycle
November 8, 2021 Liquidity Risk Management SL	July 28, 2022	2021	Liquidity: 1 MRBA and 14 SRs open from 2019 exam cycle
ROE	December 13, 2022	2021	Liquidity: 1 MRBA and 11 SRs open from 2019 exam cycle
March 21, 2022 Corporate Governance SL	January 23, 2023	2022	Management: Reported two new MRBAs and four new SRs

Source: Summary of selected FDIC supervisory products issued to Signature Bank of New York (SBNY) during the four previous examination cycles.

Senior RMS and NYRO officials discussed the CAMELS Management component rating to be reported in the 2021 ROE in December 2022, and agreed to maintain the CAMELS component rating of “2” in the 2021 ROE, which was issued December 13, 2022. FDIC officials explained that, ultimately, the FDIC did not downgrade the Management component rating in the 2021 ROE because SBNY was raising capital, holding new deposit growth in cash, improving the Bank’s liquidity position, and addressing other recommendations. Additionally, the FDIC was finalizing target reviews in late 2022 that they expected would give rise to ratings downgrades and supervisory actions. The officials noted that those examination activities were not part of the 2021 ROE.

A Senior Examination Specialist from the Large Bank Supervision (LBS) Branch of RMS advocated for the CAMELS Management component rating to be downgraded. Regarding the draft 2021 ROE, which was issued in late 2022, the Specialist provided feedback which stated:

> *The draft ROE review was completed by the [Washington Office] WO. The CAMELS ratings of 222232/2 and IT - 2, remain unchanged from the 2020 Roll-up examination, and seems appropriate, except for the Management component. Bank management has significantly grown the bank, introducing new products and funding sources, without adequate risk management practices. Numerous Supervisory Recommendations remain outstanding from the 2018-2019 examination cycle and additional new concerns (e.g. corporate governance, credit risk rating, and model validations) were identified as part of the 2021 examination. These concerns question management’s commitment to address these weaknesses as well as their ability to keep up with the bank’s rapid growth. At this time, it seems that the Management assessment is more aligned with a “3” rating as opposed to a “2.”*

The Senior Examination Specialist’s perspective was that SBNY management had not maintained its risk management practices commensurate with the Bank’s growth, and there were deficiencies in the Bank’s internal controls. Senior RMS and NYRO officials held a discussion considering the possibility of a CAMELS Management component rating downgrade in December 2022. Ultimately, anticipating the issuance of upcoming supervisory products for the 2022 examination cycle, the FDIC maintained the CAMELS Management component rating of “2” in the 2021 ROE which was issued December 13, 2022.

UFIRS presents criteria for “2” and “3” ratings for the Management component:

> *A rating of 2 indicates satisfactory management and board performance and risk management practices relative to the institution’s size, complexity, and risk profile. Minor weaknesses may exist, but are not material to the safety and soundness of the institution and are being addressed. In general, significant risks and problems are effectively identified, measured, monitored, and controlled*.
>
> *A rating of 3 indicates management and board performance that need improvement or risk management practices that are less than satisfactory given the nature of the institution’s activities. The capabilities of management or the board of directors may be insufficient for the type, size, or condition of the institution. Problems and significant risks may be inadequately identified, measured, monitored, or controlled*.

The Manual states that “…findings and conclusions in regard to the other five elements of the CAMELS rating system are often major determinants of the management rating”. In addition:

> *…at a minimum, the assessment of management should include the following considerations:*
>
> - *Past compliance with supervisory agreements, commitments, orders, etc.; and*
> - *Capability of management to develop and implement acceptable plans for problem resolution.*

In addition to the 2021 ROE, the 2022 Corporate Governance SL did not contain any downgrades in SBNY’s ratings. FDIC CEP Procedures require sharing SLs with the LBS Branch if there is any CAMELS component or composite rating presented therein. Since the 2022 Corporate Governance SL did not present ratings, there was no requirement for LBS Branch review.

The LBS Branch Senior Examination Specialist had asked to review the Corporate Governance SL because the 2021 ROE did not include a downgrade to the Management component rating and because it was his understanding that, in this SL, the CAMELS Management component rating would have been reassessed. Ultimately, the Specialist did not see the SL before issuance to the Bank. Although not required to submit the SL to the LBS Branch because of the absence of ratings information, NYRO officials said that this situation may have been an oversight.

Post-Failure Perspectives on Downgrading Management

Internal FDIC reviews support the position that the FDIC should have downgraded the CAMELS Management component rating sooner. First, the FDIC’s Chairman commissioned the CRO to conduct the internal review of the FDIC’s supervision of SBNY. As noted previously, on April 28, 2023, the FDIC issued the CRO’s report titled *FDIC’S Supervision of Signature Bank*, which stated:

> *Given the fundamental and recurring liquidity control weaknesses, SBNY’s unrestrained growth, management’s slow response to address findings, and management deficiencies in other areas, we believe it would have been prudent to downgrade the Management component rating to “3” as early as the second half of 2021. Doing so would have been consistent with RMS’ forward-looking supervision concept. Had the FDIC lowered the Management component rating, examiners would have likely lowered*

the Composite rating to "3" as well, which would have supported consideration of an enforcement action.

Second, a NYRO official told us that, ultimately, an interim downgrade could have been instigated related to the Corporate Governance SL. The FDIC's NYRO Lessons Learned memorandum stated, "If not the 2020 Liquidity Target Review, the November 8, 2021 Liquidity Risk Management Review provides a strong case for a Management and Composite downgrade." In addition, the NYRO Lessons Learned memorandum stated:

Given the longstanding theme, the slow management response, and the lack of demonstrated progress in addressing the issues, a timelier downgrade to the Management and Composite ratings, along with a commensurate enforcement action, could have been supported.

The FDIC's *Case Manager Procedures* state:

As a general policy, a [MOU] should be considered for all institutions rated a CAMELS Composite 3. A [BBR] may be considered for institutions with specific noted deficiencies that may or may not have resulted in the institution receiving a CAMELS composite 3 rating. Formal corrective action pursuant to Section 8 of the FDI Act should be considered for all CAMELS Composite 4- or 5- rated institutions. Any deviation from general policy guidelines should be fully supported in the Problem Bank Memorandum or [Summary Analysis of Examination Report] SAER comments.

Also, according to the FDIC's *Formal and Informal Enforcement Actions Manual*:

Informal actions should be used when discussions with management or findings and recommendations in the ROE will not, by themselves, accomplish the FDIC's goal of attaining timely corrective action from management. However, informal actions generally are not appropriate when an institution's problems present serious concerns and risks, in which case a formal action should be pursued.

Additional Indicators Underscored the Need for a CAMELS Management Component Downgrade

Notwithstanding missed opportunities to downgrade the SBNY's CAMELS Management component rating when issuing individual supervisory products such as SLs and ROEs, the FDIC could have issued an interim downgrade rather than waiting to issue formal supervisory products. The FDIC's *Continuous Examination Process Procedures* state, "The ROE will be prepared annually at the end of the FDIC examination cycle. However, interim composite and component rating changes, including specialty exam ratings, should be initiated during the examination cycle when circumstances indicate such a change is appropriate". As detailed below, in addition to the longstanding supervisory concerns related to the Bank's liquidity and emerging concerns pertaining to corporate governance from the target review focused on the Digital Assets Bank Group PCG, two additional factors highlighted the support for a CAMELS Management component downgrade: (1) SBNY Board and management responsiveness to the FDIC's supervision and (2) the downward trends in LIDI ratings.

SBNY Board and Management Sometimes Demonstrated a Lack of Responsiveness to Supervision

FDIC officials described to us their overall experience working with SBNY's Board and management and an insufficient demonstration of receptiveness towards the FDIC's supervision. We find a lack of receptiveness to supervision to speak to the "tone at the top" at SBNY, further demonstrating the need for downgrading the CAMELS Management rating given Bank management's responsibility for internal control.

While "tone at the top" is not explicitly listed as a factor within the Management component UFIRS rating criteria, we find it to be relevant to maintaining an appropriate internal control environment and pertinent to the assessment of bank management's responsiveness to the FDIC's supervision. In particular, responsiveness to recommendations from supervisory authorities is part of the Management component rating. GAO's *Standards for Internal Controls in the Federal Government* (September 2014) states:

> *The oversight body and management lead by an example that demonstrates the organization's values, philosophy, and operating style. The oversight body and management set the tone at the top and throughout the organization by their example, which is fundamental to an effective internal control system. In larger entities, the various layers of management in the organizational structure may also set "tone in the middle"*.

NYRO officials explained to us that Bank management viewed FDIC officials as academic in that they could read bank examination guidance and make recommendations. To the officials, there was the impression that the SBNY Board believed the FDIC did not understand the Bank's customers as well as the Bank because its personnel were in direct contact with large depositors and the FDIC officials were not. The FDIC officials also had the impression that the Bank's Board members were critical or dismissive of examiner findings, but had to appease the FDIC because supervisory concerns would show up in CAMELS ratings.

In addition, FDIC officials told us that, on several occasions, they had to dictate who from SBNY management needed to attend meetings with the FDIC. Otherwise, bank management would send lower-level employees; FDIC officials had to make sure they had proper representation from the Bank's senior management. Given the Board and management's responsibility for the Bank's internal control and for responding to risks from changing business conditions and new activities and products, we find this to be demonstrative of SBNY not taking risks and communications from the FDIC with enough seriousness. We also find that the FDIC needing to prescribe attendance at meetings to be indicative of a problem that Bank management was not affording itself the opportunity to hear risks first hand. In addition, FDIC officials told us of their perception and examination documentation demonstrates that SBNY management at times miscommunicated supervisory findings and the FDIC's tone to the Board. Based on the factors described above and the criteria described in GAO's *Standards for Internal Control in the Federal Government*, Management did not establish a strong "tone at the top" in response to the FDIC's supervision and recommendations.

Trends in LIDI and CAMELS Ratings

A bank's LIDI rating does not necessarily align with its CAMELS ratings. We noted, however, downward trends in LIDI Ratings[24] for multiple periods while the CAMELS ratings remained unchanged. In **Table 6**, we summarize information from the Executive Summaries of the LIDI reports for the quarters leading up to SBNY's failure.

Table 6: SBNY's Quarterly CAMELS and LIDI Ratings

As of Date	CAMELS Ratings Composite / Components	LIDI Rating / Outlook	LIDI Other Stresses: Assess / Trend
Q4 2021	2/22**2**232	C / Stable	Moderate / Stable
Q1 2022	2/22**2**232	C / Negative	Moderate / Increasing
Q2 2022	2/22**2**232	C / Negative	Moderate / Increasing
Q3 2022	2/22**2**232	D / Stable	Elevated / Stable
Q4 2022*	2/22**2**232	D / Stable	Elevated / Increasing

*The Q4 2022 LIDI was never officially issued because the Bank failed.

Source: The FDIC's Quarterly Large Insured Depository Institution (LIDI) Reports for Signature Bank of New York (SBNY).

Note: The bold text denotes CAMELS Management component ratings.

We inquired about the differences in CAMELS and LIDI ratings. The RMS officials with whom we spoke referred to the FDIC's *LIDI Report Instructions*, which explain that:

> *LIDI ratings are designed to reflect a large bank's potential risk to the [DIF] and specifically incorporate assessments of risk of failure assuming stressed conditions (Vulnerability to Stress) and FDIC losses assuming failure (Loss Severity). Vulnerability to Stress assessments go beyond current condition and metrics, particularly in benign economic periods, and reflect inherent risks such as rapid growth, funding concentrations, asset concentrations, and identified risk management weaknesses. Loss Severity assessments are independent of bank's risk of failure and primarily reflect a bank's asset mix and funding profile. A bank's LIDI rating will not necessarily 'align' with the UFIRS Composite rating.*

We specifically note that LIDI ratings include consideration of "inherent risks such as rapid growth, funding concentrations, asset concentrations, and identified risk management weaknesses." As discussed earlier in this report, SBNY had experienced rapid growth, funding concentrations, and risk management weaknesses. These concepts overlap with certain elements of the UFIRS ratings definitions for Management and Liquidity. For example, as discussed above, the definition of a CAMELS Management component rating of "3" includes, "risk management practices that are less than satisfactory given the nature of the institution's activities." In addition, the definition of a CAMELS Liquidity component rating of "3" states that an institution, "may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices." In addition, "A rating of 4 indicates deficient

[24] The FDIC's *LIDI Report Instructions* outline the supervision and evaluation of insured depository institutions with total assets of at least $10 billion. LIDI ratings are designed to reflect a large bank's potential risk to the DIF and incorporate assessments of vulnerability to stress and loss severity. Banks are assessed a rating of "A" through "E" with "A" being the most positive rating with the lowest risk to the DIF. They are also assessed an outlook (i.e. Positive, Stable, or Negative) which are projections of where the LIDI Rating appears likely to be in 12 months based on currently available information.

liquidity levels or inadequate funds management practices. Institutions rated 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs."

We find there to be some overlap between the LIDI considerations and UFIRS. Within the Management criteria, the following UFIRS factors affect the assessment of the Management component rating:

- *The ability of the board of directors and management, in their respective roles, to plan for, and respond to, risks that may arise from changing business conditions or the initiation of new activities or products*
- *The adequacy of, and conformance with, appropriate internal policies and controls addressing the operations and risks of significant activities.*
- *The accuracy, timeliness, and effectiveness of management information and risk monitoring systems appropriate for the institution's size, complexity, and risk profile.*
- *The overall performance of the institution and its risk profile.*

The Q3 2022 LIDI Report contained a downgrade of the rating from "C Negative" to "D Stable" due to SBNY's:

> *Elevated Asset Stress reflecting the credit and exposures to industries vulnerable to the impacts of the uncertain economic conditions and declining capital levels due primarily to significant asset growth. In addition, vulnerability to Funding Stress is Elevated due to rapid growth of potentially volatile large uninsured deposits including a large volume of new digital asset deposits; combined with funds management practices needing improvement. Other Stresses is now Elevated as the bank's corporate governance structure appears to have not fully kept pace with the recent rapid growth in size and in operational complexity.*

The weaknesses outlined in the LIDI overlap with the previously-mentioned Management component rating criteria under CAMELS, specifically with factors such as "risks that may arise from changing business conditions," "controls addressing the operations and risk of significant activities," and "accuracy, timeliness, and effectiveness of management information and risk monitoring systems". Therefore, we conclude there is a relationship between the risks identified in the LIDI and the factors described in the CAMELS Management component rating guidance.

One EIC explained to us that when performing a target review, examiners are not looking at LIDI reports and that LIDI reports are not a major part of the examination process. The EIC explained that, rather, examiners are looking at risk and management processes to mitigate risk. The EIC did acknowledge, however, that it is reasonable to expect some directional correlation between the LIDI and CAMELS ratings.

Our assessment is that the LIDI trends, taken together with SBNY's insufficient responsiveness to supervision, further supported that a more-timely downgrade to the Management component rating was appropriate.

Discussion of Causes Underlying the Finding: The FDIC Employed a Strategy for Ratings Downgrades that Warrants Reconsideration of Guidance Around Interim Downgrades

As noted above, the FDIC identified numerous risk management weaknesses at SBNY. We found, however, the downgrade of the CAMELS Management component rating to be untimely. As described below, the FDIC prioritized completing examination products over issuing rating downgrades to the Bank. In addition, the FDIC had a backlog in the completion and issuance of certain supervisory products, which it attributed to the staffing challenges we discuss later in this report. We found that FDIC guidance around when to issue interim downgrades does not specify the conditions or circumstances that give rise to interim downgrades.

The FDIC's Strategy for Issuing Ratings Downgrades to SBNY

We determined that the FDIC prioritized completing examination products with formalized results over issuing interim-downgrades which would have been warranted under a forward-looking approach to supervision. FDIC officials said that for 2022, they were planning to issue target reviews with "serious issues" and then culminate with a downgrade to the CAMELS Management component rating to "3" in the 2022 ROE, if not sooner. However, the 2022 ROE was never issued to SBNY due to the timing of the Bank's failure.

The FDIC officials' plan was to issue SLs for the BSA, Liquidity, and Fund Banking Target Reviews, which would have presented serious issues. The BSA Target Review had resulted in significant findings including 8 MRBAs and 12 SRs.[25] FDIC officials told us they were also discussing how to escalate these matters and what type of enforcement action to take, including use of a consent order. Nevertheless, those supervisory products were in various stages of completion prior to the Bank's failure. Most relevant to SBNY's failure, the unissued Liquidity Target Review memorandum indicated:

> *Funds management practices continue to require improvement. The underlying assumptions for the LST and deposit outflow methodology are not fully developed and documented to provide reliable model output and sufficient model documentation. … An adequate system of internal controls is required to provide assurance to the Board that management can accurately identify, measure, monitor, and control liquidity risk. This is of heightened importance given high reliance on uninsured deposits and the elevated level of digital asset deposits that drive the high risk liquidity profile of the bank.*

In discussing the FDIC's strategy, FDIC officials told us the examination team and the NYRO were having constant conversations about downgrading Management and how to best communicate the anticipated downgrade. Nevertheless, the FDIC did not communicate the anticipated downgrade to SBNY management or its Board.

The FDIC did issue the 2022 Corporate Governance SL specifically focused on SBNY's Digital Assets Bank Group PCG. The SL did not include any component or composite CAMELS rating changes and communicated two new MRBAs and four new SRs. As noted previously, identified

[25] The scope of this target review included an assessment of the overall adequacy of SBNY's Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) and Office of Foreign Asset Control compliance programs. The draft SL stated, "The AML/CFT program needs improvement and the overall AML/CFT and OFAC risk profile is high. The Board and senior management have not provided appropriate oversight of the internal control structure, which has led to numerous new and repeat findings." The draft SL also discussed apparent violations of FDIC Rules and Regulations.

weaknesses were in the areas of issues and event management, organizational structure and decision-making processes, product implementation processes, key risk indicators and risk monitoring metrics, operational risk management oversight, and risk and control self-assessments and control environment. The SL noted, “The Board’s decision to allow a strategic position of rapid growth and concentrated expansion into digital asset markets has brought increased susceptibility to liquidity, reputation, and regulatory risks”.

When asked why the Corporate Governance SL did not result in a downgrade, FDIC officials explained to us that the SL had a specific focus on SBNY’s Digital Assets Bank Group PCG and that evidence the examiners obtained was specific to that PCG. FDIC officials also pointed to the Bank’s announcement that it was reducing its exposure to deposits from digital asset-related customers. NYRO officials told us that the FDIC developed the MRBA so the Bank’s management would understand that the corporate governance recommendations spanned the entire institution and were not limited to digital assets.

Even with the specific focus on the Bank’s Digital Assets Bank Group PCG, our assessment is that the areas in the SL were broadly applicable to the Bank and its governance practices. The discussion in the SL included information about issues tracking throughout the organization, management’s organizational structure, the Bank’s Operational Risk Management Committee, and the broader internal control environment, as demonstrated below:

- *Management’s inability to implement sufficient issues tracking has led to an inadequate identification of issues throughout the organization, inconsistent tracking, and a lack of timely remediation of numerous recommendations, findings, and deficiencies that have far exceeded their expected remediation dates.*
- *Management’s organizational structure, decision-making processes, and overall governance need improvement. …The Board should define and maintain clear lines of authority and provide the appropriate decision-making processes for committees and senior management so that members of the Board can effectively supervise the affairs of the institution and hold management accountable for their decisions.*
- *The Board should ensure that the Operational Risk Management Committee …Charter, policies, and procedures provide clarity over the Committee’s decision-making processes and ensure independence between first and second line responsibilities.*
- *The [Risk and Control Self Assessment and Control Environment] processes and control environment need improvement.*

While we understand the FDIC’s specific focus of this target review, we consider these governance findings in concert with the other information presented in this MLR—such as the longstanding findings around liquidity—in formulating our assessment of the need for an earlier downgrade.

In addition to broader applicability of the findings to SBNY, we also note that this particular PCG was significant to the Bank’s asset growth and operational decline. The SL itself stated, “Over the past two years, the [Digital Assets Bank Group PCG] has significantly contributed to unprecedented asset growth, which has more than doubled the size of the institutions, from $51 billion as of December 31, 2019 to $118 billion at December 31, 2021. … As of December 31, 2022, total assets declined to $114 billion primarily as a result of digital asset deposit runoff”.

Supervisory Products Awaiting Completion and Issuance

There was a backlog in the FDIC's completion and issuance of supervisory products, as discussed later in this report. An EIC with whom we spoke explained that based on historical precedence, the FDIC does not issue a target review of the next examination cycle before the ROE of the prior cycle is issued. This perspective on the approach to supervision is corroborated by the FDIC's analysis. Specifically, the CRO's report stated:

> *In at least one case, NYRO management followed a linear implementation of the CEP and withheld written targeted review results until the prior year ROE could be issued. Because certain ROEs were not issued until 11 or 12 months after the examination "as of" date, written communication of supervisory concerns to SBNY was not timely*.

Collectively, we find that the strategy employed by the FDIC as well as the backlog of completion and issuance of supervisory products did not align with a forward-looking approach to supervision.

Guidance Around Interim Downgrades

We determined there is opportunity to increase the specificity in the FDIC's guidance regarding when interim CAMELS ratings downgrades are appropriate. As noted above, the FDIC's *Continuous Examination Process Procedures* state, "The ROE will be prepared annually at the end of the FDIC examination cycle. However, interim composite and component rating changes, including specialty exam ratings, should be initiated during the examination cycle when circumstances indicate such a change is appropriate". In addition, the Manual states:

> *A [Target Review] TR is examination work that is risk-focused and tailored to provide a sufficient assessment of the risk profile of a Risk Area. TR findings are used in conjunction with [Ongoing Monitoring] OGM and other supervisory activities to assign CAMELS and specialty ratings at the conclusion of the examination cycle, and when appropriate, on an interim basis*.

FDIC officials explained that ratings should be changed when rating changes are warranted and that downgrades require documentation. We found that the guidance we reviewed does not provide, however, examples or information on what types of circumstances would be indicative of when it would be appropriate to issue an interim rating change, such as a downgrade.

Recommendations

We recommend that the Director, Division of Risk Management Supervision:

1. Emphasize to examiners in the form of training and other internal communications the requirements around timely escalation of supervisory concerns in line with the FDIC's forward-looking approach to supervision.
2. Reiterate to examiners requirements around prompt communication of risk and supervisory results to bank management, emphasizing the significance of prompt communication over linear or chronological issuance of supervisory products.
3. Conduct and document an evaluation of existing examination guidance to determine whether updates are warranted for:
    a. The need to timely communicate findings to bank board and management even when not all supervisory findings are finalized.

b. Escalation of supervisory concerns and ratings downgrades when SRs and MRBAs have been outstanding for multiple examination cycles.

c. Specific circumstances that give rise to interim rating changes, including when concerns are known in advance of the issuance of ROEs and other supervisory products.

d. The effect of bank management's and board's lack of receptiveness and responsiveness towards the supervisory process on the rating for the CAMELS Management component.

e. Permitting the LBS Branch to review all supervisory products prior to issuance to the bank when requested, regardless if the products contain ratings information.

f. Resolution of situations in which trends between UFIRS and LIDI ratings trend differently for multiple quarters.

The FDIC Did Not Always Timely Perform Supervisory Activities and Was Repeatedly Delayed in Issuing Supervisory Products to SBNY

The FDIC often did not timely complete supervisory activities, and often did not timely communicate the results of examinations to SBNY. For example, the FDIC took increasing amounts of time to meet with bank management and issue ROEs leading up to SBNY's failure, as shown in **Table 7**.

Table 7: Timing of Issuances of Reports of Examination (ROEs) to SBNY

ROE As of December 31	Prescribed Completion of Internal Review and Issuance to SBNY: 150 Days from the ROE As of Date	Exit Meeting with Signature Bank of New York (SBNY) Management	ROE Issuance Date	Days In Excess of 150
2022	May 30, 2023	Not Completed	Not Completed Bank Failed March 12, 2023	n/a
2021	May 30, 2022	November 15, 2022	December 13, 2022	197
2020	May 30, 2021	November 19, 2021	November 19, 2021	173
2019	May 30, 2020	September 23, 2020	October 2, 2020	125
2018	May 30, 2019	July 30, 2019	July 31, 2019	62

Source: Analysis of FDIC documentation. According to the FDIC's *Continuous Examination Process (CEP) Procedures*, "The ROE is submitted to the Case Manager for review generally within 120 days of the financial as of date. [Consumer Financial Protection Bureau] CFPB and Large Bank Supervision (LBS) have 30 days to provide comments prior to Regional Office approval and issuance to the bank." This equals 150 days.

We noted that in the case of the 2021 ROE, the LBS Branch did not receive the ROE for review until November 4, 2022, which was substantially after the April 2022 deadline for LBS Branch receipt and comment in advance of NYRO approval and issuance to the Bank. RMS and NYRO noted that ROEs summarize information provided to the Bank in other supervisory communications, such as SLs.

Consistent with our findings, the FDIC self-identified and further explored timeliness matters in the report prepared by the CRO, *FDIC's Supervision of Signature Bank*. Specifically, the CRO identified:

- 14 canceled or postponed target reviews during the 2017–2021 examination cycles.
- 13 target reviews where 200 or more days elapsed between the start date and exit meeting during the 2017 – 2022 examination cycles.
- 18 of 36 target review SLs exceeded the 45-day benchmark for transmittal to SBNY.
- ROE issuance dates exceeded CEP medians in each of the 2017–2022 examination cycles.

The FDIC's *Continuous Examination Process Procedures* specify that:

- The exit meeting is generally conducted within 20 days of concluding examination work. During the exit meeting, the lead examiner should get a commitment from management to correct SRs.
- Target Conclusion Letter known as SLs should be transmitted to the bank's Chief Executive Officer and board within 45 days of the exit meeting.
- The ROE is submitted to the Case Manager for review generally within 120 days of the financial as of date. The Consumer Financial Protection Bureau (CFPB) and the LBS section have 30 days to provide comments prior to Regional Office approval and issuance to the bank.

Additionally, the FDIC's NYRO periodically waived Large Bank Supervision Procedures requirements for quarterly OGM, including waiving quarterly OGM Reports four consecutive times prior to the SBNY's failure, as shown in **Table 8**. The FDIC's procedures call for OGM Reports to be prepared by the examination team within 45 days of quarter end.

Table 8: FDIC OGM Report Completion for SBNY

Ongoing Monitoring Date	Completed or Waived?
3/31/2023	Waived on March 8, 2023
12/31/2022	Waived on January 18, 2023
9/30/2022	Waived on October 27, 2022
6/30/2022	Waived on August 21, 2022
3/31/2022	Completed
12/31/2021	Waived on January 21, 2022
9/30/2021	Completed
6/30/2021	Completed
3/31/2021	Completed
12/31/2020	Waived on February 4, 2021
9/30/2020	Completed
6/30/2020	Completed
3/31/2020	Completed

Source: Analysis of the FDIC's Quarterly Ongoing Monitoring (OGM) Reports and waivers issued for Signature Bank of New York (SBNY).

When we asked about the effect of waivers related to OGM Reports, NYRO officials told us that it was well documented that there were resource challenges on the SBNY examination team, and that monitoring of the institution was being conducted and its activities were being discussed even though the requirement for the formal report was waived.

Consistent with our earlier discussion, we note that these OGM Reports were another opportunity for the FDIC to formally document emerging risks regarding the Bank and provide considerations for interim downgrades to CAMELS component ratings. Delays in supervisory activities and resulting communications of findings to the Bank may result in untimely corrective action. This impact was elevated as SBNY demonstrated a pattern of not remediating liquidity findings in a timely manner.

Discussion of Causes Underlying the Finding: The FDIC Faced Staffing Challenges in the Supervision of Large Banks, Which Included SBNY

Personnel from RMS, from NYRO, and past EICs identified both staffing limitations and quality issues with examination work products as primary causes for delays in supervisory activities. In particular, NYRO officials explained to us that there were quality control issues with SBNY work products prior to 2022, given that target reports were not properly assessing risk at the institution. The officials said that they prioritized arriving at accurate assessments over issuing products timely.

In addition, according to RMS and NYRO officials, the FDIC's ability to attract and retain qualified personnel in the region was affected by the high cost of living in New York City, and competition for talent with other regulators, private industry, and within the FDIC itself. Additionally, the pandemic affected the talent pipeline across the FDIC, with an amplified effect on the New York region. RMS officials explained to us that, uncertain of the future state of telework arrangements, people were not willing to make career changes during the pandemic and that people did not want to move to New York given it was the pandemic's "ground zero."

The FDIC used 97 percent or more of planned hours in each of the 2020-2022 examination cycles. However, the dedicated team experienced frequent turnover, and vacancies were filled with temporarily-assigned personnel. NYRO officials and EICs said that temporary personnel did not always have experience with large banks, did not possess the specific skillsets required to perform planned supervisory activities, and did not meet the need for consistency on examinations. This resulted in increased level of effort to bring work and reports up to quality expectations, contributing to delays.

RMS officials explained that the FDIC has taken a nationwide approach to filling positions, including certain contingency measures which were especially necessary during the pandemic. The officials expressed a preference to examine banks where they are located with a sufficiently-staffed team focused on the local market and with specific knowledge of the institution. In addition, RMS officials explained that there is a team of approximately 30 examiners in the Washington Office who work across the United States, providing a horizontal perspective on bank supervision and support a given region with oversight from the Washington Office.

EICs with whom we spoke emphasized the need for assigned examiner resources to have experience commensurate with the risks and complexity of the institution, particularly for large, complex institutions. Further, the contagion effects experienced by SBNY were not localized to the New York Region, given the effects from Silvergate Bank and SVB which were located on the west coast. The contagion effects and resulting liquidity impacts were largely a result of similarities—or perceptions of similarities—among the institutions' business models, industry connections, and balance sheet structures. As a result, the complexities and certain shared circumstances among institutions subject to the FDIC's LBS Branch, regardless of their locations, warrant further consideration on revised approaches to staffing, which currently are underway at the FDIC.

NYRO officials explained that they have dashboard reports and other forms of monitoring that they use for banks subject to the CEP. However, the NYRO officials said they have not always monitored target exams' turn-around times as closely as point-in-time examinations and need to focus more on such monitoring activities prospectively. The officials also pointed to the NYRO Lessons Learned memorandum and the need to formalize the monitoring process.

Recommendations

We recommend that the Director, Division of Risk Management Supervision:

4. Reevaluate the FDIC's strategy to attract, retain, and allocate staffing, including how to enhance the supervision of large, complex financial institutions.
    a. This evaluation should be documented and submitted to the FDIC's Chairman for review and approval.
5. Implement target metrics and monitor variances for key supervisory outputs consistent with requirements contained in CEP Procedures, such as:
    a. *Supervisory Plan percentage completed to actual percentage completed* to identify and take timely corrective action when examination teams are not on track to achieve objectives detailed in annual supervisory plans.
    b. *Target review start date to actual review start date* to identify and take timely corrective action when examination teams are not on track to achieve objectives detailed in annual supervisory plans.
    c. *Number of days elapsed between target review start date and exit meeting to expectation* to identify and take corrective action when reviews are not being completed and informal results communicated to the bank timely.
    d. *Number of days elapsed between target review start date and issuance of Supervisory Letter to expectation* to identify and take corrective action when the results of reviews are not being completed and results communicated to the bank timely.
    e. *Number of days elapsed between year-end and ROE issuance to expectation* to identify and take corrective action when ROEs are not being completed and results communicated to the bank timely.
    f. *Number of days elapsed between quarter-end and issuance of Ongoing Monitoring Reports to expectations* to identify and take corrective action when ongoing monitoring is not being completed timely.

The FDIC Appropriately Downgraded the Bank's Liquidity Rating, However Changing Market Conditions Warrant Review and Potential Revision of Examination Guidance Concerning Liquidity

The FDIC appropriately downgraded the CAMELS Liquidity component rating. SBNY was unable to respond, however, to rapidly changing market conditions and to withstand the run by the Bank's depositors. Changing market conditions support that the FDIC revisit its guidance around the stability of deposits and supervision of modeling for the velocity and magnitude of potential deposit outflows.

GAO's *Standards for Internal Control in the Federal Government* states that "An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities". Absent enhanced guidance, the FDIC may reduce its ability to apply a forward-looking approach to supervision, improve the supervision of banks within its purview, and identify and elevate risk, where appropriate.

The FDIC's Liquidity Downgrade of SBNY

We considered whether the CAMELS Liquidity component rating warranted further downgrading given the considerations in examination guidance around both the institution's liquidity levels and its funds management practices. NYRO officials explained that, as of year-end 2021, SBNY's liquidity risk profile had improved significantly given a large increase in on-balance sheet liquidity. Significant deposit growth was placed into cash and other liquid assets. At that time, the liquidity posture looked better than in prior years. Despite the improvement in posture, SBNY continued to have funds management weaknesses—which is evident in the nature of the open liquidity-related MRBA and SRs summarized in the 2021 ROE. This is why the regulators maintained the "3" rating for the CAMELS Liquidity component. We agree with this determination. In Q2 2022, the posture began to change as liquidity was decreasing and as amounts were being placed into less-liquid assets; however, funds management practices continued to need improvement.

The NYRO's Lessons Learned memorandum further explains:

> *Since the initial identification of funds management weaknesses, the team escalated its supervisory response from the issuance of [SR]s to MRBAs in 2018 to a ratings downgrade in 2019. In 2020 and 2021, SBNY experienced a significant increase in on-balance sheet liquidity, which alleviated some of the Region's concerns. The less than satisfactory 3 rating was maintained due to the funds management practices weaknesses. At the time of SBNY's failure, the dedicated team was preliminarily discussing further downgrades and a potential enforcement action given the developments and findings during 2022.*

According to UFIRS:

> *In evaluating the adequacy of a financial institution's liquidity position, consideration should be given to the current level and prospective sources of liquidity compared to funding needs, as well as to the adequacy of funds management practices relative to the institution's size, complexity, and risk profile*.

> *In general, funds management practices should ensure that an institution is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner…. Practices should reflect the ability of the institution to manage unplanned changes in funding sources, as well as react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. In addition, funds management practices should ensure that liquidity is not maintained at a high cost, or through undue reliance on funding sources that may not be available in times of financial stress or adverse changes in market conditions*.

Also according to UFIRS:

> *Liquidity is rated based upon, but not limited to, an assessment of the following evaluation factors:*
>
> - *The adequacy of liquidity sources compared to present and future needs and the ability of the institution to meet liquidity needs without adversely affecting its operations or condition.*
> - *The availability of assets readily convertible to cash without undue loss.*
> - *Access to money markets and other sources of funding.*
> - *The level of diversification of funding sources, both on- and off-balance sheet.*
> - *The degree of reliance on short-term, volatile sources of funds, including borrowings and brokered deposits, to fund longer term assets.*
> - *The trend and stability of deposits.*
> - *The ability to securitize and sell certain pools of assets.*
>
> *The capability of management to properly identify, measure, monitor, and control the institution's liquidity position, including the effectiveness of funds management strategies, liquidity policies, management information systems, and contingency funding plans*.

In addition:

> *A rating of 3 indicates liquidity levels or funds management practices in need of improvement. Institutions rated 3 may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices. A rating of 4 indicates deficient liquidity levels or inadequate funds management practices. Institutions rated 4 may not have or be able to obtain a sufficient volume of funds on reasonable terms to meet liquidity needs*.

The 2021 Liquidity Risk Management SL noted that SBNY management had not developed comprehensive deposit assumptions, and that lack of well-supported assumptions for bank depositor behavior raised concerns about the reliability of model outputs, which related back to several SRs issued as part of the 2019 examination cycle.

The 2021 ROE for SBNY documented uninsured deposits funding concentration risk as well as industry-based funding concentration risk. With respect to uninsured deposits, the ROE noted "The majority of uninsured depositors are clients in New York, New Jersey, and California. Fifty-eight percent of uninsured deposits are diversified across various industries and businesses;

however, the remaining deposits are more concentrated. Specifically, 22 percent are related to the digital asset industry; 10 percent are mortgage related escrow accounts; and 10 percent are real estate agents and brokers". With respect to industry-based funding concentration risk, the ROE noted that digital asset-related deposits had grown rapidly by $21 billion during 2021. As noted above, SBNY's portfolio of digital asset-related deposits consisted of digital asset exchanges, digital custody platforms, mining operations, digital lenders, stable coin issuers, and other related businesses. The ROE noted that SBNY did not hold cryptocurrencies.

The EICs with whom we spoke explained that while SBNY had elevated levels of uninsured deposits going into the end of 2021, the ROE is based on year-end numbers which demonstrated SBNY was flush with liquidity. Accordingly, the CAMELS Liquidity component rating was already a "3". The EICs' position was that any further downgrade would have been difficult given the Bank's liquidity position. With the velocity of rate increases heading into year-end 2022, SBNY used its on-book liquidity and some borrowings to fund continued lending. Deposits started declining in Q2 2022, attributable in part to movement of funds by digital asset-related customers and interest rate changes. The Bank had announced a reduction in digital asset-related deposits in Q4 2022.

Federal Banking Agencies, Including the FDIC, Issued Guidance on Digital Asset-related Activities

SBNY experienced a run on deposits given its concentration in uninsured deposits. In addition, SBNY had a deposit concentration related to customers involved in the digital asset industry and was perceived as a crypto-bank, even though FDIC documentation shows that it held no digital assets. Leading up to SBNY's failure, regulators demonstrated an awareness of emerging risks and had issued various sources of guidance specifically around cryptocurrency and cryptocurrency-related activities. The new guidance illustrated the changing nature of the environment and included:

- In an April 7, 2022, Financial Institution Letter, the FDIC warned banks that:[26]

  Crypto-related activities present new, heightened, or unique credit, liquidity, market, pricing, and operational risks that could present safety and soundness concerns. For example, there are fundamental ownership issues, including whether it is possible for ownership to be clearly validated and confirmed.

- On January 3, 2023, the Board of Governors of the Federal Reserve System, the FDIC, and the OCC issued a statement on crypto-asset risks to banking organizations, highlighting key risks associated with crypto-assets and crypto-asset sector participants. In the statement, the agencies specifically noted that "Through the agencies' case-by-case approaches to date, the agencies continue to build knowledge, expertise, and understanding of the risks crypto-assets may pose to banking organizations, their customers, and the broader U.S. financial system".

[26] The FDIC explained that "crypto-asset" refers generally to any digital asset implemented using cryptographic techniques, and includes "crypto-related activities" such as acting as crypto-asset custodians; maintaining stablecoin reserves; issuing crypto and other digital assets; acting as market makers, or exchange or redemption agents; participating in blockchain- and distributed ledger-based settlement or payment systems; as well as related activities such as finder activities and lending.

- On February 23, 2023, the Federal Reserve, FDIC, and OCC issued another joint statement on the liquidity risks presented by certain sources of funding from crypto-asset-related entities. It stated, “The statement reminds banking organizations to apply existing risk management principles; it does not create new risk management principles”.

Even though SBNY was not actually a “crypto bank”, it failed. As discussed previously in the *Causes of Failure and Material Loss to the Deposit Insurance Fund* section of this report, SBNY experienced contagion risk from the self-liquidation of Silvergate on March 8, 2023, and the failure of SVB on March 10, 2023, as the banks were considered by some to be similar in nature, even though SBNY's business model differed. There were marketplace perceptions that SBNY was a “crypto bank”, certain of which were propagated through social media. This contributed to the run on the Bank, demonstrating the Bank’s deposits were not as stable as the Bank’s management had thought.

Perspectives on the Stability of Deposits May No Longer Hold True and the Current Environment Gives Rise to Unexpected Velocity and Magnitude of Deposit Outflows in Times of Stress

Longstanding perspectives on the durability of bank customer relationships, and the velocity and magnitude of deposit outflows in times of stress have proven to be untrue in recent market conditions and with the enhancements in banking technology. The FDIC’s examination documentation supports that SBNY management believed the Bank’s depositor base was considerably stable based on the length of time of relationships, the volume of client accounts, and the various types of bank products used by clients. Nevertheless, the events surrounding SBNY’s failure challenge these premises.

In addition, current technological capabilities and the speed at which depositors can move their money has evolved, as seen by the impact and rapid occurrence of deposit outflows with both SVB and SBNY. Officials from the NYSDFS told us they learned that assumptions about depositors have changed. With the evolution of online banking, depositors have more flexibility to change institutions and a wider market in which to invest their money, requiring institutions to improve risk management. Referring to SBNY, an official from the LBS Branch of RMS with whom we spoke explained that, previously, no one had modeled for this catastrophic of an event.

The Significance of Proper Funds Management Practices

One NYSDFS official with whom we spoke emphasized that processes need to be implemented to ensure that, if an institution needs liquidity (e.g., from the Federal Reserve Discount Window or the FHLB), all documentation and mechanisms are in place to ensure the institution has access to the liquidity. This was not the case for SBNY. While at one point SBNY had a large amount of on-balance-sheet liquidity, it had not addressed weaknesses identified in 2019 related to stress testing and contingency funding plans. FDIC documentation shows that in the week leading up to SBNY’s failure, as discussed above, the Bank’s efforts to raise liquidity were hampered by its lack of pre-approved collateral to pledge with the FRBNY. This was because of the Bank’s inability to satisfy Discount Window collateral eligibility and diligence requirements. As such, SBNY was unable to obtain additional liquidity.

Discussion of Causes Underlying the Finding: Guidance Concerning Liquidity Is Based on Past Experience

The FDIC's existing guidance related to examining liquidity is based on historic experience and traditional banking products. However, the recent events around SBNY and other banks were largely unexpected. The Manual, Section 6.1, *Liquidity and Funds Management*, currently explains there may be situations in which certain deposit accounts may not be stable in times of stress. It states:

> *While some deposit relationships over $250,000 remain stable when the institution is in good condition, such relationships might become less stable due to their uninsured status if the institution experiences financial problems. Additionally, deposits identified as stable during good economic conditions may not be reliable funding sources during stress events. Therefore, examiners should consider whether institutions identify deposit accounts likely to be unstable in times of stress and appropriately reflect such deposits in its liquidity stress testing*.

Although RMS's guidance calls for examiners to consider the stability of uninsured deposits, the guidance also states that large deposits might be more stable if the deposit is difficult to move, or if the depositor has a longer history with the institution. Specifically, the Manual explains:

> *A large deposit account might be considered stable if the customer has ownership in the institution, has maintained a long-term relationship with the bank, has numerous accounts, or uses multiple bank services. Conversely, a large depositor that receives a high deposit rate, but maintains no other relationships with the institution, may move the account quickly if the rate is no longer considered high for the market. Therefore, examiners should consider the overall relationship between customers and the institution when assessing the stability of large deposits*.

The recent events surrounding SBNY's and other failures call for reconsideration and possible amendment to, or expansion of, this guidance. One of the SBNY EICs we interviewed said there needs to be more explicit guidance around uninsured deposits. RMS officials noted that regulators saw how quickly liquidity evaporated and that circumstances changed related to some fundamental concepts that were historically "tried and true" such as the duration and product number in depositor relationships and the ability of depositors to move their funds from one institution to another. On Friday, March 10, 2023, customers withdrew $18.6 billion, comprising 20 percent of SBNY's total deposits. In addition, the amount of outgoing wires was as much as $7.9 billion expected for Monday, March 13, 2023. RMS officials told us that historical beliefs about the "stickiness" of deposits are being discussed in the regulatory community, but that it was too early to determine what outcomes will occur. In addition, an EIC told us there now is a need to consider intra-day liquidity stress testing, including a one- to two-day survival period for an institution.

Related to liquidity stress testing, the Manual states:

> *Liquidity stress tests are typically based on existing cash-flow projections that are appropriately modified to reflect potential stress events (institution-specific or market-wide) across multiple time horizons. Stress tests are used to identify and quantify potential risks and to analyze possible effects on the institution's cash flows, liquidity position, profitability, and solvency. For instance, during a crisis an institution's liquidity*

needs can quickly escalate while liquidity sources can decline (e.g., customers may withdraw uninsured deposits, or lines of credit may be reduced or canceled). Stress testing allows an institution to evaluate the possible impact of these events and plan accordingly.

The Manual also calls for examiners to:

review documented assumptions regarding the cash flows used in stress test scenarios and consider whether they incorporate:

- *Customer behaviors (early deposit withdrawals, renewal/run-off of loans, exercising options);*
- *Prepayments on loans and mortgage-backed securities;*
- *Seasonality (public-fund fluctuations, agricultural credits, construction lending); and*
- *Various time horizons*.

Recommendations

We recommend that the Director, Division of Risk Management Supervision:

6. Comprehensively re-evaluate the Manual in light of the SBNY failure to determine whether updates to examination guidance are needed in the areas of:
    a. stability of deposits, including large and long-term uninsured depositor relationships.
    b. the velocity and magnitude of potential deposit outflows, including the supervision of liquidity stress testing.

COMPLIANCE WITH PROMPT CORRECTIVE ACTION (PCA)

FDI Act Section 38, *Prompt Corrective Action*, establishes a framework of mandatory and discretionary supervisory actions for insured depository institutions that are not adequately capitalized. Regulators are required to take certain supervisory actions known as “prompt corrective actions,” if an institution’s capital level deteriorates. The purpose of Section 38 is to resolve problems of insured depository institutions at the least possible cost to the DIF.

The FDIC appropriately found that SBNY was well capitalized throughout each examination cycle based on defined capital measures. As a result, the FDIC had not taken any action with respect to PCA requirements for SBNY.

APPENDIX I: OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Pursuant to the relevant requirements of the Federal Deposit Insurance (FDI) Act, 12 U.S.C. § 1831o(k), and our contractual requirements with the Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG), the objectives of our engagement were to (1) determine why the Signature Bank of New York's (SBNY's) problems resulted in a material loss to the Deposit Insurance Fund (DIF) and (2) evaluate the FDIC's supervision of the Bank, including the FDIC's implementation of the Prompt Corrective Action (PCA) requirements of section 38 of the FDI Act, and make recommendations for preventing any such loss in the future.

We conducted this Material Loss Review (MLR) in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (commonly referred to as the Blue Book). In addition, we conducted this engagement in accordance with the American Institute of Certified Public Accountants' *Statement on Standards for Consulting Services*.

The information in this report was obtained during the period April through September 2023. We performed our work at the Cotton office in Alexandria, Virginia and remotely. In conducting our work and preparing the report, we relied primarily on supervisory records, bank documents, and other information provided by the FDIC's Division of Risk Management Supervision (RMS). This review fulfills a statutory mandate and does not serve any investigatory purposes.

Scope and Methodology

The scope of our MLR covered examinations performed and supervisory actions taken by the FDIC from 2018 until SBNY failed on March 12, 2023, with emphasis on the period 2020-2023 when the bank experienced significant growth. Additionally, we focused on Supervisory Recommendations (SRs) and Matters Requiring Board Attention (MRBAs) issued by the FDIC during these examination cycles that would remain open until the Bank's failure and covered areas determined to contribute to the failure.

To accomplish our objectives, we evaluated:

- Relevant aspects of the FDI Act.
- Pertinent FDIC policies, procedures, and guidance, including RMS's *Risk Management Manual of Examination Policies* (the Manual), *Continuous Examination Process* (CEP) *Procedures*, *Case Manager Procedures*, *Formal and Informal Enforcement Actions Manual*, and Large Insured Depository Institution (LIDI) Instructions.
- Selected SBNY Form 10-K filings with the U.S. Securities and Exchange Commission, *Uniform Bank Performance Reports* (UBPRs), and *Consolidated Reports of Condition and Income* (Call Reports).
- Information pertinent to the economic environment, such as interest and inflation rates.

- Selected correspondence and examination documentation located in the Regional Automated Document Distribution and Imaging System (RADD) database, including Supervisory Plans, Supervisory Letters, Reports of Examination (ROEs), Ongoing Monitoring (OGM) reports, LIDI reports, and Confidential Problem Memoranda.
- The FDIC's Failed Bank Case.
- The FDIC's report, *Supervision of Signature Bank,* dated April 28, 2023.
- The New York State Department of Financial Services' (NYSDFS's) report, *Internal Review of the Supervision and Closure of Signature Bank*, dated April 28, 2023.
- The Government Accountability Office's report, *Bank Regulation: Preliminary Review of Agency Actions Related to March 2023 Bank Failure* (GAO-23-106736), dated April 28, 2023.
- Testimony presented to the U.S. House of Representatives Committee on Financial Services and to the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

We interviewed officials from the FDIC's RMS, including the Large Bank Supervision (LBS) Branch; the FDIC's New York Regional Office (NYRO); and three former Examiners-in-Charge (EICs) from the FDIC's dedicated SBNY examination team.[27] We obtained their perspectives on the principal causes of SBNY's failure, the FDIC's supervisory approach, and other examination-related information. We also interviewed officials from the NYSDFS.

We performed certain procedures to determine whether the FDIC had complied with relevant Prompt Corrective Action provisions in Section 38 of the FDI Act.

We obtained data from two FDIC systems, the Virtual Supervisory Information on the Net (ViSION) and RADD. We determined that information system controls pertaining to these systems were not significant to the evaluation objectives. Therefore, we did not evaluate the effectiveness of the FDIC's information system controls as part of this engagement.

We incorporated technical comments from RMS on a draft copy of this report.

[27] The interviews conducted included three former EICs and did not extend to other members of the examination team.

APPENDIX II: ACRONYMS AND ABBREVIATIONS

Acronym / Abbreviation	Long Form
ACL	Allowance for Credit Loss
AML / CFT	Anti-Money Laundering / Countering the Financing of Terrorism
BSA	Bank Secrecy Act
BBR	Bank Board Resolution
CAMELS	Capital adequacy, Asset quality, Management capabilities, Earnings sufficiency, Liquidity position, Sensitivity to market risk
CEP	Continuous Examination Process
CFPB	Consumer Financial Protection Bureau
Cotton	Cotton & Company Assurance and Advisory, LLC
COVID-19	Coronavirus Disease 2019
CRO	Chief Risk Officer
DIF	Deposit Insurance Fund
EIC	Examiner-in-Charge
FDI Act	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
FHLB	Federal Home Loan Bank
FRBNY	Federal Reserve Bank of New York
GAO	U.S. Government Accountability Office
IG	Inspector General
LBS	Large Bank Supervision
LIDI	Large Insured Depository Institution
LST	Liquidity Stress Testing
MLR	Material Loss Review
MOU	Memorandum of Understanding
MRBA	Matter Requiring Board Attention
NYRO	New York Regional Office
NYSDFS	New York State Department of Financial Services
OCC	Office of the Comptroller of the Currency
OGM	Ongoing Monitoring
OIG	Office of Inspector General
PCA	Prompt Corrective Action
PCG	Private Client Groups
RADD	Regional Automated Document Distribution & Imaging System
RMS	Division of Risk Management Supervision
ROE	Report of Examination
SBNY	Signature Bank of New York
SL	Supervisory Letter
SR	Supervisory Recommendation
SVB	Silicon Valley Bank
TR	Target Review
UBPR	Uniform Bank Performance Report
UFIRS	Uniform Financial Institutions Rating System
ViSION	Virtual Supervisory Information On the Net

Appendix III: Matters for Further Study and Recommendations from Other Sources

Matters for further study provided by the Federal Deposit Insurance Corporation's (FDIC's) Chief Risk Officer (CRO)[28] and recommendations from the New York State Department of Financial Services (NYSDFS)[29] and the FDIC's New York Regional Office (NYRO) Lessons Learned memorandum are presented in the table below. An asterisk indicates the language below is a sub-set of the information presented in the original publication.

Sources	Matters for Further Study / Recommendations
FDIC CRO	Reiterate RMS forward looking supervision philosophy and the importance of addressing risk management weaknesses before financial decline occurs.
FDIC CRO	Consider the need for enhanced examination guidance related to supervising banks that are overly reliant on uninsured deposit funding or have concentrations in uninsured deposits.
FDIC CRO	Consider the need for enhanced examination guidance related to assessing liquidity risk management practices based on FDIC's experiences supervising SBNY.
FDIC CRO	Continue to evaluate the continuous examination process (CEP) and implement necessary changes to ensure the CEP provides efficient, effective, and timely, risk-based feedback to large banks, including interim CAMELS ratings, when appropriate.
FDIC CRO	Evaluate existing CEP required deliverables and level-of-effort to prepare deliverables in relation to benefits derived. Look for opportunities to streamline program requirements and written deliverables.
FDIC CRO	Incorporate a subsequent events section into the roll-up [Report of Examination] ROE to reflect situations where substantive changes in the bank's condition occur after the "as of" date, but before the ROE issue date, to ensure the assigned ratings reflect the bank's current condition.
FDIC CRO	Evaluate the [Supervisory Recommendation] SR and [Matter Requiring Board Attention] MRBA escalation process for situations involving repeat recommendations, and define paths for progressive enforcement when bank management is unable or unwilling to effectively address chronic problem areas.
FDIC CRO	Consider implementing workflow solutions that would track the timeliness of examination deliverables such as targeted reviews/supervisory letters and ROEs, and provide the regions and [Large Bank Supervision] LBS with reporting information highlighting outlier situations.
FDIC CRO	Develop a near-term strategy for increasing the attractiveness and interest in LFI positions, particularly [Large Financial Institution] LFI [Examiner-in-Charge] EIC positions. Potential and ongoing efforts that could be considered include: • Further differentiating compensation from non-LFI positions. • Continuing to consider Corporate Expert graded positions for larger more complex banks. • Continuing to reduce EIC workloads by assigning deputy EICs, where appropriate. • Reevaluating to what extent LFI positions could be assigned outside of the local duty station of the bank, particularly for hard-to-fill situations.
FDIC CRO	Continue to work with other parts of the Corporation, including the FDIC's Division of Administration, Division of Finance, Legal Division, [Division of Complex Institution Supervision and Resolution] CISR and Corporate University to enhance the examiner staffing and retention strategy to deliver a healthy and sustainable pipeline of financial institution specialists that can ultimately advance to provide a sufficient number of premium graded examiners, including candidates for LFI positions and CISR positions. Addressing this challenge will require an agency wide effort that is creative and includes fresh perspectives and ideas (e.g., possibly engaging consultants).
FDIC CRO	Continue to explore the use of contractors to provide services that support supervisory functions so examiners can focus on policy, the application of regulations, and other inherently governmental functions.
FDIC CRO	Enhance examiner staffing dashboards to include hiring and attrition trends for LFI and other positions to readily show: • Vacancy trends by region and field office, • Trends for why examination staff leave LFI and other positions, and • Where staff exiting LFI positions go.

[28] *FDIC'S Supervision of Signature Bank*. See https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf.
[29] *Internal Review of the Supervision and Closure of Signature Bank*. See https://www.dfs.ny.gov/system/files/documents/2023/04/nydfs_internal_review_rpt_signature_bank_20230428.pdf.

Sources	Matters for Further Study / Recommendations
FDIC CRO	Develop a means for monitoring regional dedicated team staffing shortages and develop protocols for RMS headquarters to quickly move staff between regions to address shortages based on a nationwide view of large bank risks.
NYSDFS	***Update Policies and Procedures** - Signature's collapse underscores the speed at which the modern financial system moves. DFS's policies and procedures will be reviewed to streamline and simplify internal processes and to insure that DFS is addressing risks in real-time.
NYSDFS	***Operational Stress Testing** - Signature struggled to provide timely and accurate information to the Regulators on the key issues of liquidity and outgoing wire requests. While examiners routinely require stress testing of certain key financial assumptions and controls, operational functions are not similarly tested. DFS will consider whether banks need to conduct table-top exercises demonstrating their operational readiness to collect and produce accurate financial data at a rapid pace and in a stress scenario.
NYSDFS	***Rebuilding Examination Capacity** - As DFS continues to advance its recruitment, hiring, and retention strategies, it will do so bearing identified inefficiencies in the examination process in mind. A larger pool of examiners and supervisors will help close the timing gap between the end of examinations and the issuance of Reports of Examination and Supervisory Letters, and avoid over-staffing key examination personnel, rendering them unavailable as primary participants in the preparation of key documentation. Examiner training will also be reviewed to ensure new and existing DFS examiners are receiving the most up-to-date training, including ensuring the examination team is kept current on new and emerging issues that may affect a bank's safety and soundness.
NYSDFS	***Escalating Regulatory Issues** - DFS needs to establish clear escalation procedures for examination findings that remain outstanding and criteria on when further action must be taken to ensure compliance with an outstanding regulatory finding.
NYSDFS	***Liquidity Risk Modeling** - The rapid collapse of Signature underscores the need to revisit the assumptions used to model and manage liquidity risk. In particular, both the types of Signature's depositors that ran and the speed at which they initiated withdrawals far outpaced assumptions many institutions use to model and assess liquidity risk.
NYSDFS	**Strengthen Regulatory Tools** - DFS will work with stakeholders to identify and develop appropriate new regulatory tools to hold executives accountable for misconduct that leads to the failure of a banking organization and address the dissemination of false information that provoke bank runs. These actions may include potential administrative actions, such as regulations or guidance, as well as working with the New York State Legislature on potential statutory changes.
FDIC NYRO	Communicate the findings of this Lessons Learned document and the findings of the May 1 Report, as well as findings from other reviews (material loss review, GAO, etc.), to staff in the Region. o Discuss during the Region's May 22-24 Regional Management Meeting with regional and field management and establish a plan for further communication. o Conduct a call(s) with large bank EICs/dedicated teams and applicable case managers and managers to discuss specific lessons learned related to SBNY, including but not limited to: • Horizontal/programmatic findings and ratings considerations, including the need for risk management findings to translate to the Management rating. • Timing of work products and regional monitoring • Board/management meeting cadence, format, and messaging, as well as frequency considerations if have an area with issues. • Other exam administration topics (ex: SharePoint sites, RADD, etc.). o Conduct a broader region wide staff call (possible Training Tuesdays) to discuss findings and lessons learned. Tailor lessons learned to broader audience. o Determine if other audiences would benefit from the conversation.
FDIC NYRO	Work with the Region's capital markets specialist to compile liquidity lessons learned from a bank monitoring perspective following the failure of SBNY and the recent weeks of in depth liquidity monitoring across the Region. Determine best way to communicate these lessons to staff region wide.
FDIC NYRO	Conduct a review of the Region's current target and report turnaround time tracking system for banks in the Continuous Examination Program. Determine ways to improve the system and ways to produce relevant reporting for management and awareness of monitoring.
FDIC NYRO	Continue to emphasize the importance of accurate and comprehensive RADD folders – including documentation of key discussions and key decisions. Discuss during professional staff meetings. Consider an independent review of RADD folders through the [Review Committee].
FDIC NYRO	Conduct the Large Bank Workpaper Review as planned; however, consider expanding the sample.

Sources	Matters for Further Study / Recommendations
FDIC NYRO	Explore the EFX session expiration rules in relation to CEP examinations. Determine if a recommendation should be made to extend the auto delete timeline.
FDIC NYRO	Incorporate these recommendations into the [Review Committee's] tracking system to monitor implementation.
FDIC NYRO	*Continue to advocate for flexibility in posting and staffing.
FDIC NYRO	Complete horizontal complex bank staffing reviews (similar to the rescoping project) on a semiannual basis focusing on vacancies as well as needed expertise. Make adjustments and move resources as needed, acknowledging the risks the Region is unable to oversee given the shift of the limited resources. Communicate the review results to regional and field management and applicable staff ensuring all are on the same page as it relates to the Region's resource needs and priority. Communication should be multi-faceted and occur through regularly-scheduled meetings (DRD/FS calls, Regional Management Meetings, etc). Communication of adjustments should also be provided to WO LBS.
FDIC NYRO	Ensure specialists and non-LFI CG-14 examiners are assigned based on risk across the Region, not a first-come-first-serve basis.
FDIC NYRO	Initiate an EIC/team member mentorship program to support new EICs, team members, or individuals new to large, complex bank work and to provide a horizontal perspective. For the same reasons, continue regular EIC and/or team member calls focusing on emerging risks, complex bank exam administration, horizontal findings, etc.
FDIC NYRO	Host regular discussions (including possible "Training Tuesdays" events) regarding various aspects of the Region's supervision of large, complex institutions for both RMS and [Division of Depositor and Consumer Protection] DCP.
FDIC NYRO	Include a "realistic/what if" aspect to the Region's Supervisory Plans, including prioritization of planned activities. Current Supervisory Plans assume every position will be filled and that the field office can provide all additional needed hours. As seen in the Region, this is rarely the case. Plans should include a brief section laying out a plan for "what if resources are not available". This will allow dedicated teams and the Region to easily adjust supervisory approaches throughout the year, ensuring focus remains on the highest priority items and not just what is convenient to move in the schedule. This "realistic/what if" aspect will be flexible and can be altered throughout the year as risks change and/or new information emerges.

Appendix IV: Open Matters Requiring Board Attention and Open Supervisory Recommendations When SBNY Failed

There were Supervisory Recommendations (SRs) and Matters Requiring Board Attention (MRBAs) were issued to Signature Bank of New York (SBNY) remained open when SBNY failed. These were reported to the Bank in the 2021 ROE, 2022 Information Technology Target Review, and the 2022 Corporate Governance Target Review, the final reports issued prior to the failure of the Bank. They are summarized below.

Supervisory Recommendations (SRs)

Count	SR No.	Brief Description
Bank Secrecy Act		
1	SR-2020 BSA #02	Amend Client Anticipated Account Activity Reports form to capture all permitted client products and activities
2	SR 2020 BSA #03	Ensure decisions for clearing or escalating automated transaction monitoring system alerts reflect analyses of actual account activity
3	SR 2020 BSA #01	Ensure higher-risk customer account reviews document underlying activity
Commercial & Industrial Loan Portfolio		
1	SR-2021 C&I #01	Increase reporting frequency of credit underwriting exceptions
Commercial Real Estate		
1	SR-2021 CECL #01	Improve documentation of real estate evaluation assumptions for collateral dependent commercial real estate loans
Credit Risk Management		
1	SR-2019 CRM #02	Develop procedures to review borrower risk
2	SR-2019 CRM #08	Formalize loan pricing methodologies
3	SR-2021 CRM #01	Develop action plan to improve risk rating framework
4	SR-2021 CRM #02	Adhere to policy for real estate appraisals on distressed commercial real estate loans
Enterprise Risk Management		
1	SR-2018 ERM #04[a]	Ensure an effective issue tracking system is in place
Liquidity		
1	SR-2019 LIQ #01a	Better support assumptions for deposit run-off in stress testing scenarios
2	SR-2019 LIQ #01c	Consider the impact of high rate deposits in the stress testing scenario
3	SR-2019 LIQ #02a	Document support for the deposits quantitative risk-rating framework
4	SR-2019 LIQ #02b	Consider depositors' sensitivity to bank conditions as part of the deposit rating framework
5	SR-2019 LIQ #03a	Establish metrics to ensure liquidity level is sufficient at time intervals
6	SR-2019 LIQ #03b	Conduct sensitivity testing of key assumptions in the liquidity stress test
7	SR-2019 LIQ #03c	Improve liquidity stress testing model documentation
8	SR-2019 LIQ #03d	Ensure adequate validation of stress testing includes effective challenge
9	SR-2019 LIQ #04d	Consider potential impact on capital from actions taken to raise liquidity
10	SR-2019 LIQ #05	Improve system of effective challenge for stress modeling methodology
11	SR-2019 LIQ #06	Improve internal controls relating to liquidity risk management
Model Risk Management (MRM)		
1	SR-2021 MRM #01	Expand MRM policy and establish standards for use of models with exceptions
2	SR-2021 MRM #02	Expand policy with standards and procedures for resolving outstanding findings
3	SR-2021 MRM #03a	Establish documentation standards for third-party vendor models
4	SR-2021 MRM #03b	Establish model document repository and indexing system
5	SR-2021 MRM #04a	Expand scope of validations to include challenge to external data applicability
6	SR-2021 MRM #04b	Ensure model validation assesses forecast accuracy of model outputs
7	SR-2021 MRM #04c	Ensure variable selection process and assumptions are documented, substantiated
8	SR-2021 MRM #04d	Document critical assumptions and limitations associated with model data
9	SR-2021 MRM #04e	Establish data governance program and data analysis to measure quality and accuracy of inputs
10	SR-2021 MRM #04f	Expand ongoing performance monitoring activities to include performance assessments quarterly

Count	SR No.	Brief Description
11	SR-2021 MRM #04g	Assess and measure impact of excluding a data segment by third-party model developer
12	SR-2021 MRM #04h	Perform sensitivity analysis as part of ongoing performance monitoring activities on critical model parameters
Sensitivity to Market Risk		
1	SR-2018 SMR #01b	Report all policy exceptions to the Board or Board committee
2	SR-2019 SMR #09a	Establish limits for flattened and steepened yield curve shift scenarios
3	SR-2019 SMR #09b	Define acceptable variance limits in policy for all major assumptions
4	SR-2019 SMR #09c	Perform net income simulations in accordance with internal rate of return policy parameters
Strategic Planning		
1	SR-2019 Strategic Planning #06	Ensure the IAD evaluates the strategic planning process
Corporate Governance		
1	SR-2022 #01	Incorporate standards, expectations for new or modified products following project approval track
2	SR-2022 #02	Ensure key risk metrics and limits are consistent with Board's risk appetite, and monitored
3	SR-2022 #03	Review, update, approve Operational Risk Management Committee charter and policies
4	SR-2022 #04	Ensure an effective Risk Control Self-Assessment framework is in place
Information Technology		
1	SR-2019 IT #01	Develop a comprehensive IT/IS Risk Assessment to include all of the business applications, hardware, and operating systems
2	SR-2019 IT #02	Ensure the IT Asset Inventory includes sufficient and accurate details on hardware and software
3	SR-2021 IT #01	Strengthen the Business Continuity Management program commensurate to the size, capacity, and risk profile of the bank
4	SR-2021 IT #02[b]	Expand the project management policy to include defining projects based on size and complexity
5	SR-2022 #01	Improve management's process for managing end of life systems
6	SR-2022 #02	Determine whether the common vulnerability scoring system should be updated to the latest version
7	SR-2022 #03	Ensure the Center for Internet Security standards are implemented for all operating systems and network devices
8	SR-2022 #04	Expand management's current Succession Plan
9	SR-2022 #05	Expand and increase project management reporting cadence to the Board or a Board-level committee

[a]This SR was included in the 2021 Report of Examination (ROE) and was elevated to an MRBA in 2022.
[b]This SR was included in the 2021 ROE, but was closed during 2022.

Matters Requiring Board Attention (MRBAs)

Count	MRBA No.	Description
Liquidity		
1	MRBA-2019 LIQ #01	Ensure adequate liquidity contingency planning is in place
Corporate Governance		
1	MRBA-2022 #01[a]	Implement an effective Issues and Event Management process and remediate outstanding findings in a timely manner
2	MRBA-2022 #02	Ensure organizational structure, decision making at all levels are appropriate and consistent with emerging risks associated with strategic initiatives

[a]This MRBA was included in the 2021 ROE as an SR and was elevated to an MRBA in 2022.

Part II

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FDIC Comments and OIG Evaluation

FDIC Comments and OIG Evaluation

On October 16, 2023, the FDIC Director of RMS provided a written response to a draft of this report. The response is presented in its entirety beginning on page II-2. In its response, the FDIC agreed with the findings and concurred with all six recommendations in the report. The FDIC's proposed corrective actions and its actions taken to date were sufficient to address the intent of the recommendations. The FDIC plans to complete all corrective actions for the recommendations by March 31, 2024. Therefore, we consider all six recommendations to be resolved.

All recommendations in this report will remain open until we confirm that corrective actions have been completed and the actions are responsive. A summary of the FDIC's corrective actions begins on page II-7.

FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

October 16, 2023

TO: Terry L. Gibson
Assistant Inspector General for Audits, Evaluations, and Cyber
Office of Inspector General

FROM: Doreen R. Eberley DOREEN EBERLEY Digitally signed by DOREEN EBERLEY Date: 2023.10.16 22:21:37 -04'00'
Director, Division of Risk Management Supervision

SUBJECT: FDIC Response – Draft Material Loss Review of Signature Bank of New York

Thank you for the opportunity to comment on the draft report, *Material Loss Review of Signature Bank of New York* (Report). We appreciate the efforts of the FDIC's Office of Inspector General and its contractor, Cotton & Company Assurance and Advisory LLC in producing the report and in formulating its recommendations for the FDIC to improve supervisory processes.

The Report states that "The proximate cause of SBNY's {the Report's acronym for the bank} failure was contagion from the announced self-liquidation and failure of other large, similarly situated banks, sparking a run on deposits at SBNY on March 10, 2023." The Report also found that SBNY management's prioritization of growth over ensuring that risk management practices were commensurate with its risk profile and ensuring that it addressed related supervisory concerns, left it in a position in which it was unable to withstand the run on deposits that ensued from the contagion.

The Report provided observations and findings related to FDIC supervision, including that the FDIC missed opportunities to downgrade SBNY's management component rating and to further escalate supervisory concerns. The Report noted that the FDIC did not always perform supervisory activities in a timely manner and was delayed in issuing supervisory findings to SBNY due to staffing challenges. The Report further noted that while the FDIC appropriately downgraded SBNY's liquidity component rating, changing market conditions as evidenced by the contagion episode warrant review and potential revision to examiner guidance regarding liquidity.

The FDIC agrees with the Report's findings and notes that they are consistent with the April 28, 2023 report by the FDIC's Chief Risk Officer, entitled *FDIC's Supervision of Signature Bank* (CRO Report).[1] The FDIC concurs with the six recommendations contained in the Report, and as described in the responses to each recommendation below, has already issued examiner guidance and taken other measures responsive to some of the recommendations, while other efforts are in process.

[1] https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf

Recommendation 1: Emphasize to examiners in the form of training and other internal communications the requirements around timely escalation of supervisory concerns in line with the FDIC's forward-looking approach to supervision.

The FDIC concurs with this recommendation. On August 29, 2023, the FDIC issued instructions to examiners via a regional director memorandum (RD Memo) entitled, *Supervisory Recommendations (Including Matters Requiring Board Attention) and Progressive Supervisory Response*. Among other things, this RD Memo instructs examiners to perform enhanced follow-up and a progressive supervisory response for institutions that fail to address supervisory recommendations in a timely manner, which is typically within an examination cycle.

A progressive supervisory response is defined as at least elevating the supervisory recommendation[2] to a matter requiring board attention (MRBA), and for MRBA that remain unaddressed, a progressive supervisory response is defined as at least elevating the matter to an enforcement action. This instruction is consistent with the FDIC's longstanding instructions in its Formal and Information Actions Manual.[3] This Manual states, that "If management is able to correct deficiencies within a reasonable timeframe, then supervisory recommendations for corrective action in the ROE could be a sufficient supervisory response, subject to appropriate follow-up during an interim contact, on-site visitation, or the next examination. If this process does not achieve the desired result, an informal or even formal corrective action may be warranted. Informal actions should be used when discussions with management or findings and recommendations in the Report of Examination will not, by themselves, accomplish the FDIC's goal of attaining timely corrective action from management."

The RD memo also provides a process for departing from this policy by documenting the decision in writing, and requiring management official sign-off on such decisions. Examiners were trained on these new instructions on September 13, 2023, and were provided the opportunity to comment on the instructions by September 29, 2023. FDIC Washington Office officials will review the comments to determine whether adjustments or clarifications to the instructions are warranted. Consistent with the matters highlighted for consideration and study in the CRO Report, the Division of Risk Management Supervision (RMS) is also in the process of preparing examples of escalation of supervisory recommendations, including MRBA, to deliver additional training to examiners by March 31, 2024.

Recommendation 2: Reiterate to examiners requirements around prompt communication of risk and supervisory results to bank management, emphasizing the significance of prompt communication over linear or chronological issuance of supervisory products.

[2] The term "supervisory recommendation" refers to FDIC communications with an IDI that are intended to inform the IDI of the FDIC's views about changes needed in its practices, operations or financial condition. (See Statement of FDIC Board of Directors on the Development and Communication of Supervisory Recommendations).
[3] https://www.fdic.gov/regulations/examinations/enforcement-actions/index.html

The FDIC concurs with this recommendation. On August 30, 2023, the FDIC issued an RD Memo to examiners entitled *Changes to Required Processes for FDIC-supervised Banks Subject to the Continuous Examination Process (CEP)*. Among other things, the RD Memo requires large bank examination teams to document their assessment of all component and composite ratings in quarterly ongoing monitoring reports. This assessment is based on the examiner's evaluation of known or other significant events that may arise during the quarter, including findings from targeted reviews or other significant market or bank-specific matters. Examiners were trained on these new instructions on October 4, 2023, and were provided the opportunity to comment on the instructions by September 30, 2023. FDIC Washington Office officials will review the comments to determine whether adjustments or clarifications to the instructions are warranted.

The FDIC will update the *Risk Management Manual of Examination Policies* by March 31, 2024 to emphasize to examiners the significance of prompt communication of risk and supervisory results to bank management over linear or chronological issuance of supervisory products.

Recommendation 3: Conduct and document an evaluation of existing examination guidance to determine whether updates are warranted for:

a. The need to timely communicate findings to bank board and management even when not all supervisory findings are finalized.

b. Escalation of supervisory concerns and ratings downgrades when SRs and MRBAs have been outstanding for multiple examination cycles.

c. Specific circumstances that give rise to interim rating changes, including when concerns are known in advance of the issuance of ROEs and other supervisory products.

d. The effect of bank management's and board's lack of receptiveness and responsiveness towards the supervisory process on the rating for the CAMELS Management component.

e. Permitting the LBS Branch to review all supervisory products prior to issuance to the bank when requested, regardless if the products contain ratings information.

f. Resolution of situations in which trends between UFIRS and LIDI ratings trend differently for multiple quarters.

The FDIC concurs with this recommendation. The FDIC will conduct an evaluation of existing examination guidance to determine whether updates are warranted for the items described above. The evaluation will be documented through a memorandum from FDIC staff to the Director, Division of Risk Management Supervision; the memorandum will also address recommendations for pursuing updates if warranted. The evaluation will be completed by March 31, 2024.

Recommendation 4: Reevaluate the FDIC's strategy to attract, retain, and allocate staffing, including how to enhance the supervision of large, complex financial institutions.

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a. This evaluation should be documented and submitted to the FDIC's Chairman for review and approval.

The FDIC concurs with this recommendation. Consistent with the matters highlighted for consideration and study in the CRO Report, the Director RMS evaluated current practices and recommended changes to the FDIC's strategies for attracting and retaining staff, including staff that examine large, complex financial institutions. The draft strategies were delivered to the Chairman on September 29, 2023. The Director RMS is also studying and will make recommendations related to the allocation of examiner staffing within the FDIC. This evaluation will be conducted by the Director, Division of Risk Management Supervision and recommendations will be coordinated with the Director, Division of Administration, the General Counsel, and the Director, Division of Complex Institution Supervision and Resolution and documented through a memorandum to the Chairman. The evaluation will be completed by November 30, 2023.

Recommendation 5: Implement target metrics and monitor variances for key supervisory outputs consistent with requirements contained in CEP Procedures, such as:

a. Supervisory Plan percentage completed to actual percentage completed to identify and take timely corrective action when examination teams are not on track to achieve objectives detailed in annual supervisory plans.

b. Target review start date to actual review start date to identify and take timely corrective action when examination teams are not on track to achieve objectives detailed in annual supervisory plans.

c. Number of days elapsed between target review start date and exit meeting to expectation to identify and take corrective action when reviews are not being completed and informal results communicated to the bank timely.

d. Number of days elapsed between target review start date and issuance of Supervisory Letter to expectation to identify and take corrective action when the results of reviews are not being completed and results communicated to the bank timely.

e. Number of days elapsed between year-end and ROE issuance to expectation to identify and take corrective action when ROEs are not being completed and results communicated to the bank timely.

f. Number of days elapsed between quarter-end and issuance of Ongoing Monitoring Reports to expectations to identify and take corrective action when ongoing monitoring is not being completed timely.

The FDIC concurs with this recommendation. The FDIC will develop and implement target metrics for the items described in the items above and will develop a process for monitoring variances with the metrics. Examiner instructions regarding the target metrics and monitoring processes will be communicated via an RD Memo, which will be issued by March 31, 2024.

Recommendation 6: Comprehensively re-evaluate the Manual in light of the SBNY failure to determine whether updates to examination guidance are needed in the areas of:

a. stability of deposits, including large and long-term uninsured depositor relationships.

b. the velocity and magnitude of potential deposit outflows, including the supervision of liquidity stress testing.

The FDIC concurs with this recommendation. Consistent with the matters for consideration and study included the CRO Report, RMS conducted such an evaluation and determined to update two sections of the Manual. RMS is updating the Liquidity section of the Manual to expand the discussion of the volatility of uninsured deposits and the importance of contingency funding plan considerations. This action will be completed by December 31, 2023. RMS is also updating the Report of Examination Instructions relative to the evaluation of concentrations of uninsured deposits. This action will be completed by October 31, 2023.

Summary of the FDIC's Corrective Actions

This table presents management's response to the recommendations in the report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved:[a] Yes or No	Open or Closed[b]
1	The FDIC issued instructions to examiners on August 29, 2023, via a regional director memorandum (RD Memo). Among other things, this RD Memo instructs examiners to perform enhanced follow-up and a progressive supervisory response for institutions that fail to address supervisory recommendations in a timely manner. The FDIC trained examiners on the new instructions on September 13, 2023 and provided examiners an opportunity to comment on the instructions. FDIC officials will review the comments to determine whether adjustments or clarifications to the instructions are warranted. The FDIC is also preparing examples of escalation of supervisory recommendations, including MRBA, in order to deliver additional training to examiners by March 31, 2024.	March 31, 2024	$0	Yes	Open
2	The FDIC issued an RD Memo on August 30, 2023 to examiners that, among other things, requires large bank examination teams to document their assessment of all component and composite ratings in quarterly ongoing monitoring reports. The FDIC trained examiners on these new instructions on October 4, 2023 and examiners were provided the opportunity to comment on the instructions. The FDIC will review the comments to determine whether adjustments or clarifications to the instructions are warranted. The FDIC will also update the *Risk Management Manual of Examination Policies* by March 31, 2024 to emphasize to examiners the significance of prompt communication of risk and supervisory results to bank management.	March 31, 2024	$0	Yes	Open

3	The FDIC will conduct an evaluation of existing examination guidance to determine whether updates are warranted. The evaluation will be documented through a memorandum from FDIC staff to the Director, RMS. The memorandum will also address recommendations for pursuing updates if warranted.	March 31, 2024	$0	Yes	Open
4	The Director, RMS, evaluated current practices and recommended changes to the FDIC's strategies for attracting and retaining staff, including staff that examine large, complex financial institutions. The draft strategies were delivered to the FDIC Chairman on September 29, 2023. The Director, RMS, is also studying and will make recommendations related to the allocation of examiner staffing within the FDIC. Recommendations will be coordinated with the Director, Division of Administration; the General Counsel; and the Director, Division of Complex Institution Supervision and Resolution and documented through a memorandum to the FDIC Chairman.	November 30, 2023	$0	Yes	Open
5	The FDIC will develop and implement target metrics for the items described in the recommendation and will develop a process for monitoring variances with the metrics. Examiner instructions regarding the target metrics and monitoring processes will be communicated via an RD Memo.	March 31, 2024	$0	Yes	Open
6	RMS conducted an evaluation and identified two sections of the Manual to update. RMS is updating the Liquidity section of the Manual to expand the discussion of the volatility of uninsured deposits and the importance of contingency funding plan considerations. This action will be completed by December 31, 2023. RMS is also updating the Report of Examination Instructions relative to the evaluation of concentrations of uninsured deposits. This action will be completed by October 31, 2023.	December 31, 2023	$0	Yes	Open

[a] Recommendations are resolved when —

1. Management concurs with the recommendation, and the OIG agrees the planned corrective action is consistent with the recommendation.
2. Management does not concur or partially concurs with the recommendation, but the OIG agrees that the proposed corrective action meets the intent of the recommendation.
3. For recommendations that include monetary benefits, management agrees to the full amount of OIG monetary benefits or provides an alternative amount and the OIG agrees with that amount.

[b] Recommendations will be closed when the OIG confirms that corrective actions have been completed and are responsive.

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The OIG's mission is to prevent, deter, and detect waste, fraud, abuse, and misconduct in FDIC programs and operations; and to promote economy, efficiency, and effectiveness at the agency.

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