

United States Senate

WASHINGTON, DC 20510

March 14, 2023

The Honorable Merrick Garland
Attorney General
U.S. Department of Justice (DOJ)
950 Pennsylvania Avenue, NW
Washington, D.C. 20530

Gary Gensler
Chairman
U.S. Securities and Exchange Commission (SEC)
100 F Street NE
Washington, DC 20549

Dear Attorney General Garland and Chairman Gensler,

I write to ask your offices to conduct a comprehensive investigation of the circumstances surrounding last week's collapse of Silicon Valley Bank (SVB), and investigate whether senior bank executives and other key officials involved in the collapse met their statutory and regulatory responsibilities or violated civil or criminal law.

The consequences of SVB's failure triggered concerns about contagion spreading to other parts of the financial system – forcing the federal government to take extraordinary action to backstop depositors and protect the economy.¹

Initial reports indicate that SVB collapsed because it failed to address two key risks: concentration in its client base, and rising interest rates. This was “a colossal failure in asset-liability risk management,”² – what one analyst called “sheer incompetence.”³ However, a series of reports revealed that key SVB officials showed a pattern of risky and questionable decision making that may have contributed to the bank's instability and collapse and the ripple effects being felt throughout the economy.

Reports yesterday indicated that you may have already opened this investigation.⁴ If these reports are true, this is an important step forward for accountability. The actions of bank executives and other individuals associated with the collapse raised the specter of potential illegal or

¹ Board of Governors of the Federal Reserve System, “Joint Statement by Treasury, Federal Reserve, and FDIC,” press release, March 12, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312b.htm>.

² Fortune, “A Risk Management Nightmare at Silicon Valley Bank,” Sheryl Estrada, March 13, 2023, <https://fortune.com/2023/03/13/risk-management-nightmare-silicon-valley-bank/>.

³ Seeking Alpha, “SVB Financial: Incompetence Allowed By Flawed Regulations,” IP Banking Research, March 12, 2023, <https://seekingalpha.com/article/4586805-svb-financial-incompetence-allowed-by-flawed-regulations>.

⁴ Wall Street Journal, “Justice Department, SEC Investigating Silicon Valley Bank's Collapse,” Dave Michaels, March 14, 2023, <https://www.wsj.com/articles/justice-department-sec-investigating-silicon-valley-banks-collapse-c192c2b2>.

inappropriate behavior that included self-dealing, failure to meet disclosure requirements and fiduciary duties, insider trading, and more, and your investigation should thoroughly investigate these matters, including:

- Self-dealing by SVB and its venture capital and startup clients may have been “bribed by the bank into neglecting” risk management.⁵ According to reports, SVB “gave cheap ‘white glove’ service to founders,” including low-interest mortgages and lines of credit.⁶ Given these perks, “tech workers and executives used the bank for their own personal wealth management and to fund mortgages,”⁷ and “many tech founders were also financially rewarded for banking with SVB: The bank uniquely specialized in providing non-dilutive venture debt to risky early-stage companies. This allowed startup founders to preserve greater equity ownership in their companies.”⁸
- Bank officials lobbied Congress for regulatory rollbacks (which they ultimately received), testifying that that “SVB ... does not present systemic risks,” and that SVB was engaged in “low risk activities.”⁹
- SVB executives received oversize compensation packages and bonuses – and other employees reportedly received bonuses paid out just hours before the bank was taken over by federal regulators.¹⁰ SVB CEO Gregory Becker received \$9.9 million in compensation last year, including a \$1.5 million cash bonus,¹¹ and SVB was the “highest-paying publicly traded bank” in 2018.¹²
- In the weeks leading up to SVB’s failure, senior bank executives sold extensive amounts of stock, a move that “add[ed] fuel to the fire” of the SVB bank run.¹³ CEO Gregory Becker sold \$3.6 million of company shares just two weeks before the crash.¹⁴

⁵ American Prospect, “The Silicon Valley Bank Bailout Didn’t Need to Happen,” David Dayen, March 13, 2023, <https://prospect.org/economy/2023-03-13-silicon-valley-bank-bailout-deregulation/>.

⁶ *Id.*

⁷ Washington Post, “Silicon Valley Bank collapse leaves start-ups scrambling to pay workers,” Gerrit De Vynck and Rachel Lerman, March 12, 2023, <https://www.washingtonpost.com/technology/2023/03/11/silicon-valley-bank-startups-payroll/>.

⁸ Wall Street Journal Commentary, “SVB Doesn’t Deserve a Taxpayer Bailout,” Vivek Ramaswamy, March 12, 2023, <https://www.wsj.com/articles/silicon-valley-bank-doesnt-deserve-a-taxpayer-bailout-federal-reserve-fdic-risk-startups-treasury-interest-rates-ad440fe9>.

⁹ Written testimony of Greg Becker to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, March 24, 2015, <https://www.govinfo.gov/content/pkg/CHRG-114shrg94375/pdf/CHRG-114shrg94375.pdf>.

¹⁰ NBC News, “Silicon Valley Bank employees received annual bonuses hours before government takeover,” Hugh Son and Bertha Coombs, March 11, 2023, <https://www.nbcnews.com/news/us-news/silicon-valley-bank-employees-received-annual-bonuses-hours-government-rcna74508>.

¹¹ SVB Financial Group, “Preliminary Proxy Statement,” March 3, 2023, p. 76, <https://d18rn0p25nwr6d.cloudfront.net/CIK-0000719739/7d992e5b-9272-4bc8-a5cf-5a8c6b8c5251.pdf>.

¹² NBC News, “Silicon Valley Bank employees received annual bonuses hours before government takeover,” Hugh Son and Bertha Coombs, March 11, 2023, <https://www.nbcnews.com/news/us-news/silicon-valley-bank-employees-received-annual-bonuses-hours-government-rcna74508>.

¹³ Fortune, “A Risk Management Nightmare at Silicon Valley Bank,” Sheryl Estrada, March 13, 2023, <https://fortune.com/2023/03/13/risk-management-nightmare-silicon-valley-bank/>.

¹⁴ Forbes, “SVB Financial CEO Sold \$3.6 Million In Stock Before Bank’s Collapse,” Brian Bushard, March 10, 2023, <https://www.forbes.com/sites/brianbushard/2023/03/10/svb-financial-ceo-sold-36-million-in-stock-before-banks-collapse/?sh=381d2da94b2a>.

- SVB used “exclusivity clauses,” which limited customers’ “ability to tap banking services from other institutions,” and “made it impossible for those clients to safely diversify where they kept their money.”¹⁵
- SVB may not have adequately disclosed risks and financial problems in advance of the March 8, 2022 announcement that it would need to raise \$2.25 billion to “shore up” its balance sheet – an announcement that precipitated the “wheels start[ing] to come off.”¹⁶
- The bank’s asset-liability committee reportedly ignored “an internal recommendation to buy shorter-term bonds ... [to] reduce the risk of sizable losses if interest rates quickly rose,” and failed to act even as “employees pleaded to reposition the company’s balance sheet into shorter duration bonds.”¹⁷
- In the days leading up to the collapse, there was a coordinated, “herd-like”¹⁸ activity of venture capital fund leaders and their portfolio companies,¹⁹ including one founder who publicly described his participation in the run on the bank and his attempt to take advantage of the ensuing panic by “buy[ing] shares of SVB at what I consider significantly low prices.”²⁰

One of the enduring failures in the aftermath of the 2008 financial crisis was the inability or unwillingness of DOJ and bank regulators to hold bank executives accountable for behavior that destroyed millions of lives and cost trillions of dollars of wealth.²¹ The nation’s bank regulators cannot make the same mistake twice. I am not prejudging this matter, and am not in position to do so. But your agencies have extensive investigative authority and should use it appropriately.

Your agencies may find that there has been violations of securities or other laws, and if so, you should prosecute them aggressively. You may also find that behavior that contributed to the collapse was outrageous and indefensible, but may not have run afoul of federal law. If this is the case, I would ask that you report these matters to Congress so that we may consider legislation to prevent such behavior in the future.

Early reports in the wake of the SVB collapse reveal a series of failures by SVB executives and other high-level individuals, raising questions about whether they met their statutory or

¹⁵ CNBC, “Silicon Valley Bank signed exclusive banking deals with some clients, leaving them unable to diversify,” Rohan Goswami, March 12, 2023, <https://www.cnbc.com/2023/03/12/silicon-valley-bank-signed-exclusive-banking-deals-with-some-clients.html>.

¹⁶ CNN, “Silicon Valley Bank Collapses After Failing to Raise Capital,” Allison Morrow and Matt Egan, March 10, 2023, <https://www.cnn.com/2023/03/10/investing/svb-bank/index.html>.

¹⁷ Bloomberg, “SVB Failure Sparks Blame Game Overt Trump-Era Regulatory Rule,” Jennifer Surane, Tracy Alloway, and Katanga Johnson, March 13, 2023, <https://www.bloomberg.com/news/articles/2023-03-13/svb-failure-sparks-blame-game-over-trump-era-regulatory-rollback?sref=frV97TwV>.

¹⁸ Financial Times, “Silicon Valley Bank: the spectacular unravelling of the tech industry’s banker,” <https://www.ft.com/content/b556badb-8e98-42fa-b88e-6e7e0ca758b8>.

¹⁹ Bloomberg, “Thiel’s Founders Fund Withdrew Millions From Silicon Valley Bank,” Lizette Chapman, March 10, 2023, https://news.yahoo.com/thiel-founders-fund-withdrew-millions-005223787.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2x1LmNvbS8&guce_referrer_sig=AQAAFFt1zCrXAUlwque-mBfHpgX89LVmDmWs61xOu2C5crqWSgA8vG7Q34bc_EfrC_Y-zyLNn7FBgYbEQpfOVxinNkKVcT2-JKqg_rAuSVH5H0UJz8evtMastgcBP3JoAU20DLUWoSddq6biWMEodBUgZc29EmUI_bMN8hqL6h5rD91.

²⁰ Tweet by Alexander Torrenegra, March 11, 2023, <https://twitter.com/torrenegra/status/1634573234187407369?s=20>.

²¹ NPR Marketplace, “Why didn’t any Wall Street CEOs go to jail after the financial crisis?,” 2018, <https://features.marketplace.org/why-no-ceo-went-jail-after-financial-crisis/>.

regulatory responsibilities and whether they may have violated civil or criminal law. DOJ and SEC must fully investigate this matter and the involvement of key individuals to determine if that is the case.

Sincerely,



Elizabeth Warren
United States Senator



Richard Blumenthal
United States Senator