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: Sue Dawley, Senior Attorney, Legal Division

DATE: September 1, 2016

SUBJECT: Meeting with Representatives from Goldman Sachs

On July 20, 2015, FDIC staff met with representatives of Goldman Sachs.

Representatives from Goldman Sachs presented their concerns and views related to a future Net Stable Funding Ratio rulemaking action, including the impact of the treatment of derivatives, interdependent assets and liabilities, deposits, and consolidated entity calculations, and presented the attached information.

The NSFR NPR was issued in the Federal Register of 81 FR 35124 (June 1, 2016).

The FDIC representatives at this meeting were:

- Kyle Hadley, Section Chief for Examination Support, Capital Markets/RMS
- Eric Schatten, Policy Analyst, Capital Markets/RMS
- Sue Dawley, Senior Attorney, Legal Division

Goldman Sachs' representatives in attendance at the meeting were:

- Liz Robinson, Managing Director, Corporate Treasury
- Manda D'Agata, Managing Director, Corporate Treasury
- Rajashree Datta, Managing Director, Corporate Treasury
- Elisha Wiesel, Managing Director, Securities Division
- Igor Modlin, Managing Director, Securities Division
- Beth Hammack, Managing Director, Securities Division
- Faryar Shirzad, Managing Director, Government Affairs

Net Stable Funding Ratio (NSFR)

July 20, 2015

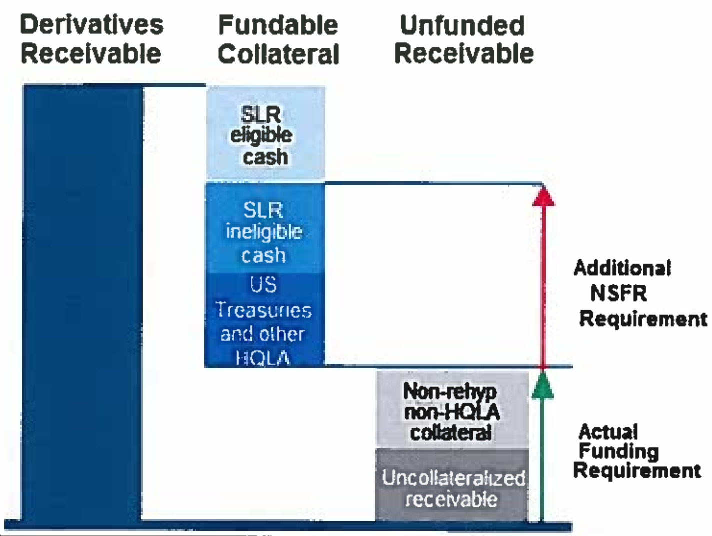
Net Stable Funding Ratio

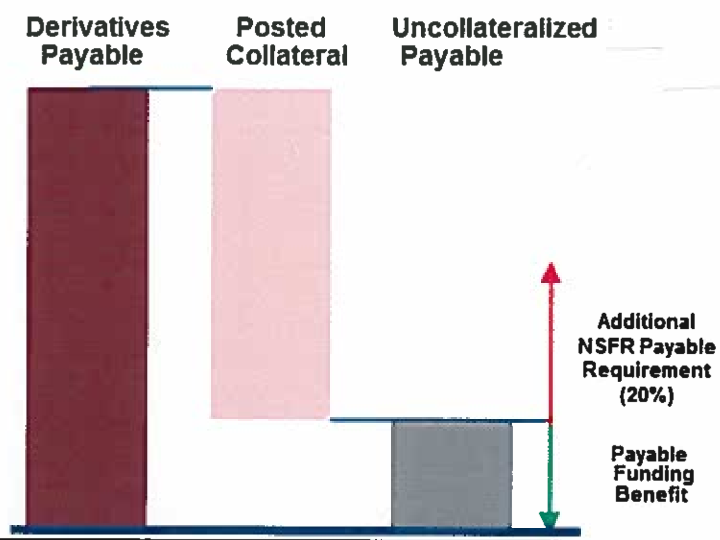
Agenda and Overview

Item	Basel NSFR Considerations	Proposal/Considerations
Derivatives	■ The treatment of collateral is not related to funding and creates volatility in a firm's required stable funding (RSF) ■ The current approach ignores the funding value of initial margin received where a firm can operationally and legally rehypothecate the cash or securities ■ Payable add-on (20%) does not incentivize managing derivatives volatility and does not appropriately capture funding risk	■ Recognize the funding value of all cash and high-quality securities collateral received ■ Recognize the funding value of initial margin received from clients ■ The 20% RSF requirement for derivatives payable should be used as a floor rather than an add-on
Interdependent Assets and Liabilities	■ Paragraph 45 allows national supervisors to exclude certain interdependent assets and liabilities from the requirement	■ Allow in limited cases, where ALM principles support linking the funding requirements of specific assets with their associated liabilities. Some examples are: — Segregated client assets — Borrows covering shorts — Cash hedges for derivatives
Treatment of Deposits	■ Currently treated as either retail (90-95% ASF) or non-retail deposits (0%-50% ASF)	■ Continue to respect contractual term in deposits, even when institutionally sourced ■ The treatment of affiliate sweep deposits should be in line with retail deposits
Entity Considerations	■ Basel approach appears to permit bank's excess funding to satisfy the consolidated ratio, regardless of legal constraints	■ Incorporate a trapped funding concept into the NSFR that ensures any excess stable funding at the bank is not allowed to fund other entities or count towards the consolidated ratio to the extent that entity constraints would make such funding unavailable

Net Stable Funding Ratio
Derivatives

Item	Current Basel NSFR	Considerations	Proposal
Net Derivative Receivable / Payable	■ 100% RSF for net receivable (net of payable) — NSFR Derivative Asset = Derivative Asset – Cash Collateral VM that meets Basel III leverage ratio netting criteria (LR) ■ Net Payable can offset receivable RSF after accounting for all posted VM — NSFR Payable Liability = Derivative Liability – (Total VM collateral posted) ■ 0% ASF for payable amount above receivable	■ SLR cash netting creates RSF volatility and is not related to funding ■ NSFR ignores funding value of high quality securities collateral ■ Potentially negative impact for asset liquidity, due to exclusion of high quality securities collateral received	1. Recognize all rehypothecatable cash collateral 2. Recognize rehypothecatable HQLA securities collateral where collateral meets regulatory margin standards
Initial Margin	■ 85% RSF for initial margin posted ■ No consideration of rehypothecatable initial margin held	■ Rehypothecatable initial margin held can be used to meet initial margin posting requirements	3. Allow to offset rehypothecatable initial margin held from initial margin posted, before applying the 85% RSF
20% Gross Payable RSF	■ 20% RSF on total payable post counterparty netting gross of variation margin posted	■ Payable add-on (20%) does not incentivize managing derivatives volatility and does not appropriately capture funding risk	4. Apply 20% factor only as a floor





Net Stable Funding Ratio
Interdependent Assets and Liabilities

- Paragraph 45 of the Basel NSFR allows national supervisors to exclude from the NSFR requirement certain assets and liabilities deemed to be interdependent:

  "National supervisors have discretion in limited circumstances to determine whether certain asset and liability items, on the basis of contractual arrangements, are interdependent such that the liability cannot fall due while the asset remains on the balance sheet, the principal payment flows from the asset cannot be used for something other than repaying the liability, and the liability cannot be used to fund other assets"

- Some examples of transactions that we believe warrant exclusion due to their linked nature:

Transaction	Paragraph 45 Considerations
Security borrow transactions covering shorts	■ A bank engages in purpose transactions to source securities to facilitate customer short sales. The bank's role is that of a service provider who acts to ensure market settlements. The bank could also engage in purpose transactions to facilitate short sales in its own account (e.g. a short position taken to facilitate or hedge a transaction undertaken for another client) — The purpose is to obtain securities which will be delivered out. The short sale proceeds generated from the short is used to collateralize the security borrow transaction — Cash collateral is legally and operationally linked to the underlying securities that are exchanged under the security borrow transaction
Segregation of Client Assets on Balance Sheet	■ Rule 15c3-3 of the Securities Exchange Act of 1934, as amended, prohibits U.S. broker-dealers from using customer securities and cash to finance their own business — Rule 15c3-3 increases the likelihood that customer assets will be readily available to be returned to customers if a broker-dealer fails. Achieved by requiring a bank to maintain a reserve of cash or qualified high quality collateral (US Treasuries and GNMAs as wholly guaranteed by US government) into a third party segregated account that is at least equal in value to the net cash owed to customers, including cash obtained from the use of customer securities — The amount of net cash owed to customers is computed pursuant to a formula specified in Rule 15c3-3 ■ UK Banking regulation requires brokers to offer client money protection — A broker would put client money into separately designated accounts at a third party acting purely as a pass through ■ There are also other jurisdictional customer asset segregation rules e.g. futures lock-up
Contractually linked client financed derivative cash hedges	■ In instances where a cash position is acquired to facilitate a client derivative transaction, the two transactions are directly linked: — The purpose of acquiring the position from the market is to pass through the economics via the derivative contract to the client — The initial margin or upfront payment collected from the client is used by the bank to pay for the initial margin or upfront payment incurred when acquiring the position from the market — The bank sells the position back to the market once the client derivative matures, as there is no other purpose for the bank to hold the position

Net Stable Funding Ratio

Deposits

- A primary consideration in evaluating the stability of funding of a Bank's deposits, similar to other sources of unsecured funding, should be the contractual term of the product
  - Market-making by an issuer or an affiliate should be treated similarly to other unsecured funding products. Where issuers or affiliates do not make markets, there should be no incremental haircut on the stability of the product
- Non-maturity affiliate sweep deposits should be aligned with the retail treatment for deposits in the Basel NSFR as the considerations in evaluating the stability of funding are similar, including:
  - The availability of deposit insurance (FDIC or other local government scheme)
  - Linkages to other services or products offered by the bank or an affiliate

Net Stable Funding Ratio

Entity Considerations

- **Current Basel NSFR**: The current construct of the NSFR permits consolidated firm and broker dealer entity funding requirements to be satisfied by excess funding available from entities with excess stable funding, even if the funding is trapped in that entity
  - The Basel NSFR does not consider a trapped liquidity concept. For example, a bank subsidiary's excess ASF, driven by excess deposit funding, can be used to cover the RSF requirements for assets in a non-bank affiliate
  - Currently, firm would report NSFR of 111%

	Consolidated	Bank Entity	Other
ASF	1,000	500	500
RSF	900	200	700
NSFR Ratio (ASF/RSF)	111%	250%	71%

  - We believe that the principle of the NSFR is to understand the true stable asset liability position of banks. NSFR should incorporate a concept of trapped funding and ensure that any excess stable funding at the bank is not allowed to (a) fund other entities and (b) count towards the consolidated ratio to give a misleading picture of true availability of stable funding

- **To address the trapped funding issue**, firms would calculate the consolidated ratio including the impact of trapped liquidity
  - Step 1: Calculate Trapped ASF:

	Bank Entity	23A Capacity
ASF	500	50
RSF	200	
NSFR Ratio (ASF/RSF)	250%	
Trapped ASF (Bank ASF – Bank RSF – 23A Capacity)	250	

  - Step 2: Exclude Trapped ASF from the Consolidated NSFR ratio:

	Consolidated	Bank Entity	Other
ASF (Consolidated ASF - Trapped ASF)	750	500	500
RSF	900	200	700
NSFR Ratio (ASF/RSF)	83%	250%	71%

  - Firm would report NSFR of 83%