Statement by Martin J. Gruenberg, Chairman, FDIC

Final Rule on the Liquidity Coverage Ratio

September 3, 2014

I support issuance of the final rule to implement a liquidity coverage ratio, or LCR, for large banking organizations, which is consistent with the standard established by the Basel Committee on Banking Supervision. This standard will be the first quantitative liquidity requirement in the United States and is an important step toward bolstering the liquidity position of large internationally active banking organizations.

During the financial crisis, a number of large banking organizations failed, or experienced severe difficulties, in part because of inadequate liquidity. These liquidity problems exacerbated the depth of the crisis, and were an important factor in policymakers' decisions to provide the financial sector with an unprecedented level of public support. This rule is designed to strengthen the liquidity position of our largest financial institutions, thereby contributing to financial stability and reducing the likelihood of such support being needed in the future.

As staff noted, the LCR final rule applies to two types of banking organizations:

1) Bank holding companies and depository institutions with $250 billion or more in total assets or with $10 billion or more in foreign exposures; and
2) Depository institutions with $10 billion or more in assets that are consolidated subsidiaries of a covered banking organization.

It does not apply to community banks. Those institutions covered by this LCR final rule will need to hold defined buffers of high-quality liquid assets, in amounts at least sufficient to cover a 30-day period of severe cash-flow stress as defined in the rule. Having a dedicated pool of liquid assets on hand will put these institutions in a much better position to withstand an environment of severe financial stress.

A number of commenters have expressed concern about the exclusion of municipal securities from HQLA in the final rule. It is our understanding that banks do not generally hold municipal securities for liquidity purposes, but for longer term investment and other objectives. We will monitor closely the impact of the rule on municipal securities and consider adjustments if necessary.

Finally, I would like to thank FDIC staff, as well as the staff of the OCC and Federal Reserve, for their hard work on this important issue.