AABD
The American Association of Bank Directors

Questions for Bank Boards and Committees to Ask After the Silicon Valley Bank Failure

- Conduct an uninsured deposit analysis and sources of deposits
    - How much of uninsured is credit sensitive, meaning they will “run” at first signs of trouble?
    - If management considers portions of uninsured not to be flight sensitive, why?
    - If based on modeling of stickiness, have the models been validated independently?
    - Are uninsured concentrated or correlated?

- How and how frequently are deposit inflows, outflows and net gain or loss being monitored and reported?
    - To whom?
    - What are the results?
    - Are there patterns of withdrawals and new deposits?

- Are the counterparties of your other funding sources asking any questions about the bank’s condition?
    - Have secured borrowing margins been tightened?
    - Have you tested any unsecured funding sources lately? To what result?

- Are regular loan, deposit and other customers asking questions about the bank’s condition?
    - Are you monitoring and reporting and looking for any patterns?
    - How frequently, to whom?

- Do you do regular searches for negative comments about the bank in the media, traditional, or social, from analysts, from trade groups or media, etc.?

- What specific investment portfolios are you relying on for operating and contingency liquidity?
    - How much of the Held to Maturity (HTM) investment portfolio is in your liquidity coverage calculation?
    - How much of the HTM investment portfolio is pledged for secured borrowings?
    - How much of your capital is impaired by HTM portfolio depreciation?
    - How much of the Available for Sale (AFS) investment portfolio is pledged for secured borrowings?
    - How much of your capital is impaired by AFS portfolio depreciation?
    - How much capital impairment would you experience if you had to sell our AFS book for liquidity purposes?
    - Would it change your regulatory capital adequacy category? How much?
    - What is your secured borrowing capacity against the HTM book, against the loan book?
    - How much of the AFS and HTM portfolios are invested in Mortgage-Backed Securities (MBS)?

    - Does management and your liquidity and interest rate risk measurement methods understand and take into account that MBS securities extend in duration with rising rates, and shorted duration with falling rates (negative convexity)? How?
    - Does the Bank's Audit and/or Risk Committee understand the accounting for investments – AFS and HTM and distinctions, limitations, and strategies?

- What other assets are you relying on for operating and contingency liquidity?
    - How much of your cash accounts (a range) are needed for normal operations and how much could be used in the event of a liquidity need?
    - What other liquid assets are on hand for liquidity purposes?
    - How are liquid assets defined and how much do you plan to hold relative to total assets or liabilities?

- Do you plan liquidity sources and uses over a specific timeframe? 12-18 months?
    - Does the planning process require management to identify sources and amounts required to meet future funding gaps?
    - How frequently are you reforecasting?

- What kind of run (how much and over what timeframe) could you withstand from available liquidity sources without taking strategic measures (stop loan fundings and put the portfolio into run-off mode, sale and lease-back of bank properties, seek capital and funding partners, etc.)?

- What is your contingency liquidity and communication planning process?
    - Who is involved, are professional communications/crisis advisors involved?
    - Are there pre-established communications for your various customer and counterparty facing employees to use, for management to use with employees, customers, counterparties and for management and/or the board to use with shareholders and lenders?
    - Do customer and counterparty facing employees know what to say if asked if there is a problem with the bank?
        - In the branches, in call centers, in the wire room, in the treasury/funding/balance sheet management department, in the lending department, etc.
    - What will trigger the enacting the contingency liquidity and communication plans?
    - What scenarios are contemplated in contingency liquidity and communications planning?
    - What management is relied upon to execute the liquidity and communications contingency plan and what are their specific roles and responsibilities?
    - What management and board governance is needed?
    - Do you have the capacity to monitor and report funding outflows against sources intraday, daily, weekly, etc.
    - Do the liquidity and communications contingency plan protocols require board reporting and involvement?

- Have all liquidity and interest rate risk measurement methodologies and underlying models been independently validated? By whom and how recently?
    - Income/NIM at risk, economic value of equity, deposit duration and stickiness models, etc.

- What are your independent risk management and internal audit reporting about liquidity and interest rate risk and the efficacy of risk management?
    - Are your metrics, methodologies, models, limits, and escalation triggers appropriate?
    - Do they have any concerns with regard to recent changes made by management?
    - Do they have concerns with any specific positions, plans, or strategies?
    - Does the Board or its Audit and/or Risk Committee meet with second line risk management and internal audit in executive session?
    - Are appropriate risk management resources (numbers, expertise and experience) being employed across all three lines of defense and is there good communication among them?

- Do you have outside advisors? Do you need them if you don't have?

- If you are relying on vendor-supplied asset and liability management systems, models or methodologies, how frequently are they updated and validated?
    - Do you see independent audit reports on these systems and providers?

- What questions did examiners ask during last exam and what was in the ROEs over the past 5 years?
    - Did management resolve all criticisms and recommendations?

- Ask other banks what the examiners are focusing on and what questions they are asking.

- Ask counterparties what they are hearing about conditions in the markets.

- Review the charter of the ALCO committee

- Review the adequacy of reports to the Board and ALCO committee re liquidity, interest rate risk and investments.

- What do outside and inside auditors have to say? Are your programs sufficient or do they need to be added to?

- Are sufficient resources applied to ALCO? What more should be done? Do you have qualified people?

- What is the overall adequacy of sources of liquidity and enhancements, including signing up for the Fed program (BTTP). Call the Fed to start process before you need it.

- What are your capital positions in various scenarios?

- Is your contingency funding plan and cash positions adequate?

- Are your written policies and procedures governing ALM adequate?

- Have you adopted best corporate governance practices for ALCO, audit and Risk Committee and Board? For example, information and reporting sufficiency, minutes, documentation of decisions and reviews, qualifications of those serving on those committees, enhancements to board and committee members, continuing training and participation in AABD's certification program, sufficiency of committee charters, written policies and procedures re ALM.

- Are your ALM models and adherence to them sufficient?

- Have there been recent changes in the models and have been provided an explanation as to why and how they were changed.

- Have you reviewed the investment portfolio and coordinated it with ALM and use of hedging and other strategies?