Joint Release

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Office of the Comptroller of the Currency

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OCC and FDIC Propose Rule to Strengthen Liquidity Risk Management

The Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) proposed a rule on Wednesday to strengthen the liquidity risk management of large banks and savings associations.

The OCC and FDIC's proposed liquidity rule is substantively the same as the proposal approved by the Board of Governors of the Federal Reserve System on October 24, 2013. That proposal, which was developed collaboratively by the three agencies, is applicable to banking organizations with $250 billion or more in total consolidated assets; banking organizations with $10 billion or more in on-balance sheet foreign exposure; systemically important, non-bank financial institutions that do not have substantial insurance subsidiaries or substantial insurance operations; and bank and savings association subsidiaries thereof that have total consolidated assets of $10 billion or more (covered institutions). The proposed rule does not apply to community banks.

Liquidity generally is a measure of how much cash or cash-equivalents and highly marketable assets a company has on hand to meet its obligations. Under the proposed rule, covered institutions would be required to maintain a standard level of high-quality liquid assets such as central bank reserves, government and Government Sponsored Enterprise securities, and corporate debt securities that can be converted easily and quickly into cash. Under the proposal, a covered institution would be required to hold such high-quality liquid assets on each business day in an amount equal to or greater than its projected cash outflows less its projected cash inflows over a 30-day period. The ratio of the firm's high-quality liquid assets to its projected net cash outflow is specified as a "liquidity coverage ratio," or LCR, by the proposal.

"We learned during the financial crisis just how important liquidity is to the stability of the system as a whole, as well as for individual banks," said Comptroller of the Currency Thomas J. Curry. "A number of large institutions, including some with sufficient levels of capital, encountered difficulties because they did not have adequate liquidity, and the resulting stress on the international banking system resulted in extraordinary government actions both globally and at home. The proposed liquidity rule will help ensure that a bank's cash, and not tax-payer money, is the first line of defense if it faces a short-term funding stress."

"The recent financial crisis demonstrated that liquidity risk can have significant consequences to large banking organizations with effects that spill over into the financial system as a whole and the broader economy. The proposed rule acted on today would establish first quantitative liquidity requirement applied by federal banking agencies and is an important step in helping to bolster the resilience of large internationally active banking organizations during periods of financial stress," said FDIC Chairman Martin J. Gruenberg.

The liquidity proposal is based on a standard agreed to by the Basel Committee on Banking Supervision. The proposed rule is generally consistent with the Basel Committee's LCR standard, but is more stringent in some respects such as the range of assets that will qualify as high-quality liquid assets and the assumed rate of outflows of certain types of funding. In addition, the proposed rule’s transition period is shorter than that included in the Basel framework. The accelerated transition period reflects a desire to maintain the improved liquidity positions that U.S. institutions have established since the financial crisis. 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.

Related Link:
Proposed Rule - PDF (PDF Help)

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Media Contacts:

FDIC	Andrew Gray	202-898-7192
OCC	Bryan Hubbard	202-874-5770

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