

For Immediate Release

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Federal Banking Regulators Finalize Liquidity Coverage Ratio

The Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency finalized a rule on Wednesday to strengthen the liquidity positions of large financial institutions.

The rule will for the first time create a standardized minimum liquidity requirement for large and internationally active banking organizations. Each institution will be required to hold high quality, liquid assets (HQLA) such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a 30-day stress period. The ratio of the firm's liquid assets to its projected net cash outflow is its "liquidity coverage ratio," or LCR.

The LCR will apply to all banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure and to these banking organizations' subsidiary depository institutions that have assets of \$10 billion or more. The rule also will apply a less stringent, modified LCR to bank holding companies and savings and loan holding companies that do not meet these thresholds, but have \$50 billion or more in total assets. Bank holding companies and savings and loan holding companies with substantial insurance or commercial operations are not covered by the final rule.

The final rule is largely identical to the proposed rule, with a few key adjustments in response to comments from the public. Those adjustments include changes to the range of corporate debt and equity securities included in HQLA, a phasing-in of daily calculation requirements, a revised approach to address maturity mismatch during a 30-day period, and changes in the stress period, calculation frequency, and implementation timeline for the bank holding companies and savings and loan companies subject to the modified LCR. The final rule does not apply to non-bank financial companies designated by the Financial Stability Oversight Council for enhanced supervision. Instead, the Federal Reserve Board plans to apply enhanced prudential liquidity standards to these institutions through a subsequently issued order or rule following an evaluation of the business model, capital structure, and risk profile of each designated nonbank financial company.

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

The rule is generally consistent with the Basel Committee's LCR standard, but is more stringent in certain areas, including a shorter transition period for implementation. 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 U.S. bank regulators. U.S. firms will be required to be fully compliant with the rule by January 1, 2017.

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Attachment:

- [The Liquidity Coverage Ratio Final Rule](#) - PDF ([PDF Help](#))

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