



December 6, 2024

James P. Sheesley, Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064–ZA42

Re: Request for Information on Deposits

Ladies and Gentlemen:

The Bank of New York Mellon Corporation¹ (BNY) welcomes the opportunity to provide comments on the Federal Deposit Insurance Corporation's (FDIC) Request for Information on Deposits (RFI). We appreciate the FDIC's pursuit of information on the characteristics that affect the stability and franchise value of different deposit types and whether more reporting on these characteristics or types of deposits could facilitate various important policy objectives. We view this as a critical first step, which should be followed by empirical data collection in advance of any potential rulemaking.

As explained further in this letter, we recommend the following:

1. Any new or revised liquidity requirements should incentivize sound risk management practices and account for interest rate risk and asset-liability management appropriate to a bank's size and risk profile.
2. Deposit stability measures should focus on the type of depositor (e.g., retail or wholesale) and risk-sensitive factors such as operational status, instead of solely the amount – or absence of – deposit insurance.
3. Practical, incremental changes to the existing operational deposit classification criteria could improve consistency across banks, if or as needed.
4. The FDIC should continue to incentivize sound, holistic liquidity risk management through the existing risk-based quarterly deposit insurance assessment framework.

¹ BNY is a global financial services company that helps make money work for the world – managing it, moving it, and keeping it safe. For 240 years BNY has partnered alongside clients, putting its expertise and platforms to work to help them achieve their ambitions. Today BNY helps over 90% of Fortune 100 companies and nearly all the top 100 banks globally to access the money they need. BNY supports governments in funding local projects and works with over 90% of the top 100 pension plans to safeguard investments for millions of individuals, and so much more. As of September 30, 2024, BNY oversees more than \$50 trillion in assets under custody and/or administration and more than \$2 trillion in assets under management.

I. Holistic Liquidity Risk Management and Deposit Stability

BNY maintains a balance sheet with strong liquidity and asset quality, ready access to external funding sources at competitive rates, and a strong capital structure that supports our risk-taking activities. BNY's prudent approach to risk management includes maintaining sufficient liquidity relative to our risk appetite across a range of stress testing measures.

Large banks like BNY use a multi-faceted approach to determine the stability of deposits in stress testing, leveraging quantitative and qualitative factors. Using a risk-based approach, BNY evaluates the most appropriate attributes which are dependent on the type of deposits. These factors include the nature or type of the depositor, deposit duration (e.g., contractual maturity date for maturity deposits as one factor of stability), and whether operational services are provided to the depositor. Deposit insurance may be an appropriate measure of stability for retail deposits; however, the operational nature of deposits is more indicative of stability for wholesale deposits.

Wholesale deposits tied to the provision of specific, essential services have historically exhibited less run risk during a stress period. For example, BNY's balance sheet supports longstanding client servicing relationships (e.g., cash management, clearing, custody services) that generate large, stable, uninsured deposits. The cash deposits that come onto BNY's balance sheet are generally shaped by customer-related needs. As noted below, these operational deposits are well-defined in existing liquidity regulations. Further, because our business is largely based on fee revenue, the majority of BNY's balance sheet assets consist of central bank cash and high-quality liquid assets (HQLA).

Accordingly, any new or revised liquidity requirements should continue to incentivize sound risk management practices and account for interest rate risk and asset-liability management appropriate to a bank's size and risk profile. For example, liquidity requirements should differentiate banks that maintain a strong cash cushion from those that do not and take into account an institution's funding mix and asset/liability maturity profile. As noted above, the level of deposit insurance status may be an appropriate measure of stability for retail deposits, whereas operational status is more indicative of stability for wholesale, institutional deposits.

II. Risk-Sensitive Measures of Deposit Stability

As the RFI acknowledges, various types of uninsured deposits behave differently.² Uninsured deposits cover a broad spectrum including deposits from retail, business, state and local government, agricultural, commercial and institutional customers, and a broad array of deposit products offered by banks of all sizes and business models. A singular focus on deposit insurance as the proxy for deposit run risk does not consider the stability of many types of uninsured deposits, nor sound, conservative asset liability and risk management practices. In our experience, the absence of deposit insurance is not indicative of deposit instability, as many

² Request for Information on Deposits, 89 Fed. Reg. 63948 (August 6, 2024).

uninsured deposits are stable in stress periods.³ Consequently, to evaluate deposit stability we recommend the FDIC first consider the type of depositor (e.g., retail or wholesale) and then the deposit type based on its classification (e.g. operational or non-operational).

Operational Deposits

We believe the FDIC should use the existing operational deposit framework to assess the stability of wholesale uninsured deposits, as operational versus non-operational status is more indicative of stability than the amount of deposit insurance.

The federal banking agencies, including the FDIC, have recognized that operational deposits are different from other uninsured deposits. For example, the Liquidity Coverage Ratio (LCR) rule preamble notes that operational deposits “present less liquidity risk during a stress period” and “are more stable than non-operational funding.”⁴ Similarly, “transaction accounts associated with fiduciary and custody and safekeeping assets,” i.e., operational deposits, “generally display the characteristics of core deposits.”⁵ Acting Comptroller of the Currency Michael Hsu also recently acknowledged that operational deposits are comparatively less risky than non-operational deposits.⁶

Unlike other categories of deposit liabilities, operational deposits must meet stringent requirements to be considered operational under the LCR and Net Stable Funding Ratio (NSFR) rules. Operational deposits are limited to deposits generated from the provision of clearing, custody, and cash management services, where a client receiving these services must “place, or leave, deposits with a bank in order to facilitate their access and ability to use payment and settlement services, and otherwise make payments.”⁷ These requirements include:

- (1) The related operational services⁸ must be performed pursuant to a legally binding written agreement, subject to a minimum 30 calendar-day notice period or significant contractual termination costs or switching costs
- (2) The deposit must be held in a designated operational account
- (3) The customer must hold the deposit at the bank for the primary purpose of obtaining operational services provided by the bank

³ Nearly 90% of BNY’s deposits are uninsured, however nearly 2/3 are stable wholesale operational deposits, as defined in the Liquidity Coverage Ratio. Source: [FFIEC 031, Schedule RC-O; Liquidity Coverage Ratio Disclosures](#).

⁴ Liquidity Coverage Ratio: Liquidity Risk Measurement Standards, 79 Fed. Reg. 61439, 61497–98 (October 10, 2014).

⁵ Assessments, Large Bank Pricing, 76 Fed. Reg. 10671, 10680 (Feb. 25, 2011).

⁶ Acting Comptroller of the Currency Michael J. Hsu Statement at the FDIC Board Meeting. NPR on Brokered Deposits Restrictions and RFI on Deposits (July 30, 2024), available at <https://www.occ.gov/news-issuances/news-releases/2024/nr-occ-2024-86a.pdf>.

⁷ “Basel Committee on Banking Supervision, Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools,” 40.26 (January 2013).

⁸ Operational services are defined in the LCR rule and include only the following twelve services, provided they are performed as part of cash management, clearing, or custody services: (1) Payment remittance; (2) Administration of payments and cash flows related to the safekeeping of investment assets, not including the purchase or sale of assets; (3) Payroll administration and control over the disbursement of funds; (4) Transmission, reconciliation, and confirmation of payment orders; (5) Daylight overdraft; (6) Determination of intra-day and final settlement positions; (7) Settlement of securities transactions; (8) Transfer of capital distributions and recurring contractual payments; (9) Customer subscriptions and redemptions; (10) Scheduled distribution of customer funds; (11) Escrow, funds transfer, stock transfer, and agency services, including payment and settlement services, payment of fees, taxes, and other expenses; and (12) Collection and aggregation of funds.

- (4) The deposit account must not be designed to create an economic incentive for the customer to maintain excess funds therein through increased revenue, fee reduction, or other incentives
- (5) The bank must demonstrate that the deposit is empirically linked to the operational services and that it has a methodology that takes into account the volatility of the average balance for identifying any excess amount, which must be excluded from the operational deposit amount
- (6) The deposit must not be provided in connection with the provision of prime brokerage services; and
- (7) The deposits must not be for arrangements in which the bank holds deposits owned by another bank and the respondent temporarily places excess funds in an overnight deposit with the bank.⁹

The requirements for recognizing operational deposits also specifically exclude balances in excess of those required for the provision of specific, defined operational services. Therefore, as a supervisory matter, the federal banking agencies require large U.S. banks to implement detailed and empirically-driven processes for the identification of operational deposit balances. This is reflected in the use of highly granular methodologies designed to determine deposit amounts that each client is expected to hold in support of its day-to-day transactional needs.

These methodologies rely on deposit levels, transactional activity, and the long-term relationship between the two to estimate operational deposits. Given their crucial role in supporting normal course financial market activities, these deposits cannot be removed without the risk of significant disruption to essential payment, clearing, and settlement functions and expense to depositors. Further, there is substantial empirical evidence that operational deposit balances are stable over a multi-year horizon and through economic cycles, thereby providing strong structural liquidity with high resilience against systemic instability and runs. As noted above, this stable source of funding forms the basis of the custody bank business model and defines its liquidity profile, not the search for assets with particular yields or returns.

Consistency of Operational Deposit Criteria

Despite the well-established role of operational deposits in the liquidity framework, concerns have been raised about potential variability in banks' approaches to operational deposit classification. Rather than regressing to insured/uninsured status, any concerns about deposit stability can be addressed in existing LCR standards for operational deposits, operational services, and operational requirements to enhance the consistency of operational deposit classification across the industry. Calibration of these factors (e.g., seasoning period, measurement of transactional activity, lookback horizon, outlier balance identification, economic incentive test) would benefit from further data collection by the banking agencies to assess and understand actual variability among banks and potential impacts.

⁹ Liquidity Coverage Ratio: Liquidity Risk Measurement Standards, 79 Fed. Reg. 61526 (October 10, 2014) at 61528.

III. Leveraging Existing Deposit Reporting

In addition to the quarterly FFIEC 031 call report, large banks routinely report abundant detailed balance sheet data on multiple supervisory forms daily, weekly, monthly, and quarterly. Examples include the 10-K/Q, FR 2900, FR 2052a, FR 2510, FR 2420, FR Y-9C, FR Y-15, and FR Y-14. These reports are beneficial supervisory tools for monitoring banks' overall liquidity profile and systemic risk profile on an ongoing basis to maintain financial stability and implement Dodd-Frank Act enhanced prudential standards.

The FR 2052a Complex Institution Liquidity Monitoring Report, which is submitted to regulators daily by the largest banks (Category I, II, and III with > \$75bn Short-Term Wholesale Funding (STWF)) and monthly by smaller banks (Category III with < \$75bn STWF & IV), includes granular information on deposit balances and deposit types (e.g., Operational Account Balances, Excess Balances in Operational Accounts, Non-Operational Account Balances), insurance status, counterparty type, and maturity dates, among others.¹⁰ The data included in this well-established existing report would allow the FDIC to frequently assess deposit characteristics and withdrawals during stress events for Category I-IV banks. Accordingly, BNY believes the FDIC should have access to this supervisory data for the purpose of confidentially assessing the stability of banks' deposit franchises. Additional details on the FR 2052a are included in the appendix (Table 1).

IV. Risk-Sensitive Deposit Insurance Pricing

Following the failures of Silicon Valley Bank (SVB) and Signature Bank (SBNY), the Federal Reserve, the California Department of Financial Protection and Innovation, and the New York State Department of Financial Services each conducted post-mortem reviews of their supervision of those banks.¹¹ As each agency recognized in their reports, SVB and SBNY experienced runs and failed primarily because of poor interest rate risk and asset-liability management. Those risks were further exacerbated by the failures of management at SVB and SBNY to fully appreciate the nature of their deposit bases.

These findings are consistent with the September 2024 Federal Reserve Bank of New York staff report¹² which concluded that, since 1865, failing banks have been characterized by rising asset losses, deteriorating solvency, and an increasing reliance on expensive non-core funding. Further, the ultimate cause of bank failures and banking crises is almost always a weakening of bank fundamentals. Accordingly, "[b]ank runs can be rejected as a plausible *cause* of failure for most failures in the history of the U.S. and are most commonly a *consequence* of imminent failure."

¹⁰ Refer to Table 1 in the appendix for additional details on the granularity reported for deposits in FR 2052a Complex Institution Liquidity Monitoring Report.

¹¹ Review of DFPI Oversight and Regulation of Silicon Valley Bank. 8 May 2023. NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES. INTERNAL REVIEW OF THE SUPERVISION AND CLOSURE OF SIGNATURE BANK. 28 April 2023.

¹² Federal Reserve Bank of New York Staff Reports, no. 1117, Failing Banks (September 2024), available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1117.pdf?sc_lang=en.

Deposit insurance assessment methodologies should therefore recognize and incentivize prudent interest rate risk and asset-liability management. The existing risk-based assessment methodology does just that by recognizing stable funding sources and liquid asset composition. Focusing only on large banks with large amounts of uninsured deposits does not consider the important differences among various bank deposit types, available liquid assets, or rate risk. Therefore, the risk-based pricing methodology should be maintained.

* * *

Thank you again for the opportunity to comment on this request for information.

We encourage the FDIC to continue this important work on deposit stability characteristics in collaboration with the banking industry and we would be happy to provide further information regarding the comments contained in this letter. Should you have any questions, please contact Tiffany Eng (tiffany.eng@bny.com).

Sincerely,



Tiffany Eng

Corporate Treasurer
The Bank of New York Mellon Corporation

Appendix

Table 1. FR 2052a Reporting Form

Report	Description
FR 2052a Complex Institution Liquidity Monitoring Report	<p>The FR 2052a report collects quantitative information on assets, liabilities, funding activities, and contingent liabilities on a consolidated basis and by material entity subsidiary.</p> <p>The report is filed daily by GSIBs, Category II banks, and Category III banks with >\$75 billion in STWF. It comprises sections covering broad funding classifications by product, outstanding balance and purpose, segmented by maturity date.</p> <p>The data are used to monitor the overall liquidity profile, including but not limited to deposits, for banks that are supervised by the Federal Reserve. These data also provide detailed information on the liquidity risks within different business lines (e.g., financing of securities positions and prime brokerage activities). In particular, the data serve as part of the Federal Reserve's supervisory surveillance program in its liquidity risk management area and provide timely information on firm-specific liquidity risks during periods of stress.</p> <p>Significant granularity on deposits already exist in the 2052a report. Data for each deposit must be reported with the following details¹³:</p> <ul style="list-style-type: none"> - Product types, which differentiate characteristics of it such as whether they are operational in nature: <ul style="list-style-type: none"> o O.D.1 Transactional Accounts o O.D.2 Non-Transactional Relationship Accounts o O.D.3 Non-Transactional Non-Relationship Accounts o O.D.4 Operational Account Balances o O.D.5 Excess Balances in Operational Accounts o O.D.6 Non-Operational Account Balances o O.D.7 Operational Escrow Accounts o O.D.8 Non-Reciprocal Brokered Deposits o O.D.9 Stable Affiliated Sweep Account Balances o O.D.10 Less Stable Affiliated Sweep Account Balances o O.D.11 Non-Affiliated Sweep Accounts o O.D.12 Other Product Sweep Accounts o O.D.13 Reciprocal Accounts o O.D.14 Other Third-Party Deposits o O.D.15 Other Accounts - The depositor must be assigned one of the following counterparty types: <ul style="list-style-type: none"> o Retail o Small Business o Non-Financial Corporate o Sovereign

¹³ See the following link for latest reporting instructions: https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_2052a

Report	Description
	<ul style="list-style-type: none"> ○ Central Bank ○ Government Sponsored Entity ○ Public Sector Entity ○ Multilateral Development Bank ○ Other Supranational ○ Pension Fund ○ Bank ○ Broker-Dealer ○ Investment Company or Advisor ○ Financial Market Utility ○ Other Supervised Non-Bank Financial Entity ○ Debt Issuing SPE ○ Non-Regulated Fund ○ Other - Maturity bucket of the deposit (e.g. open vs. contractual maturity date) - Insurance status, differentiated based on: <ul style="list-style-type: none"> ○ FDIC - Refers to deposits fully insured by FDIC deposit insurance. ○ Other - Refers to deposits that are fully insured by non-US local-jurisdiction government deposit insurance. ○ Uninsured - Refers to deposits that are not fully insured by FDIC deposit insurance or other non-US local-jurisdiction government deposit insurance.