



May 19, 2014

Office of the Comptroller of the Currency  
400 7th Street, S.W., Suite 3E-218  
Mail Stop 9W-11  
Washington, D.C. 20219  
Attention: Legislative and Regulatory Activities Division  
**Docket ID OCC-2013-0016**  
**RIN 1557 AD 74**

Board of Governors of the Federal Reserve System  
20th Street & Constitution Avenue, N.W.  
Washington, D.C. 20551  
Attention: Robert de V. Frierson, Secretary  
**Docket No. R-1466**  
**RIN 7100-AE03**

Federal Deposit Insurance Corporation  
550 17th Street, N.W.  
Washington, D.C. 20429  
**Attention: Robert E. Feldman, Executive Secretary**  
**RIN 3064-AE04**

Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring – Daily Calculation Requirement

Ladies and Gentlemen:

The Clearing House Association L.L.C., the International Association of Credit Portfolio Managers, the American Bankers Association, the Financial Services Roundtable, and the Securities Industry & Financial Markets Association (collectively, the “Associations”)<sup>1</sup>, respectfully request that the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (the “FDIC”, and collectively the “Agencies”) issue guidance as early as possible to the effect that the daily calculation requirement included in the proposed U.S. rules<sup>2</sup> to implement the liquidity coverage ratio (“LCR”) will be delayed beyond January 1, 2015. It is critical for banking organizations to receive such assurance, particularly in light of (i) the short period of time remaining until the original proposed effective date for the Proposal of January 1, 2015 and (ii) the substantial challenges that banking organizations subject to the Proposal<sup>3</sup>

<sup>1</sup> Descriptions of the Associations are provided in Annex A of this letter.

<sup>2</sup> *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring*, 78 Fed. Reg. 71,818 (Nov. 29, 2013) (the “Proposal”).

<sup>3</sup> The Proposal would apply to banking organizations that are mandatorily subject to the advanced approaches risk-based capital rules, their respective consolidated subsidiary depository institutions with total consolidated assets greater than \$10 billion, and nonbank financial companies designated by the Financial Stability Oversight Council

would face in implementing the Proposal's proposed daily calculation requirement after final rules are issued and prior to this date.<sup>4</sup> We believe prompt guidance from the Agencies to the effect that they expect a delay would be consistent with previous guidance the Agencies issued in advance of both the Dodd-Frank Wall Street Reform and Consumer Protection Act company-run stress test requirements<sup>5</sup> and the revised regulatory capital rules.<sup>6</sup> These prior actions provided banking organizations with important advance notice about the Agencies' implementation timeline, thus allowing them to allocate limited resources appropriately among a growing number of competing regulatory priorities.

As we have previously stated,<sup>7</sup> we support the fundamental purposes of the LCR and the Proposal and are appreciative of the significant time and effort that the Agencies have devoted to developing the Proposal and working to understand the operational and other considerations impacting Covered Banks, including a thorough review of the numerous comments submitted and through meetings with interested members of the public. A delay in requiring banking organizations to calculate their LCRs on a daily basis does not mean that banking organizations are unable to monitor their liquidity positions on a daily basis. Banking organizations, including Covered Banks, currently conduct regular and robust monitoring, reporting, and forecasting of liquidity positions and indicia of liquidity risk, including bank-specific liquidity and credit indicators, such as deposit balances, loan balances, credit spreads, and credit ratings; as well as market indicators, such as benchmark interest rates, treasury rates, and volatility and credit default swap indexes. The LCR would supplement these liquidity risk management processes; however, these existing liquidity monitoring systems and related reports, even where available on a daily basis, are not currently tailored to the detailed requirements contained in the Proposal.

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for supervision by the Federal Reserve that do not have substantial insurance activities (collectively, "Covered Banks"). The Proposal also would include a modified LCR (the "Modified LCR") as an enhanced prudential standard for bank holding companies and savings and loan holding companies domiciled in the United States with at least \$50 billion in total consolidated assets that are not mandatorily subject to the advanced approaches risk-based capital rules and do not have substantial insurance or commercial operations. The term "Covered Banks" includes banking organizations subject to the Modified LCR, and references to and discussion of the "LCR" include the Modified LCR to the extent the Modified LCR incorporates the LCR's terms.

<sup>4</sup> We also note that the foregoing concerns with respect to daily calculations apply equally to the issue of required Pillar III public disclosure of LCR data based on daily calculation, which we understand that the Agencies are also currently examining in light of the Basel Committee's January 2014 disclosure related release (Basel Committee, *Liquidity Coverage Ratio Disclosure Standards* (January 2014)). We would therefore similarly urge that such public disclosure requirement be appropriately delayed beyond January 1, 2015 as set forth above.

<sup>5</sup> See, *Press Release, Federal Reserve Board considering changes to the implementation timeline for the Dodd-Frank company-run stress test requirements* (Aug. 27, 2012). The OCC and FDIC concurrently released similar press releases.

<sup>6</sup> See, *Joint Press Release, Agencies Provide Guidance on Regulatory Capital Rulemakings* (Nov. 9, 2012).

<sup>7</sup> See, comment letter, dated January 31, 2014 (the "Joint Trades Comment Letter"), to the Agencies from The Clearing House Association L.L.C., the American Bankers Association, the Securities Industry & Financial Markets Association, the Financial Services Roundtable, the Institute of International Bankers, the International Association of Credit Portfolio Managers, and the Structured Finance Industry Group.

We continue to believe that the requirement to calculate the LCR daily is unnecessary and unduly burdensome,<sup>8</sup> particularly for Covered Banks with less complex liquidity profiles which have not been and would not be subject to daily regulatory liquidity reporting requirements under other current or proposed regulatory reporting initiatives.<sup>9</sup> Most immediately, and as previously discussed in the Joint Trades Comment Letter, Covered Banks of all sizes will confront numerous and significant obstacles in developing the infrastructure and processes necessary to implement the Proposal's daily calculation requirement with the requisite level of confidence and accuracy by the originally proposed effective date,<sup>10</sup> especially for purposes of reporting under the Securities Exchange Act of 1934 (the "Exchange Act"), as discussed further below. The challenges have become more pressing since the filing of the Joint Trades Comment Letter, as during the intervening months Covered Banks have continued to evaluate the systems and controls required to satisfy the proposed daily calculation requirement. At this time, it is not clear that Covered Banks will be able to implement systems necessary to calculate the ratio on a daily basis by the proposed effective date, especially not with the requisite level of confidence in their accuracy.

The Proposal's daily calculation requirement would require Covered Banks to design, test, and implement new systems and controls, or make significant changes to existing systems, as those currently used for capital and financial reporting generally operate on a 30-day or calendar month cycle and require additional time following the end of the reporting period for reconciliation and testing prior to external reporting.<sup>11</sup> Covered Banks would therefore be required to expand internal systems to include attributes at the customer, account, and transaction levels that are not used for any current internal or external financial or regulatory reporting purposes in order, for example, to: (i) collect cash flow data on a contractual basis, as compared to existing forecasting systems that generally report cash flows on an expected basis; (ii) collect extensive transactional data to support the classification of operational versus non-operational deposits; (iii) appropriately classify counterparties based on the various entity definitions, including those counterparties meeting the definition of "regulated financial companies"; and (iv) significantly alter current deposit systems to determine whether a deposit is covered, in whole or in part, by FDIC insurance on a daily basis. The practical time and effort required to do so is substantial for all Covered Banks and by no means should be underestimated. Additionally,

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<sup>8</sup> See, Joint Trades Comment Letter at 62-64. To the extent the Agencies feel that monthly reporting raises a concern that delay in recognizing and remediating shortfalls is a material risk, we urge the Agencies to work with the subject Covered Bank as a supervisory matter to address those concerns.

<sup>9</sup> Many Covered Banks are subject to neither (i) the detailed fourth-generation (or "4G") daily liquidity monitoring requirements of the Federal Reserve nor (ii) to the Federal Reserve's proposed FR 2052a liquidity monitoring requirements. Bank holding companies that have been designated as global systemically important banks ("G-SIBs") would be required to submit the FR 2052a on a daily basis, whereas bank holding companies with total consolidated assets of at least \$50 billion (excluding G-SIBs) would be required to submit the FR 2052b on a monthly basis. See, *Proposed Agency Information Collection Activities; Comment Request*, 78 Fed. Reg. 57,634 (Sep. 19, 2013).

<sup>10</sup> See, Joint Trades Comment Letter at 62-64.

<sup>11</sup> Even if the data is available, capital and financial reporting do not require the transactional level of granularity necessary for the calculation factors contained in the Proposal. In addition, although several Covered Banks are subject to 4G liquidity monitoring, this submission is currently completed on a T+2 basis and is on a "best efforts" basis.

even if Covered Banks are in the process of building the necessary systems, or making the requisite changes to existing systems, based on the Proposal, additional time would be required to make modifications to account for alterations in text between the Proposal and the final rules as well as an additional period of time during which FAQs interpreting the final rules are issued by the Agencies to ensure consistent interpretation of the LCR provisions by Covered Banks.

The short period of time remaining between now and the proposed effective date of the Proposal makes building the necessary supporting systems and controls in order for a Covered Bank to be fully confident it is producing daily LCR calculations with the requisite level of accuracy highly challenging, even assuming final rules were to be issued in short order. No vendor solutions are available off-the-shelf to help Covered Banks overcome these challenges and those vendor solutions currently in development would not be ready until sometime after the issuance of final rules, likely leaving very little time for vendors to implement and customize such solutions at particular Covered Banks.

We are fundamentally concerned that a lack of sufficient time to implement the robust systems, processes and controls necessary to support a daily LCR calculation could materially impair the robustness and accuracy of the data provided by Covered Banks to the Agencies, senior management and potentially the broader capital markets. Even if systems can be constructed or adapted in the remaining time period before the proposed effective date, the data reported may not meet the high standards that both Covered Banks and their supervisors have with respect to data quality, testing, and validation. As noted above, systems to support regulatory financial and public reporting generally require a period of time after the end of the reporting period, such as 15-20 days, to allow for source systems to be closed, data to be populated from the source system to the system used for financial reporting, and the source and destination data to be reconciled. These reconciliation and verification processes are essential to ensure adequate data quality but do not currently exist at Covered Banks on a daily cycle.<sup>12</sup>

Under the Proposal, a Covered Bank must be in compliance with its LCR requirement on a daily basis and notify its relevant supervisor if its LCR is less than the minimum requirement on any business day. If a Covered Bank's LCR remains below the required level for three consecutive business days, or the relevant Agency determines that such an organization is otherwise materially non-compliant with the Proposal's requirements, the organization must submit a remediation plan. A breach of the minimum LCR requirement may also trigger public disclosure requirements for a Covered Bank. In particular, such a breach may necessitate a disclosure in a Covered Bank's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K (collectively, the "Periodic Reports"), which must include disclosure regarding any known material trends, demands, commitments, events, or uncertainties reasonably likely to impact its liquidity. On that basis, a publicly traded Covered Bank may determine that failure to meet the minimum LCR requirement requires disclosure in its Periodic Reports. Simply put, because of the importance of Covered Banks being confident that they can produce accurate LCR calculations, we believe it is vital that the Agencies provide Covered Banks sufficient time to develop

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<sup>12</sup> For these reasons, monthly reporting should be as of the month-end date, but actually reported by the 15<sup>th</sup>-20<sup>th</sup> day of the next succeeding calendar month to allow sufficient time for Covered Banks to formally close their books and records.

the types of systems and controls necessary to reconcile and verify their daily LCR calculations before final rules take effect in this regard.

In light of the foregoing, we respectfully request the Agencies to issue formal guidance as early as possible indicating that the Proposal's daily calculation requirement will not be effective as of the original proposed January 1, 2015 implementation date. We also recognize that these issues would also be addressed if the Agencies were to delay the effective date of the Proposal more generally and believe that any such delay should extend, at a minimum, to twelve months following the end of the calendar year in which the Agencies publish final LCR rules. In either case, doing so will provide banking organizations sufficient guidance to work towards implementation of any final daily calculation requirement that may be imposed on a timeline sufficient to the task.

\* \* \*

If you have any questions or need further information regarding this matter, please do not hesitate to contact David Wagner at 212.613.9883 (email: [david.wagner@theclearinghouse.org](mailto:david.wagner@theclearinghouse.org)).

Respectfully submitted,



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cc: The Honorable Thomas J. Curry  
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The Honorable Daniel Tarullo  
*Board of Governors of the Federal Reserve System*

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### Annex A

The Clearing House Association L.L.C. Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing – through regulatory comment letters, amicus briefs and white papers – the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated clearing-house, funds transfer, and check-image payments made in the U.S. See The Clearing House's web page at [www.theclearinghouse.org](http://www.theclearinghouse.org).

The International Association of Credit Portfolio Managers. The International Association of Credit Portfolio Managers (IACPM), with 89 member institutions located in 17 countries, is an industry association dedicated to the advancement of credit portfolio management. Founded in 2001, the organization's programs of meetings, studies, research and collaboration are designed to increase awareness of the value and function of credit portfolio management among financial markets worldwide, and to discuss and resolve issues of common interest to its members.

The American Bankers Association. The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$14 trillion banking industry and its 2 million employees. Learn more at [www.aba.com](http://www.aba.com).

The Financial Services Roundtable. As advocates for a strong financial future™, FSR represents 100 integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. FSR member companies provide fuel for America's economic engine, accounting directly for \$98.4 trillion in managed assets, \$1.1 trillion in revenue, and 2.4 million jobs.

The Securities Industry and Financial Markets Association. The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, please visit [www.sifma.org](http://www.sifma.org).