CREDIT SUISSE

August 5, 2016

Via Electronic Mail
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219
Attention: Legislative and Regulatory Activities Division
Docket ID OCC—2104—0029; RIN 1557—AD97

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attention: Robert E. Feldman, Executive Secretary
RIN 3064—AE 44

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attention: Robert deV. Frierson, Secretary
Docket No. R—1537; RIN 7100 AE-51

Re: Notice of Proposed Rulemaking – Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements

Ladies and Gentlemen:

Credit Suisse Holdings USA ("**Credit Suisse**") appreciates the opportunity to comment on the joint notice of proposed rulemaking ("**Proposed Rule**") of the Office of the Comptroller of the Currency (the "**OCC**"), the Federal Deposit Insurance Corporation (the "**FDIC**") and the Board of Governors of the Federal Reserve System (the "**Federal Reserve Board**"; collectively the "**Agencies**") which seeks to implement a Net Stable Funding Ratio ("**NSFR**") requirement in the United States that would apply to bank holding companies, savings and loan holding companies without significant commercial or insurance operations, and depository institutions that, in each case, have $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure and, separately, to depository institutions with $10 billion or more in total consolidated assets that are consolidated subsidiaries of such bank holding companies and savings and loan holding companies (hereafter a "**Covered Company**") pursuant to Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank**").[1]

[1] 81 Fed. Reg. 35124 (June 1, 2016).

While we recognize that the Proposed Rule does not apply to Intermediate Holding Companies ("**IHCs**") at this time, the Agencies do note that "[t]he [Federal Reserve] Board anticipates implementing an NSFR requirement through a future, separate rulemaking for the U.S. operations of foreign banking organizations ("**FBOs**") with $50 billion or more in combined U.S. assets." In anticipation of a future, similar rulemaking, Credit Suisse wishes to submit preliminary comments on the potential application of an NSFR requirement to IHCs and on specific elements of the Proposed Rule that, in our view, do not appropriately reflect actual illiquidity risks. We do, however, wish to broadly associate ourselves with the comments submitted by The Clearing House Association and the Securities Industry and Financial Markets Association (collectively, the "**Associations**")[2].

As we stated in our comment to the Basel Committee on Banking Supervision ("**BCBS**"), dated April 10, 2014, we fully agree with the stated objective of the NSFR to require banks to maintain a sustainable funding structure and to reduce funding risk over an extended time horizon. Since the financial crisis, most banks have significantly improved the sustainable funding structure of their balance sheets[3] due to a variety of internal and external factors. In particular, we note multiple post-crisis regulatory and supervisory measures have – or soon will be – implemented that are designed to address similar liquidity concerns to the NSFR. The combination of these existing reforms (as detailed in Part II of the Associations' letter) means that that proposed NSFR needs to be re-examined by the Agencies, both to ensure greater consistency with other requirements (such as the Liquidity Coverage Ratio or "**LCR**") and to avoid damaging negative impacts on important groups of end-users.

I. Considerations on the Potential Extension of Proposed Rule to IHCs

The following issues ought to be considered by the Federal Reserve Board as it considers whether to extend the NSFR requirement to IHCs/FBOs:

A: Background

Credit Suisse will be subject to NSFR rules as applied by the Swiss Financial Market Supervisory Authority ("**FINMA**"). In line with the Proposed Rule, it is expected that FINMA will establish an NSFR requirement that is broadly aligned with BCBS standards[4]. We expect that both our consolidated group and our parent, Credit Suisse A.G., will be required to maintain a ratio of at least 100 percent. Compliance with the standard demonstrates that our institution holds sufficient Available Stable Funding ("**ASF**") to equal the aggregate of assets throughout the group that require stable funding.

---

[2] The Clearing House Association, SIFMA Comment Letter on Notice of Proposed Rulemaking – Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements.

[3] For example, see The Clearing House Association, "Assessing the Basel III Net Stable Funding Ratio in the Context of Recent Improvements in Longer-Term Bank Liquidity", p. 5 (Aug. 2013).

[4] FINMA, "Liquidity Regulations: Beginning of Observation Period for the NSFR" (November 14, 2014). See https://www.finma.ch/en/news/2014/11/aktuell-liquiditaetsregulierung-beobachtungsperiode-nsfr-20141114/.

Numerous branches and subsidiaries of Credit Suisse are subject to capital and liquidity standards. We support these standards as they ensure the resiliency of our institution and the stability of the industry. The combination of capital investment, pre-positioned liquid assets, and internal loss absorbing debt would seem to provide a fully adequate funding cushion at the subsidiary level, especially when combined with a fully implemented NSFR approach at the parent level. A separate stable funding requirement, at the subsidiary level, can create internal obstacles that may impede the ability of a bank to apply the full weight of its financial resources to a crisis. A high degree of internal friction raises the possibility that a local liquidity or capital issue cannot be resolved privately using internal resources. The risk is that the market becomes aware of the issue and misinterprets it as a signal of broader institutional instability across the global enterprise. For this reason, we suggest a separate NSFR may not be necessary for separately capitalized subsidiaries and, at most, a modified version of the NSFR should be applied to IHCs/FBOs as a compromise that ensures a baseline amount of stable funding while allowing banks sufficient operational flexibility (see below).

B: Existing regulatory requirements for IHCs address the stated objectives of the NSFR. IHCs are also subject to support by their parent. Therefore, the Proposed Rule's NSFR requirement should not be extended to IHCs already subject to robust home country NSFR requirements.

The Proposed Rule's objective is to "reduce the likelihood that disruptions to a banking organization's regular sources of funding will compromise its liquidity position, as well as to promote improvements in the measurement and management of liquidity risk"[5] The NSFR is also intended to be a "longer term structural funding metric"[6] that complements the shorter-term LCR. As stated above, we fully support these objectives. However several regulatory requirements are already in place to ensure that large banking organizations have sufficient long-term structural funding, while other measures have been proposed that support that purpose.

The U.S. has already implemented significant liquidity requirements on IHCs. IHCs are currently subject to the Regulation YY Liquidity buffer requirement, which significantly limits reliance on intragroup funding flows (including with the FBO's U.S. branches and agencies) and effectively traps liquid assets in the IHC and U.S. branches of the foreign bank[7]. Next year, all IHCs in the Large Institution Supervision Coordinating Committee ("**LISCC**") portfolio will participate in the Comprehensive Capital Analysis and Review ("**CCAR**"), which includes a nine-quarter stress test, and are already subject to the Comprehensive Liquidity Assessment and Review ("**CLAR**"), "an annual horizontal assessment, with quantitative and qualitative elements, overseen by a

---

[5] 81 Fed. Reg. 35125 (June 1, 2016).

[6] 81 Fed. Reg. 35127 (June 1, 2016).

[7] The liquidity buffer requirements under Regulation YY address specifically IHCs' maintenance of sufficient liquidity over a stressed 30-day time horizon. As discussed below, however, this requirement reflects broader policy concerns that are equally relevant to consideration of IHCs' liquidity requirements over a one-year time period covered by the NSFR.

multidisciplinary committee of liquidity experts"[8]. These quantitative and qualitative tests ensure that IHCs of global systemically important banks hold sufficient liquidity to survive extreme outflows during the initial period of a stress and sufficient equity to absorb extremely large losses over the long-term.

Added to this, the Federal Reserve Board has proposed a Total Loss Absorbing Capacity ("**TLAC**") and Long-Term Debt rule[9] that would require the aforementioned class of IHCs to hold sufficient convertible internal long-term debt and equity to ensure continuity of business activities even in the event of non-viability, reducing the systemic risk to the economy. Credit Suisse's IHC also holds a large number of largely long-dated, blended maturity loans from its parent as part of its treasury strategy. Moreover, CCAR provides additional incentives for IHCs to hold longer-maturity loans from their parents as shorter borrowings must be refinanced at elevated risk premiums during the nine-quarter CCAR stress tests, contributing to projected capital losses.

Standing behind the IHC will be a parent that must comply with its home country liquidity, funding and capital standards, which, in the case of Credit Suisse, will include a robust NSFR requirement mandated by FINMA. The combination of local and global standards ensures that local resources are on hand to meet stressed outflows and absorb losses while the robust liquidity and funding position of the consolidated group provides a safeguard against forced liquidation of assets amid a financial crisis.

Financial Commitment of a Parent Firm to its IHC

[8] Daniel K. Tarullo, "Liquidity Regulation." Remarks at The Clearing House 2014 Annual Conference, New York, New York (November 20, 2014).
[9] 80 Fed. Reg. 74926 (November 30, 2015).

A consolidated group NSFR ensures that the parent firm maintains sufficient long term funding to support illiquid assets positioned throughout the group. The parent is the sole capital investor in the IHC and provides the entity with substantially all required unsecured funding (see the illustration above). Given the substantial capital investment in the IHC and the NSFR-demonstrated sufficiency of term funding resources, the parent would have no incentive to starve the IHC of funding during a crisis. Failing to provide unsecured funding would force the IHC to sell illiquid assets to meet liabilities that come due. Such a decision would unnecessarily incur losses in the IHC and by extension, on the parent's capital investment. The only prudent decision in this instance would be to shelter the IHC from the financial storm and preserve franchise and shareholder value.

In short, the marginal benefit of applying a NSFR to an IHC appears minimal given standards that currently apply at the local and global levels. As will be discussed later, the asymmetric treatment in the NSFR of select asset classes will increase the cost of participating in these markets, potentially reducing the availability and increasing the costs of financial products and services.

C: Should the Federal Reserve Board extend an NSFR requirement to IHCs, it should apply the "modified NSFR" to such institutions

For the reasons stated above, we do not believe that the extension of a stand-alone NSFR requirement to IHCs would be appropriate. However, should such a requirement be proposed in the future, we strongly recommend that the Federal Reserve Board provide an appropriate allowance for IHCs whose parent is subject to robust home country NSFR requirement on a consolidated basis. Such an allowance would mitigate the potential brittleness created by excessively trapping liquidity in the U.S. subsidiary, as well as the discriminatory impact created by the imposition of a dual requirement at both the parent company and the IHC levels.

In our view, the most appropriate solution under these circumstances would be to apply the Proposed Rule's modified NSFR for holding companies with less than $250 billion, but more than $50 billion in total consolidated assets, and less than $10 billion in on-balance sheet foreign exposures to IHCs with more than $50 billion in U.S. assets[10]. Under the proposed modified NSFR, eligible covered companies would be required to maintain a Required Stable Funding ("**RSF**") amount equivalent to 70 percent of the amount required for a Covered Company.

In our view, a modified NSFR should be applied to all IHCs in the event that the Federal Reserve Board decides to extend this requirement to such institutions. We agree with the Institute of International Bankers ("**IIB**") comment that, should a $10 billion foreign exposure eligibility test for the modified NSFR be applied to IHCs, the rule should exclude the IHC's exposures to its parent, its other non-U.S. affiliates and the

[10] 81 Fed. Reg. 35157 (June 1, 2016). It should also be noted that the vast bulk of IHCs will likely fall below the $250 billion consolidated U.S. asset threshold. However, we believe that if the Board chooses to propose an NSFR requirement for IHCs, then a modified NSFR ought to be applied to all IHCs for the reasons stated in this comment.

FBO's U.S. branches and agencies[11]. As the IIB notes, inclusion of such exposures presents a significant risk that an IHC would be required to comply with the "full" NSFR requirement when the profile of its international activities otherwise more closely resembles that of Covered Depository Institution Holding Company ("**DIHC**") to which the modified NSFR requirements will apply.

II. Specific Areas for Improvement in the Proposed Rule

As we have stated, we do not believe that the proposed NSFR requirement should be extended to IHCs. Irrespective of the Board's decision on that matter, we wish to highlight specific elements of the Proposed Rule where changes would more accurately reflect the illiquidity risk of the underlying business.

A: The Agencies should consider the impact of the Proposed Rule on global equity markets

The Proposed Rule would trigger a substantial change in the stable funding requirement for equities market makers, impacting not only the cash equities market but related derivatives of the market, including futures, forwards and options. This impact occurs through the cumulative effect of a divergence between the Proposed Rule and the actual liquidity/funding risks inherent in equity products and the equities business, a divergence which, in our view, may result in a number of undesired and unintended consequences.

Banks facilitate client activity in their role as intermediaries. Increased funding costs will impact the industry's ability to make markets, trade and hedge risk, support new issuance, and provide structured solutions to client needs. Firstly, higher funding costs may increase transaction costs through wider bid/offers, which will in turn reduce transaction volumes and ultimately liquidity. Second, there is risk of diminished diversity in market making participants as due to increased funding costs, which disproportionally impacts foreign banks and smaller domestic banks. Higher transaction costs in cash equities will also affect related derivative markets including futures, forward, and options. The collective impact is reduced market efficiency, stability and price parity.

By way of illustration, one such example is the futures market making activity of banks. Futures are traded primarily by pension funds for managing their exposures. Banks which make markets in futures use the underlying cash equity to hedge their exposure to remain delta or risk neutral. Under the current NSFR proposal, these hedges would require 50-85 percent stable funding, substantially increasing the cost of holding the hedge. These costs will be built into wider bid/offers in the futures product, ultimately impacting portfolio returns of pension funds and consequently borne by the ordinary citizen. The market place has built-in operational mechanisms which mitigate funding risk and which may have been overlooked when calibrating the NSFR for equities.

---

[11] Institute of International Bankers, Comment Letter on Notice of Proposed Rulemaking Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements.

Futures are settled at Special Opening Quotations ("**SOQ**") which is based on the opening price at which banks liquidate their hedge portfolio's using Market-on-Open ("**MOO**") orders.

Accordingly, to the extent that the Proposed Rule is intended to capture a business-as-usual funding environment, we are recommending a limited number of modifications to the NSFR that we believe would more accurately capture bank funding risks.

B: The Agencies should revise the Proposed Rule to more accurately account for asset quality and liquidity value of equities

The Proposed Rule sets out revised RSF factors for equities: 50 percent RSF applied to LCR High Quality Liquid Assets ("**HQLA**") eligible equities; 85 percent to exchange traded LCR HQLA ineligible equities; and 100 percent to non-exchange traded equities. We believe that the current haircuts do not appropriately reflect the demonstrated performance of equities under both normal and stressed conditions whereby most major market exchange traded equities:

i. Can be reasonably monetized under stressed conditions;
ii. Exhibit positive characteristics of transparency, market structure, depth, performance in stressed liquidity conditions;
iii. Meet the most critical of the liquid asset attributes specified for many of the level 1 and level 2A assets in the BCBS framework which require either a 5 percent or 15 percent stable funding;
iv. Demonstrate resilience through sustained and vibrant secured funding markets as evident throughout the 2008/2009 stressed conditions; and
v. Continue to grow as an asset class through varied, highly liquid and independent structures and markets. For example: Non-cash collateral stock-borrow, collateral upgrades, repo, total return swaps, futures and listed options.

We believe the RSF factors proposed by the Agencies for exchange-traded equities do not adequately reflect the liquidity value of the product. They are, in some cases, overly conservative and inconsistent with historical equities market liquidity experiences. There is a meaningful difference between firms' own evaluations of liquidity risk in equities and that implied by the Proposed Rule. Assuming RSF factors incorporate both secured funding market dislocation and price volatility risk, we further believe that too much consideration is given in the Proposed Rule to the price volatility of the product without adequate consideration for protections built into the marketplace that safeguard banks from this risk.

Funding risk associated with price volatility in exchange-traded equities is largely mitigated through a number of operational and legal safeguards offered by the market. First, exchange traded equities are highly liquid, even in times of stress. Banks can liquidate holdings in a very short amount of time, and are therefore not exposed to price volatility over extended periods of time. Second, to the extent that the bank is required to hold the security as part of structure or as a hedge, the price volatility will be mitigated through other transactions in the structure, and liquidity risk will be met through daily

variation margin. Alternatively, the bank could easily replace the cash equity exposure with similar economics offered in liquid option, swap, or future markets.

While we acknowledge the differences in the treatment of equities between the LCR and NSFR, including the lifting of operational requirement and the cap on Level 2B unencumbered assets, we do not believe these differences are sufficient to capture the different objectives of the two measures. While the LCR addresses the adequacy of a stock of high quality liquid assets to meet short-term liquidity needs under a specific acute stress scenario, the NSFR targets longer-term structural liquidity mismatches. We recognize the goal of simplicity but reiterate that the "liquidity value of an asset depends on the underlying stress scenario, the volume to be monetized, and the timeframe considered."[12]

In our view, major market main index equities should receive an RSF factor of 15 percent including exchange-traded funds ("**ETFs**") that track a major market main index. All other major market equities traded on an exchange, but not included in the main index, should receive an RSF factor of 50 percent. All other equities should receive an RSF factor of 100 percent. An exemption should apply to equity specifically qualifying for treatment as a linked transaction. "Major market" should be defined as the MSCI constituent countries including Korea, Brazil and Taiwan. We would further recommend eliminating national regulator discretion, noting inconsistent treatment of equities in the LCR across various supervisory bodies creating inconsistent application of the rule across the industry.

C: Initial Margin Received and Posted

We endorse the Associations' comment on this matter, emphasizing the point that initial margin ("**IM**") received should be recognized as valid ASF and IM posted should have RSF factors scaled to the maturity of the underlying transactions.

D: 20 percent of Derivatives Liabilities

As discussed in the Associations' comment letter, there are a number of difficulties with using the gross derivatives liabilities as a basis for an assessment of required stable funding. For example, the Proposed Rule does not take into account whether a derivative is collateralized, which has contingent funding risk, or uncollateralized, which does not. Nor does it take into account back-to-back transactions, where the contingent funding risk is mitigated through the offsetting margin payments.

The Associations' comment letter presents a set of potential alternatives for assessing the funding volatility of the derivatives portfolio and Credit Suisse's recommendation is to leverage the metric as a floor as compared to the net derivative asset amount. If the 20 percent of the gross derivatives liability is greater than 100 percent of the net derivative asset amount, an additional RSF will be included, amounting to the difference between the 20 percent of the gross derivatives liability and the net derivative asset amount. This would ensure that Covered Companies are maintaining a

---

[12] BCBS Guidance for Supervisors on Market-Based Indicators of Liquidity, January 2014.

base level of required stable funding for their derivatives portfolio, mitigating potential risk in the volatility of the funding requirements while not relying on the derivatives liability as a pure add-on, given its flaws noted above and in the Associations' comment.

E: Modification to RSF Factors for Self-Funding Transactions

Banks commonly act as market intermediaries to facilitate client trading strategies. There are derivative strategies where banks carry cash equity inventory to facilitate these strategies yet without any material market or funding risk, and where symmetrical unwind of the 'package' is assured through credit, liquidity, and market risk safeguards. It is Credit Suisse's recommendation that the NSFR rules should appropriately recognize certain circumstances where the existence of specific liquidity, credit, market, and operational risk considerations support recognition of the transactions as self-funding.

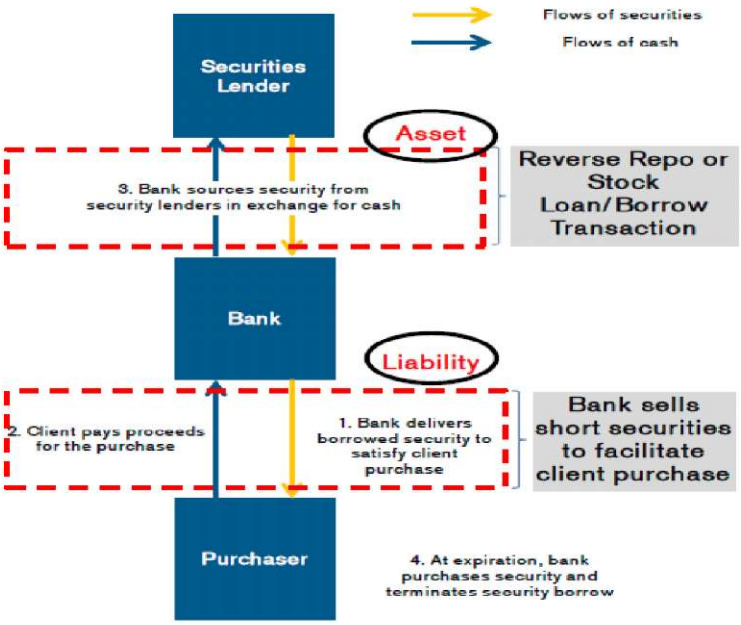
We acknowledge the concern that recognition of such linkage may increase the complexity of the NSFR however we concur with the Associations' view that a limited number of ring-fenced exemptions for these transactions can be incorporated into the rule based on clear qualifying criteria where legal and operational safeguards exist while preserving the committee's objectives. The following subsections set out some examples of the specific circumstances where such a treatment would be appropriate.

Shorts covering longs

When banks act as market intermediaries to facilitate client trading strategies, they are effectively acting as a pass-through with back-to-back, offsetting trades such that the bank may borrow the security from a third party (in exchange for cash) and meet its delivery obligation to the client and then lend the same security to its client (also in exchange for cash). This is represented visually below.

When the client terminates the trade, the bank receives the security back from the client (returning the cash) and returns the security to the third party (also in exchange for cash). Such an example would likely attract an asymmetrical NSFR treatment (0 percent ASF, 15 percent RSF) if assumed to be less than 6 months and conducted with non-bank financial institutions. This treatment would apply even when the bank puts in place risk management and contractual arrangements to ensure that it could unwind the client-facing and third-party facing transactions simultaneously, virtually eliminating the possibility of funding gaps.

At a high level, the bank's role in such transactions is similar to the riskless principal model in client clearing, which the BCBS has accommodated in the capital framework through specific exceptions to rules of general applicability. This does not appear consistent with the NSFR's objectives with regards to addressing banks' longer term structural funding requirements. Rather, it has the potential to give rise to unintended consequences in the market as banks pass on increased funding costs to clients despite the intermediary role the banks play in such a transaction.



While the above discussion relates to a bank's role in facilitating client shorts, the same risk safeguards apply in the case of short positions taken by banks. Short transactions are conducted for a variety of legitimate purposes and are in accordance with applicable legal and regulatory requirements including, for U.S. banks the Volcker Rule's prohibition on proprietary trading and Federal Reserve Regulation T, which permits banks to borrow securities only with a permitted purpose. Failure to accommodate them in the NSFR could disrupt banks' ability to assist in the capital formation activities or impair banks' ability to manage risk. Unlike bank funding transactions where there may be a valid argument for building a conservative bias into the NSFR, we believe that there are no prudential reasons to impose liquidity surcharges on a bank's highly regulated shorting strategies.

It is our recommendation that in the scenario where a bank borrows a security to cover a firm or client short position, the NSFR should recognize an exception from the general RSF factor that applies to loans, and instead permit the bank to recognize equal and offsetting ASF and RSF factors.

Assets held as a market risk hedges to client-facing derivatives exposures

Banks frequently hold cash securities as market risk hedges of client facing total return swaps. Clients execute total return swaps as synthetic secured funding transaction whereby the swap agreement ensures a full pass through of the performance of the hedge to the client. Changes in the value of the hedge are offset by changes in the value of the swap, which are then met with regularly posted variation margin. In addition, the transaction will typically also include initial margin, which is used to finance the purchase of the hedge. The swap is recorded under International Swaps and Derivatives Association ("**ISDA**") PSA documentation, which will also reference the quantity and CUSIP of the reference security, thereby, making clear the link between the hedge

security held and the swap. The trade tenors of such swaps range from overnight to 1 year with the vast majority of swaps terminable by the client or bank in less than 30 days.

There are protections that further ensure the hedge can be liquidated at the expiry of the swap. These protections include a) the ability to physically deliver the security to the swap counterpart b) termination provisions which give the bank the ability to move the final termination date if it cannot affect the unwind of the hedge c) final price determination provisions which will allow for scenarios in which the hedge cannot be unwound in full in one trading session, d) unwind expense provisions which give the bank the right to adjust the unwind proceeds to reflect the costs of unwinding the hedge, and e) market disruption provisions which will allow the bank to terminate the transaction if there is disruption to its ability to hedge.

As a result, cash security positions held in this way exhibit maturity characteristics similar to those of the swap agreement. Under the proposed NSFR rules, however, such securities held to hedge the client exposure would receive an unencumbered RSF factor commensurate with the underlying security (without recognition of the bank's ability to liquidate the hedge at the swap maturity). The BCBS has previously acknowledged trade linkages and the impact on residual maturity as noted in BCBS 211 FAQ Number 17.

Futures / Forwards Market Making

Cash securities are frequently held as market risk hedges against futures and forward market making strategies. In these instances a bank may be left with exposure to an index through the futures market. The cash security constituents of the index are purchased to hedge the future / forward position. Since the futures trades are typically against major market indices, the cash hedges are highly liquid. The cash security hedges are financed in the secured funding markets.

Variation margin is posted regularly on the future/forward, and as a result the bank is insulated from price volatility risk in the underlying securities held as a hedge. Any change in value of the cash security hedge is offset by an equivalent change in the value of the future, which is then met with variation margin.

Prior to expiry, the market provides additional liquidity risk management through Exchange For Physical ("**EFP**") transactions which can be executed at any time prior to expiry, and which allow banks to collapse their futures and cash hedge positions with no price risk on the exit. Futures, as exchange traded instruments, expire every third month and are therefore considered short term. Final settlement procedures of the futures market ensure that hedges can be liquidated, and that the liquidation price of the hedge is used to derive the close out value of the future, mitigating any funding and market risk on expiry. Futures are cash settled to SOQs, which allow banks to monetize cash hedges with riskless MOO orders.

It is our recommendation that short-term trading book activities, where banks enter into outright positions and link equivalent and equal risk mitigation positions for client

facilitation or market making purposes, shall be deemed to have 0 percent RSF. Linkage between outright positions and risk mitigation positions shall be deemed met if the bank can demonstrate to its supervisor's satisfaction that these are correspondent and equivalent in value both during the life of the transaction and upon unwind via a variety of approaches, including the following:

i. Legal provisions and market structures allowing the bank to divest itself of the positions without suffering loss.
ii. Trading operation practices (such as market auctions) allowing the bank to minimize exposure differences between the hedge unwind and the outright position.

III. Conclusion

We strongly support the principle of requiring banks to maintain a sustainable funding structure and reduce funding risk over an extended time horizon. However, in our view several existing regulatory and supervisory requirements already require banks to maintain adequate levels of long-term funding. Moreover, in the case of IHCs, we have support from a parent which will be – in our case – subject to robust home country capital, funding, and liquidity requirements, including a strong version of the NSFR. As such, we believe that any future extension of the Proposed Rule to IHCs by the Federal Reserve Board would be unnecessary. However, should the Federal Reserve Board decide to propose an NSFR requirement for IHCs, we believe that it should extend the proposed modified NSFR approach for DIHCs to IHCs.

We have also made specific recommendations on ways the current Proposed Rule could be improved. As stated above, we believe the Proposed Rule ought to be amended to more accurately account for asset quality and liquidity value of equities; that Initial Margin received should be recognized as valid ASF and Initial Margin posted should have RSF factors scaled to the maturity of the underlying transactions; that changes be made to using gross derivatives liabilities as a basis for an assessment of RSF; and, in particular, that modifications be made to RSF factors for self-funding transactions. We believe that these changes would better align the NSFR with economic and market realities, avoiding some of the more negative potential consequences on liquidity and lending that could result if the Proposed Rule is adopted in its current form.

***

We thank the Federal Reserve Board for its considerations of our comments. If you have any questions, please do not hesitate to contact the undersigned or Peter J. Ryan (202-626-3306; peter.ryan.3@credit-suisse.com).

Joseph J. Shropshire
Treasurer, IHC and Americas Entities