BARCLAYS

5 August 2016

Via Electronic Mail

Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219
Attention: Legislative and Regulatory Activities Division
Docket ID OCC—2104—0029; RIN 1557—AD97

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 40429
Attention: Robert E. Feldman, Executive Secretary
RIN 3064—AE 44

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Robert deV. Frierson, Secretary
Docket No. R—1537; RIN 7100 AE-51

Re: Notice of Proposed Rulemaking – ***Net Stable Funding Ratio: Risk Measurement Standards and Disclosure Requirements***

Ladies and Gentlemen:

Barclays appreciates the opportunity to comment on the joint notice of proposed rulemaking by 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 (together, the "Agencies") intended to implement the internationally-agreed standards for a net stable funding ratio ("NSFR") requirement in the US that would apply to bank holding companies, savings and loan holding companies without significant commercial or insurance operations, and depository institutions that, in each case, have $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure and, separately, to depository institutions with $10 billion or more in total consolidated assets that are consolidated subsidiaries of such bank holding companies and savings and loan holding companies (each a "Covered Company") pursuant to Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Proposed Rule").[1]

[1] 81 Fed. Reg. 35,124 (1 June 2016) The Federal Reserve also proposed a modified and less stringent version of the NSFR for certain other domestic banking organizations with total consolidated assets greater than $50 billion but less than $250 billion (the "Modified NSFR").

Under the terms of the Proposed Rule, consolidated operations under Barclays US LLC (Barclays' intermediate holding company) and Barclays Bank Delaware would be Covered Companies subject to the proposed US NSFR requirements. Barclays' US operations are also collectively subject to the oversight of the Federal Reserve and regulated US subsidiaries are subject to the direct oversight of their respective primary regulators. Similar requirements for implementing an NSFR are under consideration in the UK, Barclays' home jurisdiction, through the Prudential Regulatory Authority and in other jurisdictions where Barclays operates through the European Commission ("EC"). The comments in this letter are informed by the various proposed forms of the NSFR across Barclays' global operations.

Barclays welcomes the concept of a longer-term measure of structural liquidity. We support the underlying policy intentions of the NSFR, including its core objective of incentivizing Covered Companies to develop and maintain sustainable funding structures. However, we are concerned that the requirements as proposed do not strike an appropriate balance between supporting a safe and sound financial system that is appropriately funded and imposing a substantial tax, both economic and operational, across multiple layers of market participants that will restrict certain fundamental capital markets activities in the US to the point of noneconomic viability, reduce market liquidity, detract from financial stability, and result in higher operating costs for end-users such as pension funds, life insurers, and asset managers, as well as the customers they serve.

In addition to the comments and recommendations made in this letter, Barclays participated in the preparation of comment letters submitted by industry trade associations (the "Trade Associations Letters"[2]). We generally agree with concerns expressed in the Trade Association Letters and believe that the recommendations therein offer appropriate and effective measures to readdress the NSFR standard in a safe, sound, and effective manner.

We are most concerned with three aspects of the Proposed Rule:

- **Disparate treatment of foreign banking organizations ("FBOs").** Barclays believes that the foreign exposure calculation applied by the Proposed Rule treats intermediate holding companies ("IHCs") unfairly in comparison to US bank holding companies ("BHCs") and in a manner that is not consistent with the spirit of national treatment. The current calculation methodology would require an IHC to comply with the "full" NSFR requirement when the profile of its international activities otherwise more closely resembles that of a Covered Company to which the Modified NSFR requirements would apply. We strongly agree with the commentary and positions put forth in the Trade Association Letters in this regard.

  Furthermore, as the Agencies consider implementing a separate NSFR requirement for IHCs not otherwise subject to the Proposed Rule, Barclays requests that due consideration be given to the

[2] The "Trade Associations Letters" refers to the letter submitted collectively by The Clearing House, the Securities Industry and Financial Markets Association, the Financial Services Roundtable, and the CRE Finance Council and to the letter submitted separately by the Institute of International Bankers.

competitive disadvantages that could result for certain broker-dealers, such as Barclays Capital Inc., that through their parent Covered Companies, would be subject to more stringent NSFR requirements than other broker-dealers that otherwise are comparable but not Covered Companies by virtue of either (i) not having a depository institution affiliate, or (ii) not being a subsidiary of an FBO.

- **Insufficient impact analysis.** Barclays believes that the Agencies may have neglected to include IHCs in their $39 billion estimate of the total US NSFR shortfall, which would represent a significant miscalculation of the impact to the industry and the resulting effects on the US financial system. Based on industry forum discussions, we believe the Agencies also did not have sufficient information to estimate the impact of certain provisions on US BHCs. We agree with the commentary put forth in the Trade Association Letters and encourage the Agencies to conduct thorough quantitative impact studies with participation from the Covered Companies. While we have not commented on the treatment of derivatives under the Proposed Rule in this letter due to our limited derivatives activity booked in the US, we agree with the concerns expressed in the Trade Association Letters in this regard. Barclays provided similar comments in its response to the EC's DG FISMA consultation on implementing NSFR in the EU.

- **Financing businesses would become uneconomic.** The Proposed Rule would not merely impose significant additional costs on capital markets activities but would create real challenges for certain financing activities to produce returns above the cost of capital. Barclays estimates that the NSFR Proposed Rule would reduce margins on certain financing transactions by up to 50%. This is not the classic "increased cost" argument that the industry often makes in response to newly proposed regulations. Rather, we believe that the direct and substantive increase in funding costs would be transformative for the capital markets and for all Covered Companies with significant broker-dealer activities. On that basis, a variety of activities would either need to be subsidized by other businesses, termed out, or exited. We expect this phenomenon would be greatest in US Treasury and Agency repurchase agreements (repo) and collateral swaps. In many instances, terming out would not be an option either because there is no market, or more likely, because the additional cost of term financing would exceed the marginal return on the underlying assets (a common circumstance for high quality liquid assets ("HQLA") in a low interest rate environment); in other instances, there would be insufficient or no business ancillary to the underlying financing to offset the lower return on the financing activity. In either case, it would not make economic sense to continue the underlying financing activity.

If the Proposed Rule is implemented as currently drafted, Barclays expects that Covered Companies would need to reserve balance sheet for NSFR buffers, thus putting further pressure on returns and balance sheet availability that is already constrained under the new leverage rules. Higher transaction costs coupled with reduced activity in these transactions would impact the broader industry and result in less efficient markets, greater volatility, wider bid offer spreads and less liquidity in both the primary and secondary markets. This would impact all products, including high quality government bonds, corporate bonds, and equities and diminish returns for nearly all market participants – not only for banks and hedge funds but also for securities lenders such as pension funds and institutional and retail investors who rely on this stable source of incremental revenue to support returns. Due to their own compressed margins and cost pressures, these end users would in turn also likely be forced to reduce or exit from certain types of trading and business activities.

While Covered Companies and end users may or may not be able and willing to absorb the incremental cost increases resulting from these consequences, which we assume is not the prudential objective of the Proposed Rule, we believe that the larger effect will be a contraction of financial markets activity and an increase in financial market volatility. In consideration of the aforementioned points, Barclays respectfully recommends that the Agencies:

- Consider the comments and incorporate the recommendations included in the Trade Association Letters, including (i) that the final design and calibration of any NSFR requirement should be established by reference to clear and coherent conceptual and analytical bases, which should be disclosed publicly in order to promote transparency in the rulemaking process and to provide interested parties with the opportunity to provide meaningful comment; and (ii) that were the Agencies to ultimately adopt an NSFR regime, particular areas of the Proposed Rule should be revised to better align with the underlying economic substance of various assets, liabilities, and related transactions, better reflect the reality of market dynamics in the US, and help mitigate some of the unwarranted negative effects of the NSFR;

- Exclude the foreign exposure threshold or modify the treatment of exposures to IHC affiliates in the calculation of foreign exposures used for scoping the application of the Proposed Rule in order to mitigate the disparate treatment of FBOs; and

- Carefully consider the impacts of the Proposed Rule on the overall financial system and the global economy, including the comments and recommendations provided herein, to better align the Proposed Rule with the policy objective of incentivizing Covered Companies to operate with resilient funding structures.

The sections of this letter that follow provide detailed examples of the types of activities that are of particular concern to Barclays in relation to their treatment under the Proposed Rule:

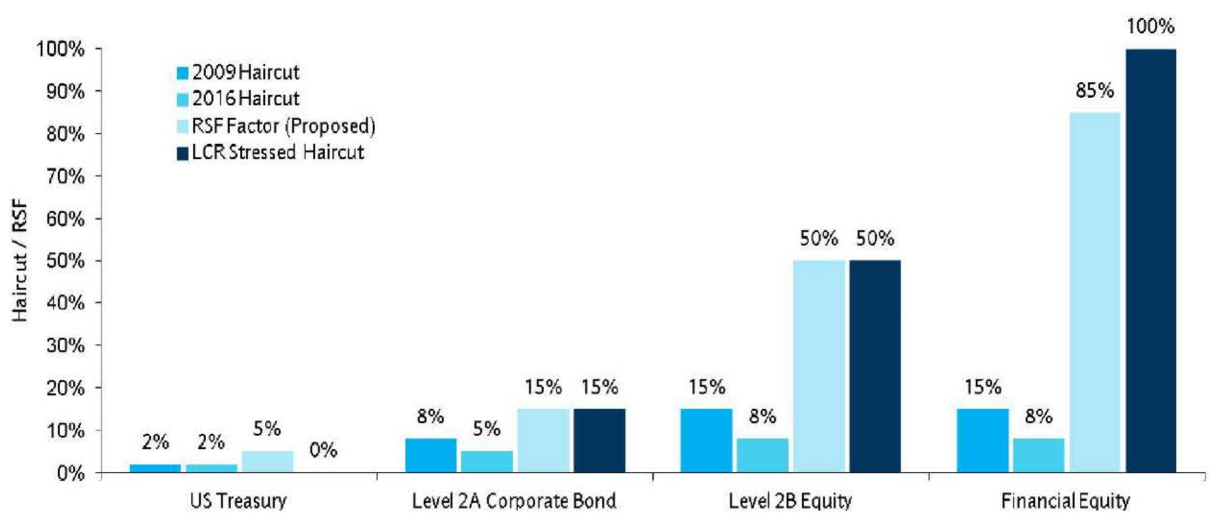
I. Trading securities
II. Short sales
III. Repo book asymmetry
IV. Off-balance sheet collateral swaps
V. Collateral substitution
VI. Extended settlements and trade date receivables

I. Trading securities

The Proposed Rule assigns required stable funding ("RSF") factors based on the relative liquidity characteristics of various types of securities. But these factors are, in most cases, the same or more severe than those used in the liquidity coverage ratio rule (the "LCR"), a metric that was calibrated to a severe stress. Importing the RSF factors from the LCR, and likewise keeping the ASF factors the same or similar for the first six months, in effect, extends the severe idiosyncratic liquidity stress of the LCR to 180 days for Covered Companies who are securities dealers. Furthermore, there is no similar mechanism as exists in the LCR for the NSFR to fall below 100% if the Covered Company actually experiences a stress. As a result, the NSFR framework unduly penalizes securities-dealing activity and could ensure sufficient stable funding for these activities at a lower calibration. In short, properly calibrated RSF factors could deliver the intended objectives of the Proposed Rule at lower costs to Covered Companies and end-users.

The RSF for securities is significantly higher than current secured funding haircuts, particularly for equity securities and securities issued by financial institutions. The prescribed RSF weightings are 2.5 to 10.6 times higher than the repo haircuts assigned in the secured funding markets today, which is substantially higher than stressed haircuts observed during the recent financial crisis, and similar to the LCR stressed haircuts (Figure 1).

Figure 1. RSF factors vs. tri-party funding haircuts and LCR haircuts for unencumbered inventory



Sources: Bank for International Settlements, Federal Reserve, Barclays analysis

While there is no significant difference in repo market haircuts for Level 2B equities and equities issued by financial institutions, the RSF factor for financial stocks is materially higher than a Level 2B equity held for client-facing derivative transactions and market making purposes. This treatment is equivalent in approach to the LCR, particularly with respect to the exclusion of financial institution debt and equity from eligible liquid assets under LCR. While we understand the Agencies' motivations in assuming that financial securities do not have liquidity value in a stressed scenario, it does not make sense to assume that they have such a low liquidity value in a non-stressed measure such as the NSFR.

These RSF factors also interact with the ASF factors in an unclear and unjustified manner. Figure 2 illustrates the average ASF factor[3] for contractual liabilities of varying maturities. The shortfall to 100% of these respective ASFs at various maturities represent additional funding that will be required on an average basis.

Figure 2. Average ASF factors for wholesale financial liabilities

Tenor	3M	6M	9M	1Y	2Y	5Y	10Y
Average ASF	0%	0%	17%	25%	62.5%	85%	92.5%

This average redundant funding requirement would add significant costs to market making. In addition, for assets to which the Proposed Rule assigns 100% RSF factors, a Covered Company either would have to fully fund them with equity or perpetual debt, which are the only liabilities to provide 100% ASF at all times, or it would have to issue debt in excess of the balance sheet value of the asset to take into account the time at which the liability has an ASF of less than 100%.

Furthermore, the NSFR impacts the same low-risk market-making and repo activities that are also impacted by the leverage requirement. However, in certain circumstances, the additional cost of NSFR compliance would significantly exceed the cost of leverage compliance. We estimate an incremental 77bps NSFR cost for financing financial stocks, which significantly exceeds the c. 20bps incremental cost of the leverage requirements and results in a four-fold increase in the cost of capital(Figure 3). As a result, we expect a significant impact on market liquidity as Covered Companies reduce activity in response to these extra costs.

The example in Figure 3 assumes the Covered Company is able to term out the repo funding to a one-year evergreen. However, the term repo market is not particularly liquid (only c. 2-3% of repo transactions were >12 months as of December 2015[4]). As such, Covered Companies may need to raise term unsecured cash in order to meet the NSFR. The cash raised could also increase leverage balance sheet, which for leverage constrained Covered Companies would require reductions in other financial intermediation activities.

[3] For example, a one-year debt security issued by a Covered Company would receive 50% ASF for the first six months and 0% for the second six months, for an average of 25% ASF.

[4] See International Capital Market Association, *European Repo Market Survey Number 30 (February 2016)*.

Figure 3. Impact of proposed NSFR on returns

Non-HQLA Exchange Traded Equity	RWA ($m)	Leverage ($m)
Notional	100.0	100.0
Exposure measure	17.6	108.0
Capital ratio required	12%	4%
Capital required	2.1	4.3
Cost of capital	0.2	0.4
Incremental cost of capital due to leverage requirement		0.2
Incremental cost as a proportion of notional		20 bps

NSFR Calculation	($m)	
Required stable funding	85.0	
Available stable funding:		
Funding for haircut	3.7	
Capital	4.3	
Incremental term funding required	77.0	
Cost of incremental funding (bps)	100	
Total incremental cost of NSFR funding	0.77	
Incremental cost as a proportion of notional	**77bps**	
Cost of leverage and NSFR		97bps

<u>Assumptions</u>

- Exposure measure for risk-weighted assets ("RWA") is calculated as the sum of general (8%) and specific market risk (8%) and a standardized counterparty credit risk of 20% on a haircut of 8%
- Exposure measure for leverage is the notional plus haircut
- Capital required is based on CET1 target of 12% and T1 leverage of 4%
- Internal cost of capital is 10%
- RSF on a financial stock is 85%, as per NSFR Proposed Rule
- RSF is reduced by the unsecured funding raised for the haircut and capital already raised for RWAs and leverage
- 100bps incremental cost of raising 1 year evergreen repo for a main index equity

Barclays respectfully recommends that the Agencies:

- **Re-calibrate the RSF factors in a manner coherent with the ASF factors and address the substantial disincentive to make markets in financial institution debt and equity (including total loss absorbing capital, or TLAC, in the future);**

- **Remove the restrictions on financial equities and bonds from the LCR HQLA criteria (as, for example, the NSFR does with the LCR's operational criteria for holding HQLA); and**

- **Lower the RSF factors by grouping securities into desired funding tenors with reference to Figure 2 (e.g., Level 2B equities could be given an RSF of 25% reflecting an average funding factor for 1 year, non-HQLA 50% requiring funding for 18 months to 2 years, and so on).**

II. Short sales

Short sales support broader market liquidity by providing for more efficient market prices and lower transaction costs for all market participants. Covered Companies, including Barclays, maintain short positions on their balance sheets and also facilitate short covering for clients. For these transactions, there is minimal impact on the Covered Company's need for stable funding as the transaction is funded by the short sale proceeds. The securities borrow[5] is returned upon the close out of the short sale, and no gap in funding is created.

Short sales on behalf of the firm

When a market-maker sells a security short, it enters into reverse repurchase agreements (reverse repos) or security borrows to cover the short position, typically for hedging or market making purposes. Firm short coverage is an entirely self-funding[6] activity.

In a typical firm short transaction (Figure 4), a Covered Company short sells a security and the cash proceeds are a liability on the Covered Company's balance sheet (Step 1). The Covered Company then uses cash (ultimately sourced from the short sale proceeds) to reverse repo or borrow the security from a securities lender (Step 2) which is recorded as an asset on the Covered Company's balance sheet. The securities lender then provides the Covered Company with the security, typically on an open basis under which the security is callable by the lender (Step 3). Finally, the Covered Company settles the short sale transaction in the market with the borrowed security (Step 4).

Figure 4. Firm short sale transaction

Despite the self-funding nature of the transaction, the Proposed Rule would generate an RSF requirement at 15% of the notional and 0% ASF recognition (Figure 5). In order to support the stable funding requirement for this activity, Covered Companies would need to raise additional long-term funding. As no liquidity is required by these transactions, the cash raised would serve no prudential purpose in relation to the transaction that requires it. Furthermore, the cash raised could also increase leverage balance sheet, which

[5] Defined as an open maturity securities borrow/reverse repo where both legs are unwound together.

[6] Other than the standard haircut or margin posted on the security borrow.

for leverage constrained Covered Companies would require reductions in other financial intermediation activities.

Figure 5. Firm short sale NSFR calculation

Step	Asset	RSF	Liability	ASF
1			Short sale proceeds $100M	0%
2	Reverse repo $100M	15%		
Total NSFR Shortfall: $15M				

NSFR Calculation
- RSF factor for reverse repo with FI counterparty (plus re-hypothecation rights) < 6M = 15%
- RSF $100M x 15% RSF factor = $15M
- ASF factor for shorts = 0%
- ASF $100M x 0% ASF factor = 0
- NSFR shortfall of $15M will result in similar increase in leverage exposure

Barclays respectfully recommends that the Agencies assign an RSF of 0% to reverse repo transactions covering firm short-sales where no funding requirements are generated.

Short sales on behalf of clients

Client short sale facilitation includes security borrows or reverse repos where the underlying security is subsequently rehypothecated to cover a client short sale. Client short positions are executed in a client's prime brokerage account and reflected on the balance sheet as a customer payable or included on the balance sheet as a repurchase agreement depending on the legal arrangement with the client.

Although the Covered Company effectively receives the short sale proceeds from the client, who provides the cash to borrow the security, this liability would receive 0% ASF recognition. However, when the Covered Company borrows the security to settle the transaction, it would receive a punitive 10-15% RSF even though the short sale proceeds fully fund the transaction.

For these types of self-funding transactions, the Proposed Rule would impose an artificial and unnecessary funding requirement for Covered Companies. The structure of client short transactions and the issues related thereto are the same as described in the section above for firm short sales.

The Proposed Rule imposes this asymmetry, at least in part, in response to concerns about underlying liquidity risk in such short facilitation transactions. Subsequent to finalization of its NSFR Framework, however, the Basel Committee separately undertook a new standard setting to address liquidity risk in securities lending.[7] Under this separate framework, to avoid incurring an additional funding requirement, a

[7] See Basel Committee on Banking Supervision, Consultative Document: *Haircut floors for non-centrally cleared securities financing transactions* (5 January 2015).

bank pledging cash collateral to a securities lender would be required to obtain representation from the securities lender that the cash collateral is being reinvested in short-dated, highly liquid investments, thus minimizing (and possibly eliminating) the risk that a securities lender would be unable to easily unwind a large securities lending portfolio.

Barclays respectfully recommends that the Agencies apply a 0% RSF to cash collateral provided to securities lenders for purposes of covering client shorts. (We note that the Basel Committee's framework for interdependent assets and liabilities could also be used to effect this change.)

III. Repo book asymmetry

Repo transactions play a vital role within the financial system and underpin the liquidity of primary and secondary capital markets as well as the shorter-term money markets. More broadly, the repo market promotes the efficient use of available tradable stock for collateral management.

The International Capital Market Association noted in their recent paper entitled "Impacts of the Net Stable Funding Ratio on Repo and Collateral Markets" that "*the impact of the NSFR, if simply adopted exactly as outlined by the BCBS, would create significant additional stress and weaken the effectiveness of the market. Given the role of repo and collateral markets at the heart of the financial system, this would have negative implications for the smooth functioning of broader financial markets – which would, in turn, lead to increased costs and risk for the market participants, including those corporates and governments borrowing to finance their economic needs. At the same time there would also be a detrimental impact on the effectiveness of many of the measures put in place to improve the stability of the financial system, dependent as they are on high quality collateral*".[8]

Under the Proposed Rule, transactions in which a Covered Company enters into reverse repos (whether in matched book activity or otherwise) would require RSF of 10% or 15% while, in turn, financing these transactions with financial institutions for less than six months would attract a 0% ASF, regardless of the quality of the asset collateralizing the repo liability.

As noted in the 3 May 2016 Federal Reserve Open Board meeting, the objective of this asymmetry is to address the funding risk in the matched book "*where firms have very strong reputational reasons to maintain their lending to many of their clients*" and the financial stability concern that the unwind of a repo book would be "*fairly disruptive to financial markets*".[9]

Barclays has three concerns with the Proposed Rule's treatment of repo transactions:

[8] See International Capital Market Association, *Impacts of the Net Stable Funding Ratio on Repo and Collateral Markets* (23 March 2016).

[9] See Board of Governors of the Federal Reserve System, *Transcript of Open Board Meeting* (3 May 2016).

First, Barclays questions the underlying coherence of the NSFR scenario in which a Covered Company is assumed to be unable to roll over repos secured by Level 1 HQLA, bearing in mind that 100% roll-over is assumed in the LCR Rule, which is intended to capture a more severe scenario. Any issues with the matched book would be better dealt with in that regulation.

Second, Barclays does not agree that "*firms have more or less adapted to the NSFR already*".[10] Even if the industry were already compliant with the NSFR – and we do not believe it is – firms would allocate the costs of the NSFR to the business lines and products that drive the costs. As the repo business is high volume and low margin, the additional costs of the Proposed Rule, particularly for the repo of US Treasuries, would alter the economics of this business and consequently cause a further reduction in capacity that has already been driven down by the leverage ratio.

Third, the RSF factor of 10% does not recognize that Covered Companies transact in reverse repos for purposes other than a matched book. Short-covering is discussed separately herein, but reverse repos are also used as a tool for managing short-term liquidity mismatches and investing cash held in the liquidity buffer. Assigning a 10% RSF for Level 1 reverse repos effectively discourages prudent risk management – in that investing in reverse repos is an extremely low liquidity-risk activity – and incentivizes Covered Companies to purchase Level 1 HQLA outright on account of the lower 5% RSF even though this practice is more risky from both a liquidity and interest rate risk perspective.

We note that these types of liquidity management reverse repo transactions can be readily identified using existing operational capabilities that Covered Companies have implemented in response to HQLA requirements for the LCR.

Barclays respectfully recommends that the Agencies remove the asymmetry for reverse repos backed by Level 1 HQLA, as the assumption the matched book would unwind in a disorderly fashion is unjustified and unsupported; and the punitive treatment for reverse repos compared to outright holdings of Level 1 HQLA contradicts prudent liquidity risk management practices.

IV. Off-balance sheet collateral swaps

Security-for-security asset exchanges form an important part of a Covered Company's collateral management process by reducing financing costs and re-financing risk due to the non-cash nature of the transaction. Additionally, these transactions reduce leverage when accounted for as off-balance sheet items under US GAAP or IFRS. For these and other reasons, the Basel NSFR Framework explicitly excluded collateral swaps if the "*securities do not appear on the balance sheet*".[11] The Proposed Rule, however, introduces additional RSF requirements for these transactions under Sections 102(c) and 106(d) when the off-balance sheet asset received under a lending transaction, asset exchange, or other means, is

[10] Ibid.

[11] See *Basel III: the net stable funding ratio*. Basel Committee on Banking Supervision (October 2014).

rehypothecated to secure an NSFR liability or to settle a short sale. Under such circumstances, an RSF factor is assigned as if the asset reported on the balance sheet were encumbered for the longer of (i) the remaining maturity of the NSFR liability or (ii) any other encumbrance applicable to the provided asset under the terms of the off-balance sheet collateral swap.

As described in the Proposed Rule, a primary objective of the Agencies in expanding the RSF requirement for rehypothecated off-balance sheet assets was to limit the ability of a Covered Company to increase ASF (depending on the nature and characteristics of the NSFR liability) while not reducing overall funding risk when taking encumbrance into account. We view this as unlikely given the non-cash nature of security-for-security asset exchanges. In addition, we believe the operational and systems requirements necessary to track collateral movements in this manner (i.e., linking sources and uses of off-balance sheet assets and liabilities to on-balance sheet assets and liabilities) for the sole purpose of identifying encumbrance would be challenging given the velocity and size of collateral movements and dependency on third parties such as tri-party custodians. As such, we believe that Agencies have underestimated the impact of this departure from the Basel NSFR Framework, which would add burdensome, detailed reporting requirements to NSFR calculation.

Barclays respectfully recommends that the Agencies:

- **Collaborate with the industry to assess the operational impacts associated with capturing the requisite data for off-balance sheet activity as we believe it would require a material change and be challenging to implement; and**

- **Provide clear and precise guidance on the specific off-balance sheet activities intended to be captured, as these sections of the Proposed Rule are a departure from the Basel NSFR Framework and have resulted in inconsistent interpretations within the industry.**

V. Collateral substitution

Cash borrowers and lenders utilize tri-party facilities provided by custodial banks to facilitate financing transactions. Under a tri-party arrangement, the cash lender agrees to lend cash for a specific time period and rate, secured by collateral provided by the cash borrower. The types of securities acceptable for the loan are predefined by the cash lender in the collateral eligibility profile. Once a trade is executed, the cash borrower has unlimited rights to substitute collateral subject to the parameters of the collateral profile. This allows the cash borrower to recall securities currently allocated to the lender and replace with other like securities or even cash.

As part of prudent liquidity management, Covered Companies routinely maintain excess funding in anticipation of changing circumstances, particularly for less liquid assets. Overfunding allows the Covered Company to effectively manage changes in funding and provides a buffer to mitigate contingent liquidity risk. One method Covered Companies use to create overfunding is to execute trades to fund lower quality assets and collateralize the trades with higher quality assets. Consider an example in which two parties execute a trade whereby one party seeks to fund corporate bonds (Level 2B) and reverses in Treasury bonds (Level 1) to collateralize the trade. If a requirement to fund additional corporate bonds subsequently arises, the Treasury reverse repo can be closed out and the corporate bonds substituted in their place. Covered Companies also maintain overfunding by executing trades for terms longer than required.

The Proposed Rule fails to recognize the liquidity value of funding trades where the Covered Company has rights of substitution, and in certain instances, it penalizes Covered Companies by requiring them to hold RSF on assets collateralizing the trades. Specifically, Covered Companies are required to apply a 10% -15% RSF on all reverse repos with financial institutions, irrespective of the purpose of the transaction. For example, a Covered Company would be required to hold $10 RSF even though the Treasury position does not require stable funding, can be unwound at any time, and doing so has no ramifications on the Covered Company's client franchise (Figure 6).

Figure 6. Treasury bond reverse repo to fill Corporate tri-party repo trade

<u>Current</u>

Liability	B/S Amount	ASF%	ASF$	Asset	B/S Amount	RSF%	RSF$
1) Corporate triparty repo trade with one month to maturity (allocated Treasury bonds)	$ 100	0%	$-	2) Overnight Treasury bond Reverse Repo	$ 100	10%	$10

Net $10 RSF

<u>Proposed</u>

Liability	B/S Amount	ASF%	ASF$	Asset	B/S Amount	RSF%	RSF$	Collateral Substitution Yes/No?	Collateral Substitution RSF%	Collateral Substitution RSF$
1) Corporate triparty repo trade with one month to maturity (allocated Treasury bonds)	$ 100	0%	$-	2) Overnight Treasury bond Reverse Repo	$ 100	10%	$10	Yes	0%	$ -

Net NSFR Neutual
$0 ASF = $0 RSF

Barclays respectfully recommends that the Agencies exclude Level 1 assets reversed in and pledged to tri-party repo trades executed to fund Level 2B and Non-HQLA assets from the RSF application.

Furthermore, the encumbrance provisions of the Proposed Rule would require a Covered Company to apply a higher RSF on assets allocated to term trades (> six months) to match the ASF of the repo liability. For example, if a Covered Company raises one-year term corporate bond repo and the trade is collateralized with Treasury bonds reversed in, the encumbrance provision would require the Covered Company to apply a 100% RSF on the Treasury reverse repo to correspond to the 100% ASF on the one-year term repo. Applying the Proposed Rule at the security level does not recognize or provide benefit for the overfunding.

Additionally, tri-party agents allocate collateral using proprietary algorithms that were not designed to optimize NSFR. Two Covered Companies with similar liquidity profiles may have different NSFR outcomes depending on the collateral allocation utilized by the agent. Similarly, a Covered Company's NSFR requirement may change from day to day even though its liquidity profile is unchanged.

In the example below, a Covered Company has executed a one-year repo trade to fund inventory and a shorter-term repo trade to fund an overnight reverse repo (Figure 7). Under allocation #1, where the inventory allocates to the longer term repo and the reverse repo to the shorter term repo, the total RSF for both trades would be \$115. If the collateral allocation is reversed, the encumbrance provision would require the Covered Company to increase the RSF on the reverse repo to 100%, ignore rights of substitution, and increase the RSF on both transactions from \$115 to \$185 even though balance sheet and liquidity risk are unchanged.

Figure 7. Tri-party collateral allocation

Allocation #1

Liability	B/S Amount	ASF%	ASF$
1) Term corporate tri-party repo trade with one year remaining maturity (allocated Bond A)	\$ 100	100%	\$ 100
2) Overnight corporate tri-party repo trade (Bond B)	\$ 100	0%	\$ -
		Total ASF	\$ 100

Asset	B/S Amount	RSF%	RSF$	Encumbrance RSF: Encumbered?	Encumbrance RSF: RSF%	Encumbrance RSF: RSF$
4) Long Inventory (HY Corporates Bond A)	\$ 100	85%	~~\$ 85~~	Yes	100%	\$ 100
3) Overnight HY Corporates Reverse Repo (Bond B)	\$ 100	15%	\$ 15	Yes	15%	\$ 15
					Total RSF	\$ 115

Net \$15 RSF (\$100 AFS; \$115 RSF)

Allocation #2

Liability	B/S Amount	ASF%	ASF$
1) Term corporate tri-party repo trade with one year remaining maturity (allocated Bond B)	\$ 100	100%	\$ 100
2) Overnight corporate tri-party repo trade (allocated Bond A)	\$ 100	0%	\$ -
		Total ASF	\$ 100

Asset	B/S Amount	RSF%	RSF$	Encumbrance RSF: Encumbered?	Encumbrance RSF: RSF%	Encumbrance RSF: RSF$
3) Overnight HY Corporate Reverse Repo (Bond B)	\$ 100	15%	\$ 15	Yes	100%	\$ 100
4) Long Inventory (HY Corporates Bond A)	\$ 100	85%	\$ 85	Yes	85%	\$ 85
					Total RSF	\$ 185

Net \$85 RSF (\$100 AFS; \$185 RSF)

Barclays respectfully recommends that the Agencies revise the treatment of tri-party trades where the Covered Company has the operational and legal capability to exercise substitution rights such that the encumbrance provision is applied to the asset class and not to a specific security allocated to the repo trade; the Covered Company should be able to use the 100% ASF on term repo trades with substitution to offset RSF requirements on like or other securities eligible as per the lender collateral profile.

VI. Extended settlements and trade date receivables

Covered Companies play a critical role in the US primary markets by facilitating client access to funding through the capital markets. Barclays views such activity as a core element of its business strategy in the US and globally.

In Barclays' experience, a significant percentage of the new issue market involves settlement dates for transactions and associated inflows of cash from investors of greater than T+5 days. Extended settlements are common in both SEC-registered debt securities offerings (particularly private label mortgage-backed and asset-backed securities) and debt securities offerings (particularly for high yield securities and, to a more limited extent, in the investment grade context).

For corporate bonds, the issuer is often coordinating the refinancing of a loan or accommodating a corporate finance transaction that results in an extended settlement period. Additionally, issuers of all types often require extended settlement if they are financing a tender for their outstanding securities to avoid "negative carry" during the period required by US securities laws for a tender offer to remain open. In the mortgage-backed securities context, the length of time between trade date and settlement date is largely attributable to the issuer's need to originate and assemble the underlying mortgage pool and the other steps required for issuance, including, for example, rating agency review.

The Proposed Rule would classify inflows of cash which are expected to be received on a greater than T+5 settlement basis as derivative transactions subject to a 100% RSF factor. Barclays expects that such settlement cycles are a reflection of issuer needs rather than any factor of instability or risk, especially given that in the overwhelming majority of transactions any funding needs are of an intraday nature and no longer present by the end of the business day on which the transaction closes.

In addition, the Proposed Rule would apply a 100% RSF factor to certain trade date receivables that fail to settle within the standard settlement period. Barclays agrees with the comments made in the Trade Association Letters that stable funding should not be required for these assets because the Covered Company still expects to receive trade date receivables when these transactions are expected to settle, as was acknowledged in the Basel NSFR Framework.

Barclays respectfully recommends that the Agencies:

- **Assign a 0% RSF factor for the duration of primary offering settlements to recognize that these types of common extended settlements are the result of issuer timing needs rather than representative of instability or risk that would necessitate a stable funding requirement; and**

- **Assign a 0% RSF factor to trade date receivables that fail to settle within the standard settlement period but that are expected to settle, accordance with the weighting assigned in the Basel NSFR Framework.**

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We appreciate the Agencies' consideration of the views set forth in this letter and welcome the opportunity to discuss any part of this letter in greater detail.

Yours sincerely,

Thomas McGuire

Thomas McGuire
Treasurer, Barclays Americas

cc: Joe McGrath, Chief Executive Officer, Barclays Americas