

# Course 9

1/ Developments in the US

2/ “Accidents” – SVB (First Republic), the UK “mini-budget”, Crédit Suisse

3/ Conclusion

# 1. Developments in US

# Dodd–Frank Wall Street Reform and Consumer Protection Act (2010)

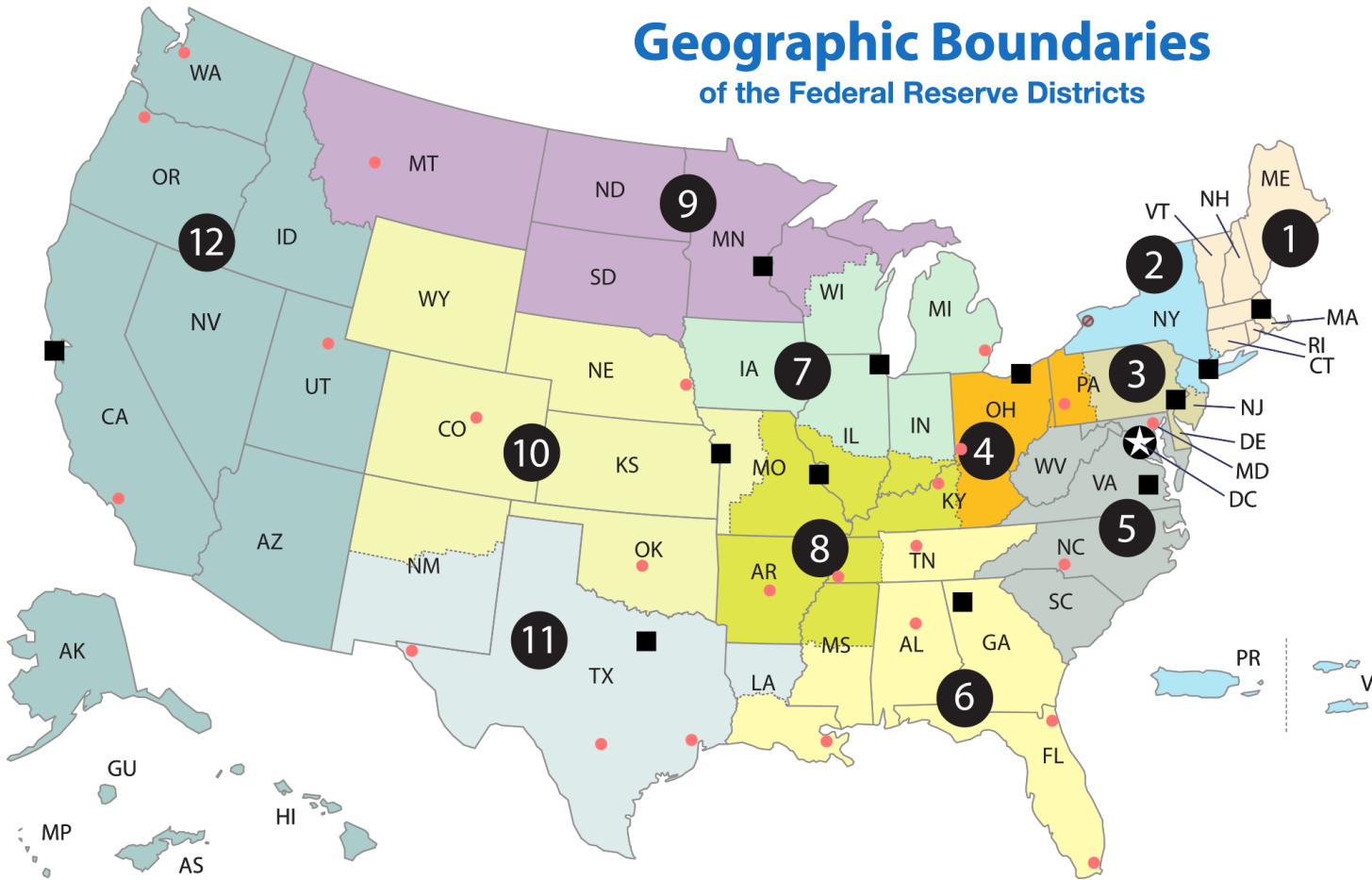
- A huge piece of legislation – nearly 850 pages (compared to the Glass Steagall Act, 1932, incorporated in Banking Act 1933 – 50 pages)  
(this is an indication of the problem of complexity)
- Several agencies covering many areas
- Raises questions of managing oversight

# Some key measures:

- Financial Stability Oversight Council – to monitor firms (too-big-too-fail) – orderly liquidation fund – it can break up banks (under authority of US Treasury)
- Consumer Financial Protection Bureau (CFPB) – prevents predatory mortgage lending (independent agency)
- Securities and Exchange Commission (SEC) Office of Credit Ratings – to oversee ratings agencies.
- Whistleblower Program – with bounties from litigation

# The Federal Reserve System

## Geographic Boundaries of the Federal Reserve Districts



- Federal Reserve Bank of Boston
- Federal Reserve Bank of New York
- Federal Reserve Bank of Philadelphia
- Federal Reserve Bank of Cleveland
- Federal Reserve Bank of Richmond
- Federal Reserve Bank of Atlanta
- Federal Reserve Bank of Chicago
- Federal Reserve Bank of St. Louis
- Federal Reserve Bank of Minneapolis
- Federal Reserve Bank of Kansas City
- Federal Reserve Bank of Dallas
- Federal Reserve Bank of San Francisco

# Federal Deposit Insurance Corporation (FDIC)



- Set up in 1933 to insure deposits
- Since Dodd-Frank, the FDIC insures deposits in member banks up to \$250,000 per ownership category
- (In Europe €100,000 for all accounts in the same bank, [Bercy Infos](#) [retrieved 16/11/2023]).

# Volcker Rule (to protect commercial banking)



1927-2019

Binyamin Appelbaum and Robert D. Hershey Jr.,  
“[Paul A. Volcker, Fed Chairman Who Waged War on Inflation, Is Dead at 92](#)”, The New York Times, Dec 9, 2019.

- Prohibits proprietary trading
- Commercial banks cannot trade on their own account: i.e. it cannot use its own capital to trade in financial assets (notably derivatives)
- See Investopedia “[Proprietary Trading:...](#)” and video

# Trump Rollback on Dodd-Frank: Economic Growth, Regulatory Relief, and Consumer Protection Act, (EGRRCP or the “Reform Act”, May 24, 2018



Trump hypes himself as a “[deregulator](#)” of the economy.

The financial industry lobbies against capital liquidity, stress requirements for regional and community banks – bad for the economy.

- Threshold of SIBs/SIFIs up from \$50 to \$250 billion
- Companies with less than \$100 bn exempted from prudential standards
- Limited stress testing for banks with \$100 bn or more
- lenders with assets less than \$10 billion from Volcker rule requirements



# Key members of the Trump team – and deregulation

Steven Mnuchin



Official portrait, 2018

77th United States Secretary of the Treasury

The “[foreclosure king](#)” at OneWest after GCF.

Gary Cohn



11th Director of the National Economic Council

In office

January 20, 2017 – April 2, 2018

COO at Goldman Sachs before entering White House.

GPT-4 (16/12/2023), also lists:

- restructuring the CFPB (reduced enforcement and fines)
- greater flexibility to financial advisors (handling retirement accounts)
- SEC: more simplified disclosures

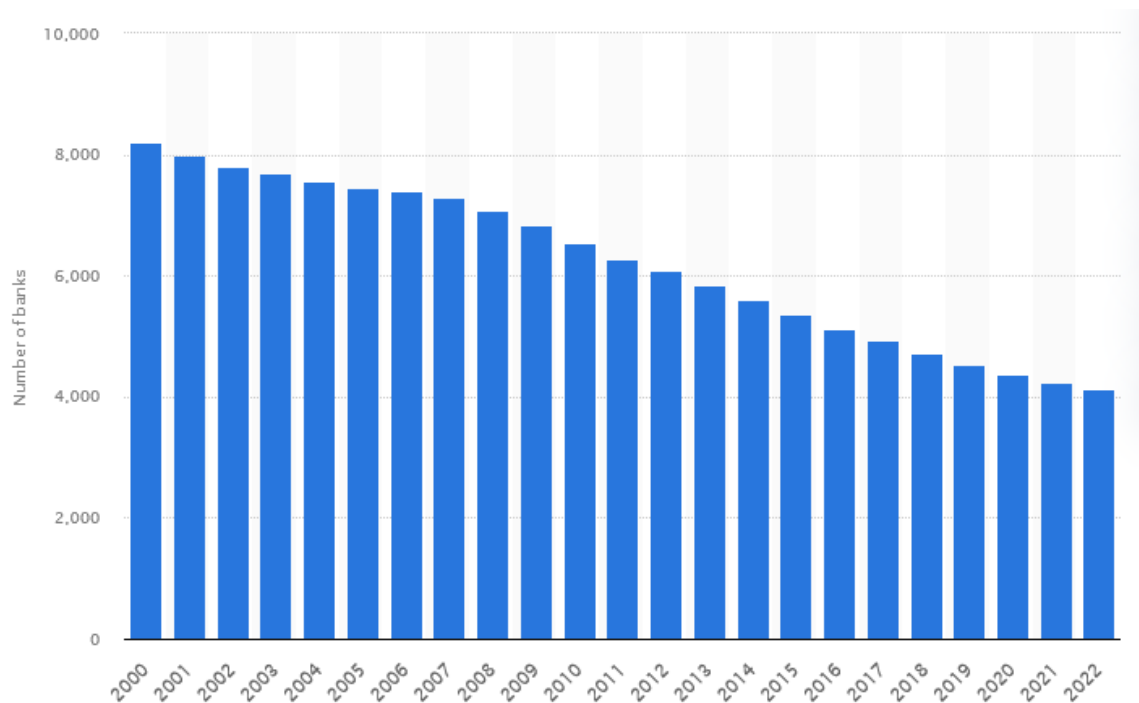
-[Tax Cuts and Jobs Act \(2018\)](#): not deregulation but the \$1.125 in net benefits to individuals and entities plus \$320 billion for corporations.

A big boost to businesses and financial institutions.

See PDF file for more detail

# Steady concentration of banking system

Number of FDIC-insured US commercial banks, 2000-2022 (down from just over 8,000 to just over 4,000)



Source: Statista, [Number of FDIC-insured commercial banks in the United States from 2000 to 2022](#), 2023 [retrieved 16 November 2023].

## Jamie Dimon bails out First Republic – and FDIC

By Lauren Silva Laughlin

May 2, 2023 9:43 AM GMT+2 · Updated 6 months ago



Commentary | By Lauren Silva Laughlin



Jamie Dimon, CEO of JPMorgan Chase, leaves after the launching of the Advancing Cities Challenge, in Pantin, a suburb of Paris, France, November 6, 2018. REUTERS/Benoit Tessier [Acquire Licensing Rights](#)

After the rough ride of bailing out Bear Stearns in 2008, Dimon and JP Morgan get a “sweetheart” deal from the FDIC. Lauren Silva Laughlin, [Reuters](#), May 2, 2023

# Shadow banking could be a significant weakness...

## Investopedia



Michael Bromberg (reviewed Julius Mansa), "[Shadow Banking System: Definition, Examples, and How It Works](#)", Investopedia, updated August 02, 2023.

Financial institutions like hedge funds, private equity funds, mortgage lenders and even large investment banks etc.

They do not take demand deposits! So they are less regulated.

Make large loans, and (speculative) investments.

49.2%

*The shadow banking system's relative share of total global financial assets at the end of 2021, according to the Financial Stability Board (FSB).<sup>[6]</sup>*

2/ “Accidents” – SVB, the UK  
“mini-budget”, Crédit Suisse

# Cryptos – have escaped regulation



FTX Trading Ltd

'It just kinda went crazy': FTX's lavish spending highlights lack of controls

Source: Financial Times, 30 November 2022

- Cryptos have so far remain unregulated: due to their nature (decentralised ledgers), their complexity, operations across jurisdictions.
- Central banks have warned investors about total losses.
- (Tooze – after FTX collapse – suggested regulating like gambling)
- Ponzi scheme nature
- Illicit business
- CBDCs could be a way forward: centralised – problems of civil liberties and competition with banks

# Silicon Valley Bank (SVB) – bank run – closed March 10, 2023



Under EGRRCPA, SVB (and others) nor required to calculate and report Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio, or carry out liquidity assessment reviews.

**Capital and Liquidity are not the same thing.**

SVB not obliged to calculate Net Stable Funding Ratio  
Trump weakened Comprehensive Liquidity Assessment Review (for serious stress-testing).

Largest failure since 2008

-concentration in one sector

-higher interest rates made getting new venture capital hard, companies (start-ups) withdrew cash > bank run

-SVB held long-term government bonds – safe but low yields (2%). As interest rates rose, prices fell.

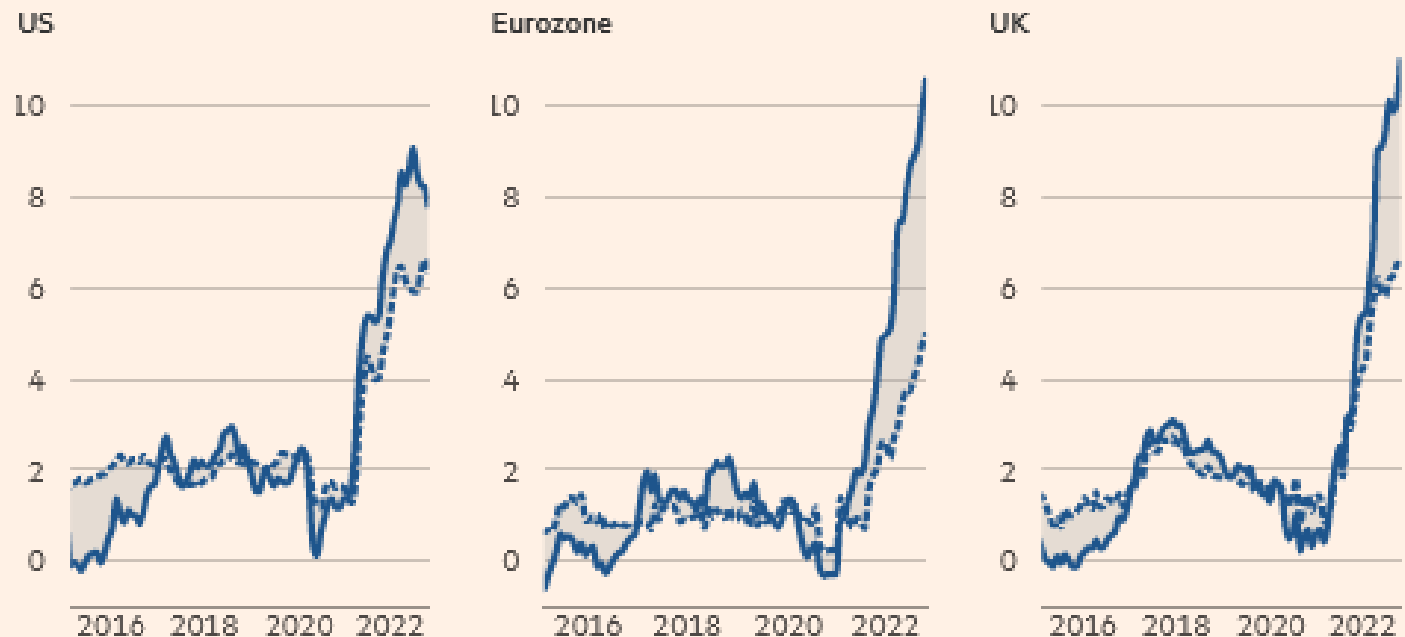
**-Fed stepped in to bail-out depositors with more than \$250,000**

# Rise of inflation...?

- What is going to happen to prices?
- Recently, some indication of increases moderating in the US.
- But the Covid-19 situation in China remains very difficult > consequences for global supply chains.
- Energy costs remain high.

Higher energy costs are not the only reason for the rise in inflation

Annual % change in CPI and 'core' CPI (excluding food and energy, dotted line)

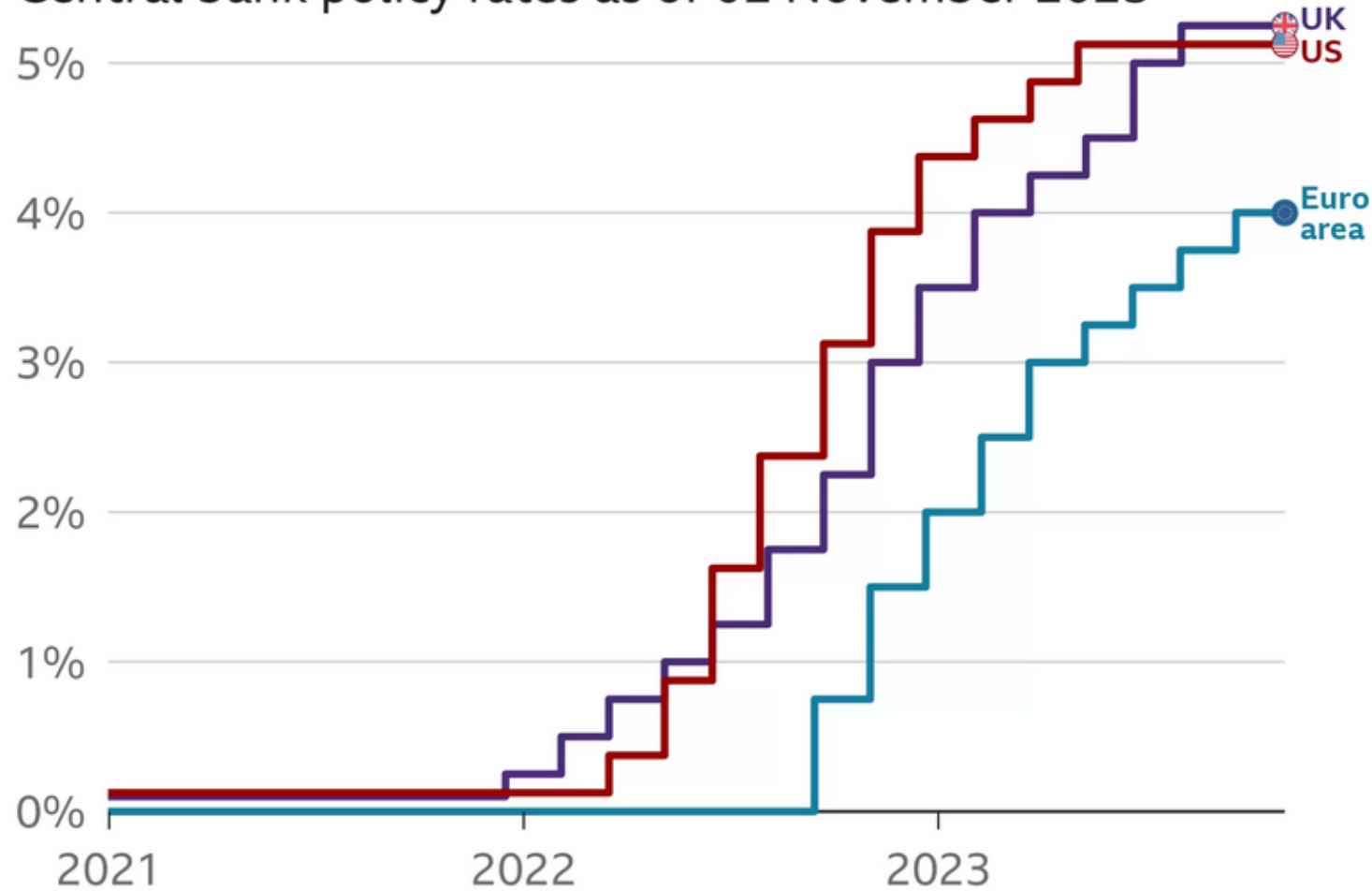


FINANCIAL TIMES

Source: Refinitiv

# Interest rates on the rise

Central bank policy rates as of 02 November 2023



Sources: National central banks



Source: Kevin Peachey, "[Interest rates: How the Bank of England's decision affects you and your money](#)"  
BBC News, 2 November 2023.



# The consequences of higher interest rates

- Higher interest rates are putting pressure on bond markets and stocks
- Possibilities of financial instability: the UK mini-budget and mini-crash in September 2022; when pension funds faced a liquidity crunch, suggest unexpected weaknesses in markets.

## UK “Fiscal event” / “mini-budget” 23 Sept 2022 >> potential crash



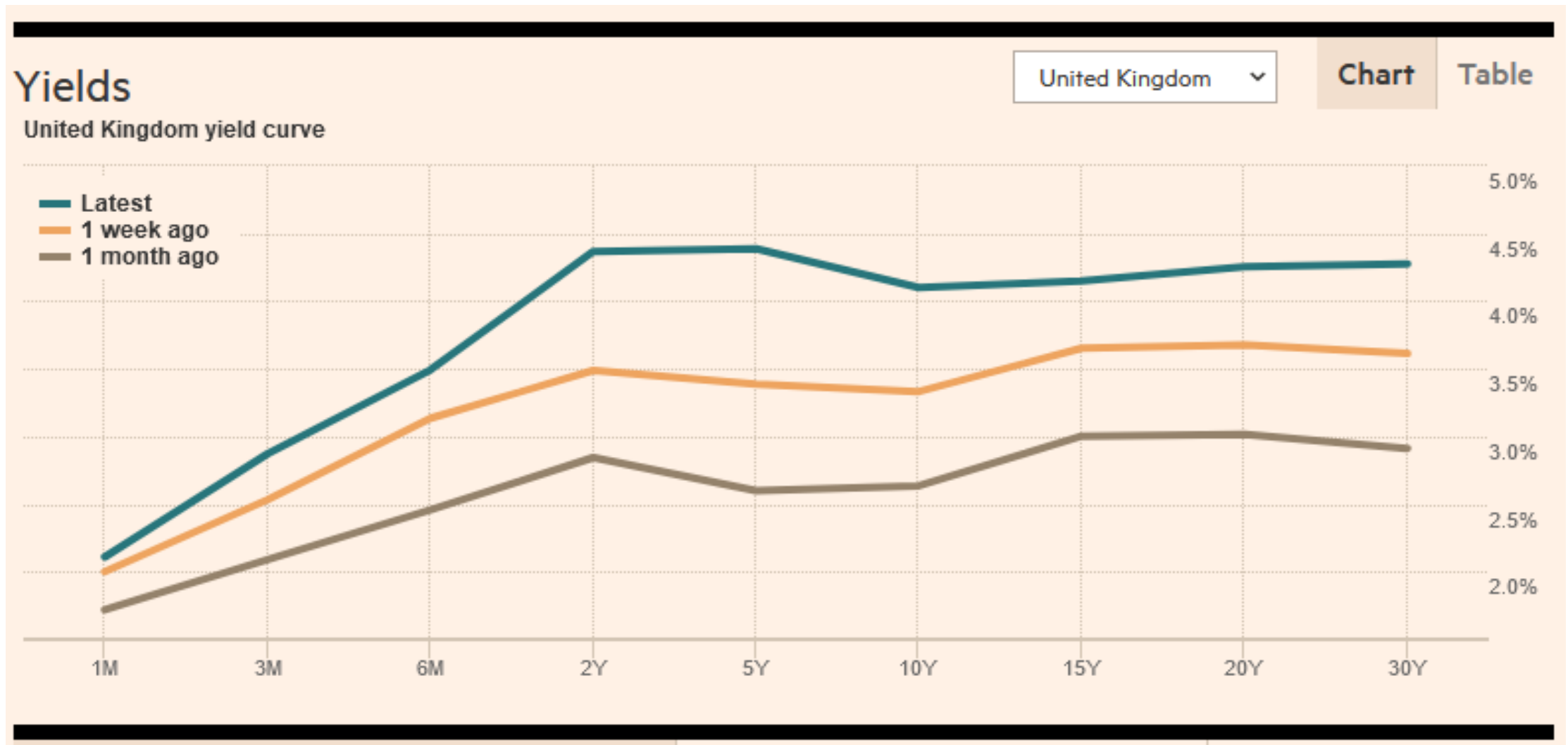
### **Tax cuts £45 billion**

- Top tax rate (45%) abolished (April 2023)
- Basic rate cut to 19%
- April 2022 rise in NI of 1.25% reversed
- Stamp duty threshold up (£425,000)
- Bankers’ bonus limit scrapped

### **£60 billion to cap energy prices**

Freeze on energy bills (price cap around £2,500 per year,) for 2 years from Oct 2022.

# Immediate impact on interest rates...



Source: <https://markets.ft.com/data/bonds> - about 4pm 28 September 2022.

“The chapter on the Fall of the Rupee you may omit. It is somewhat too sensational.”

Oscar Wilde, *The Importance of Being Earnest*



Chris Giles and George Parker,  
“How Significant is the sterling crisis?”,  
*The Financial Times*, Sept. 26, 2022.

# The Bank of England steps in 28 Sept 2022



“whatever scale is necessary” to stabilise gilts market

- £65 billion to buy up long term bonds - £5 billion per day
- Run on pension schemes gilt prices fell: a problem in so-called “liability-driven investment derivatives”. Pension schemes used these to “reach for yield” when interest rates were low, but led to damaging exposure with gilt prices fell.

# “Credit Suisse falls prey to a crisis of confidence”

SVB’s collapse has led to jittery markets seeking banking’s weakest link, Editorial Board, Financial Times, March 16, 2023



Credit Suisse received an emergency \$54bn backstop from the Swiss central bank but it is unclear whether the support will be more than a sticking plaster in the longer term © Pascal Mora/Bloomberg

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FT FILM

**CREDIT SUISSE: A STORY OF SCANDAL AND DECLINE**

Video description Transcript

News in-depth Banks

**Credit Suisse: what next for the crisis-hit bank? | FT Film**

The Credit Suisse story is about how finance went wrong at one of Switzerland's most important institutions and one of the most important banks in Europe. It's a tale of high-profile scandals, from corporate espionage to cocaine smugglers and oligarchs. But what does the future hold for the venerable institution? Credit Suisse's new chairman, Financial Times reporters and banking industry experts explain it all

July 14, 2022. Produced, directed and edited by Daniel Garrahan. Filmed by Petros Gioumpasis and Andrea Capranico. Graphics by Russell Birkett. Colour grade by Nevan Carey. Audio design by Matt Jones

## [Financial Times video, July 14, 2022](#)

Essentially a private bank for wealthy individuals.

A rescue with UBS was organised, which itself had to be bailed-out after the GFC.

A complex failure following multiple errors, including significant conflict within top management.

# 3. Conclusion

Mayra Rodriguez Valladares, "[How Trump's Deregulation Sowed The Seeds For Silicon Valley Bank's Demise](#)", Forbes, March 3, 2023.

“It saddens me greatly that people ignore history. Every couple of years lenders and traders tell me that “this time, it will be different.” *The style of the movie may be different, but the ending is always the same.* Every time bank regulations are eliminated or made lighter, banks proceed to take on more risks and reduce risk identification and measurements. They then implode.”



# Final take-outs

- Uncertainty is high (but then I have said this for years ☹️ 😊)
- We still don't know what monetary tightening and the run down of CB assets will entail.
- Little financial dominance so far: i.e. central banks being obliged to undertake more expansionary policies for fear of financial instability.
- For the moment, the international financial architecture seems unlikely to change > despite the GFC and Covid-19, there is little support more radical change to banking and finance.
- But there may be liquidity risks in the system (“accidents”)
- Credit and debt drive capitalism
- The lure of lucre is inexorable

**There will always be financial crises.**

