Press Release

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For immediate release

The Federal Reserve Board proposed a rule on Thursday to strengthen the liquidity positions of large financial institutions.

The proposal would for the first time create a standardized minimum liquidity requirement for large and internationally active banking organizations and systemically important, non-bank financial companies designated by the Financial Stability Oversight Council. These institutions would be required to hold minimum amounts of high-quality, liquid assets such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash. Each institution would be required to hold liquidity in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a short-term stress period. The ratio of the firm's liquid assets to its projected net cash outflow is its "liquidity coverage ratio," or LCR.

"Liquidity is essential to a bank's viability and central to the smooth functioning of the financial system," Chairman Ben S. Bernanke said. "The proposed rule would, for the first time in the United States, put in place a quantitative liquidity requirement that would foster a more resilient and safer financial system in conjunction with other reforms."

The LCR would apply to all internationally active banking organizations--generally, those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure--and to systemically important, non-bank financial institutions. The proposal also would apply a less stringent, modified LCR to bank holding companies and savings and loan holding companies that are not internationally active, but have more than $50 billion in total assets. Bank holding companies and savings and loan holding companies with substantial insurance subsidiaries and non-bank, systemically important financial institutions with substantial insurance operations are not covered by the proposal.

The proposal defines various categories of high quality, liquid assets (HQLA) and also specifies how a firm's projected net cash outflows over the stress period would be calculated using common, standardized assumptions about the outflows and inflows associated with specific liabilities, assets, and off-balance-sheet obligations.

"Since financial crises usually begin with a liquidity squeeze that further weakens the capital position of vulnerable firms, it is essential that we adopt liquidity regulations to complement the stronger capital requirements, stress testing, and other enhancements to the regulatory system we have been putting in place over the past several years," Gov. Daniel K. Tarullo said.

The liquidity proposal is based on a standard agreed to by the Basel Committee on Banking Supervision. The LCR would also establish an enhanced prudential liquidity standard consistent with section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The proposed rule is generally consistent with the Basel Committee's LCR standard, but is more stringent in several areas, including the range of assets that will qualify as HQLA and the assumed rate of outflows of certain kinds of funding. In addition, the proposed transition period is shorter than that included in the Basel agreement. The accelerated transition period reflects a desire to maintain the improved liquidity positions that U.S. institutions have established since the financial crisis, in part as a result of supervisory oversight by the Federal Reserve and other U.S. bank regulators. Under the proposal, U.S. firms would begin the LCR transition period on January 1, 2015, and would be required to be fully compliant by January 1, 2017.

"This rule would help ensure that the liquidity positions of our banking firms do not weaken as memories of the crisis fade," Tarullo said.

The Federal Reserve developed the proposed rule with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. Comments will be received through January 31, 2014.

Related Information

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Federal Register notice (PDF)

Statement by Chairman Ben S. Bernanke

Statement by Governor Daniel K. Tarullo

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