MEMORANDUM

TO:	Public File - Notice of Public Rulemaking: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring, (RIN 3064-AE04) ("Liquidity Coverage Ratio NPR")
FROM:	Sue Dawley, Senior Attorney, Legal Division
DATE:	July 22, 2014
SUBJECT:	Meeting with Representatives from Goldman Sachs

On June 9, 2014, FDIC staff, together with staff of the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, met with representatives of Goldman Sachs.

The representatives of Goldman Sachs presented their concerns and views with regard to the Basel III Net Stable Funding Ratio consultative document including the treatment of (1) secured funding transactions, (2) derivatives, and the (3) the "other funding" category.

The FDIC representatives at this meeting were:

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

Goldman Sachs' representatives at this meeting were:

- Manda D'Agata, Managing Director, Corporate Treasury
- Beth Hammack, Managing Director, Liquid Products
- Liz Robinson, Managing Director, Corporate Treasury
- Faryar Shirzad, Managing Director, Executive Office
- Chris Van Woeart, Vice President, Finance Division
- Edward Wilson, Managing Director, Securities Division

Materials provided by Goldman Sachs are attached.

Net Stable Funding Ratio “NSFR”

June 2014

Net Stable Funding Ratio

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Net Stable Funding Ratio

Framework Overview

- The NSFR is a structural measure, intended to ensure that banks hold sufficient stable funding (capital and long-term debt instruments, in addition to some percentage of retail deposits and wholesale funding) to match their long-term assets
  - Available Stable Funding / Required Stable Funding must be greater than or equal to 100%
    - **Available Stable Funding "ASF" (numerator):** represents liabilities with contractual or assumed maturities of greater than one year with weighted factors reflecting the stability of the funding available
    - **Required Stable Funding "RSF" (denominator):** represents assets that require funding
- In light of the 2008 financial crisis, we share the broad policy objective of ensuring that new standards in liquidity risk management promote greater systematic stability and economic efficiency
- We regard prudent and conservative liquidity risk management as integral to the successful operation of our businesses. Our risk management policies are designed to ensure we have sufficient financing, even when funding markets experience persistent stress
  - We support the philosophy behind the proposed NSFR, and seek to maintain a long-dated and diversified funding profile that takes into consideration the characteristics and liquidity profile of our assets
- While we are generally supportive of the NSFR, we have some concerns given its proposed calibration. We believe as currently outlined it could negatively impact market liquidity as well as create poor economic incentives. With that in mind, we offer the following observations with the existing proposal:
  - The current calibration of RSF assigned to unencumbered assets is too stringent as it does not incorporate the market liquidity of these assets
  - The asymmetry between ASF and RSF, particularly as it applies to secured financing transactions. Certain ASF factors appear to be calibrated to a severe stress scenario with certain factors equivalent to, or more severe than, those utilized in the LCR. Yet the RSF factors appear to be calibrated to a business-as-usual environment over a one-year horizon
    - While we agree that some degree of asymmetry may be prudent to permit the roll-over of some maturing transactions to support client activity, we are concerned that the current relative calibration is excessive.
  - The NSFR does not appropriately take into account the funding implication of collateral with respect to the treatment of derivatives
    - In addition to being a valuable credit risk mitigation tool, rehypothecabtable variation margin received from a derivative counterparty provides stable funding for the balance sheet receivable for that counterparty. Conversely, variation margin posted to a counterparty requires funding. Variation margin received and posted should be reflected in both the ASF and RSF

Unencumbered Firm Inventory

Net Stable Funding Ratio

Unencumbered Firm Inventory

Current Guidance

- The NSFR is a ratio that is designed to look at funding stability over a 1 year time period in a "business-as-usual" environment. The proposal assigns specific funding requirements to unencumbered firm inventory with the principle being that higher quality assets attract lower stable funding requirements:

Unencumbered Asset	RSF
Level 1	5%
Level 2A	15%
Level 2B (incl. equities)	50%
Non-HQLA	85%

Observations

- Level 2A and 2B assets are assigned RSFs that are equivalent to the haircuts assigned in the LCR, which is characterized as a 30-day stressed environment
  - It is inconsistent to assume that a firm would only be able to monetize the same percentage of HQLA-eligible assets over the NSFR's one year, business-as-usual timeframe, as it could within a stressed period of 30 days

Market Implications

- Overly stringent RSF for equities will likely increase the cost of market access for equity investors
  - A comparison of the 2011 and 2013 S&P 500 futures roll market shows a marked increase in the implied average cost of funding and a significant reduction in the number of dealers providing long futures exposure to the market by funding the underlying stock and selling futures. We believe that the requirement for dealers to incorporate LCR requirements into their businesses over the course of 2012 and 2013 was one of the main factors contributing to this market dynamic

Recommendation

- While we agree with the principle of having RSF factors for unencumbered assets vary by asset type, with higher quality assets attracting a lower RSF, we believe the current calibration is too stringent when compared to the market liquidity of these assets
  - We recommend lowering the RSF to 25% for HQLA equities and to 50% for non-HQLA equities on the basis that historical trading volumes of U.S. equities since Fall 2008 highlight the fact that trading volumes have been significant, even in periods of stress
  - We recommend that the RSF for Level 2A assets should be lowered to 5%, a level that more appropriately reflects market liquidity on the basis that Level 2A assets such as Agency MBS consistently trade in large volumes and well in excess of average daily U.S. Treasury trading volumes
  - See appendix for supporting details

Secured Funding Transactions

Net Stable Funding Ratio

Secured Funding Transactions

Current Guidance

- The RSFs & ASFs assigned to secured funding transactions which includes repos, reverse repos, stock loans, stock borrows and margin loans varies by counterparty and tenor as illustrated below:

Assets	RSF	Liabilities	ASF
With		With:	
Banks < 6 months	0%	Banks < 6 months	0%
Non-bank financials < 6 months	50%	Non-bank financials < 6 months	0%
All other < 6 months	50%	All other < 6 months	50%
All > 6 months but < 1 year	50%	All > 6 months but < 1 year	50%
All > 1 year	100%	All > 1 year	100%

Observations

- The current guidance:
  - Is agnostic to the collateral type
  - Ignores the contractual and operational linkage between certain transactions
  - Is inconsistent in the treatment of assets acquired via purchase vs. assets acquired via a secured funding transaction

Market Implications

- We believe that a blanket asymmetrical treatment across reverse repos from non-bank financials is likely to adversely affect government bond, corporate debt and equity markets in significant ways, including reducing the availability of secured funding, lower inventory levels at banks and less liquidity in the trading markets
- Additionally this asymmetry will likely reduce participation in the short-term money markets, which play a vital role in the transmission of monetary policy
- The asymmetry will significantly increase the cost of financing reverse repos, which would likely reduce market liquidity and encourage migration to the shadow banking system

Net Stable Funding Ratio

Secured Funding Transactions

Recommendation

- The stable funding requirement of secured funding transactions should align with the LCR's consideration of the underlying collateral
  - More liquid forms of collateral have deeper financing markets and therefore require less long-term/stable funding
- We have two recommendations for the RSF assigned to reverse repos with non-bank financials with maturities less than 6 months:
  - If collateralized by a Level 1 asset, the reverse repo should attract a 0% RSF to reflect the quality of the collateral and the depth of the market
  - If collateralized by a non-Level 1 asset, the RSF should be 50% of the RSF assigned to unencumbered firm long inventory[1]
    - The 50% haircut is intended to reflect the fact that firms have multiple avenues to monetize the collateral from the secured funding transaction (e.g. rehypothecating collateral and/or receiving cash upon contractual maturity of the secured funding transaction and/or selling the underlying collateral in the event of counterparty default)
- This approach would allow the rules to address the client/franchise risk implied by the NSFR while also acknowledging the underlying characteristics of the secured funding transactions

Example: A bank enters into a 5-month repo with another bank which is covered by a 5 month reverse repo with a non-bank financial collateralized with a) UST b) FNMA MBS:

Balance Sheet	Type	Tenor	Collateral	LCR HQLA	Notional $	RSF/ASF(%)	Counterparty	RSF/ASF ($)	
Asset	Reverse repo	5 months	UST	Level 1	$1,000	0% RSF	Non-bank financial	$0 RSF	
Liability	Repo	5 months	UST	Level 1	$1,000	0% ASF	Bank	$0 ASF	
								$0	Required additional long-term funding

Balance Sheet	Type	Tenor	Collateral	LCR HQLA	Notional $	RSF/ASF(%)	Counterparty	RSF/ASF ($)	
Asset	Reverse repo	5 months	FNMA	Level 2a	$1,000	7.5% RSF	Non-bank financial	$75 RSF	
Liability	Repo	5 months	FNMA	Level 2a	$1,000	0% ASF	Bank	$0 ASF	
								$75	Required additional long-term funding

50% * 15% RSF assigned to unencumbered Level 2a firm inventory

[1] Per the NSFR, RSF assigned to unencumbered firm inventory is a function of the collateral with unencumbered Level 1 assets assigned a 5% RSF, unencumbered Level 2a assets assigned a 15% RSF, unencumbered Level 2b assets assigned a 50% RSF and unencumbered non-HQLA assets assigned an 85% RSF. See page 5 for additional detail

Net Stable Funding Ratio

Secured Funding Transactions

Example #1 – Proposal is agnostic to the Term (inside of 6 months) or Quality of Collateral

Bank enters into a repo with a financial which is covered by a reverse repo collateralized by a UST with a bank (Scenario A), a reverse repo collateralized by a UST with a non-bank financial institution (Scenario B) or a reverse repo collateralized by a high yield corporate bond with a non-bank financial institution (Scenario C):

	Balance Sheet	Type	Tenor	Collateral	LCR HQLA	Notional $	RSF/ASF(%)	Counterparty	RSF/ASF ($)	
A	Asset	Reverse repo	Overnight	UST	Level 1	$1,000	0% RSF	Bank	$0 RSF	
	Liability	Repo	Overnight	UST	Level 1	$1,000	0% ASF	Bank	$0 ASF	
									$0	Required additional long-term funding
	Balance Sheet	**Type**	**Tenor**	**Collateral**	**LCR HQLA**	**Notional $**	**RSF/ASF(%)**	**Counterparty**	**RSF/ASF ($)**	
B	Asset	Reverse repo	5 months	UST	Level 1	$1,000	50% RSF	Non-bank financial	$500 RSF	
	Liability	Repo	5 months	UST	Level 1	$1,000	0% ASF	Bank	$0 ASF	
									$500	Required additional long-term funding
	Balance Sheet	**Type**	**Tenor**	**Collateral**	**LCR HQLA**	**Notional $**	**RSF/ASF(%)**	**Counterparty**	**RSF/ASF ($)**	
C	Asset	Reverse repo	5 months	HY Corp Debt	non-HQLA	$1,000	50% RSF	Non-bank financial	$500 RSF	
	Liability	Repo	5 months	HY Corp Debt	non-HQLA	$1,000	0% ASF	Bank	$0 ASF	
									$500	Required additional long-term funding

- In the first two scenarios the transactions have a matched maturity and are collateralized with the highest quality securities; however, entering into a 5-month reverse repo with a non-bank financial (Scenario B) requires a bank to issue additional long-term funding This is inconsistent with the contractual view of asset and liability maturities in the LCR
- There is also no recognition of the quality of collateral that secures the transaction, leaving firms to be agnostic to lending against high yield corporate bonds (Scenario C) or U.S. Treasuries (Scenario B) since the RSF is identical. This is inconsistent with the incentives set by LCR, which differentiates secured funding risk by the quality of collateral that secures the transaction
- Currently the NSFR only makes RSF distinctions at the 6-month and 1-year points ignoring tenor inside of these periods

Net Stable Funding Ratio

Secured Funding Transactions

Example #2a – Cash vs. Synthetic Funding

Rather than lending cash to a non-bank financial institution against a UST asset (Level 1 HQLA) under a reverse repo agreement, a Bank can purchase a UST asset from the non-bank financial institution and write a total return swap (TRS) to pass the economics of the asset back the client (i.e. synthetic financing, rather than cash financing)

Balance Sheet	Type	Tenor	Collateral	LCR HQLA	Notional $	RSF/ASF (%)	Counterparty	RSF/ASF ($)
Asset	Reverse repo	30 days	UST	Level 1	$1,000	50% RSF	Non-bank financial	$500 RSF
Asset	Firm long	30 days	UST	Level 1	$1,000	5% RSF	N/A	$50 RSF

- Under the current guidance, the asset purchased generates a lower stable funding requirement then if it had been reversed in
  - This incentivizes firms to do more lending under synthetic agreements rather than repurchase agreements

Example # 2b – Acquiring HQLA via Purchase vs. Reverse Repo

For purposes of HQLA management, a Bank can either reverse in overnight a UST asset (Level 1 HQLA) from a non-bank financial institution or purchase a UST asset from a non-bank financial institution

Balance Sheet	Type	Tenor	Collateral	LCR HQLA	Notional $	RSF/ASF(%)	Counterparty	RSF/ASF ($)
Asset	Reverse repo	Overnight	UST	Level 1 asset	$1,000	50% RSF	Non-bank financial	$500 RSF
Asset	Firm long	N/A	UST	Level 1 asset	$1,000	5% RSF	Non-bank financial	$50 RSF

- Both transactions involve the highest quality collateral, however reversing in the HQLA results in significantly higher long-term /stable funding requirements
  - This incentivizes firms to move away from reverse repos as a means of HQLA re-investment in favor of outright purchases which may increase the risks related to HQLA management (e.g. interest rate risk hedging)
  - The overnight reverse repo is contractually monetized into cash the next day vs. the firm long would need to be sold into the market for monetization

Short Facilitation and Other SFTs

Net Stable Funding Ratio

Short Facilitation and Other Secured Funding Transactions

Current Guidance

- Shorts are assigned no stable funding value (i.e. 0% ASF)
- Consistent with the treatment of SFTs as outlined on page 7, stable funding requirement of stock borrows and margin loans are a function of the counterparty and tenor and remains agnostic to collateral type

Assets	RSF	Liabilities	ASF
Stock borrows/margin loans with:		Stock loans/repos with:	
Banks < 6 months	0%	Banks < 6 months	0%
Non-bank financials < 6 months	50%	Non-bank financials < 6 months	0%
All other < 6 months	50%	All other < 6 months	50%
All > 1 year	100%	All > 1 year	100%
Lock Up	100%	Credits	0%
		Shorts (firm and customer)	0%

Observations

- The asset side of the balance sheet i.e. stock borrows, are associated with liability-side drivers i.e. shorts. As such, when the liability goes away, the associated asset will also be liquidated. This is true as a result of regulatory requirements and economic incentives. The current guidance ignores the operational linkage between these transactions
- Margin loans, which are also an asset-side activity, however unlike stock borrows they are driven by business activity instead of liabilities. The current guidance is agnostic to key factors such as the fact that margin loans are overcollateralized (and that collateral can be used to raise funding) and that the quality of the collateral is a determining factor in the size of the credit line

Net Stable Funding Ratio

Short Facilitation and Other Secured Funding Transactions

Recommendation

- We recommend that stock borrows receive a 0% RSF commensurate with the 0% ASF assigned to shorts

Balance Sheet	Type	Collateral	LCR HQLA	Notional $	RSF/ASF (%)	Counterparty	RSF/ASF ($)	
Asset	Stock borrow	UST	Level 1	$1,000	0% RSF	Non-bank financial	$0 RSF	
Liability	Short/Stock loan	UST	Level 1	$1,000	0% ASF	Non-bank financial	$0 ASF	
							$0	Required additional long-term funding

- We recommend that the treatment of margin loans align with our proposed treatment of other secured funding transactions (e.g. reverse repo) as alluded to on page 8
- The NSFR should assign a RSF to acknowledge the funding generated through the use of margin loan collateral to reflect the fact that firms have multiple avenues to monetize client collateral (e.g. rehypothecating collateral and/or receiving cash upon contractual maturity of the margin loan and/or selling the underlying collateral in the event of counterparty default)

Balance Sheet	Type	Collateral	LCR HQLA	Notional $	RSF/ASF(%)	Counterparty	RSF/ASF	
Asset	Margin loan	US equity	Level 2b	$1,000	25% RSF	Non-bank financial	$25 RSF	
Liability	Repo < 6 months	US equity	Level 2b	$1,000	25% ASF	Non-bank financial	$25 ASF	
							$0	Required additional long-term funding

50% * 50% RSF assigned to unencumbered Level 2b firm inventory

Net Stable Funding Ratio

Short Facilitation and Other Secured Funding Transactions

Example #1 – Stock Borrows to Cover Shorts/Stock Loans

A bank enters into a stock borrow to cover a short for a non-bank financial institution client:

Balance Sheet	Type	Collateral	LCR HQLA	Notional $	RSF/ASF (%)	Counterparty	RSF/ASF ($)	
Asset	Stock borrow	UST	Level 1	$1,000	50% RSF	Non-bank financial	$500 RSF	
Liability	Short/Stock loan	UST	Level 1	$1,000	0% ASF	Non-bank financial	$0 ASF	
							$500	Required additional long-term funding

- Applying a 50% RSF factor to the stock borrow done with non-financials suggests that a bank would continue to borrow a security to cover the short, even when the short position has been closed out
- Stock borrows are used to facilitate liabilities such as shorts/stock loans, making the two transactions inextricably linked
  - Under Regulation T, broker-dealers are permitted to engage in securities borrowing transactions solely for a permitted purpose, such as to make delivery of a security. In the event that the short/stock loan is unwound, the bank no longer has a purpose for this position
  - Banks also have an economic incentive (e.g. stock borrow fees and balance sheet usage cost) to close out the stock borrow as soon as the customer short/stock loan is closed out
- In contrast, LCR guidance notes that all customer shorts will close out within the 30 day period and allows banks to recognize the offsetting inflow from closing out the associated stock borrows

Net Stable Funding Ratio

Short Facilitation and Other Secured Funding Transactions

Example #2a – Margin Loans

Bank funds a margin loan via customer credits, shorts or rehypothecation of collateral received on the back of the margin loan:

Balance Sheet	Type	Collateral	LCR HQLA	Notional $	RSF/ASF (%)	Counterparty	RSF/ASF	
Asset	Margin loan	US equity	Level 2b	$1,000	50% RSF	Non-bank financial	$500 RSF	
Liability	Stock loan, Short or Repo[1]	US equity	Level 2b	$1,000	0% ASF	Non-bank financial	$0 ASF	
							$500	Required additional long-term funding

- The current guidance is agnostic to several key characteristics of margin lending
  - There is a correlation between shorts (to which the proposal assigns a 0% ASF) and margin loans, as clients will decrease leverage in an even fashion (i.e. close out margin loans in tandem with shorts). This is recognized by the LCR
  - The quality of the collateral is a determining factor in the size of a margin loan and the overall liquidity of the asset

Example # 2b – Secured Funding Transaction vs. Outright Purchases of Non-HQLA Assets

- Under the current guidance, given that no distinction is made for collateral type on SFTs while a distinction is made for collateral type if a bank outright purchases an asset, banks are incentivized to source non-HQLA assets through SFTs rather than outright purchases as sourcing the security through a SFT < 1 year attracts a 50% RSF while outright purchases attract a 85% RSF

Balance Sheet	Type	Tenor	Collateral	LCR HQLA	Notional $	RSF/ASF (%)	Counterparty	RSF/ASF ($)
Asset	Margin loan	30 days	Other Exchange traded equity	Non-HQLA	$1,000	50% RSF	Non-bank financial	$500 RSF
Asset	Firm long	30 days	Other Exchange traded equity	Non-HQLA	$1,000	85% RSF	N/A	$850 RSF

- This incentivizes firms to borrow in assets via secured funding transactions rather than owning assets outright

[1] Repo with < 6 months maturity

Treatment of Derivatives

Net Stable Funding Ratio

Derivatives

Current Guidance

- A bank will usually have both net derivative liabilities (i.e. payables) and net derivative assets (i.e. receivables) on its balance sheet. Banks should report these without netting down the payables and receivables for any collateral posted/received (i.e. reported gross of collateral)
- Any payable will be deducted from any receivable, and the outcome is allocated 100% RSF if a net receivable or 0% ASF if a net payable position. To illustrate:

  Net Receivable (includes counterparty netting but no collateral netting) – Net Payable (includes counterparty netting but no collateral netting)

  - If above results in a *net* net receivable, then RSF =100%
  - If above results in a *net* net payable, then ASF = 0%

Observations

- Current proposal does not capture actual derivatives funding impact
  - Cash and securities collateral under a netting agreement is contractually linked to the derivative portfolio
    - Cash and securities collateral received provides stable funding for a derivative asset if the collateral is rehypothecatable
    - Cash and securities collateral posted reduces the stable funding available from a derivative liability
- Variation margin is inherently stable in relation to the assets (net receivable) or liabilities (net payable) it collateralizes due to the contractual requirement for parties to meet margin calls or risk triggering an event of defaul.
  - This remains true through time as a result of market valuation changes, novations, interim cash flow settlements and final maturities and settlements

Net Stable Funding Ratio

Derivatives

	Receivables			Payables			
	Derivative Receivable	=	Use of Funding		Derivative Payable	=	Source of Funding
-	Rehypothecatable Variation Margin	=	Source of Funding	-	Collateral Posted Out	=	Use of Funding
=	Net Uncollateralized Derivative Receivable	=	Use of Funding	=	Net Uncollateralized Derivative Payable	=	Source of Funding

- Variation margin is contractually linked to the derivative
  - A counterpart cannot withdraw variation margin without closing out the derivative
  - As a receivable increases in value, the variation margin received will also increase. As a payable increases in value, the variation margin posted will also increase

Net Stable Funding Ratio

Derivatives

Recommendation

Acknowledge funding value of collateral received and funding use of collateral posted. The net stable funding requirement of derivatives should be a function of:

Mark-to-market value of all derivative receivables (whether collateralized or uncollateralized)
Less
Rehyphothecatable variation margin (cash or securities)
Less
Mark-to-market value of all derivative payables (whether collateralized or uncollateralized)
Plus
Variation margin posted

- If the above formula results in a positive number, then a 100% RSF should be assigned. If the result is negative, a 100% ASF should be assigned.

Type	NSFR Proposal	Recommended Treatment
Derivative Receivables	RSF	RSF
Rehypothecatable Variation Margin (Collateral) Received	None	ASF
Non-Rehypothecatable Variation Margin (Collateral) Received	None	None
Derivative Payables	Capped ASF[1]	Uncapped ASF
Variation Margin (Collateral) Paid Out	None	RSF

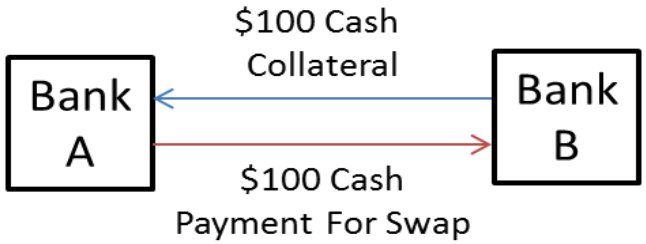
- Furthermore, all high quality rehypothecatable variation margin received should be treated as available stable funding
  - NSFR appears to replicate the netting rules within the Basel III leverage ratio. However, we do not believe that is not appropriate as they overlook several key points
    - A bank that posts cash collateral with non-QCCP counterparty may not know whether that counterparty has segregated the cash it has received. Banks should be permitted to presume that the cash has not been segregated except where required by law
    - A requirement that cash variation margin be calculated and transferred on a daily basis does not always reflect market practices and should instead require the exchange of variation margin payment on the shortest feasible cycle
    - Short-term timing differences result in small, temporary variations between the amount of variation margin provided and the mark-to-market exposure (e.g. the common case where a morning margin call is based on the mark from the previous day). Such small, temporary differences should not prevent the netting of the cash variation margin provided, as long as it is clear that the contract governing the transactions requires variation margin for the full amount of the current credit exposure

Net Stable Funding Ratio

Derivatives

Example #1 – Cash Collateral received is not reflected in equity and is ignored by the NSFR

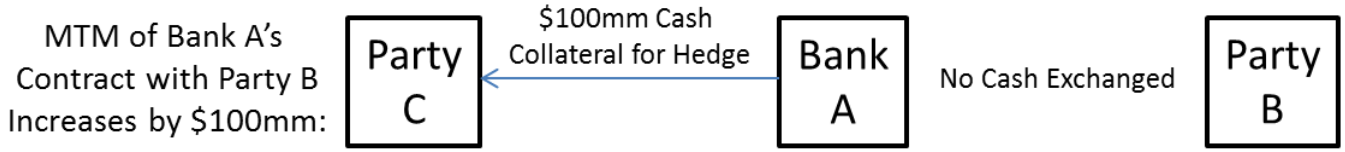
- Bank A pays Bank B $100 for an interest rate swap that has a $100 market value (i.e. the derivative is in the money by $100, where a cash payment would be due to Bank A upon the maturity of the contract). Bank B posts $100 of rehypothecatable collateral to Bank A



- There is no income statement impact from this trade, and therefore no increase to equity on Bank A's balance sheet. The $100 of cash collateral that Bank A has received provides stable funding for Bank A's $100 derivative receivable. However, the NSFR proposal would ignore the collateral received

Example #2 – The NSFR does not recognize funding drains from posting collateral to counterparties

- Bank A enters into an uncollateralized OTC derivative with Party B and perfectly hedges with a cash-collateralized OTC derivative with Party C. After the start of the contract, the value of the uncollateralized derivative increases by $100mm. Bank A now has an uncollateralized receivable of $100, but also has a collateralized payable of $100



- By not addressing the funding implications of collateral received or posted, the NSFR assumes no funding requirement despite Bank A needing post $100 of cash collateral to Party C

Other Items

Net Stable Funding Ratio

Other Assets

Current Guidance

- All other assets listed on a bank's balance sheet that do not fit into any of the proposed asset categories are by default included in the "Other Assets" category and assigned a 100% RSF

Observations

- Assigning 100% RSF to assets in this category may not properly reflect the true liquidity requirement of certain assets. Examples of which include:
  - Assets segregated under client protection rules (15c-3-3) - These assets appear as a separate item on a bank's balance sheet and are usually held in the form of unencumbered HQLA assets (such as U.S. Treasuries) or cash
  - Pass-through collateral for agency trades – Appear on the balance sheet where a bank facilitates in an agency capacity for clients. However there is no net funding requirement as any collateral that is ultimately posted to the clearinghouse would be sourced from the collateral that is collected from clients
  - Trade date receivables - Between trade and settlement date, accounting standards require securities sold to be reflected as open trade receivables on balance sheet and would require 100% stable funding under the current proposal as a result of settlement cycles
  - Other short dated receivables- Other short dated receivables (e.g. dividends & interest receivables and underwriting / syndicate receivables) would require 100% stable funding under the current proposal despite their short –term nature

Recommendation

- Additional granularity is needed in order to apply RSFs commensurate with the asset types currently in the Other Assets category

Net Stable Funding Ratio

Other Items

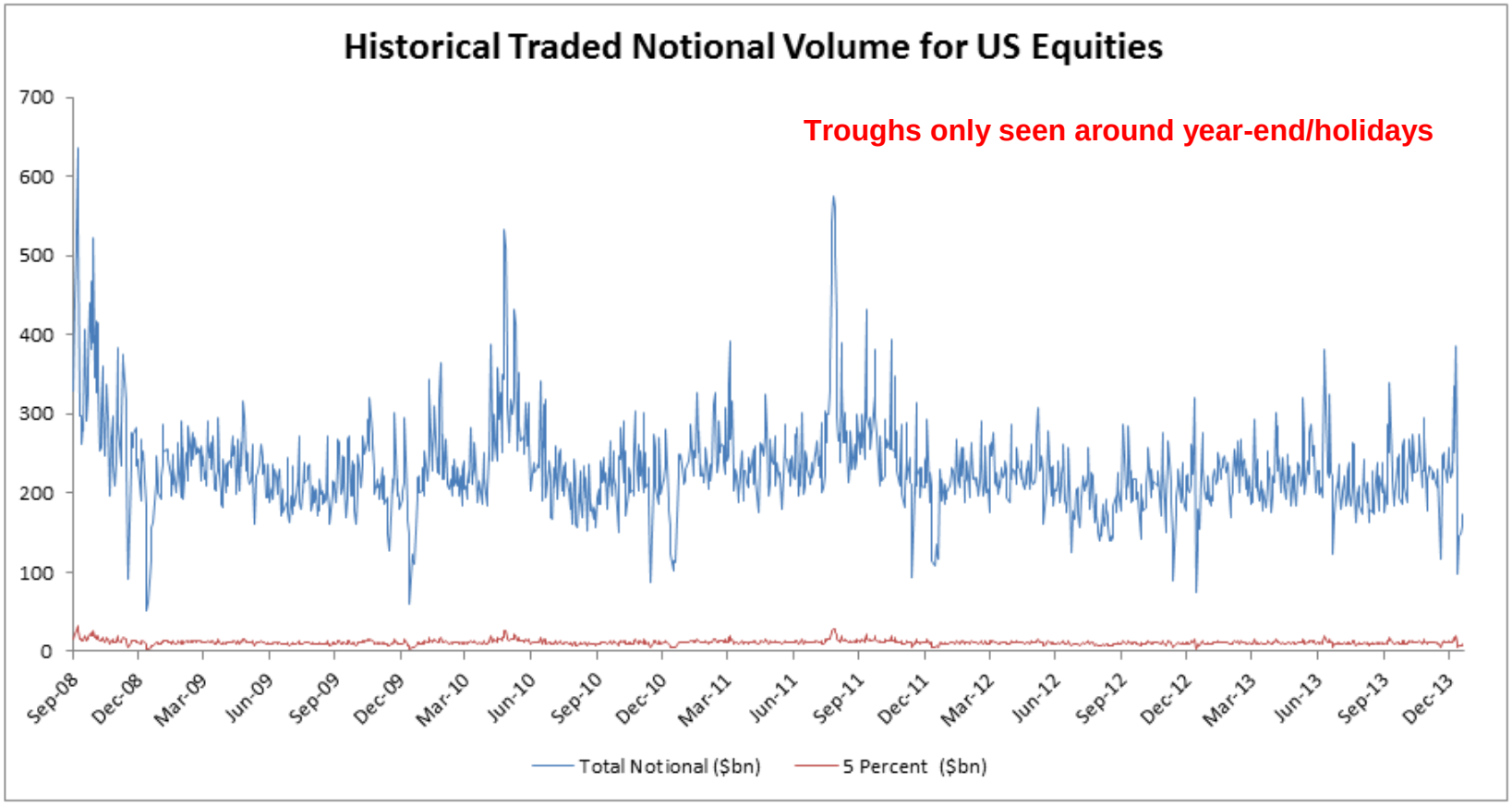
Basel Guidance	Recommendation / Implications
■ **Definition of non-bank financial** — Broad definition of non-bank financial implies that secured funding transactions with a central clearing party (CCP) or a broker/dealer subsidiary of a banking organization subject to prudential regulation would attract 50% RSF	■ If CCPs are included as non-bank financial definition, it may disincentivize firms to move to central clearing ■ Clarity is needed for the treatment of Broker/Dealer entities that are subsidiaries of banking organizations that are subject to prudential regulatory supervision
■ **Treatment of issuer call options** — Banks should assume that they will exercise call options at the earliest possible date	■ Call options are prevalent in liabilities due to investor demand and issuer flexibility — Diverse investors actively seek callable debt — Banks use call options to help actively manage liabilities — Will be more important in a leverage constrained environment ■ Issuers are under no obligation to call liabilities; in fact supervisors may even exert influence over call decisions if a firm's liquidity is constrained ■ The risk of treating the call date as the final maturity in determining the relevant ASF factor is that banks may not be incentivized to increase the flexibility of their funding books and thereby forgo a useful risk management tool
■ **Clarification of treatment of brokered certificates of deposits and brokered sweep deposits**	■ No explicit mention of treatment of brokered certificates of deposits and brokered sweep deposits
■ **Additional time buckets**	■ Current proposal only looks at three time buckets: (i) less than 6 months, (ii) greater than 6 months but less than one year and (iii) greater than one year ■ Current delineation effectively creates a cliff-effect at the 6 month point and ignores any potential mismatches within the less than and greater than 6 months time periods ■ RSF and ASF factors should be recalibrated in line with additional time buckets and follow the current principle of assigning higher ASF/RSF farther out along the tenor spectrum (e.g. liabilities maturing between 3-6 months should attract a higher ASF than liabilities maturing in less than 3 months)

Appendix

Net Stable Funding Ratio

Unencumbered Assets

Historical Traded Notional Volumes for U.S. Equities

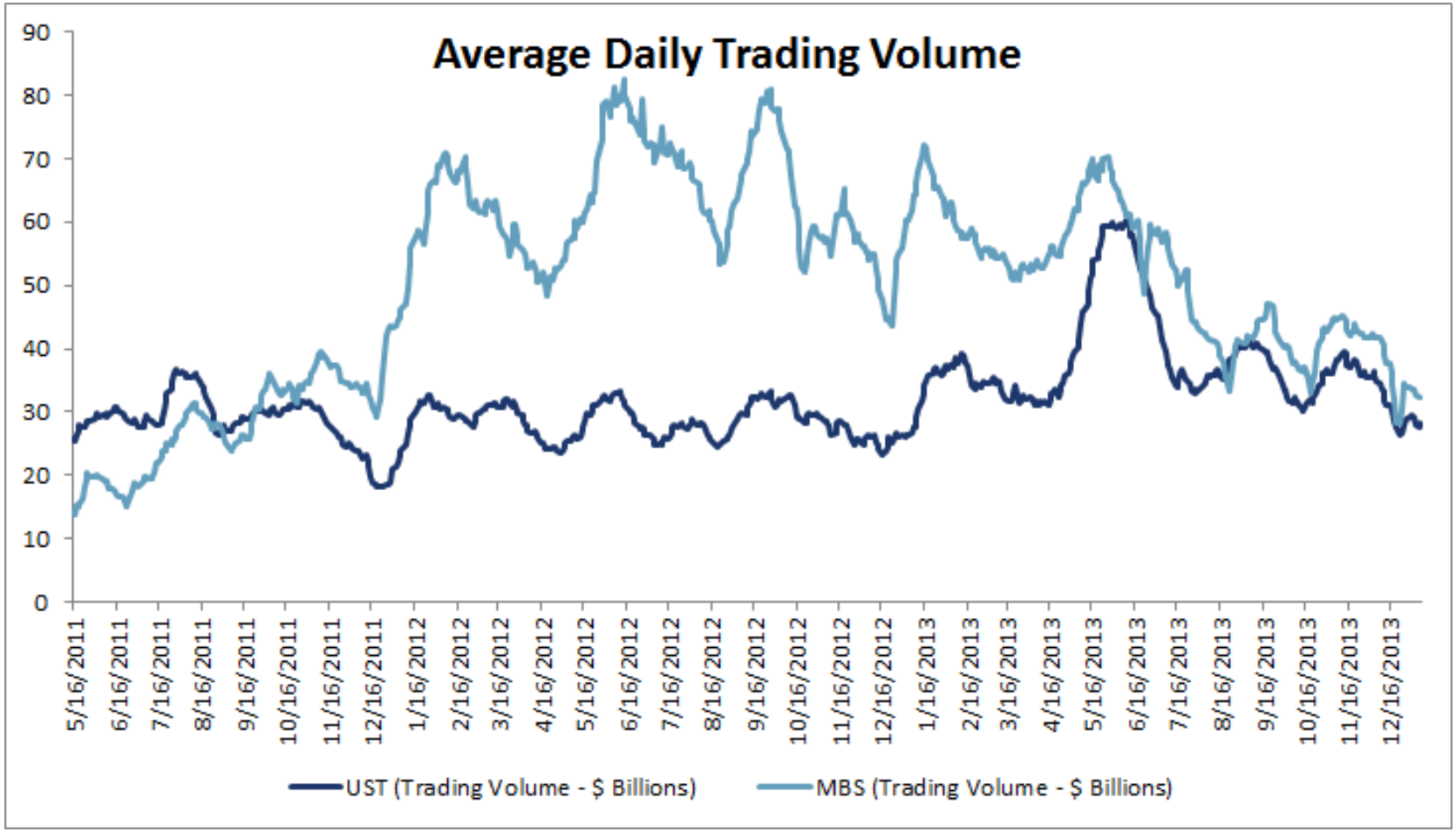


Consolidated equities data from the following exchanges: AMEX (A), NSX [C], NSX (DC), NYSE (DN), Nasdaq (DQ), ADF (D), ISE (I), CHX (M), NYSE (N), NYSE Arca (P), Nasdaq (Q), CBOE (W), PHLX (X)

Net Stable Funding Ratio

Unencumbered Assets

UST and Agency MBS Average Daily Trading Volume



UST: daily interdealer nominal trading volume of on-the-run 10-year US Treasury bond. MBS: daily averages of trading volume of 3.0%, 3.5% and 4.0% coupon, 30-year, To-Be-Announced MBS issued by Fannie Mae

Source: BrokerTec (UST), TRACE (MBS). All volume series are 1-month moving averages.