



June 2, 2017

*Via Electronic Mail*

Hon. Jerome H. Powell  
Chair, Committee on Supervision and Regulation  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Re: Liquidity Coverage Ratio: Public Disclosure Requirements

Dear Governor Powell:

The Clearing House Association L.L.C.<sup>1</sup> is writing to express our continued and significant concerns regarding the rule recently adopted by the Board of Governors of the Federal Reserve System that would require certain companies subject to the Federal Reserve's liquidity coverage ratio ("LCR") rule<sup>2</sup> to make public disclosures regarding their LCR. For the reasons described in our earlier comment letters<sup>3</sup> and reiterated below, we respectfully request that the Federal Reserve postpone the applicability of the LCR disclosure requirements to any company for one year in order to avoid the potential negative effects of these requirements and to allow stakeholders to further review and consider whether any such public disclosure requirements are necessary. As the initial disclosures under the LCR disclosure rule have not yet occurred, we believe it is imperative to revisit these requirements before any such disclosures

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<sup>1</sup> The Clearing House is a banking association and payments company that is owned by the largest commercial banks and dates back to 1853. The Clearing House Association L.L.C. is a nonpartisan organization that engages in research, analysis, advocacy and litigation focused on financial regulation that supports a safe, sound and competitive banking system. Its affiliate, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the United States and is currently working to modernize that infrastructure by building a new, ubiquitous, real-time payment system. The Payments Company is the only private-sector ACH and wire operator in the United States, clearing and settling nearly \$2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire volume.

<sup>2</sup> 12 C.F.R. Part 249. All bank holding companies with \$50 billion or more in total consolidated assets or \$10 billion or more in total consolidated on-balance-sheet foreign exposure are subject to the Federal Reserve's LCR rule and disclosure requirements. Certain of those companies' depository institution subsidiaries are subject to the LCR rule but not the disclosure requirements.

<sup>3</sup> See The Clearing House, *Comment Letter Re: Liquidity Coverage Ratio Disclosure Standards* (October 11, 2013), available at <http://www.bis.org/publ/bcbs259/tch.pdf>; See The Clearing House, *Comment Letter Re: Notice of Proposed Rulemaking; Comment Request: Liquidity Coverage Ratio: Public Disclosure Requirements; Extension of Compliance Period for Certain Companies to Meet the Liquidity Coverage Ratio Requirements* (February 2, 2016), available at <https://www.theclearinghouse.org/-/media/action%20line/documents/volume%20vii/20160202%20tch%20comments%20to%20fed%20on%20lcr%20disclosures.pdf?la=en>.

are made. Modification to these requirements following the disclosures would create significant risk that market participants could react negatively to the modifications and infer that the action is motivated by concerns about the liquidity position of one or more companies, which is precisely the situation that the LCR is designed to avoid.

**I. The LCR public disclosure rule does not appropriately balance the tradeoffs inherent in public disclosure and has not been harmonized with the comprehensive securities law framework that already governs this area.**

The LCR disclosure rule will require a company to disclose publicly, on a quarterly basis, excessively granular quantitative information about its LCR calculation and a qualitative discussion of the factors that have a significant effect on its LCR. These disclosure requirements were adopted in December 2016,<sup>4</sup> and certain companies subject to the requirements must provide their initial disclosures for the quarter that began on April 1, 2017.<sup>5</sup> We note that one of the principal stated objectives of the LCR disclosure standards is to “promote market discipline by providing the public with comparable liquidity information about covered companies.”<sup>6</sup> While we agree that this is an important objective, we note that all companies subject to the LCR disclosure rule are public companies already subject to a comprehensive framework under applicable securities laws that mandate public disclosure of material information, including trends, events and uncertainties that could have a material impact on their liquidity position.<sup>7</sup> This framework has long attempted to balance the value of potential disclosure in terms of market discipline with the need to protect commercially sensitive details the disclosure of which could undermine competition in a given market. For the reasons described in our earlier comment letters,<sup>8</sup> we believe that the Federal Reserve’s LCR disclosures rule does not properly balance the potential adverse impacts of these liquidity disclosures against any purported incremental benefit to investors, while perhaps doing meaningful harm to banks’ competitive positions. Postponing the applicability of the disclosure requirements would permit the Federal Reserve to better assess these tradeoffs and fully consider the incremental costs and benefits of

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<sup>4</sup> 81 Fed. Reg. 94922 (Dec. 27, 2016).

<sup>5</sup> The applicability of the disclosure requirements depends on a company’s size. Companies with \$700 billion or more in total consolidated assets or \$10 trillion or more in assets under custody must first provide disclosure for the second quarter of 2017. Other companies must first provide disclosure for the second quarter of 2018 or the fourth quarter of 2018.

<sup>6</sup> 81 Fed. Reg. at 94923; *see also* Basel Committee, *Liquidity Coverage Ratio Disclosure Standards* (rev. March 2014), *available at* <https://www.bis.org/bcbs/publ/d385.pdf>.

<sup>7</sup> *See* Item 303 of Regulation S-K (17 C.F.R. § 229.303).

<sup>8</sup> *See* The Clearing House, *Comment Letter Re: Liquidity Coverage Ratio Disclosure Standards* (October 11, 2013), *available at* <http://www.bis.org/publ/bcbs259/tch.pdf>; *See* The Clearing House, *Comment Letter Re: Notice of Proposed Rulemaking; Comment Request: Liquidity Coverage Ratio: Public Disclosure Requirements; Extension of Compliance Period for Certain Companies to Meet the Liquidity Coverage Ratio Requirements* (February 2, 2016), *available at* <https://www.theclearinghouse.org/-/media/action%20line/documents/volume%20vii/20160202%20tch%20comments%20to%20fed%20on%20lcr%20disclosures.pdf?la=en>.

public LCR disclosure relative to the comprehensive public company disclosure framework already in place.

**II. The LCR disclosure rule's short lag period before public disclosure is required would aggravate liquidity pressures and is inconsistent with the longer lag periods provided by the Federal Reserve in similar policy contexts.**

Our concerns are exacerbated by the LCR disclosure rule's requirement of disclosures with a modest 45-day lag. Requiring a company to disclose granular quantitative information pertaining to its relatively recent liquidity positions poses systemic concerns as well as pro-cyclical demands on liquidity inherent in revealing detailed information to market participants, which can easily be misinterpreted. In similar contexts, regulators have recognized the potential market disruption of disclosing similarly sensitive information without a meaningful delay -- particularly for information the public dissemination of which poses broader pro-cyclical risk. The most pertinent example is borrowing from the Federal Reserve's discount window, which is only disclosed to the public after a period of approximately two years. There are legitimate concerns that strongly support the policy bases for this two year lag: (i) public disclosure could stigmatize and thereby discourage borrowing and (ii) public concern could create market confusion about, and thereby exacerbate, any liquidity pressures at the firm. These rationales apply equally to the LCR; the public disclosure required under the Federal Reserve's disclosure rule would stigmatize and discourage the use of HQLA during liquidity stress - a fundamental goal of the LCR framework, and would worsen rather than improve liquidity conditions at the firm in such circumstances. Similarly, transcripts of the Federal Open Markets Committee are disclosed to the public with a lag of approximately five years.<sup>9</sup>

**III. The quantitative LCR disclosure requirements would increase the very types of risks to systemic stability and financial institutions that the LCR is designed to mitigate (that is, the risk of depositor and creditor runs).**

We continue to believe that the quantitative LCR disclosure requirements have the potential to precipitate or accelerate a significant liquidity event and to frustrate the Federal Reserve's objective of promoting market discipline. A company with a strong liquidity position that appropriately reflects its activities and liquidity risks could nevertheless face depositor and creditor runs if its liquidity profile appeared to differ from others. Such dynamics could effectively force companies to maintain similar liquidity positions even where their respective liquidity resources, needs, strategies and/or risks differ.

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<sup>9</sup> We identify these cases merely as examples of where the Federal Reserve has recognized that disclosing market-sensitive information too quickly is problematic and to urge the Federal Reserve to take more time to consider the similar risks posed by disclosure of LCR data. We also note that even if a longer disclosure lag is ultimately implemented for LCR disclosures, companies may be required to report their LCR more frequently *if that is what the securities law framework requires*, see footnote 7 *supra*, but that determination should not be made by the Federal Reserve in isolation without proper consideration of that securities law framework.

Additionally, particularly during a period of idiosyncratic or market stress, we believe that requiring disclosure of granular LCR information could aggravate the risk of precipitating further liquidity stress, as disclosure of granular details about the assets, liabilities and liquidity profile of a given company may constrain companies' ability to respond to severe market conditions. Indeed, requiring such granular disclosure is contrary to the policy rationales underlying the supervisory framework in the Federal Reserve's LCR rule, as well as the historical policy rationale for the concept of confidential supervisory information, which recognizes that, in certain circumstances, supervisory care should be exercised to minimize the risk of fostering destabilizing market responses. We are also concerned that the level of granular quantitative information required to be disclosed may permit market participants to anticipate a given company's specific planned liquidity management actions, which could facilitate anti-competitive and predatory behavior (*e.g.*, enabling market participants to "front run" companies' liquidity management activities) and otherwise constrain companies' ability to respond to market conditions.

**IV. Public LCR disclosure is irrelevant to, and unnecessary for, the supervisory effectiveness of the LCR regime.**

To be clear, we support the Federal Reserve's use of an appropriately calibrated and tailored LCR as an important supervisory metric to be monitored and evaluated by regulators. Public disclosure of LCR information would not, however, provide any supervisory benefit. Regulators currently receive—and will continue to receive—liquidity information from supervised institutions as part of the normal supervisory process. Indeed, the companies that must first provide public LCR disclosures for the second quarter of 2017 currently report—and will continue to report—detailed liquidity information to the Federal Reserve on a daily basis.

In the release accompanying the final LCR disclosure rule, the Federal Reserve stated that "[w]ithout such granular disclosure, there is a greater likelihood that uncertainty over a ... company's liquidity position would cause counterparties to cease funding the ... company following the release of negative information."<sup>10</sup> We do not believe that such speculative benefits outweigh the risks to and potential burdens on companies relating to the granular required quantitative disclosures. We therefore respectfully request that the Federal Reserve postpone the applicability of the LCR disclosure requirements to any company for one year to allow all stakeholders to further review and consider whether any such requirements are necessary.

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<sup>10</sup> 81 Fed. Reg. at 94925.

Hon. Jerome H. Powell  
Board of Governors of the  
Federal Reserve System

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If you have any questions, please contact the undersigned by phone at (212) 613-9883 or by email at *David.Wagner@theclearinghouse.org*.

Respectfully submitted,

A handwritten signature in black ink that reads "David Wagner". The signature is written in a cursive, slightly slanted style.

David Wagner  
Executive Managing Director, Head of Finance,  
Risk and Audit Affairs and Senior Associate  
General Counsel  
The Clearing House Association L.L.C.

cc: Scott Alvarez  
Michael Gibson  
(Board of Governors of the Federal Reserve System)