

Congress of the United States

Washington, DC 20510

March 20, 2023

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Chair Gensler and Commissioners:

Thank you for your efforts to protect investors and ensure the integrity of our markets. We write today to express continued concern with the state of the Silicon Valley Bank (SVB) collapse.¹ According to press coverage, the Commission is investigating potential insider trading violations in connection with transactions involving securities related to SVB.

We appreciate the decisive actions that Treasury, Federal Reserve, and Federal Deposit Insurance Corporation (FDIC) are taking to quickly protect bank deposits regardless of whether they are insured,² and to set up an emergency liquidity fund to help assure banks can meet the needs of depositors.³ We would similarly welcome Securities and Exchange Commission (SEC) investigation into whether short selling or other activities with respect to securities related to the bank involved market manipulation, insider trading, or other illegal activity.

SVB is a state-chartered bank that was a member of the Federal Reserve System. It largely caters to tech sector and startup clientele. As of December 31, 2022, SVB had \$209 billion in total assets and \$175 billion in total deposits, making it the 16th largest bank in the nation. Its success

¹ See, e.g., Here's how Silicon Valley Bank collapsed in less than a week, Fortune, Mar. 10, 2023, *available at*, <https://fortune.com/2023/03/10/why-did-silicon-valley-bank-collapse-explainer/>

² Joint Statement by Treasury, Federal Reserve, and FDIC, Federal Reserve, Mar. 12, 2023, *available at*, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312b.htm>

³ Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors, Federal Reserve, Mar. 12, 2023, *available at*, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm>

was apparent, with claims that nearly half of all U.S. venture-backed startups were operated through its bank.⁴

As we have learned over the past several days, following increases in bond interest rates, SVB began to experience a decrease in venture capital deposits.⁵ On March 8, 2023, SVB's parent company, SVB Financial Group, initiated a sale of \$2.25 billion in shares after selling \$21 billion in securities at a \$2 billion loss.⁶

This substantial sale and ensuing loss led to larger venture capitalist firms recommending mass withdrawals of funds from SVB. Communications quickly went viral through social media channels, causing panic among investors who also promptly withdrew funds.⁷ In total, reports indicate that customers withdrew \$42 billion in deposits on March 9, 2023, alone, the largest run on a bank in history.⁸ SVB's share prices immediately collapsed.⁹

To stem the billions in losses, SVP was shut down and immediately taken over by the FDIC on March 10, 2023.¹⁰ Unfortunately, the result of FDIC stepping in meant that funds were frozen for many companies. Essential services such as payroll were moved to other banks, leaving many of SVP's customers unable to pay its employees.¹¹ While Treasury, the Federal Reserve, and FDIC continue to work through this crisis, it is imperative that SEC looks at the underlying factors that led to the collapse.

As you are aware, shorting stock is a trading technique that involves the sale of stock that a seller believes is overvalued—and will soon decrease—for purposes of using the difference to buy the stock back at a lower cost in the future.¹² Of course, this type of activity and others that effectively bet on a security to go down in value are common and not inherently illegal. However, the potential for abuse is a concern in a case such as SVB's where "information" about the bank's soundness spread via social media and other means. It would be illegal to short SVB stock and then create the type of panic that engulfed SVB through the dissemination of false or misleading information.

⁴ Silicon Valley Bank, 2023, *available at*, <https://www.svb.com/venture-funded>

⁵ 9 questions about Silicon Valley Bank's collapse, answered, Vox, Mar. 13, 2023, *available at*, <https://www.vox.com/technology/23634433/silicon-valley-bank-collapse-silvergate-first-republic-fdic>

⁶ What SVB's Failure Means for the Bank and Its Clients, Bloomberg, Mar. 10, 2023, *available at*, <https://www.bloomberg.com/news/articles/2023-03-10/why-svb-was-hit-by-a-bank-run-and-where-it-could-lead-quicktake?srnd=premium&sref=qYiz2hd0#xj4y7vzkg>

⁷ Silicon Valley investors and founders express shock over SVB's collapse, describe struggles to get money out, CNBC, Mar. 10, 2023, *available at*, <https://www.cnbc.com/2023/03/10/silicon-valley-investors-and-founders-express-shock-at-svb-collapse.html>

⁸ Silicon Valley Bank Closed by Regulators, FDIC Takes Control, Mar. 10, 2023, *available at*, <https://www.wsj.com/articles/svb-financial-pulls-capital-raise-explores-alternatives-including-possible-sale-sources-say-11de7522>

⁹ Silicon Valley Bank crisis: Everything you need to know about SVB Financial as regulators shut down the bank, Markets Insider, Mar. 10, 2023, *available at*, <https://markets.businessinsider.com/news/stocks/svb-silicon-valley-bank-collapse-jpmorgan-morgan-stanley-bank-stocks-2023-3>

¹⁰ Failed Bank Information for Silicon Valley Bank, Santa Clara, CA, FDIC, current as of March 13, 2023, *available at*, <https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/silicon-valley.html>

¹¹ See Silicon Valley investors and founders express shock over SVB's collapse, describe struggles to get money out

¹² Short selling: What it is, why it's risky and how the 'squeeze' happens, CNBC, Jan. 29, 2021, *available at*, <https://www.cnbc.com/2021/01/29/short-selling-what-it-is-why-its-risky-and-how-a-squeeze-happens.html>

It is possible that, with respect to SVB stock, market participants engaged in manipulative activities and shorted equities, bought put options, or used other methods that would lead to unlawful profits stemming from the impact of the SVB bank run. Significantly, SEC should investigate whether market participants, bank employees, or others with insider knowledge—material non-public information—traded on such knowledge illegally to the detriment of others in the market.

We welcome reports that the Commission is investigating potential illegal trading activity in connection with SVB and urge that you place high priority on ensuring accountability for any potential wrongdoing. Taxpayers and depositors must have confidence in our banking system. Given the prompt removal of holdings from numerous firms and investors, leading to billions of dollars in losses, it is imperative that SEC investigates further to determine whether conduct violates securities laws.

Sincerely,



Eric Swalwell
Member of Congress



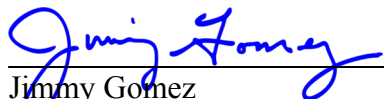
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