

Lessons from the 2023 banking turmoil – Executive Summary

The banking turmoil that started in March 2023 was the most significant period of banking stress since the Great Financial Crisis that began in 2007. Credit Suisse, a Swiss global systemically important bank, along with three regional banks in the United States,¹ with total assets exceeding USD 1 trillion, were either shut down, put into receivership or rescued. These failures triggered a crisis of confidence in banks' resilience and led to wide-scale public support measures.

Against this background, the Basel Committee on Banking Supervision (BCBS) published a report assessing the causes of the banking turmoil, the lessons learned and possible regulatory and supervisory responses.² Since then, it has pursued initiatives to:

- strengthen supervisory effectiveness by identifying issues that could benefit from additional global guidance and by developing practical tools to support supervisors in their day-to-day work³
- conduct analytical work to assess whether specific features of the Basel Framework performed as intended during the turmoil

This Executive Summary outlines the main lessons for supervision and regulation as identified in the BCBS report. It also presents the work under way to strengthen supervisory effectiveness regarding the supervision of liquidity risk and interest rate risk in the banking book, the assessment of the sustainability of banks' business models and the importance of effective supervisory judgment.

Lessons for supervision

The BCBS report identifies lessons for supervision relating to the supervisory assessment of banks' business models, governance and risk management; the exercise of supervisory judgment; the need for effective supervisory tools; the supervision of liquidity; and the importance of cross-border cooperation and of managing risk at both consolidated and legal entity level.

Business model, governance and risk management analysis

Despite their diverse business models, the banks that failed in 2023 shared common weaknesses in business strategies, governance and risk management practices and were outliers compared with their peers. These failures highlight the need for supervisors to:

- assess the short- and medium-term viability and sustainability of a bank's business model, as well as the quality and adequacy of its governance and risk management. This requires going beyond regulatory ratios and using forward-looking, risk-adjusted profitability measures

¹ Silicon Valley Bank, Signature Bank of New York and First Republic Bank. For a description of the main events leading up to the March 2023 banking turmoil, see the BCBS's *Report on the 2023 banking turmoil*, October 2023.

² See the BCBS's *Report on the 2023 banking turmoil*, October 2023. A follow-up report to the Group of Twenty (G20) Finance Ministers and Central Bank Governors – *The 2023 banking turmoil and liquidity risk: a progress report* – was published in October 2024.

³ These tools are informational resources. They do not change or replace existing standards or guidelines and are designed to strengthen supervisory practices and effectiveness worldwide.

- evaluate how changes in a bank's environment, such as significant shifts in interest rates or regulatory adjustments, affect its ability to generate sustainable earnings over the medium to long term
- proactively engage with outlier banks to ensure they understand and can manage their risks. The intensity of this engagement should align with the significance of the identified issues

Effective supervisory judgment and need for effective tools

Although supervisors identified issues and engaged with the banks that failed in 2023, their actions were not timely or forceful enough to prevent failure. This underscores the limitations of rules-based supervision and the need for early interventions, even when regulatory requirements are met. It also highlights the need for additional monitoring tools and stress indicators, particularly for liquidity and interest rate risks.

Supervision of liquidity risk

The 2023 turmoil highlighted challenges in the supervision of banks' liquidity risk, calling for supervisors to consider whether and to what extent:

- the monitoring of bank, sectoral and market information, along with liquidity supervisory review processes, provides relevant and timely information to identify material liquidity outflows
- the frequency and scope of supervisory monitoring should be increased during both periods of stress and business-as-usual times and whether additional information and high-frequency data should be used
- the business model's features are adequately considered by the bank and the supervisor
- Basel Framework liquidity monitoring tools are used effectively and complemented with other stress indicators that account for business model specificities and banks' interrelated activities
- banks' liquidity stress testing and contingency funding plans are sufficiently comprehensive and robust and whether they could be supplemented by supervisory stress tests
- supervisors have a comprehensive view of liquidity risk across the banking group, supplementing group-level views with entity-level monitoring, including all of the main entities, and whether limitations to liquidity transfers during stress are accounted for
- sufficient tools are in place to ensure that banks take appropriate remedial action regarding their liquidity risk management and funding profiles

Lessons for regulation

Although most of the banks that failed in 2023 were not subject to Basel III, the turmoil raised important regulatory issues. A key question is whether liquidity standards performed as intended. Other issues include the regulatory treatment of exposures to interest rate risk in the banking book (IRRBB), the treatment of held-to-maturity (HTM) assets under the liquidity standards and in the definition of regulatory capital, the role of Additional Tier 1 (AT1) capital instruments and the scope of application of the Basel Framework.

Liquidity issues

The liquidity runs affecting the banks that failed in 2023 raised several issues, which are summarised below.

Scope and calibration of high-quality liquid assets (HQLAs)

- **Scope of captured risks.** A significant portion of Credit Suisse's HQLAs was consumed by increased operational and intraday liquidity needs, rendering them unavailable for the outflows

specified under the Liquidity Coverage Ratio (LCR). This raises questions about whether the scope of the LCR should be broadened to account for such scenarios.

- **Distressed bank outflow rates.** The outflows observed during the turmoil far exceeded the levels assumed under the LCR or the Net Stable Funding Ratio (NSFR). These were largely influenced by the nature of these deposits,⁴ negative media coverage and widespread use of digital bank accounts, raising the question of whether regulatory outflow rates are appropriately calibrated.

Availability of HQLAs during a liquidity stress

- **Trapped liquidity.** Issues arose when HQLAs held by a legal entity could not be transferred within a banking group to counterbalance the uneven distribution of outflows across entities.
- **Inadequate preparedness and operational capacity.** Other challenges included inadequate preparedness and operational capacity to monetise HQLAs, as well as the potentially negative impact of disclosures following an LCR breach or the use of emergency liquidity assistance.⁵
- **Liquidity of HTM securities.** There are doubts about whether HTM securities are liquid during periods of stress⁶ because they can accumulate large unrealised losses when interest rates rise sharply, as in 2022. For distressed banks with large unrealised losses on HTM HQLAs, access to private repo markets during periods of stress may become unreliable. In such cases, central bank facilities become the only viable monetisation channel, subject to haircuts. HTM securities with large unrealised losses may also raise doubts about a bank's solvency during stress periods. By contrast, HQLAs held at market value can typically be sold outright without any capital impact, as gains or losses are already recognised.⁷

Role of the NSFR

Another question raised by the turmoil is whether the NSFR performed its role as an indicator of bank structural liquidity mismatch, particularly for banks that faced a "slower burn" liquidity stress. Credit Suisse consistently reported an NSFR above 100% ahead of its failure. This was because, as a structural metric, the NSFR "available stable funding" factors for deposits are calibrated at levels that did not reflect the outflow rates experienced by the bank.

Treatment of IRRBB

The failures of the three US regional banks in 2023, which were not subject to the Basel Framework's IRRBB standard, were largely driven by concentrated exposure to IRRBB. This highlights broader questions about the treatment of IRRBB in the Basel Framework, which is not included in the BCBS Pillar 1 requirements but is addressed via supervisory review (Pillar 2) and disclosure (Pillar 3) and underscores the importance of supervisory challenge of key modelling assumptions and practices.

Role of AT1 capital instruments in regulatory capital

The turmoil raised questions about the ability of AT1 instruments to absorb losses on a going-concern basis and whether their complex features were fully understood. For example, market practices, such as those of Credit Suisse, aimed at avoiding negative signalling effects. These led to replacing issuances at

⁴ The deposits of the failed US regional banks were large, uninsured and concentrated, whereas the deposit outflows at Credit Suisse were initially those of high-net-worth individuals.

⁵ Even though the LCR standard itself prescribes lagged average disclosures; concerns centred on potential ad hoc or inferred disclosures and the signalling effects of emergency liquidity usage.

⁶ This is because HTM securities are accounted for at amortised cost, so unrealised losses are not deducted for regulatory capital purposes. However, they must be held at current market value in the stock of HQLAs under the liquidity standards.

⁷ However, the differences in the ease of monetisation between HQLAs held at market value versus those held at amortised cost may be smaller if banks have sufficient capital or manage the interest rate risk appropriately.

their earliest call date, even when this increased the bank's funding costs, and to continue paying discretionary interest as it reported consecutive quarterly losses. Moreover, investors were uncertain about the loss-absorbing hierarchy in losses.

Therefore, there is value in assessing the complexity, transparency and understanding of AT1 instruments and in determining which trigger events are needed for an instrument to be eligible as AT1 capital.

Follow-up initiatives

Based on the findings of this report, the BCBS is pursuing several follow-up initiatives, including:

- strengthening supervisory effectiveness by identifying areas that could merit additional global guidance
- conducting analytical work based on empirical evidence to assess whether specific features of the Basel Framework, such as liquidity risk and IRRBB, performed as intended during the turmoil
- exploring potential policy options over the medium term

This Executive Summary and related tutorials are also available in [FSI Connect](#), the online learning tool of the Bank for International Settlements.