



New York Department of Financial Services Signature Bank Report

Background: On April 28, 2023, the New York Department of Financial Services (NYDFS) issued its report examining the events that led to Signature’s failure and identifying opportunities to improve DFS’s supervisory process. On Sunday, March 12, 2023, NYDFS took possession of Signature Bank and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver.

Report Themes: Signature Bank experienced rapid growth that outpaced the development of its risk control framework:

- Liquidity risk management deficiencies were identified in NYDFS and FDIC exam reports issued in 2018 and 2019, both as matters requiring board attention and supervisory recommendations.
- Examiners downgraded Signature Bank’s liquidity component rating from a 2-Satisfactory to a 3-Fair, which is a less than satisfactory rating.
- In September 2022, Signature Bank represented that it had remediated certain liquidity risk management deficiencies. However, exam work that remained in progress at the time of failure indicated the firm had failed to remediate the deficiencies. Examiners were considering adding an additional matter requiring board attention related to liquidity.

Signature Bank’s ‘association’ with cryptocurrency was not a contributing factor to the firm’s failure:

- The percentage of digital asset customer withdrawals on March 10, 2023, was relatively proportional to the percentage of digital asset customers in the deposit base overall.
- Instead, NYDFS concluded that the “bigger issue for Signature was that the Bank had a high concentration of uninsured deposits and was perceived as a crypto bank. In that sense, it was closely associated with Silvergate and [Silicon Valley Bank], the latter of which was another bank with a high concentration of uninsured deposits that was associated with the broader technology and innovation industry.”

There is room for improvement with respect to NYDFS’s bank supervision, including increasing staffing and improving escalation processes.

NYDFS Recommendations: Based on the results of the review, NYDFS identified the following necessary improvements to its bank supervisory process:

- **Update policies and procedures.** Signature Bank’s collapse underscores the speed at which the modern financial system moves. Inefficiencies led to delays in issuing examination

findings to the firm. NYDFS's policies and procedures need to be updated to insure that NYDFS addresses risks at banking organizations in real-time.

- **Rebuilding examination capacity.** Internal staff constraints limited NYDFS's ability to staff examinations adequately. While Superintendent Harris has hired over 200 people in 2022, NYDFS still has more work to do to rebuild its examination capacity. Additional staff would help to close the timing gap between the end of examinations and the issuance of Reports of Examination and Supervisory Letters.
- **Operational stress testing.** Signature Bank struggled to provide timely and accurate information to their banking supervisors on liquidity and outgoing wire requests over the weekend of March 10th. NYDFS 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.
- **Escalating regulatory issues.** Signature Bank failed to address key concerns fully and in a timely manner while it was rapidly expanding its business operations. NYDFS's internal processes need clearer guidelines for when examiners need to escalate regulatory concerns or instances in which a bank fails to remediate findings in a timely fashion. DFS will establish clear escalation procedures to address repeat regulatory findings.
- **Liquidity risk modeling.** Signature Bank's rapid collapse underscores the need to revisit the assumptions used to model and manage liquidity risk. Both the type of depositors who initiated runs and the speed at which they initiated withdrawals far outpaced assumptions many institutions used for modeling liquidity risk. In addition, the assumptions about bank customer behavior codified in the liquidity coverage ratio regulation may need to be reconsidered.
- **Strengthen regulatory tools.** NYDFS will work to identify and develop appropriate regulatory tools to hold executives accountable for misconduct that leads to the failure of a banking organization and to address the dissemination of inaccurate information that provoke bank runs.