Roads to Riches: Collapse of Silicon Valley Bank

Thomas Jefferson Model United Nations Conference

TechMUN XXXI

High School Specialized Agency

Co-Chairs: Chinmayee Yerraguntla & Tanmayee Maddineni

Thomas Jefferson High School for Science and Technology

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Dear Delegates,

Welcome to TechMUN XXXI, but more importantly, to the Collapse of the Silicon Valley Bank committee! We are your chairs, and we're excited to hear what you guys have to say about one of the most historic economic failures in US history. This committee takes place shortly after the collapse of the Silicon Valley Bank, which occurred on March 10, 2023. Each and every person on this committee is related to the collapse in some capacity, and although some may be more well-known than others, they are all equally important in the grand scheme of the events that occurred last year. It is of the utmost importance that you represent your person from the first committee session to the last. The first topic addresses the debate over whether or not the government should be involved in the banking industry while the second topic discusses the direct aftermath of the collapse and steps to moving forward.

We are looking for well-researched delegates with content-filled speeches who are able to effectively present their solutions in a diplomatic manner. We believe that the most important attribute of a delegate is to be a leader who is given leadership, rather than one who takes it. Make sure to try to give as many speeches as possible and as delegates ourselves, we understand that a few mistakes in some of your speeches shouldn't dictate your experience for the rest of the committee. No matter how many conferences you have done, speeches you have given, or unnecessary WhatsApp group chats you have been a part of, we are striving to make sure TechMUN this year will be a conference for each and every one of you to remember. Please do not hesitate to email us at siliconvalleytechmun2024@gmail.com if you have any questions or concerns.

Chinmayee Yerraguntla & Tanmayee Maddineni

Co-Chairs, Roads to Riches: Collapse of Silicon Valley Bank

Introduction to the Collapse of the Silicon Valley Bank

Welcome delegates to Roads to Riches: Collapse of the Silicon Valley Bank! In March 2023, Silicon Valley Bank (SVB), a major financial institution known for serving the technology industry, experienced a sudden and dramatic collapse. This event, marking the second-largest bank failure in U.S. history, sent shockwaves through the tech sector and other related industries. The collapse stemmed from a deadly combination of factors, including risky investment strategies and a loss of confidence from depositors, ultimately leading to the bank's closure by federal regulators. The SVB case continues to be analyzed and debated, highlighting the complexities of risk management and the interconnectedness of the financial system.

One of the main effects of the collapse of the SVB was the strong belief by some politicians that the banking industry should be heavily regulated by governmental bodies. These politicians believe that the collapse of the bank was a direct result of “too much freedom” and that it would not have occurred had the government had some say in the way the bank operated. As such, the first topic discussed below will be the different sides of this debate and to what capacity the government should be involved in making decisions in the banking industry. Delegates are expected to research not only their person’s relation to the bank but also their views on government regulation in the banking and tech industry.

Every scandal has three parts: the buildup, the climax, and the aftermath. The financial world held its breath in anticipation to see how the executives and leaders of the SVB would react to what can be considered an epic failure. Though the real-life aftermath will be discussed, delegates will have the opportunity to rework and reimagine their idea of what should’ve happened after the collapse.

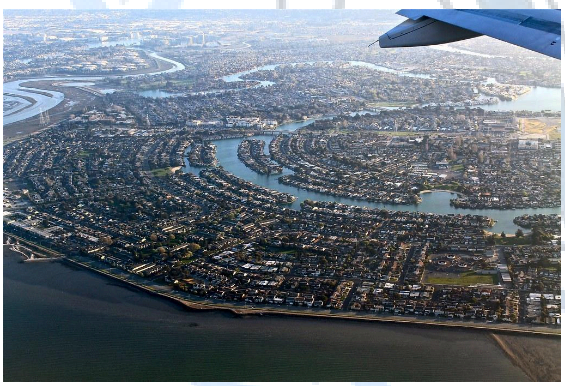
We encourage everyone to share their ideas and engage in fruitful discussions that will lead to meaningful resolutions. So, let's have fun, and try not to cause another financial disaster!

Topic 1: Government Intervention in the Banking World

Introduction:

The March 2023 collapse of Silicon Valley Bank (SVB), the second-largest bank failure in U.S. history, was a shock to investors, depositors, and industry peers alike. It reignited the longstanding debate about the appropriate level of government intervention in the banking industry. Examining the key issues surrounding SVB's collapse and exploring potential solutions can offer valuable insights into this complex and critical economic discussion.

One of the most concerning aspects of the SVB case lies in the area of risk management. In their pursuit of higher returns, the bank heavily invested in long-term bonds and technology-focused loans, a strategy that exposed them to significant market fluctuations. A report by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve (FRB) identified "risk management weaknesses" as a key factor in the bank's failure, including an overreliance on "interest rate-sensitive liabilities" and inadequate liquidity reserves. This highlights the potential risk associated with deregulation and the need for robust internal risk management practices within financial institutions.



Furthermore, the SVB collapse exposed potential shortcomings in the deposit insurance system. While most depositors were ultimately protected by the FDIC, the bank run that triggered the collapse caused significant disruptions and highlighted vulnerabilities in fragile financial institutions. As Senator Elizabeth Warren aptly stated, "The collapse of Silicon Valley

Bank demonstrates the potential for large bank failures to cause significant harm, even when they are resolved quickly."

Relevant Issues

Following the collapse of the Silicon Valley Bank, there were several proponents of government intervention in the banking industry. Gavin Newsom, the governor of California, as well as several senators from California and Arizona, called upon the president and the FDIC to impose stricter regulations on banking establishments. Many people focused on the safety of depositors; that depositors should be made whole, that the FDIC should protect uninsured depositors, and that there should generally be rules to protect depositors from the misuse of their money. Other senators believed that large depositors were being unfairly prioritized by proponents of regulation. There are multiple divisive opinions about the role of the government in the banking world, each with their own merit.

The question that remains today is, does government intervention create a moral hazard, encouraging banks to take on riskier bets knowing they are partially protected in case of failure? Of course, government intervention should, in theory, provide a bound to the limits to which a bank can go, but it can have the opposite effect. Critics of intervention argue that this can lead to systemic instability as banks become less cautious in their lending practices. While this remains a valid concern, policymakers should aim to strike a balance by implementing stricter regulations on capital requirements, liquidity ratios, and risk management practices, alongside robust stress testing to assess banks' ability to withstand economic shocks.

Possible Solutions

When thinking about solutions to this topic, it is of the utmost importance that delegates keep their position in mind. Several people in this committee have strong opinions about government intervention in the banking world or in their respective industries, and it is those strong opinions that will shape debate in committee. Exploring ways to strengthen deposit insurance, such as tiered coverage or risk-based premiums, could mitigate the risk of bank runs and instill greater confidence in depositors in the banking system. Furthermore, fostering competition within the banking sector is crucial for preventing excessive concentration of risk and promoting innovation. As the FDIC Chair Martin Gruenberg noted, "SVB's reliance on a single funding source … exposed a vulnerability in the banking system." Encouraging competition through regulatory reforms can create a more diverse and resilient financial system.

The fall of the Silicon Valley Bank was a stark reminder as well as an impactful lesson to finance and tech leaders. To ensure that something like this doesn't occur again, the banking system must change; whether or not the government facilitates this change is up to you.

Questions to Consider:

1. What were the main causes of the collapse and what steps must be taken to fix those things?
2. How did the state of California react to the collapse of the SVB, and how did that effect views on government regulation?
3. Ultimately, which governmental bodies have the power to cause change and how can they do it in a way that doesn't infringe banks' sovereignty?
4. From the point of view of peers in other related industries, how can views on government regulation in thsoe industries be applied here?
5. What is an ideal solution or scenario that we should be working towards? Is that possible given the scope of this committee?

Helpful Links:

https://en.wikipedia.org/wiki/Collapse_of_Silicon_Valley_Bank

https://www.bankrate.com/banking/bank-failures-latest-updates-silicon-valley-signature-bank/

https://www.nytimes.com/article/svb-silicon-valley-bank-collapse-timeline.html

https://www.techtarget.com/whatis/feature/Silicon-Valley-Bank-collapse-explained-What-you-need-to-know#:~:text=The%20collapse%20happened%20for%20multiple,SVB's%20depositors%20were%20startup%20companies.

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FDIC. “Failed Bank Information for Silicon Valley Bank, Santa Clara, CA.” *FDIC*, https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/silicon-valley.html. Accessed 6 March 2024.

FDIC. “Remarks by Chairman Martin J. Gruenberg on Recent Bank Failures and the Federal Regulatory Response before the Committee on Banking, Housing, and Urban Affairs, United States Senate.” *FDIC*, 27 March 2023, https://www.fdic.gov/news/speeches/2023/spmar2723.html. Accessed 6 March 2024.

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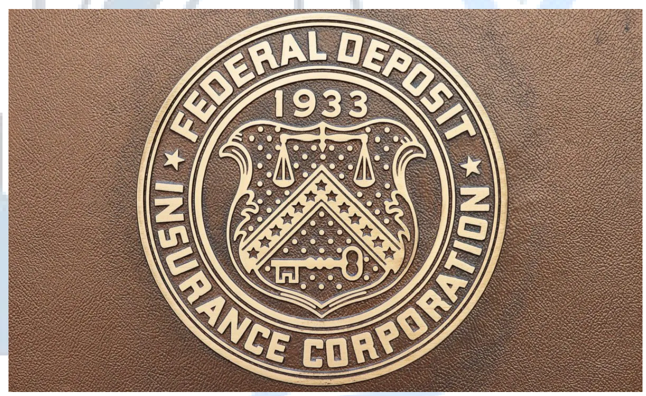
World Bank. “Governance and Development.” https://documents1.worldbank.org/curated/en/604951468739447676/pdf/multi-page.pdf. Accessed 6 March 2024.

Topic 2: The Aftermath and Response to the SVB Collapse

Introduction:

Once considered a niche player catering to tech startups, the Silicon Valley Bank's failure exposed vulnerabilities in the system and sparked a national conversation about the appropriate responses and future steps. In the immediate aftermath, the Federal Deposit Insurance Corporation (FDIC) stepped in to protect insured deposits, preventing widespread financial panic. However, this move sparked debate about potential moral hazard, with some, like Senator J.D. Vance (R-OH), expressing concern that it could incentivize riskier behavior by banks and investors, potentially leading to similar situations in the future. Additionally, the SVB collapse highlighted the interconnectedness of the financial system, showcasing how localized failures can have broader economic consequences. This emphasizes the need for strong financial systems that can withstand localized shocks without cascading into broader crises.



Senator Elizabeth Warren (D-MA) and others voiced concerns about inadequate regulatory oversight that potentially allowed practices like large loans to venture capital firms, exacerbating the SVB crisis. This raised questions about the effectiveness of existing regulation in a rapidly evolving financial landscape that is catered towards the technological sector, a field with no limits or bounds. While the FDIC ensured no depositor lost more than $250,000, concerns arose regarding the fairness of this limit. San Jose Mayor Matt Mahan pointed out its inadequacy in regions with high living costs like Silicon Valley, advocating for raising the limit to better protect smaller players. Moreover, ethical concerns were raised surrounding last-minute bonuses awarded to SVB employees before the bank's failure.

Several executives of the SVB resigned almost immediately, but not before a Senate hearing about the collapse of the Silicon Valley Bank, where executives were interrogated about their actions. Senators from both parties criticized the banks' management for contributing to the collapse through practices like aggressive risk-taking and inadequate liquidity management. The bank's culpability was something that both parties could whole-heartedly agree on, and one thing was clear: the Silicon Valley Bank would never be the same.

Possible Solutions:

With several executives resigning almost immediately, the aftermath of the SVB collapse was nothing short of chaotic and disordered. The FDIC sold the SVB's assets, giving the dividends to uninsured depositors. Essentially, the federal government bailed the bank out, doing the reparations that the bank should have done itself. Needless to say, the aftermath of the SVB was poorly conducted by the company, and the government did most of the work. There are several elements to reimagining the aftermath of the SVB: the status of the company and its executives, reparations, future clients, and reconstruction of the bank.

For this topic, delegates will be tasked with reimagining the aftermath of the Silicon Valley Bank, so the solutions are vast and endless (as long as you are representing your person's views)!

Questions to Consider:

1. What were the direct implications of the actions of executive members, and how did that affect the trajectory of the SVB?
2. Consider the government's involvement in the response to the collapse. If that changed, how would the aftermath differ from what it is currently?
3. Should the SVB continue to be an institution, or should it be scrapped entirely? If it continue to be an institution, what needs to be changed?
4. Are the bank's actions defensible? Who should the blame be placed on, and what repercussions should they face?
5. What will the banking world and technology sector look like without the existence of the SVB?

Helpful Links:

https://www.investopedia.com/the-express-podcast-episode-128-7254606

https://globaledge.msu.edu/blog/post/57251/effects-of-the-silicon-valley-bank-colla

https://ir.svb.com/events-and-presentations/default.aspx

https://www.cnbc.com/2023/03/10/silicon-valley-bank-is-shut-down-by-regulators-fdic-to-protec
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Dossier

Founders:

1. Bill Biggerstaff: Co-founder
2. Robert Medearis: Co-founder

Executives and Board Members:

3. Gregory Beck - CEO of SVB
4. Daniel Beck - CFO of SVB
5. Philip C. Cox - COO of SVB
6. Garen K. Staglin - Board member, Director of SVB Financial Group
7. Beverly Kay Matthews - Chairman of SVB Financial Group
8. Marc C. Cadieux - Chief Credit Officer of SVB
9. Michael R Descheneaux - President of SVB

Industry/Related Peers

10. Elon Musk - CEO of Tesla Motors
11. Peter H. Blum - Co-CEO and Co-President of Ladenburg Thalmann Financial Services
12. Stanley C. Middleman - CEO and Founder of Freedom Mortgage Corporation
13. David Zalik - CEO and Founder of GreenSky
14. Bob Sternfels - Global managing partner of McKinsey and Co.
15. Brian Armstrong - CEO of Coinbase (competitor)
16. Natalie Wolfsen - CEO of Orion Advisor (competitor)
17. Darrell Heaps - CEO of Q4 Inc. (competitor)
18. Jamie Dimon - CEO of JP Morgan

Clients

19. Brian Chesky - CEO and Co-founder of Airbnb
20. Chuck Robbins - CEO of Cisco
21. James Park - CEO and Co-founder of Fitbit
22. Bill Ready - CEO of Pinterest
23. Alyssa Henry - CEO of Block Inc.
24. Jeremy Allaire - CEO of Circle Internet Financial
25. Anthony Wood - CEO of Roku
26. Jonathan Peng Zhao - CEO of Kanzhun Limited

Government

27. Joe Biden - President of the United States
28. Gavin Newsom - Governor of California
29. Martin J. Gruenberg - Chairman of the FDIC (Federal Deposit Insurance Corporation) Board of Directors
30. Derrick Seaver - CEO of San Jose Chamber of Commerce
31. Todd M. Harper - Chairman of National Credit Union Administration
32. Merrick B. Garland - Attorney General, leads the Department of Justice
33. Gary Gensler - Chair of Security and Exchange Commission

34. Jerome Powell - Chairman of the Federal Reserve
35. Scott Wiener - Senator, California
36. Bernie Sanders - Senator, Vermont
37. Rohit Khanna - Representative of California
38. Brad Sherman - Representative of California
39. Nikki Haley - Republican presidential candidate
40. Vivek Ramaswamy - Republican presidential candidate