FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429-9990

Financial Institution Letter
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October 30, 2013

LIQUIDITY COVERAGE RATIO: Proposed Rule

Summary: The federal bank regulatory agencies are requesting comment on a proposed rule that would implement a quantitative liquidity requirement consistent with the liquidity coverage ratio (LCR) established by the Basel Committee on Banking Supervision. The requirement is designed to promote the short-term resilience of the liquidity risk profile of international banking organizations and enhance improvements in the measurement and management of liquidity risk.

Statement of Applicability to Institutions Under $1 Billion in Total Assets: This Financial Institution Letter is applicable only to depository institutions with $10 billion or more in total consolidated assets that are consolidated subsidiaries of internationally active banking organizations.

Distribution:
FDIC-Supervised Banks (Commercial and Savings

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Risk Officer

Related Topics:
Interagency Policy Statement on Funding and Liquidity Risk Management

Attachment:
Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring (PDF Help)

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Highlights:

The proposed rule:

- Establishes a short-term quantitative minimum LCR that assesses exposures to contingent liquidity events.
- Provides enhanced information about liquidity risk to managers and supervisors, allowing for more effective oversight and supervision of liquidity risk and appropriate supervisory responses.
- Facilitates a more orderly resolution of a covered company in the event of a failure.
- Requires covered companies to maintain an amount of high quality liquid assets, consisting of Level 1, Level 2A, and Level 2B liquid assets, that is not less than 100 percent of the institution's total net cash outflows over a prospective 30-day period.
- Accounts for asset risk and promotes diversification with haircuts and caps.
- Addresses liquidity risk by applying a series of shocks, with prescribed run-off and inflow rates against a bank's assets, obligations, and other funding sources.
- Requires covered companies to notify their primary federal regulator when a liquidity shortfall exists (or when the LCR drops below 100 percent).
- Establishes transitions requiring covered companies to comply with a minimum liquidity coverage ratio of 80 percent as of January 1, 2015, 90 percent as of January 1, 2016, and 100 percent thereafter.