

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland



April 11, 2014

“Consultative Document, Basel III: The Net Stable Funding Ratio”

Dear Committee Members,

The Goldman Sachs Group, Inc. (Goldman Sachs) is pleased to have the opportunity to provide comments on this consultative document, issued in January 2014 by the Basel Committee on Banking Supervision (the Committee).

In light of the 2008 financial crisis, there is a clear need for timely, globally coordinated regulatory reform to address weaknesses in the financial system, and we appreciate the Committee’s efforts to develop these proposals. We share what we believe is the broad policy objective of ensuring that new standards in liquidity risk management promote greater systemic stability and economic efficiency.

Goldman Sachs regards prudent and conservative liquidity risk management as integral to the successful operation of our businesses. Our liquidity risk management policies are designed to ensure we have sufficient financing, even when funding markets experience persistent stress. We seek to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of our assets. We therefore support the philosophy behind the proposed Net Stable Funding Ratio (NSFR), which is designed to require banks to maintain an appropriately long-term funding profile.

While we are generally supportive of the NSFR, we have several specific concerns with the Committee’s existing proposals.

- Our first concern is the asymmetry between Available Stable Funding (ASF) and Required Stable Funding (RSF), particularly as it applies to secured financing transactions. The ASF factors that assess the reliability of a bank’s funding sources appear to be calibrated to a severe stress scenario. Certain risk factors in the ASF are equivalent to, or worse than, those utilized in the LCR, which itself is designed as “a significant stress scenario lasting 30 calendar days” and “entails a combined idiosyncratic and market-wide shock.” Yet the RSF factors that drive the amount of stable funding required appear to be calibrated to a business-as-usual-environment over a one-year time horizon. While we agree that some degree of asymmetry may be prudent to permit the roll-over of some maturing transactions to support client activity, we are concerned that the current relative calibration is excessive.
- Our second concern is the treatment of collateralized derivatives. The NSFR does not appropriately take into account the funding implications of collateral. In addition to being a valuable credit risk mitigation tool, rehypothecatable variation margin received from a derivative counterparty provides

stable funding for the balance sheet receivable from that counterparty. Conversely, variation margin that must be posted to a counterparty requires funding. Therefore, variation margin received and posted should be reflected in both the ASF and RSF, which it is not under the Committee's current proposal.

The remainder of this letter sets forth a more detailed description of these concerns as well as thoughts regarding other criteria and calibration of factors proposed by the Committee. We also note a number of areas of the proposed rules that we find to be unclear as currently drafted and where additional clarification from the Committee would be beneficial.

We have participated in the preparation of the comment letter written by the industry trade associations¹, and we support the comments and recommendations in that letter. We are submitting our own letter to highlight specific areas of focus for Goldman Sachs.

I. Treatment of Reverse Repos

The RSF assigned to loans is outlined in paragraphs 29-32 of the proposal, with the RSF varying by counterparty type and tenor. It is our understanding that reverse repos are to be treated as loans and accordingly receive a RSF as outlined in these paragraphs. Similarly, repos attract an ASF that also depends on the counterparty type and tenor as outlined in paragraphs 18-22. The following table illustrates our understanding of the proposed ASF and RSF factors by counterparty and tenor:

<u>Tenor</u>	<u>Counterparty</u>							
	Banks		Non-Bank Financials		Central Banks		Non-Financials	
	ASF	RSF	ASF	RSF	ASF	RSF	ASF	RSF
> 1 year	100%	100%	100%	100%	100%	100%	100%	100%
> 6 months but < 1 year	50%	50%	50%	50%	50%	50%	50%	50%
< 6 months	0%	0%	0%	50%	0%	50%	50%	50%

A. Reverse Repo with Non-bank Financials with Maturities Less than 6 Months

We understand that it is the Committee's intent to introduce asymmetry between reverse repos and repos with maturities less than 6 months in order to account for the possibility that a bank may choose to "roll" certain otherwise maturing client transactions. We agree that the rules should take this possibility into account. However, we think that applying a blanket asymmetrical treatment across reverse repos from non-bank financials is likely to adversely affect the government bond, corporate debt and equity markets in significant ways, including reducing the availability of secured funding, lower inventory levels at banks and less liquidity in the trading markets. In addition, this asymmetry will likely reduce participation in the short-term money markets, which play a vital role in the transmission of monetary policy.

For example, for HQLA management, we think it is preferable to reverse in HQLA assets rather than purchase them outright as this allows for an additional monetization alternative, but doing so would create a 50% RSF requirement. This calibration incentivizes banks to instead purchase U.S. Treasuries and hold them long, which would attract a 5% RSF or hold HQLA in the form of cash deposits, which attract a 0% RSF. It also reduces the availability of secured funding in the market.

¹ The joint letter submitted by the Institute of International Finance, The Clearing House, Global Financial Markets Association, and the International Capital Markets Association.

As another example, assume a bank enters into a 5 month repo with a financial counterparty collateralized by a U.S. Treasury which is covered by a 5 month reverse repo also backed by a U.S. Treasury with i) a bank or ii) a non-bank financial.

5-month UST repo with a financial covered by:	ASF(numerator)	RSF (denominator)	Ratio
5-month UST reverse repo with a bank	0%	0%	Neutral
5-month UST reverse repo with a non-bank financial institution	0%	50%	Below 100% requirement

This is a perfectly matched-book of the highest quality collateral. However entering into a reverse repo with a non-bank financial requires a bank to hold 50% RSF, and this would materially increase the financing cost of the trades. In the above example, a bank would need to fund the 5 month reverse repo with an insurance company using 50% secured funding, which yields approximately 0.15%, and the remaining 50% with term debt (using 3-year debt as an example), which yields approximately 1.60%. This would take the cost of financing the reverse repo from 0.15% to 0.875% on average, an increase of 70bp, which would likely reduce market liquidity and encourage migration to the shadow banking system.

We understand the potential issue that the 50% RSF is intended to address. However, because clients will find it easier to refinance more liquid forms of collateral, where the financing markets are deeper, it will be easier for banks *not* to roll those facilities. Collateral does matter, and the RSF should be a function of the type of collateral backing the trade.

We have two recommendations for the RSF assigned to reverse repos with non-bank financials with maturities less than 6 months:

- (i) If collateralized by a Level 1 asset, the reverse repo should attract a 0% RSF to account for the quality of the collateral and the associated market characteristics, which include a deep and sizeable market with low volatility.
- (ii) If collateralized by a non-Level 1 asset, the RSF should be 50% of the RSF assigned to the unencumbered asset. For example, if collateralized by a Level 2A asset, the reverse repo should attract a 7.5% RSF based on 50% x 15%. The 50% haircut is intended to account for the fact that a firm does not need to hold stable funding requirement in the form of unsecured debt, given that the bank could also raise liquidity by (i) using the collateral in the interim period to generate funding or (ii) repayment of cash by the counterparty upon maturity. The failure to look through to the underlying collateral overstates the stable funding requirement.

B. Reverse Repos with Central Banks with Maturities Less than 6 Months

We request clarification as to whether the Committee intended to assign a 50% RSF for reverse repos with less than 6 months maturity with central banks. This again results in asymmetrical treatment vs. repos and will likely significantly affect banks participating in central bank market making/open market activities thereby reducing liquidity across various sovereign debt and agency markets.

C. Definition of Non-Bank Financials

The broad definition of non-bank financials suggests that if a bank enters into a reverse repo transaction with a central clearing party (CCP), it is required to hold a minimum 50% RSF. This incentivizes banks to move away from central clearing (which mitigates credit risk) to bi-lateral reverse repos, particularly with other banks, which encourages interconnectedness among banks. CCPs are not clients so there is not the same risk

that a trade will be rolled-over. We recommend a carve-out for these trades, i.e. 0% RSF. Similarly, we recommend that broker-dealer entities within banking organizations that are subject to prudential regulation on a consolidated basis should also be treated as banks and assigned a 0% RSF.

II. Treatment of Derivatives

Paragraph 22(c) of the proposal states, “A bank will usually have both net derivatives liabilities (i.e. payables) and net derivatives assets (i.e. receivables) on its balance sheet. Banks should calculate these according to regulatory netting rules, and not accounting rules, and it is these net figures that should be reported on the Basel III monitoring template. Although reported separately in the Basel III implementation monitoring template to aid reconciliation, they will be taken into account on a net basis in calculating the NSFR. That is to say, any payable will be deducted from any receivable and the outcome allocated 100% RSF if a net receivable or 0% ASF if a net payable position.”

We have concerns with four aspects of this Paragraph: (a) the lack of clarity around the definition of regulatory netting rules; (b) the inability to utilize collateral to offset the RSF or ASF of derivative receivables and payables; (c) the application of asymmetric factors to receivables and payables; and (d) the lack of guidance on Agency Trades with Derivative Central Counterparties.

A. Definition of Derivative Netting

There is no definition of “regulatory netting rules” for the calculation of net derivative liabilities and net derivative assets. The term should be clarified and should focus on those aspects of regulatory netting rules which are relevant for stable funding. It would be appropriate, for instance, to define a derivative receivable or derivative payable by summing all the positive and negative mark-to-market values of trades within “a netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the bank would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances.”²

We do not think that all regulatory netting rules are relevant for this purpose. For example, while “written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank’s exposure to be such a net amount”³ may be appropriate for a capital regime, they are unnecessary for NSFR purposes, because (i) net derivative assets and liabilities are in all events netted under the existing NSFR construct; and (ii) the operative question for the NSFR is whether or not the collateral is posted or received, and not whether the netting agreement could survive a legal challenge.

The Current Exposure Method of the Basel III Leverage Ratio is also not relevant to the NSFR. It introduces the concept of potential exposure on top of a form of current exposure, which could lead to RSF percentages greater than 100%, a result inconsistent with the NSFR construct.

B. Collateral Netting

We urge the Committee to consider incorporating into the NSFR the critical stable funding implications of rehypothecatable margin received from, as well as margin posted to, bilateral counterparties and central counterparties.

² BCBS International Convergence of Capital Measurement and Capital Standards, June 2006, Annex 4, paragraph 96(ii)(c)(i).

³ BCBS International Convergence of Capital Measurement and Capital Standards, June 2006, Annex 4, paragraph 96(ii)(c)(ii).

Rehypothecatable variation margin received from derivative counterparties is a source of funding, and variation margin posted is a funding use. Rehypothecatable cash collateral received is fungible with all other funding of the receiving entity. Similarly, rehypothecatable securities collateral can be sold, repoed, pledged, delivered or otherwise used in any manner that the receiving party sees fit, which allows it to generate funding. Meanwhile, posting variation margin is a funding use, as the bank must source and deliver cash or securities to its counterparty.

Variation margin is inherently stable in relation to the assets or liabilities it collateralizes. Variation margin held and posted under a netting contract or agreement, such as a Credit Support Annex to the ISDA Master Agreement (or a similar document between a bank and its counterparty), mirrors the tenor of the net receivables and the net payables it collateralizes, due to the contractual requirement for parties to meet margin calls or risk triggering an event of default. This remains true through time as a result of market valuation changes, novations, interim cash flow settlements and final maturities and settlements.

Example: Bank A and Bank B have an executed ISDA Master Agreement and Credit Support Annex (CSA), but have not traded under the document. The CSA has USD cash as eligible collateral, bilateral zero margin thresholds and bilateral rights to rehypothecate collateral. Today they agree for Bank A to pay Bank B \$100 for an interest rate swap with a positive \$100 market value for Bank A. Under the terms of the CSA, Bank B is required to post \$100 to Bank A, which rehypothecates the cash it receives from Bank B. The \$100 of cash collateral Bank A has received provides stable funding for Bank A's \$100 derivative receivable.

C. Asymmetric Treatment of Net Derivative Liabilities and Net Derivative Assets

By requiring that "any payable will be deducted from any receivable and the outcome allocated 100% RSF if a net receivable, or 0% ASF if a net payable position," the Committee is effectively saying an OTC derivative payable is available to fund 100% of an equivalently sized OTC derivative receivable. But the consultative paper prevents an OTC derivative payable from providing any stable funding for other balance sheet items. This restriction ignores the fungible funding provided by an uncollateralized derivative liability.

Example: A bank agrees to enter into a fully funded total return swap with a counterparty on an underlier such as a security, physical commodity or loan asset. Under such a derivative, the counterparty agrees to pay the bank cash up front equivalent to the notional value of the underlier, and both parties agree to leave the derivative uncollateralized. That creates an uncollateralized derivative payable for the bank equivalent to the cash payment. The bank may use that cash it has received for any funding need, but, to reduce its market risk, chooses to purchase the underlier. Consequently, the uncollateralized derivative liability has provided 100% ASF for the underlier with a 100% RSF.

In order to address the issues identified in A, B, and C above, the net stable funding requirement of derivatives could be expressed as:

<i>Mark-to-market value of all derivative receivables (whether collateralized or uncollateralized)</i>
<i>Less</i>
<i>Rehypothecatable variation margin (cash or securities)</i>
<i>Less</i>
<i>Mark-to-market value of all derivative payables (whether collateralized or uncollateralized)</i>
<i>Plus</i>
<i>Variation margin posted.</i>

If the above formula results in a positive number, then a 100% RSF should be assigned. If the result is negative, a 100% ASF should be assigned.

D. Agency Trades with Derivative Central Counterparties

While derivative trades that banks facilitate in an agency capacity for clients, such as client-cleared OTC derivatives, should not appear on a bank's balance sheet, the collateral that a member bank calls from a client, and the collateral that a member bank posts to the exchange or clearinghouse, may appear on the balance sheet and attract non-zero RSF or ASF. The NSFR rules should address a bank's agency trades so that the collateral has an appropriate impact on a bank's NSFR. As long as the bank is not engaging in collateral transformation (i.e., if it is only collecting from clients collateral which is eligible for the exchange or clearinghouse), there is no net funding requirement, since any collateral that is ultimately posted to the clearinghouse would be sourced from the collateral that is collected from clients.

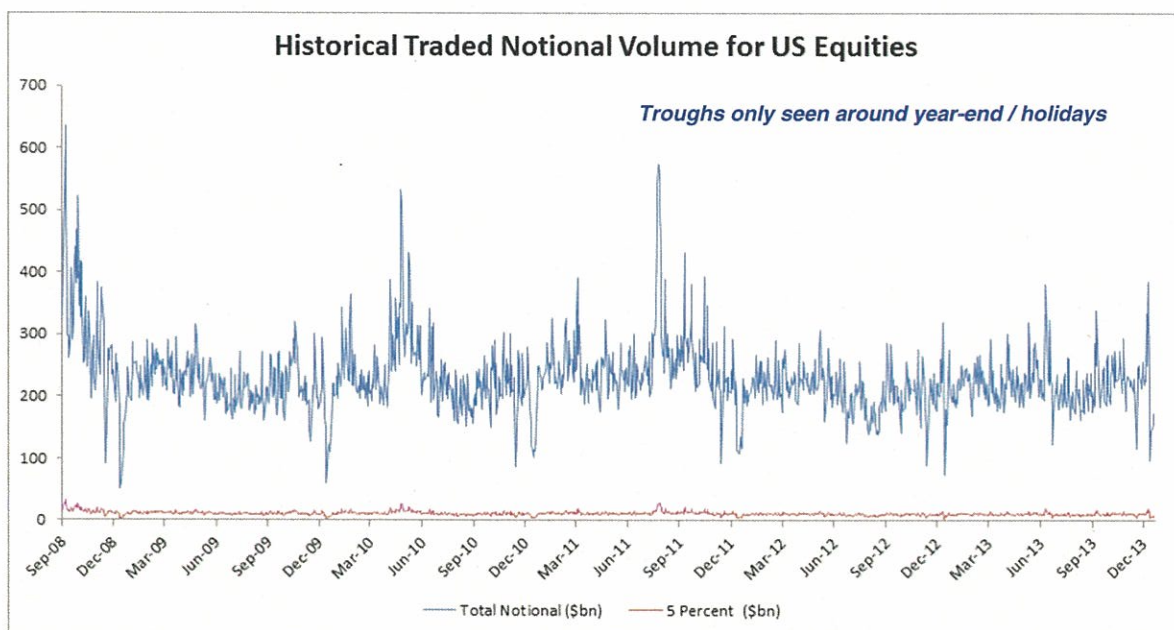
III. RSF Calibration of Unencumbered Assets

The proposal assigns specific RSFs to unencumbered assets, specifically 5% RSF for Level 1 assets, 15% for Level 2A assets, 50% for Level 2B assets and 85% for all other non-HQLA assets. While we agree with the principle of having RSF factors vary by asset type, with higher quality assets attracting a lower RSF, we believe the current calibration is too stringent when compared to the market liquidity of these assets. Level 2A and 2B assets are assigned RSFs for the NSFR that are equivalent to the haircuts assigned in the LCR, which is characterized as a 30-day stressed environment. It is inconsistent to assume that a firm would only be able to monetize the same percentage of HQLA-eligible assets over the NSFR's one year, business-as-usual timeframe, as it could within a stressed period of 30 days. We recommend a lower RSF for unencumbered assets, particularly for equities (HQLA and non-HQLA) and Level 2A assets to incorporate the market liquidity of these assets. Alternatively, the same result can be achieved by adjusting the ASF.

A. Equities

Under paragraph 32(a) of the proposal, a 50% RSF is assigned to "unencumbered Level 2B assets as defined and subject to the conditions set forth in LCR paragraph 54, including exchange-traded common equity shares not issued by financial institutions or their affiliates," and under paragraph 34(b) of the proposal, a 85% RSF is assigned to "unencumbered securities that are not in default and do not qualify as HQLA according to the LCR including exchange-traded equities." Assigning a 50% RSF to HQLA listed equities and 85% to non-HQLA listed equities suggests that a bank would not be able to monetize a significant proportion of these assets within a business-as-usual period of less than one year.

The graph below illustrates historical trading volumes of U.S. equities since Fall 2008, highlighting that trading volumes have been significant, even in periods of stress.



Consolidated equities data from the following exchanges: AMEX (A), NSX (C), NSX (DC), NYSE (DN), Nasdaq (DQ), ADF (D), ISE (I), CHX (M), NYSE (N), NYSE Arca (P), Nasdaq (Q), CBOE (W), PHLX (X)

Source: BATS

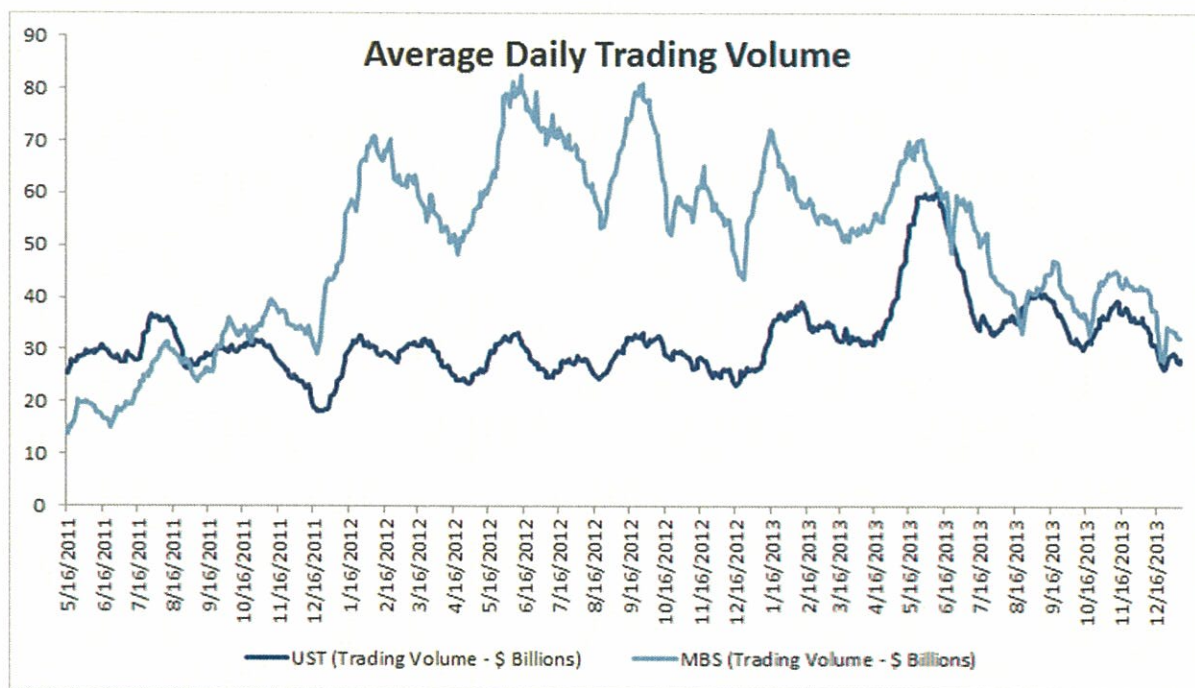
This historical evidence, suggests that the current RSF is miscalibrated. We recommend lowering the RSF to 25% for HQLA equities and lowering the RSF to 50% for non-HQLA equities.

Overly stringent stable funding requirements for equities will likely increase the cost of market access for equity investors. A comparison of the 2011 and 2013 S&P 500 futures roll market shows a marked increase in the implied average cost of funding and a significant reduction in the number of dealers providing long futures exposure to the market by funding the underlying stock and selling futures. We believe that the requirement for dealers to incorporate LCR requirements into their businesses over the course of 2012 and 2013 was one of the main factors contributing to this market dynamic. If the NSFR becomes an additional constraint and further increases the cost of holding physical equity hedges, there could be an even greater reduction in the number of dealers providing long exposure to equity market investors, and the implied funding cost for investors to be long S&P 500 futures could increase significantly.

B. Level 2A Assets

Under paragraph 31 of the proposal, a 15% RSF is assigned to “unencumbered Level 2A assets as defined and subject to the conditions set forth in LCR paragraph 52, including Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20% risk weight under the Basel II Standardised Approach for credit risk; and Corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA-.”

Assigning a 15% RSF to these securities for purposes of the NSFR suggests that a bank would not be able to monetize more than 85% of these types of securities within one year. As illustrated below, Agency MBS consistently trade in large volumes and well in excess of average daily U.S. Treasury trading volumes. We recommend that the RSF for Level 2A assets should be lowered to 5%, a level that more appropriately reflects market liquidity.



UST: daily interdealer nominal trading volume of on-the-run 10-year US Treasury bond. MBS: daily averages of trading volume of 3.0%, 3.5% and 4.0% coupon, 30-year, To-Be-Announced MBS issued by Fannie Mae

Source: BrokerTec (UST), TRACE (MBS). All volume series are 1-month moving averages.

IV. Treatment of Prime Brokerage Activity

Prime brokerage has very distinct flows that behave in a way that is inconsistent with the application of the funding principles suggested in the NSFR.

The prime brokerage business is largely driven by liability-side activity, including customer deposits/credits, customer short sale proceeds and stock loan transactions. The asset side of the balance sheet -- stock borrows, 15c3-3 lock up/client money segregation and margin loans -- is generally associated with these liability-side drivers. As such, when the liability goes away, the associated asset will also be liquidated. This is true as a result of contractual obligations (e.g., client lock up) or economic incentives (e.g., stock borrows), and more importantly is compelled by the purpose test that is a regulatory requirement in the United States, i.e., the 15c3-3 lock up. Margin loans also have a specific behavioral pattern that is discussed below.

Paragraph 22(b) of the proposal assigns a 0% ASF to “other liabilities without a stated maturity. This category may include short positions and open maturity positions.” Therefore, customer short positions and credit balances would be assigned 0% ASF, but the proposal does not make any reference to the associated assets on the balance sheet, i.e., the stock borrows or margin loans.

While the guidance treats reverse repos as loans that attract a RSF based on counterparty type and tenor as outlined in paragraphs 29-32 of the proposal, it is unclear if stock borrows and margin loans would be treated the same way. The vast majority of stock borrow and margin loan activity is conducted with non-bank financials and, if so treated, would attract a 50% RSF if less than one year. This would effectively extend the asymmetry between reverse repos and repos into facilitating shorts and margin lending activity.

A. Stock Borrows

Customer shorts are expected to close out and, therefore attract a 0% ASF factor. Stock borrows are conducted to facilitate customer shorts, making the two inextricably linked. If stock borrows are to be treated in line with reverse repos and attract a 50% RSF if conducted with non-bank financials for less than one year, this suggests that a bank would continue to borrow a security to cover the short, even when the customer's short position is closed out.

From an economic perspective, stock borrows should have the same funding requirement as the liability they support, i.e. a RSF factor of 0%. Stock borrows cost the prime broker a fee, and the prime broker has an economic incentive to return the borrow if the short is closed out, in order to stop incurring balance sheet usage and borrowing fees. It is counter-intuitive to assume that a bank would continue to source a security when there is no short to cover. This is also in direct conflict with paragraph 145 of the Basel III LCR rules, which recognize an inflow for maturing stock borrows used to cover customer shorts and where all customer shorts covered by stock borrows are expected to close out within the 30-day period.

Unlike bank funding transactions where there may be a basis for some conservatism, there is no similar argument for linked stock borrow transactions. Therefore we recommend the treatment of stock borrows to be in line with the 0% ASF assigned to customer shorts, i.e. 0% RSF.

B. Lock Up/Client Asset Segregation

The treatment of balances held in segregated accounts in accordance with regulatory requirements (e.g., SEC rule 15c3-3) is not explicitly addressed in the proposed rules. The customer lock up requires the prime broker to set aside excess customer cash generated from the client business. If the liability is liquidated (e.g., if deposits/credits are paid away), the cash that is delivered to the client comes from cash set aside in the lock up. If the prime broker does not adjust the lock up, it would be locking up its own unsecured cash and would be charged for that. Where the lock up is calculated daily, this release of cash is done systematically in a regulated process. The same logic applies to customer cash subject to client money lock up rules in the United Kingdom. Under paragraph 22(b) of the NSFR, a 0% ASF is assigned to credit balances and accordingly, we recommend that a 0% RSF be assigned to assets segregated for client protection purposes given the direct correlation to the liability.

C. Margin Loans

Margin lending is the one prime brokerage asset-side activity that is driven by the business, rather than supporting a liability-side category. As such there is a need to fund margin loans in an appropriate manner. However the current treatment of margin loans under the proposal does not take into account the following key factors:

- (i) There is a direct correlation between customer shorts (to which the proposal assigns a 0% ASF) and margin loans, meaning that in practice margin loans will not exist without shorts, they are a credit line allowed as a function of a customer's portfolio. This is also recognized in paragraph 145 of the Basel III LCR rules, which "recognizes that clients will not be able to close all short positions without also reducing leverage."
- (ii) Margin loans are overcollateralised, and the lending prime broker can use the margin loan collateral to raise the required financing.

The quality of the collateral is a determining factor in the size of the line of credit. As such we recommend that the treatment of margin loans align with our proposed treatment of reverse repos, i.e., 50% of the RSF of the unencumbered asset. While the NSFR should also assign an ASF to funding generated through the use of customer collateral, the ASF should be capped at the value of the RSF to avoid generating excess funding.

Lastly, in defining margin lending we would also include similar financing that is documented under derivatives master agreements.

V. Treatment of “Other Assets”

Under paragraph 35(c) of the proposal, all other assets listed on a bank’s balance sheet that do not fit into any of the asset categories outlined in the proposal will by default be captured in this section and thus attract a 100% RSF. The proposal in its current form does not match the granularity of the assets reported on the balance sheet, meaning that banks will have to report in this section many assets that do not necessarily warrant 100% stable funding requirement thereby overstating the bank’s stable funding requirement. An example of this is assets that are segregated under client protection rules. These assets appear as a separate item on a bank’s balance sheet and are usually held in the form of unencumbered HQLA assets (such as U.S. Treasuries) or cash. Under the current proposal, cash and unencumbered HQLA attract a significantly lower RSF than the 100% RSF assigned to “other assets.” However, without any explicit reference to segregated assets, banks would potentially classify these in the “other assets” category.

We recommend that the Committee review the assets being captured in the “other assets” section and add additional granularity to the proposal and assign RSFs commensurate with those asset types.

VI. Treatment of Call Options Owned by the Bank

Paragraph 16 of the proposal states “when determining the maturity of an equity or liability instrument, investors are assumed to redeem a call option at the earliest possible date. For funding with options exercisable at the bank’s discretion, banks should assume that they will be exercised at the earliest possible date unless the bank can demonstrate to its supervisor’s satisfaction that the bank would not exercise this option under any circumstances.” A call option typically commands a premium, and banks reserve the right to not call at their discretion, whether for reasons of liquidity, changes in market rates, changes in balance sheet composition or funding requirements or similar causes. Rational behavior would suggest that it is unlikely that a bank would exercise that option if it had an on-going need for funding. The risk of treating the call date as the final maturity in determining the relevant ASF factor is that banks may not be incentivized to increase the flexibility of their funding books and thereby forgo a useful risk management tool.

Although we understand the desire to take a conservative approach to determining funding tenors, we urge the Committee to recognize that firms will not exercise call options when they need the underlying liquidity.

VII. Additional Time Buckets

The current proposal looks at only three time buckets: (i) less than 6 months, (ii) greater than 6 months but less than one year and (iii) greater than one year. We urge the Committee to add more granular time buckets, specifically (i) less than 3 months, (ii) 3-6 months, (iii) 6-9 months and (iv) 9-12 months, in order to more accurately assess a bank’s funding availability and requirements. The current delineation effectively creates a

cliff-effect at the 6 month point and ignores any potential mismatches within the less than and greater than 6 month time periods.

The RSF and ASF factors should also be recalibrated in line with the additional buckets and follow the current principle of assigning higher ASF/RSF farther out along the tenor spectrum, e.g., liabilities maturing between 3-6 months should attract a higher ASF than liabilities maturing in less than 3 months.

VIII. Request for Clarification

A. Treatment of Brokered Certificates of Deposits and Brokered Sweep Deposits

The proposal does not make any explicit reference to the treatment of brokered sweep deposits and brokered certificates of deposits. Paragraph 19 of the proposal assigns a 95% ASF to “stable” retail deposits. These brokered sweep deposits and brokered CDs share the same characteristics as “stable” retail deposits as defined in the LCR (i.e., they are issued to retail clients and the balances are 100% FDIC-insured). We therefore recommend treating these like “stable” retail deposits and assigning them a 95% ASF.

* * *

In closing, we wish to reiterate our support for the efforts of the Committee, and to express our desire to assist the Committee in any way that would be helpful.

Yours sincerely,

A handwritten signature in blue ink, consisting of a stylized 'E' followed by a long horizontal line.

Elizabeth. E. Robinson
Global Treasurer

cc. Mr. Lance Auer, Federal Reserve Bank of New York
Mr. Terrence McCarthy, Federal Deposit Insurance Corporation
Ms. Anne Rosen, Prudential Regulation Authority