Banking and Finance Law Daily Wrap Up, FINANCIAL STABILITY—Banking agencies request comments on proposed Net Stable Funding Ratio, (Apr. 26, 2016)

Banking and Finance Law Daily Wrap Up

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Comments have been requested on a Notice of Proposed Rulemaking, issued jointly by the Office of the Comptroller of the Currency, Treasury Department, Federal Reserve Board, and Federal Deposit Insurance Corporation, seeking to implement a "net stable funding ratio (NSFR)" for large and internationally active banking organizations. The proposed rule is intended to limit over-reliance on short-term wholesale funding, encourage better assessment of funding risk across all on- and off-balance sheet items, and promote funding stability. After publication of the notice in the *Federal Register*, there will be a 90-day comment period, ending on Aug. 5, 2016.

The Net Stable Funding Ratio is a component of the Basel III reforms promoted by the Basel Committee on Banking Supervision that is designed to ensure that banks maintain a stable funding profile, and is intended to complement the Liquidity Coverage Ratio (LCR) Rule. The LCR requires large banking organizations to hold a sufficient reserve of high quality liquid assets to cover a 30-day, short-term severe cash flow stress.

FDIC Chairman Martin J. Gruenberg said that the proposed rule will address the severe liquidity problems some banks experienced that contributed to the financial crisis and is intended to enhance the resilience of the banking system as a whole. "Maintaining sufficient amounts of stable funding strengthens a bank's liquidity profile by reducing the risk of funding disruptions," according to Gruenberg.

Maintaining stable funding levels. The proposed rule would establish a quantitative metric to measure the stability of a covered company's funding profile, and would apply to two types of banking organizations:

- banks, bank holding companies, and savings and loan holding companies with $250 billion or more in total assets or with $10 billion or more in foreign exposures; and
- insured depository institutions with $10 billion or more in assets that are consolidated subsidiaries of the aforementioned banking organizations.

Under the NSFR, covered institutions would need to maintain sufficient levels of stable funding, including capital, long-term debt, and other stable sources over a one-year window, to account for the liquidity risks arising from their assets, derivatives, and off-balance sheet activities. The requirement would be effective on as of Jan. 1, 2018. The proposed rule would require a covered company's available stable funding amount to be greater than or equal to a minimum level of stable funding. Covered institutions would be required to maintain a minimum NSFR of 1.0; institutions with an NSFR of less than 1.0 face an increased likelihood of liquidity stress.

Modified rule. Comments are also requested on the Fed's proposed modified requirement for bank holding companies and certain savings and loan holding companies with more than $50 billion but less than $250 billion in total consolidated assets, and less than $10 billion in total on-balance sheet foreign exposure.

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