

The collapse of Silicon Valley Bank UK

Last week Bank account users at SVB UK could withdraw their money or make their payments from their bank accounts safe in the knowledge that the UK Regulators thought it solvent and well run. It had its banking licence. Any regulated bank should have access to Bank of England funds in the event of a sudden increase in withdrawals straining the bank's liquid reserves available to pay out.

Last weekend the Bank of England announced its plan to put SVB into administration. This followed a similar move by the US authorities on the parent bank in the USA. It happened despite UK SVB telling people that it was ring fenced from the US operations. I thought it was meant to be independently regulated in the UK.

All this leads me to ask why did the Regulators change their mind last weekend about its solvency? Was there some requirement from the US parent that did require money from the UK Bank? Or did the Regulators discover things had gone wrong in the UK Bank?

If the UK Bank had invested in bonds which had then lost lots of money as some press comment suggests the U.S. bank had, the Bank of England would have known that in the autumn when they launched their Quantitative tightening programme on the eve of the Kwarteng budget. They had the clear wish to drive bond prices down to get interest rates higher. When they saw their impact on LDI funds owning bonds they should also have seen the impact on banks holding bonds direct as investments. If some venture capital loans had gone wrong for SVB again the Regulators should have known their exposures and asked about their bad debt position.

Whatever the banking issues there needs to be a quick fix so companies with trading money on deposit with SVB can access it to carry on their businesses. We do not want taxpayers to have to bail them all out. We want good banking regulation and an orderly wind down of SVB if there are good reasons to take it into administration. A takeover by another bank which protects the depositors would be a good idea in such circumstances.