Meeting Between Staff of the Federal Reserve Board and The Goldman Sachs Group, Inc.
June 30, 2016

Participants: Kevin Littler, Adam Trost, Dafina Stewart, Adam Cohen, Brian Chernoff, and Josh Strazanac (Federal Reserve Board)

Rajashree Datta, Robin Vince, and Kyle Russ (Goldman Sachs)

Summary: Staff of the Federal Reserve Board met with representatives of Goldman Sachs to discuss the notice of proposed rulemaking to establish the Net Stable Funding Ratio in the United States. Specifically, Goldman Sachs' representatives discussed the treatment of derivatives and the available stable funding factors assigned to certain liabilities in the proposed rule. Goldman Sachs' representatives also discussed the requirement in the proposed rule that intercompany transactions not count towards a firm's available stable funding.

Attachment

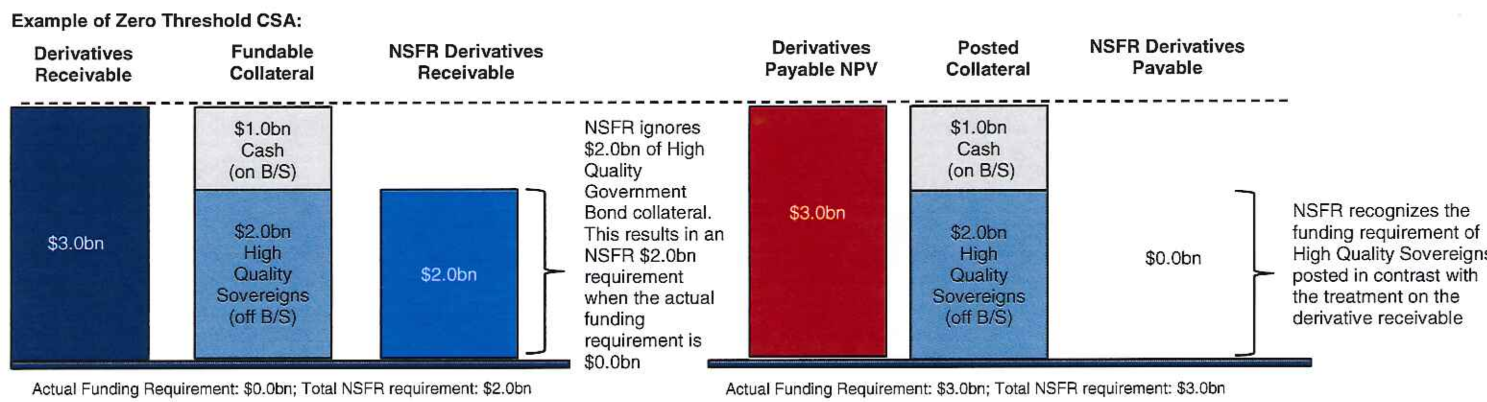
Net Stable Funding Ratio (NSFR)

June 30, 2016

Net Stable Funding Ratio

Derivatives – Zero Funding Value of High Quality Securities Collateral Held

- Under the NPR, a firm can reduce its derivatives asset value after accounting for variation margin that meets certain conditions of the U.S. Supplemental Leverage Ratio (SLR) rule
  - — This results in funding value for eligible cash variation margin (0% RSF) but no funding value for any securities collateral received (100% RSF), including Level 1 HQLA (e.g., U.S. Treasuries to have no funding value as collateral under the rule)
- The NPR is potentially inconsistent with U.S. LCR rule and other elements of the proposal
  - — The U.S. LCR assigns 100% HQLA value to Level 1 HQLA securities
  - — The U.S. NSFR assigns cash at central banks 0% RSF and unencumbered Level 1 HQLA get 5% RSF (not 100% RSF)
- The current treatment of securities variation margin could have adverse consequences for those who use U.S. Treasuries as collateral
- Proposal: Allow netting of Level 1 HQLA collateral received against a derivative receivable (with haircuts in line with those of inventory held on balance sheet)



Net Stable Funding Ratio

Derivatives – Zero Funding Value of High Quality Securities Collateral Held

- A firm's funding requirement on a derivatives receivable can vary significantly depending on the type of collateral received and collateral management strategy used

Example – Derivatives Collateral Received on a zero threshold CSA

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Derivative NPV	$1.0bn	$1.0bn	$1.0bn	$1.0bn
Collateral[1]	$1.0bn USD cash	$1.0bn USD cash	$1.0bn UST	$1.0bn UST
Use of Collateral Received	Invest in $1.0bn UST	Reverse in $1.0bn UST	Hold UST	Repo UST for Cash with a financial counterparty for <6 months
Implied RSF	**5%**	**10%**	**100%**	**100%**
Balance Sheet Treatment	■ Derivative Receivable on B/S: $0 ■ UST Firm Inventory on B/S: $1.0bn	■ Derivative Receivable on B/S: $0 ■ Reverse Repurchase Agreement (with a financial counterparty) on B/S: $1.0bn	■ Derivative Receivable on B/S: $1.0bn ■ Unencumbered USTs off B/S: $1.0bn	■ Derivative Receivable on B/S: $1.0bn ■ Cash on B/S: $1.0bn ■ Repurchase agreement on B/S: $1.0bn

USTs given no funding value under Leverage Ratio netting in Scenarios 3 & 4

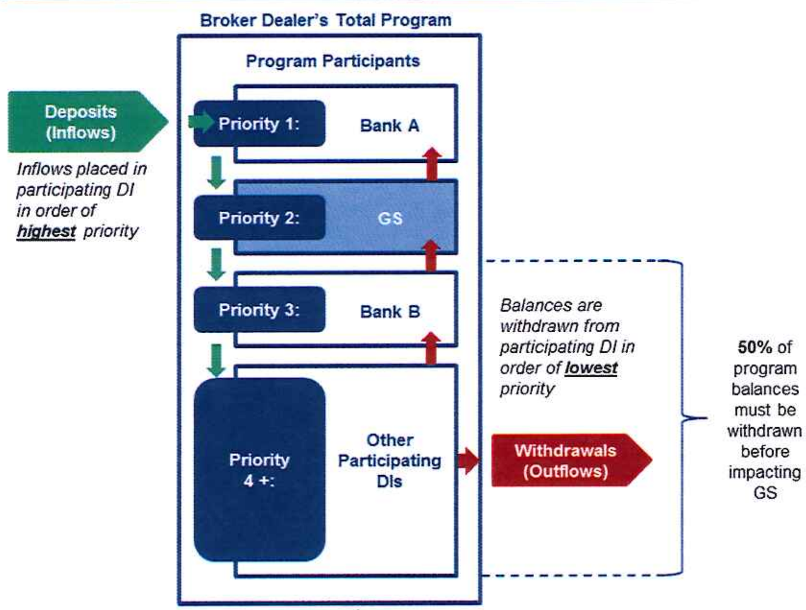
- It is prudent collateral management practice to convert cash collateral received into securities to minimize credit risk from cash balances that would be placed at agent banks, resulting in inconsistent RSF factors for similar risk scenarios
  - The same portfolio and nearly identical liquidity risk, result in different RSF

[1] *Examples ignore collateral haircuts*

Net Stable Funding Ratio
Deposits

Non-Affiliate Brokered Sweep Deposits

- Under the NPR, 90% ASF is given to fully-insured, affiliate brokered sweep deposits and 50% ASF to non-affiliated brokered sweep deposits (regardless of deposit insurance coverage)
- In many cases, broker dealers provide contractual preferential treatment to non-affiliated banks
- For example, a bank placed near the top of a broker dealer sweep program's priority list would realize outflows only after a certain percentage of the program's balances are withdrawn

Illustrative Example	Proposed requirements for non-affiliate deposit sweeps to qualify for 90% ASF	Deposit Feature
	■ Firm would be prioritized ahead of other participating DIs in each broker's program by at least 50% of the total program size which would require a substantial outflow of deposits to occur before the firm realizes an outflow	■ Firm can provide evidence that there would be at least 50% of balances prioritized below GS under each broker dealer's program ■ Contractual specification evidencing firm's priority in the overall program of each broker dealer ■ Contracts with sizable programs and long term in nature (>1 year)

- Proposal: Apply 90% ASF, regardless of affiliate status, to fully insured deposits where a bank's structural priority results in no deposits outflows from the program unless 50% of the broker program balances are withdrawn

Net Stable Funding Ratio
Deposits

Brokered Certificates of Deposits with Contractual Maturities Greater than 1 Year

- Under the NPR, a 90% risk factor is given to term retail deposits maturing greater than 1 year
  - — This is inconsistent with the Basel rule that explicitly recognized 100% ASF for term deposits >1 year
  - — Should contractual certainty funding with remaining maturity > 1 year receive 100% ASF?
- Term deposits have specific contractual features that are not susceptible to franchise or reputation risks

Proposed requirements for CDs to qualify for 100% ASF	Deposit Feature
▪ Contractual Restrictions	▪ Contractual specification that do not allow early withdraws prior to maturity (except for estate features) ▪ Additionally, contractual specification that document brokers are not required to maintain a secondary market for the deposits, thus clients have no expectation that the firm will redeem the deposit prior to contractual maturity date
▪ Historical Evidence	▪ Firm must prove that it does not allow a client to redeem a brokered CD early (other than estate features), even during a period of stress

- Proposal: Deposits with > 1 year term should receive 100% ASF, consistent with Basel NSFR, subject to meeting the above two criteria

Net Stable Funding Ratio
Legal Entity Considerations
Calculation of Excess ASF

- The NPR allows a consolidated company to include "excess" ASF from subsidiaries only to the extent a subsidiary can transfer the ASF taking into account restrictions (e.g., statutory, regulatory, contractual, or supervisory restrictions)
  - The NPR states that the excess ASF calculation should not include intercompany transactions
- Clarification is required on how a firm should treat intercompany transactions in the NPR

Illustrative Examples:

	Bank Subsidiary (excluding intercompany transactions)	Consolidated Firm
Capital ASF	100	200
Deposit ASF	500	500
Non-deposit ASF		100
Intercompany Funding ASF (e.g. repo)		
Total ASF	600	800
Intercompany Assets RSF (e.g. reverses)		
All other RSF	400	550
Total RSF	400	550
NSFR Ratio (before Trapped ASF)	150%	145%
"Excess" ASF (ASF - RSF)	200	
23A Capacity	50	
Trapped ASF (ASF - RSF - 23A Capacity)		150
NSFR Ratio (after Trapped ASF)		118%

	Bank Subsidiary (including intercompany transactions)	Consolidated Firm
Capital ASF	100	200
Deposit ASF	500	500
Non-deposit ASF		100
Intercompany Funding ASF (e.g. repo)	0	
Total ASF	600	800
Intercompany Assets RSF (e.g. reverses)	50	
All other RSF	400	550
Total RSF	450	550
NSFR Ratio (before Trapped ASF)	133%	145%
"Excess" ASF (ASF - RSF)	150	
23A Capacity	50	
Trapped ASF (ASF - RSF - 23A Capacity)		100
NSFR Ratio (after Trapped ASF)		127%