



February 2, 2016

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551

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 (80 Fed. Reg. 75,010 December 1, 2015 | Docket No. R-1525; RIN 7100 AE-39)

Ladies and Gentlemen:

The Clearing House Association L.L.C. (the “**The Clearing House**”), the American Bankers Association, the Securities Industry & Financial Markets Association and the Financial Services Roundtable (collectively, the “**Associations**”)¹ appreciate the opportunity to comment on the Board of Governors of the Federal Reserve System’s (the “**Federal Reserve**”) notice of proposed rulemaking entitled *Liquidity Coverage Ratio: Public Disclosure Requirements; Extension of Compliance Period for Certain Companies to Meet the Liquidity Coverage Ratio Requirements* (the “**Proposed Rule**”).

The Associations support the Federal Reserve’s use of the liquidity coverage ratio (the “**LCR**”) as an important supervisory metric to be monitored and evaluated by regulators. We remain concerned, however, that disclosure of the LCR’s quantitative data components may be less appropriate in light of the real risks that public disclosure could create in certain circumstances. As we have previously stated, we believe that, in some cases, granular disclosure of the LCR’s components may increase the very types of risks to systemic stability and to financial institutions that the LCR is designed to mitigate—that is, the risk of depositor and creditor runs.² In addition, we have particular concerns with certain aspects of the Proposed Rule, as more fully set forth below, including that (i) disclosure of granular details on the type and quantity of assets held by a given banking organization may constrain banking organizations’ ability to respond to severe market conditions or may even facilitate anti-competitive and potentially predatory market behavior in some circumstances, (ii) the implementation timeline outlined in the Proposed Rule does not allow banking organizations adequate time to prepare and test data collection

¹ Descriptions of the Associations are provided in Annex A of this letter.

² See The Clearing House comment letter, dated October 11, 2013, to the Basel Committee regarding the Committee’s Liquidity Coverage Ratio Disclosure Standards (“**Basel Comment Letter**”).

See ABA comment letter, via the International Banking Federation, dated October 15, 2013, to the Basel Committee regarding the Committee’s Liquidity Coverage Ratio Disclosure Standards.

processes aligned with the disclosure requirements of the Proposed Rule once finalized and (iii) qualitative disclosure requirements under the Proposed Rule should be modified to better align with materiality concepts applicable in other public disclosure contexts.

The Associations understand that the intent of disclosure of current liquidity positions is to promote market discipline, but we believe that as proposed it will instead frustrate market discipline by raising the potential for increased systemic risk during times of stress. Granular public disclosure of an institution's LCR has the potential to precipitate or accelerate a significant liquidity event rather than promoting market discipline as intended. Failure to appreciate the context within which a banking organization may be experiencing a temporary issue with its LCR (and communicating the details regarding that temporary issue with its applicable federal banking agency supervisor as required under the U.S. LCR)³ could transform that issue into a broader destabilizing event across the financial sector simply as a result of being required to disclose the granular details of its LCR calculation to the public. Such disclosure could thus actually impede banks' and supervisors' ability to deal with otherwise temporary liquidity issues in a more corrective and prudential way that promotes stability and allows for necessary adjustments. The Basel Committee has previously acknowledged the "potential for contagion to the financial system" in recognizing that a banking organization can and should be able to allow its LCR to fall below the otherwise required 100% minimum during times of stress.⁴ The Federal Reserve has similarly recognized that it may be necessary for a banking organization to fall below the requirement during a period of liquidity and market stress.⁵ However, we believe that requiring disclosure of granular LCR information could, under such circumstances, aggravate the risk of precipitating further liquidity stress. Indeed, the historical policy rationale embedded within the concept of confidential supervisory information is premised on a recognition that, in certain circumstances, supervisory care should be exercised to minimize the risk of fostering destabilizing market responses.⁶

In addition, requiring banking organizations to disclose the granular liquidity data required by the Proposed Rule may create new vulnerabilities that can be exploited in stressed market environments, even if banking organizations otherwise have robust liquidity profiles. For example, the LCR disclosure template included in the Proposed Rule (the "**Proposed Disclosure Template**") would provide the market with relatively specific information about a banking organization's liquidity management and related business strategies, which could constrain the banking organization's ability to execute those strategies, particularly in a stressed environment. For example, a banking organization subject to the disclosures required by the Proposed Rule may be inhibited from adjusting the composition of its liquidity pool if such action would be viewed by market participants as a material divergence from the liquidity management strategies of peer firms, effectively forcing all firms to maintain liquidity reserves of similar composition even where their respective liquidity needs actually

³ See 79 Fed. Reg. 61,440, 61,517 (Oct. 10, 2014).

⁴ Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools* (January 2013), ¶ 17, at 4.

⁵ See 79 Fed. Reg. 61,440, 61,517-19 (Oct. 10, 2014).

⁶ See generally Michael E. Collins, *Supervisory Insights on Transparency in Bank Supervision*, SRC Insights, Federal Reserve Bank of Philadelphia (Q1 2011), at 2.

differ. Furthermore, the level of granular quantitative information called for by the Proposed Disclosure Template could even permit market participants to anticipate a given banking organization's specific planned liquidity management actions, thereby facilitating anti-competitive and potentially predatory behavior while constraining banking organizations' ability to respond to market conditions. Armed with such data, counterparties may be able to "front run" banking organizations' liquidity management activities at a time when the purchase, sale or rebalancing of specific liquidity reserve assets is the most logical response to market developments for a given banking organization.

Accordingly, we believe that the Federal Reserve's policy objectives would be better achieved by limiting quantitative disclosure of LCR information and ensuring that disclosure is made with sufficient delay. We urge that disclosure of LCR information be limited to a banking organization's (i) LCR, (ii) aggregate HQLA, (iii) aggregate inflows and (iv) aggregate outflows. Disclosure of the LCR ratio and aggregate HQLA would provide market participants with the information necessary to serve the purposes of Pillar 3 reporting, that is, to monitor the liquidity position of the consolidated banking organization in accordance with the Basel disclosure framework.⁷ Limiting the Proposed Disclosure Template to aggregate inflows and aggregate outflows—in lieu of the more granular details on type and quantity of assets as outlined in the Proposed Disclosure Template—would permit counterparties, investors and clients to further assess the strength of a banking organization's liquidity profile. This alternative form of disclosures would also provide the banking organization and its supervisor with the necessary flexibility to manage its liquidity position without facing the systemic and competitive concerns that would be inherent in revealing detailed information to market participants about the type and quantity of liquidity risks to the organization, as well as helping avoid pro-cyclical demands on liquidity. We believe that these more limited disclosures are sufficiently detailed and that the qualitative disclosures with the recommended enhancements noted below would provide appropriate context for this less risky form of quantitative disclosure.

In addition, and at a minimum, we believe that presenting LCR quantitative information averaged over a longer period would allow the Federal Reserve to provide for a more appropriate presentation of liquidity condition that offers adequate information to the markets while avoiding prudential and systemic risks. More specifically, we suggest that the requirement in the Proposed Rule to calculate the disclosed amounts as simple averages of the components used to calculate the daily or monthly LCR, as applicable, over a 90-day quarterly reporting period be replaced with a calculation using a six-month rolling average of the daily or monthly LCR components. The effect produced by using a six-month rolling average would mitigate the impact of any short-term fluctuations in the LCR while still providing relevant information to market participants on the quarterly basis contained in the Proposed Rule. We believe that this alternative approach would meet the objectives of public disclosure and market discipline while serving to help ameliorate the potential for unintended negative systemic effects of such broader disclosure.

Furthermore, we believe additional time is necessary for subject banking organizations to prepare data collection processes to improve the alignment of such processes with the proposed public reporting requirements. Additional time will be necessary once the final rule is published for subject banking organizations to map the final public disclosure requirements to their current 5G liquidity data

⁷ See Basel Committee on Banking Supervision, *Liquidity Coverage Ratio Disclosure Standards* (January 2014), ¶ 15, at 4.

reporting and other liquidity reporting processes. In addition, because numerous FAQs requesting clarifications with respect to the LCR calculation remain outstanding with the U.S. federal banking agencies, we believe implementation of the final disclosure rule should be scheduled so as to allow outstanding FAQs to be addressed and reflected in the final rule and to promote greater consistency in LCR calculations. For these reasons, we urge the Federal Reserve to time implementation of the Proposed Rule so that banking organizations that will become subject to the disclosure requirements in 2016 under the Proposed Rule are afforded a minimum of 90 days after publication of the final rule, along with responses to relevant FAQs, to prepare systems and processes for data collection and appropriate testing, with actual data collection pursuant to the public disclosure requirements to begin on the first day of the financial reporting period beginning not earlier than 90 days following publication of the final rule in the Federal Register. Daily reporting by applicable banking organizations of the more granular liquidity information to the relevant supervisors would continue as required under the final LCR rule while banking organizations are preparing for the necessary disclosures.

Moreover, the Associations believe that, with respect to the organizational level at which disclosure of the LCR and its quantitative components would be required, the Proposed Rule strikes the correct balance. We respectfully submit that requiring disclosure of LCR quantitative or qualitative information other than at the consolidated holding company level would not provide additional useful information to market participants and is likely to prove confusing or misleading in practice. Given that the purpose of the Proposed Rule is “to promote market discipline by providing investors and other stakeholders with comparable information about the liquidity risk profiles” of large banking organizations and allow them to “consistently assess” such information,⁸ we believe that the Proposed Rule is correct in its approach of requiring public disclosure of the consolidated LCR at the holding company level only. Indeed, any future requirement to disclose liquidity information at the applicable depository institution level would diminish the clarity, utility, comparability and digestibility of the information provided, without any meaningful countervailing improvement in the understanding of the liquidity profile of the institution. Requiring additional disclosure of LCR components for each depository institution subsidiary would not “improve the clarity and utility of the disclosure,”⁹ but instead would likely render the reported information less useful and more confusing to market participants than consolidated information alone. Duplicative and overlapping liquidity disclosure of related information concerning different entities within the same bank holding company structure would make it harder, and not simpler, to determine the true liquidity picture within the consolidated organization. Moreover, a bank holding company with multiple depository institution subsidiaries would result in disclosure of multiple layers of liquidity information, thereby hindering rather than “help[ing] market participants compare the LCRs of [subject] banking organizations across the U.S. banking industry and international jurisdictions.”¹⁰ By focusing on the information reported on a consolidated basis by each holding company, market participants will be able to more easily understand and assess liquidity information.

Finally, we are concerned that the language in the Proposed Rule with respect to the required qualitative disclosures does not align with the concept of materiality embedded in the public disclosure

⁸ 80 Fed. Reg. 75,010, 75,011 (emphasis added).

⁹ *Id.*

¹⁰ 80 Fed. Reg. 75,010, 75,011.

framework applicable to subject banking organizations under federal securities laws. More specifically, we believe that the language included in (i) the requirement in section 249.91(d)(1) of the Proposed Rule that requires qualitative discussion of the listed items to the extent they are “significant” to the LCR results¹¹ and (ii) the catch-all provision in the enumerated list of items in section 249.91(d)(1)(viii) of the Proposed Rule, which requires “other” information “*relevant to facilitat[ing] and understanding*”¹² of the banking organization’s liquidity profile, should be modified to better align with materiality concepts applicable under other public disclosure regimes, most notably the federal securities laws. We believe this would best be accomplished by deleting the catch-all provision in section 249.91(d)(1)(viii) of the Proposed Rule in its entirety and replace the word “significant” in section 249.91(d)(1) of the Proposed Rule with the word “material.” In any event, the Federal Reserve should, at a minimum, replace the word “significant” in section 249.91(d)(1) and the word “relevant” in section 249.91(d)(1)(viii) of the Proposed Rule with the word “material.” We believe these modifications will help to ensure that subject banking organizations approach these disclosures in a manner that is consistent, not only across reporting firms, but also with concepts applicable under other applicable public disclosure regimes.

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If you have any questions or need further information, please do not hesitate to contact Brett Waxman at (212) 612-9211 (Brett.Waxman@theclearinghouse.org), Alison Touhey at (202) 663-5147 (atouhey@aba.com), Carter McDowell at (202) 962-7327 (cmcdowell@sifma.org) or Richard Foster at (202) 589-2424 (Richard.Foster@FSRoundtable.org).

Respectfully Submitted,



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¹¹ 80 Fed. Reg. 75,010, 75,018.

¹² 80 Fed. Reg. 75,010, 75,018 (emphasis added).



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ANNEX A

The Clearing House. Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively hold more than half of all U.S. deposits and which employ over one million people in the United States and more than two million people worldwide. The Clearing House Association L.L.C. is a nonpartisan advocacy organization that represents the interests of its owner banks by developing and promoting policies to support a safe, sound and competitive banking system that serves customers and communities. Its affiliate, The Clearing House Payments Company L.L.C., which is regulated as a systemically important financial market utility, owns and operates payments technology infrastructure that provides safe and efficient payment, clearing and settlement services to financial institutions, and leads innovation and thought leadership activities for the next generation of payments. It clears almost \$2 trillion each day, representing nearly half of all automated clearing house, funds transfer and check-image payments made in the United States. See The Clearing House's web page at www.theclearinghouse.org.

The American Bankers Association. The American Bankers Association is the voice of the nation's \$15 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$12 trillion in deposits and extend more than \$8 trillion in loans.

The Securities Industry & Financial Markets Association. The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

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