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Supervisory Modernization After Silicon Valley Bank

Remarks by

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Thank you for the invitation to join you today. It is good to be with you to discuss ensuring that the global financial system is positioned to adapt to the changing economic environment.¹ The pace of change has been brisk. Our financial system is evolving rapidly. Therefore, it is important that we periodically review our regulatory and supervisory frameworks to consider how to best keep pace with that evolution.

Today, I will discuss three related aspects of supervisory modernization. First, I will describe some lessons learned from a newly released independent assessment of the failure of Silicon Valley Bank (SVB) about the importance of timely supervisory action. Second, I will discuss how the Federal Reserve is enhancing our supervisory effectiveness so that decisionmaking authority is clear and examiners are more accountable for taking timely action. And, third, I will describe how modernization can improve the work of supervision around the world, including under the direction of standard-setting bodies like the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).

Independent Review of Silicon Valley Bank

The failure of SVB in 2023 is a case study with critical lessons for bank supervisors at home and abroad. While prior reports on SVB provided important information, they were produced on an expedited basis with a limited scope and failed to comprehensively address important data related to the failure. As a result, these reports were incomplete and perpetuated a number of unreliable conclusions. That is why, earlier this year, I commissioned an independent review of the bank failure and the Federal Reserve's related supervision. The review closes prior gaps and corrects

¹ The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

important misimpressions regarding SVB's failure. Its preliminary findings substantiate difficult but important critiques regarding Federal Reserve System supervision failures to act in a timely manner and to communicate actionable guidance to SVB.

A central finding is that supervisors had information about SVB's major vulnerabilities many months before its failure but did not make appropriate use of it. Frontline examiners, risk and surveillance specialists, and Reserve Bank and Board staff knew about SVB's exposure to interest rate and liquidity risk at least as early as nine full months before the Federal Deposit Insurance Corporation took the bank into receivership. The review concludes that long-standing uncertainty about decisionmaking authority and the lack of clear accountability impeded timely decisionmaking.

The preliminary review also corrects earlier mischaracterization that social media was to blame for the run on SVB, and that the Fed's failure to act was caused by statutory tailoring or regulatory changes.² Instead, the report notes long-standing problems in supervisory accountability and decisionmaking as the most significant contributors to the failure to issue timely critical enforcement actions related to core risks.

The Imperative of Timely Action

While supervisory decisions must be grounded in evidence, legal authority, and judgment, the impact of supervisory decisions is only effective if delivered in time. When supervisors note vulnerabilities as they emerge, banks have more options and flexibility to course correct. At the point when weakness emerges, a bank can often gradually reduce exposure, strengthen its liquidity position, improve contingency planning, or raise capital under normal market conditions.

² The 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act.

But where supervisors perpetually delay communication or action—to continually wait for additional evidence, more concurrence, or another committee meeting—supervision bogs down and loses effectiveness. Timely and efficient action is key to successful supervisory outcomes.

The review notes that supervisory attention at SVB often centered on process, procedure, governance, and controls rather than on mitigating the underlying interest rate and liquidity exposures. SVB had 54 matters requiring attention or immediate attention between 2019 and the time of its failure, yet none of those supervisory findings required the bank to address its core financial risks. In other words, a supervisory organization can be extremely busy and still fail to focus sufficiently on the risks that matter most. It can issue many findings, require firms to spend significant time and resources on remediation of less important process-related issues, and devote enormous resources to governance and process while failing to compel action on the vulnerabilities most capable of threatening the institution's existence.

Supervisory Prioritization and Accountability

A supervisory culture of timely action must also be paired with clear roles and responsibilities so that supervisors are empowered to act. The independent review describes uncertainty within the Federal Reserve System about decision rights and lack of accountability across the supervisory system. In our structure, different groups identified risks, many others were expected to concur, and yet no individual clearly owned the obligation to reach a decision and propel action.

A modern supervisory organization needs clear answers to the basic questions of: who owns the decision to move forward? Who has authority to act? Who is accountable

for ensuring that a material risk is addressed? And when different parts of the organization disagree, who is responsible to resolve that disagreement and keep pressing forward?

Modern supervisory organizations increasingly rely on surveillance, specialist teams, and data analysis that allow us to identify patterns across institutions. Those capabilities are enormously valuable. But identifying a risk matters only if there is a clear path from information to judgment and from judgment to action.

That is why we at the Federal Reserve System are considering ways to enhance our supervisory decisionmaking framework to ensure

- more direct allocation of responsibility, authority, and accountability between the Board and Reserve Bank staff;
- clear decision rights for examiners and supervisory leadership; and
- direct escalation channels from examination teams to senior supervision leadership.

In the fall of 2025, the Board published a Statement of Supervisory Operating Principles clearly stating our expectations about how supervisors should conduct supervision. We have refined those principles, most recently to incorporate lessons learned from the independent review of the 2023 banking stress. Publishing these principles further improves supervisory transparency and accountability. They refocus supervisory efforts on what matters most: early identification of material risks, exercising sound supervisory judgment, and a broad range of supervisory tools to enable timely and proportionate action to address material risks before they threaten the safety and soundness of an institution or the stability of the financial system.

International Implications and Proportionality

The benefits of our supervisory modernization efforts are not limited to the Federal Reserve. They have implications far beyond the United States. Our reforms and the lessons learned from the independent review are equally applicable to supervisors around the world. As chair of the FSB's Standing Committee on Supervisory and Regulatory Cooperation, I have engaged many member jurisdictions to advance the FSB's regulatory and supervisory modernization agenda. The FSB's 2026 work program reflects that countries around the world are also evaluating whether regulatory and supervisory frameworks remain well suited for future financial systems.

There are important common themes in that work. Modernization is not about doing less. It is about more effectively prioritizing the things that matter the most. This includes concentrating on material risks, appropriately tailoring supervisory intensity, periodically reconsidering processes that may have accumulated over time to ensure they are still fit for purpose, and providing clarity so that supervisors can reach decisions quickly enough to make a difference.

Tailoring or proportionality does not mean weaker supervision. It means directing supervisory attention to the risks that are most material given the institution's size, complexity, activities, business model, interconnectedness, and potential impact on financial stability. A community bank engaged in conventional lending and deposit-taking does not require the same supervisory approach as a globally active institution engaged in complex trading and cross-border activities.

The purpose of prioritization is to distinguish issues that are genuinely capable of threatening safety and soundness from matters that may warrant attention but do not

present the same degree of financial risk. This distinction requires supervisory judgment. And judgment inevitably requires making choices. A supervisory organization that treats every issue as equally important will tend to devote substantial attention to matters that are easiest to document, measure, and track, leaving other risks that require synthesis, experience, and enhanced judgment to receive less attention than they deserve. The objective should not be to maximize the number of findings that are issued. It should be to identify the risks that matter most and address them while there is still time to alter the trajectory.

International bodies, including the BCBS and the FSB, can help most in this supervisory modernization effort by focusing on their core mandates and by remaining evidence and data driven. They should prioritize work on areas that matter most—issues related to safety and soundness as well as financial stability.

International Lessons Learned

The independent review of SVB shows that international standard-setting bodies, including the BCBS and the FSB, relied unquestioningly on incomplete reports compiled quickly and shortly after the failure of SVB. The independent review found that both the BCBS and the FSB took language nearly verbatim from other reports published in the United States that were not based on complete or accurate information. The independent review determined that these reports from the BCBS and the FSB generally repeated existing claims by other reports rather than independently verifying the information or increasing the breadth of evidence offered in their support.

As a result, the purported lessons learned put forth in the April 2023 report by then–Vice Chair Barr were initially used to justify additional regulatory work, including

at the BCBS and the FSB. That work was inherently flawed because it was based on incomplete and faulty initial report findings, not a broader analysis like that provided by the independent review. Now, with the benefit of more comprehensive evidence and analysis, we can see that the international bodies' work based on prior results was not justified.

The BCBS's mandate is to strengthen regulation and supervision practices worldwide with the purpose of enhancing financial stability.³ Similarly, the FSB was established to coordinate and promote effective regulatory, supervisory, and other financial-sector policies in the interest of global financial stability.⁴ To maintain their credibility, these institutions must redouble their focus on material risks—those that affect safety and soundness or financial stability—while eschewing less valuable work that misdirects resources toward less valuable priorities.

These institutions must also seek to validate data and analysis that is relied upon for international standards and regulations. Simply accepting data and analysis without rigorous validation risks building international standards on flawed foundations, potentially undermining both the effectiveness of regulations and the credibility of these critical institutions.

Refocusing action on issues of material harm will allow these institutions to remain true to their core mandates and serve a more valuable purpose in fostering supervisory modernization.

³ See the BCBS's charter, which is available on the Bank for International Settlements' website at <https://www.bis.org/committees/bcbs/charter>.

⁴ See the FSB's charter, which is available on the FSB's website at https://www.fsb.org/uploads/r_090925d.pdf.

Conclusion

As we continue to modernize supervision and regulation at the Federal Reserve, and as we work with our international colleagues through the FSB and the BCBS on modernization, we must have the humility to continually reevaluate the effectiveness of our own supervisory processes. We should continue to assess how we make sure our supervisory efforts are keeping pace with a rapidly changing ecosystem. For instance, how do we organize our people to allocate authority and prioritize risks? How do we tailor supervisory intensity and equip our staff to quickly move from identifying a material vulnerability to taking appropriate action?

The financial system will continue to evolve rapidly. Our supervisory institutions must evolve with it. A critical measure of whether that modernization succeeds will be whether supervisors are able to identify the risks that matter and act decisively at the point when their actions can have the greatest impact.

Thank you.