**MEMORANDUM**

**TO**: Public File - Notice of Public Rulemaking: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements (RIN 3064-AE44) ("NSFR NPR")

**FROM**: Gregory Feder, Counsel, Legal Division

**DATE**: September 1, 2016

**SUBJECT**: Meeting with Representatives from Regional Banking Organizations

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On May 4, 2016, FDIC staff, together with staff of the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, met with representatives of eight banking organizations. Representatives from the banking organizations presented their concerns and views with regard to several issues, including issues related to the agencies' future Net Stable Funding Ratio rulemaking action. Specifically, representatives of these banking organizations discussed the impact of a future proposed rule and other liquidity measures on their business activities. An agenda prepared by the banking organizations is attached.

The FDIC representatives at this meeting were:

- Eric Schatten, Policy Analyst, Capital Markets/RMS
- Gregory Feder, Counsel, Legal Division

The banking organizations' representatives in attendance at the meeting were:

- Kirk Bourgeois, Corporate Liquidity Risk Manager, BB&T
- Dan Rosen, Managing Vice President – Corporate Treasury, Capital One
- Mike Smith, Corporate Treasurer, Huntington
- Scott Warman, EVP/Treasurer, M&T Bank
- Christine Shambach, Senior Vice President, Liability and Capital Management, PNC
- Jon Chambers, Senior Vice President, Liquidity Risk Management, SunTrust
- Scott Ferguson, Senior Vice President, Finance, Toronto Dominion
- Luke Wippler, Senior Vice President Capital & Liquidity, US Bank

# Regional Bank Discussion

with the Federal Reserve, OCC, and FDIC

May 4, 2016

# Agenda

| Topic | Speaker(s) | Time Allotted |
|---|---|---|
| Introductions | All | 5 minutes |
| Background on Regional Bank Treasurers' Group | S. Warman | 5 minutes |
| Perceptions of Recent Horizontal Liquidity Review<br>• Current Practice Themes | Liquidity Supervisory Staff | 20 minutes |
| LCR Guidance and Implementation Debrief<br>• Full LCR Bank Perspective<br>• Modified LCR Bank Perspective | *Full LCR:*<br>S. Ferguson<br><br>*Modified LCR:*<br>J. Chambers | 20 minutes |
| 2052A Planning<br>• Full LCR Bank Perspective<br>• Modified LCR Bank Perspective | *Full LCR:*<br>R. King<br><br>*Modified LCR:*<br>K. Bourgeois | 20 minutes |
| Use of Net Stable Funding Ratio in Macroprudential Oversight | Regulatory Agencies | 10 minutes |
| LCR Public Disclosure | C. Shambach | 5 minutes |
| Wrap Up | S. Warman | 5 minutes |

# Regional Bank Overview

- Traditional banking organizations primarily focused on domestic business activities

- Modest size in relation to US economic activity and the US banking sector
  - Comprised of banks with total consolidated assets ranging from $71B - $417B[1], with the majority representing ≤1% of the US GDP
  - In aggregate, the group has fewer assets than the single largest US-based G-SIB[2]

*1: As of 12/31/15*
*2: As identified by the Financial Stability Board*

# 2015 Horizontal Liquidity Review

- Regulation YY requires banks to conduct liquidity stress tests over designated tenors and stress scenarios, but provides minimal guidance on specific methodologies and practices to employ

- The 2015 Large Banking Organization (LBO) Horizontal Liquidity Review provided the Federal Reserve insight into the range of practices in both assumption severity and risk identification and segmentation

- Understanding the range of practices employed by BHCs in the LBO portfolio would be very helpful as BHCs address feedback and implement continuous liquidity stress testing enhancements

# Supervisory LCR Guidance & FAQs

LCR Implementation Debrief- The following outlines perspectives from Full and Modified banks on general challenges:

- While the LCR final rules are specific in many respects, there are a number of areas where further interpretive guidance would be helpful for implementation
- In some of these areas, a range of practices in LCR methodology has developed due to banks implementing unique interpretations
- Certain areas would benefit from greater standardization through additional guidance to improve the comparability of LCR results across organizations from a supervisory perspective and an investor perspective (once LCR disclosure is required)

  *Examples include:*

  - Operational deposit methodology
  - Dual use revolver classification
  - HQLA securities inclusion
- Additionally, to the extent that additional guidance or best practices are provided, allowing sufficient time for banks to assess new information, incorporate changes into systems, and remediate any material impacts is critical

# 2052A Linkage to LCR / Other Operational Challenges

- In reviewing the 2052A templates and associated mapping to the LCR, certain line items have been identified that banks are currently incorporating into their internal LCRs but are not mapped to the LCR calculation in the 2052A

  *Examples include:*

  - Principal cash inflows from mortgage-backed securities that qualify as HQLA
  - External dividend payments

- Having an inconsistent interpretation in 2052A templates creates discrepancies between internal bank and regulatory LCR results and associated compliance with LCR minimums

- Teams have had to spend additional time researching differences between 2052A and LCR, and in some cases, have had to expand the scope of the implementation effort

- Understanding how the Agencies expect to handle these discrepancies from a supervisory perspective would be appreciated as our organizations manage LCR compliance

# LCR Public Disclosure

- LCR Public Disclosure Requirements were proposed on December 1, 2015

- Jointly, trade associations including The Clearing House and the American Bankers Association submitted a comment letter on February 6, 2016 for consideration that addressed the industry's three key concerns:
  - Disclosing granular details on the type and quantity of assets held by a given banking organization may constrain a bank's ability to respond to stressful market conditions and potentially facilitate anti-competitive or predatory market behavior. Reporting less granular data, or data over a longer time series than 90 days is suggested.
  - Qualitative disclosure requirements are broader in scope than similar SEC reporting requirements. Aligning the LCR standard to other disclosure requirements is suggested.
  - Proposed implementation timeframe is not adequate to prepare, test data, and incorporate additional regulatory clarifications communicated via the FAQ process. Note this is especially relevant to those organizations required to begin reporting July 1, 2016 and less of a concern for banks with later implementation dates.