FDIC Federal Deposit Insurance Corporation

MEMO

TO: The Board of Directors

FROM: Patrick Mitchell
Director, Division of Insurance and Research

DATE: July 30, 2024

RE: Request for Information on Deposits

SUMMARY AND RECOMMENDATION

The bank failures that occurred in March 2023 and the subsequent events renewed focus on deposit insurance coverage, bank funding concentrations, and certain banks' reliance on uninsured deposits. While banks are required to provide certain data on deposit liabilities on the Consolidated Reports of Condition and Income (Call Report),[1] they do not report comprehensive data on the composition of insured and uninsured deposits.[2] With the attached request for information (the request, or RFI), staff seek to further evaluate whether and to what extent certain types of deposits may behave differently from each other, particularly during periods of economic or financial stress.

The request for information includes questions on deposit data that is not currently reported in the Federal Financial Institutions Examination Council's (FFIEC) Call Report or other regulatory reports, including for uninsured deposits. The request seeks information on the characteristics that affect the stability and franchise value of different types of deposits and whether more detailed or more frequent reporting on these characteristics or types of deposits could enhance offsite risk and liquidity monitoring; inform analysis of the benefits and costs associated with additional deposit insurance coverage for certain types of deposits; improve risk sensitivity of deposit insurance pricing; and provide analysts and the general public with accurate and transparent data.

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[1] The "Call Report" consists of the Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices (FFIEC 031), the Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only (FFIEC 041), and the Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only and Total Assets Less than $5 Billion (FFIEC 051). U.S. branches and agencies of foreign banks file the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002). FFIEC 002 filers report many of the same deposit liabilities items as Call Report filers, including estimated uninsured deposits, preferred deposits, transaction accounts, and nontransaction accounts.
[2] The appendix to the attached request for information details relevant information on deposit liabilities available from the Call Report and other regulatory reports.

Concur:

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Harrel M. Pettway
General Counsel

Staff recommend that the FDIC's Board of Directors (Board) approve the attached request for information (the request, or RFI) and authorize its publication in the *Federal Register* with a comment period ending 60-days after publication.

BACKGROUND INFORMATION

A. The Events of March 2023 and the Role of Deposit Information in Offsite Risk and Liquidity Monitoring

In March 2023, runs of uninsured deposits contributed to the failures of Silicon Valley Bank and Signature Bank, respectively the second and third largest bank failures in the FDIC's history at the time, and the subsequent failure of First Republic Bank on May 1, 2023. These runs were exacerbated by each bank's high reliance on uninsured deposit funding and concentrations in the depositor base, among other factors.[3] The failures of these institutions and subsequent events prompted a renewed focus by regulators, banks, investors, and the public on deposit insurance, funding concentrations, and reliance on uninsured deposits.

A bank's liability structure can reflect its risk-taking behavior, and information about an institution's funding base is important in evaluating liquidity risk and interest rate risk. As demonstrated during the spring 2023 bank failures, deposit data are also important for monitoring liquidity. The experience of spring 2023 demonstrated that depositors may be able to move funds extremely quickly in the event of a bank's deteriorating condition or negative media attention. Deposit data are also important for receivership purposes, as the presence of deposit insurance coverage has direct implications for the costs associated with the resolution of a failed institution.

The Material Loss Reviews conducted following the failures of Silicon Valley Bank, Signature Bank, and First Republic Bank provided support for enhanced monitoring of uninsured deposit levels and concentrations. Furthermore, the 2023 Annual Report of the Financial Stability Oversight Council (FSOC) noted that reviews of recent events yield lessons about the ways in which banking supervision and resolution preparedness could be enhanced, and suggested that more granular information on uninsured deposits could be helpful.[4]

Following these recommendations and matters for consideration, the FDIC updated the Risk Management Manual of Examination Policies (Manual) to provide additional guidance for assessing the stability of uninsured deposits and related concentration risk management practices.[5]

While banks are required to provide certain data on deposit liabilities on the Call Report, including on transaction and nontransaction deposit accounts and other deposit data described in an Appendix to the request, they do not report comprehensive data on the composition of insured and uninsured deposits.

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[3] *See* Material Loss Review of Silicon Valley Bank, Office of the Inspector General of the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau, 2023-SR-B-013, September 25, 2023. *Available at:* https://oig.federalreserve.gov/reports/board-material-loss-review-silicon-valley-bank-sep2023.pdf. *See also* Material Loss Review of Signature Bank of New York, Office of the Inspector General of the Federal Deposit Insurance Corporation, EVAL-24-02, October 2023. *Available at:* https://www.fdicoig.gov/sites/default/files/reports/2023-12/EVAL-24-02.pdf. *See also* Material Loss Review of First Republic Bank, Office of the Inspector General of the Federal Deposit Insurance Corporation, EVAL-24-03, November 2023. *Available at*: https://www.fdicoig.gov/sites/default/files/reports/2023-12/EVAL-24-03.pdf.
[4] Financial Stability Oversight Council 2023 Annual Report. *Available at:* https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf.
[5] *Available at:* https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/section6-1.pdf and https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/section16-1.pdf.

Only banks with $1 billion or more in total consolidated assets report the estimated amount of uninsured deposits on the Call Report each quarter.[6] On an annual basis, banks also report a subset of uninsured deposits: preferred deposits, which are uninsured deposits of states and political subdivisions in the U.S. that are secured or collateralized as required under state law. Preferred deposits are the only component of uninsured deposits banks report separately on the Call Report and are the only type of collateralized deposits on the Call Report.

Also as described in the Appendix to the request, while certain institutions report information on deposit liabilities through other information collections, reporting requirements for most of these data collections are limited to the largest institutions or a subset of all insured depository institutions (IDIs). In most cases, the granularity of the data collected on deposits in these reports may also be limited in informing the efforts herein.

At the same time, the FDIC recognizes that different types of uninsured deposits may not necessarily behave the same way. For example, uninsured deposits that are secured by collateral generally do not have the same risk of loss as other types of uninsured deposits, although the presence of collateral may not fully mitigate run risk. Intercompany depositors also may have different incentives than unaffiliated depositors with respect to withdrawing funds. Because banks do not report these categories of uninsured deposits on the Call Report, the FDIC does not have historical data on banking industry trends for these types of deposits, including how depositors for these different types of deposits would behave under conditions of economic or liquidity stress. Furthermore, other types of uninsured depositors may have various other characteristics that impact the stability and franchise value of the associated deposits.

Given these observations and recommendations, the request includes questions on deposits, including how banks measure or evaluate the stability of different types of deposits and whether and how banks monitor collateralized or secured deposits, or intercompany deposits, such as deposits with affiliates and subsidiaries.

B. Options for Deposit Insurance Reform

Additional deposit data also would inform analysis of the benefits and costs associated with additional deposit insurance coverage for certain types of deposits. In May 2023, following the bank failures, the FDIC published a comprehensive review of deposit insurance, "Options for Deposit Insurance Reform," (the report) outlining three options to reform the nation's deposit insurance system.[7] The report examines three options for deposit insurance reform, which would require an act of Congress, that range in their departure from the status quo: Limited Coverage, Unlimited Coverage, and Targeted Coverage.

Limited Coverage would maintain the current structure of deposit insurance in which there is a finite deposit insurance limit that applies across depositors and types of accounts, while Unlimited Coverage would provide unlimited deposit insurance. As described in the report, Targeted Coverage would allow for different levels of deposit insurance coverage across different types of accounts, with a particular focus on higher coverage for business payment accounts. The report does not define precisely "business payment accounts" but suggests that they should reflect business accounts whose purpose is for payment services and not for investment. The report notes that although each option has strengths and weaknesses, Targeted Coverage captures many of the financial stability benefits of expanded coverage while mitigating many of the undesirable consequences. One challenge to establishing Targeted Coverage is deciding how broadly or narrowly to define the type of accounts eligible for expanded coverage.

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[6] The $1 billion asset-size test is based on the total assets reported on the prior year's Report of Condition as of June 30.

[7] Options for Deposit Insurance Reform, FDIC, May 1, 2023. A*vailable at:* https://www.fdic.gov/analysis/options-deposit-insurance-reforms/index.html.

To inform discussion around any potential increases in deposit insurance coverage, which would require an act of Congress, the request includes questions on the options described in the FDIC's May 2023 report. The request includes questions on the definition of "business payment accounts" and any burden or challenges associated with providing new deposit data items, such as "business payment accounts" or similar accounts linked to payroll, vendors, or operations.

C. The Deposit Insurance Fund and Risk-Based Pricing

Data on deposits also inform the FDIC's management of the Deposit Insurance Fund (DIF), which is used to insure deposits and protect the depositors of insured banks, and to resolve failed banks. A key measure in assessing the adequacy of the DIF is the reserve ratio, which is the net worth of the DIF divided by insured deposits.[8]

The FDIC collects information, as appropriate, for purposes of determining risk of losses at IDIs and economic conditions generally affecting depository institutions.[9] However, risk differentiation in the risk-based deposit insurance assessment system could be improved with additional data.[10] Changes to risk-based pricing based on bank liability structure and interest rate risk could improve the risk sensitivity of the FDIC's risk-based deposit insurance pricing, and could be informed by additional data.

In an effort to better inform analysis of deposit balance trends, a factor that affects an important measure of DIF adequacy, and to potentially improve risk sensitivity in the deposit insurance assessment system, the request includes questions on how banks measure or evaluate the stability of different types of deposits, and, more generally, on what additional data, including more granular or more frequently reported data, should be considered for collection.

D. Deposit Data Provided to the General Public

The FDIC is a pre-eminent source of U.S. banking industry research for analysts, including Quarterly Banking Profiles, working papers, and banking performance data. This research is based on data, including data reported in the Call Report and other regulatory reports. The FDIC provides tools, education, and news updates to help consumers make informed decisions and protect their assets. The FDIC's Quarterly Banking Profile provides a comprehensive summary of financial results, including deposit data and trends, for all FDIC-insured institutions.[11] The FDIC also offers a suite of tools and searchable databases to help analysts, bankers, and the public find information on specific banks, their branches, and the industry.[12]

The Appendix to the request details relevant information on deposit liabilities that certain banks report or maintain through existing recordkeeping systems and information collections, including the Call Report and the Summary of Deposits Survey, among others. However, in most cases, the granularity of the data collected on deposits in the Call Report and other regulatory reports may be limited in supporting the efforts herein.

The Call Report, administered by the FFIEC, is a quarterly report of an institution's condition and income, and is a primary source of financial data used for the supervision and regulation of banks. Most data items collected on the Call Report, including data on deposit liabilities described in detail in the Appendix to the

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[8] 12 U.S.C. 1813(y)(3).
[9] 12 U.S.C. 1817(b)(1)(E)(i).
[10] The goals of risk-based pricing include additional objectives, such as transparency. For the purposes of this document, risk-based pricing is discussed primarily in regard to its ability to affect bank risk-taking.
[11] *See* FDIC Quarterly Banking Profile. *Available at:* https://www.fdic.gov/analysis/quarterly-banking-profile/index.html.
[12] *See* FDIC Data Tools. *Available at:* https://www.fdic.gov/resources/data-tools/.

request, are also made available to the general public and can help consumers and analysts make informed decisions.

To better inform analysts and the general public, the request includes questions on deposit data not currently reported in the Call Report or other regulatory reports, including for uninsured deposits, and on whether more detailed or more frequent reporting on characteristics of or types of deposits could improve the accuracy and transparency of data reported on the Call Report or other regulatory reports.

REQUEST FOR COMMENT

The request seeks information on characteristics that affect the stability and franchise value of different types of deposits and whether more detailed or more frequent reporting on these characteristics or types of deposits could enhance offsite risk and liquidity monitoring; inform analysis of the benefits and costs associated with additional deposit insurance coverage for certain types of deposits; improve risk sensitivity in deposit insurance pricing; and provide analysts and the general public with accurate and transparent data.

The request would encourage comments from all interested parties, including but not limited to IDIs, depositors and financial consumers, businesses that utilize various types of payroll and payment accounts, consumer groups, researchers, trade associations, and other members of the financial services industry.

CONCLUSION

Staff request that the FDIC Board approve the Request for Information on Deposits and authorize its publication in the *Federal Register* with a comment period ending 60 days after publication.

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