August 5, 2016

charles SCHWAB
CORPORATION

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San Francisco, CA 94105

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R-1537; RIN 7100-AE51

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, S.W., Suite 3E-218
Mail Stop 9W-11
Washington, D.C. 20219
Docket ID OCC-2014-0029

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
RIN: 3064-AE04

RE: Net Stable Funding Ratio Proposed Rulemaking

Ladies and Gentlemen:

The Charles Schwab Corporation ("Schwab")[1] appreciates the opportunity to comment on the interagency notice of proposed rulemaking, Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements, issued by the Office of the Comptroller of the Currency ("OCC"), Board of Governors of the Federal Reserve System

[1] The Charles Schwab Corporation (NYSE: SCHW) is a leading provider of financial services, with more than 330 offices and 10 million active brokerage accounts, 1.6 million corporate retirement plan participants, 1.1 million banking accounts, and $2.62 trillion in client assets as of June 30, 2016. Through its operating subsidiaries, the company provides a full range of wealth management, securities brokerage, banking, money management, custody, and financial advisory services to retail investors and independent investment advisors. Through its operating subsidiaries, the company offers a full range of securities brokerage, banking, wealth management and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member SIPC), and affiliates offer a complete range of investment services and products including: an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through Schwab Advisor Services. Schwab's banking subsidiary, Charles Schwab Bank (member FDIC and Equal Housing Lender), provides banking and lending services and products.

("FRB") and the Federal Deposit Insurance Corporation ("FDIC")(collectively, the "Agencies") and published in the Federal Register on June 1, 2016 (the "Proposal").[2]

We appreciate and support the Agencies' continuing efforts to strengthen the resilience of large banking organizations by reducing the likelihood that disruptions to their sources of funding may compromise their liquidity positions. However, we are concerned with one particular aspect of the Proposal – how retail brokerage payables,[3] a type of retail funding that is not in the form of a deposit, would be treated. Under the Proposal, such retail liabilities are not recognized as stable funding and accordingly are assigned a zero percent available stable funding ("ASF") factor. The Proposal justifies the 0% ASF weighting on the grounds that "non-deposit retail liabilities are not regular sources of funding or commonly utilized funding arrangements."[4] While in some contexts this may be true, it is certainly not the case for retail-oriented securities brokerage firms' retail brokerage payables.

As discussed below, we recommend that the Agencies in any final net stable funding ratio ("NSFR") rule establish a separate category of retail non-deposit liabilities for retail brokerage payables and assign such payables a 60% ASF weighting. We believe that a 60% ASF factor would be the most appropriate weighting because:

- Retail brokerage payables are a primary source of demonstrated and recognized stable funding for retail-oriented securities brokerage firms; and
- A 60% ASF weighting would ensure equivalent treatment of retail brokerage payables in the Agencies' Liquidity Coverage Ratio ("LCR") and NSFR rules that is comparable to the treatment of other similarly liquid and stable retail liabilities.

I. Retail Brokerage Payables Are a Demonstrated and Recognized Source of Stable Funding for Retail-Oriented Securities Brokerage Firms

The balance sheet of Charles Schwab & Co., Inc. ("CS&Co.), Schwab's broker-dealer subsidiary, is fairly typical of most retail-oriented securities brokerage firms.[5] The bulk of CS&Co.'s assets consist of receivables from clients, mostly in the form of margin loans collateralized by readily marketable securities in clients' brokerage accounts, and client cash and securities required to be segregated under the Securities and Exchange Commission's Exchange Act Rule 15c3-3. Over 85% of CS&Co.'s liabilities are retail brokerage payables, of which

[2] Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements, Release Date May 3, 2016, 81 Fed. Reg. 35,124 (June 1, 2016).

[3] Retail brokerage payables consists almost entirely of (1) cash awaiting investment in retail clients' brokerage accounts, oftentimes and hereinafter referred to as "free credit balances", and (2) cash balances in a securities firm's bank account arising in connection with pending retail client securities purchase and sale transactions and pending deposits to and distributions from clients' brokerage accounts, oftentimes and hereinafter referred to as "float".

[4] 81 Fed. Reg. at 35,139.

[5] *See* Charles Schwab & Co., Inc. Statement of Consolidated Financial Condition as of December 31, 2015 at http://www.schwab.com/public/file?cmsid=P-2043336&cv7.

approximately 75% are free credit balances, with the remaining 25% consisting mostly of float. Thus, the primary source of funding for CS&Co.'s margin loans to its clients is free credit balances.[6]

Recent Securities Exchange Act periodic reports and Statements of Financial Condition filed with the Securities and Exchange Commission by National Financial Services LLC, Fidelity Investments' clearing broker,[7] TD Ameritrade Holding Corporation,[8] Raymond James Financial, Inc.[9], The Jones Financial Companies, L.L.L.P.[10], E*TRADE Financial Corporation,[11] and Scottrade, Inc.,[12] all confirm that free credit balances, the main component of retail brokerage payables, are the predominant source of liquidity for these other retail-oriented securities firms' margin loans as well.

To the extent reflected in the proposed 0% ASF weighting for all retail non-deposit liabilities, including retail brokerage payables, we also must respectfully disagree with the proposition that these payables are an unstable funding source, particularly in times of market or financial stress. Our data demonstrates that this type of retail non-deposit liability is very stable, in both normal and stressed economic environments. In fact, during the height of the financial crisis, from March 2008 to May 2009, CS&Co.'s free credit balances provided additional liquidity to CS&Co., actually increasing by 11%, as in many cases retail brokerage clients sold securities and held more cash in their accounts to reduce their exposure to the stock

[6] Unlike many money center investment banks, Schwab does not rely to a significant extent on funding obtained from securities lending or other wholesale sources.

[7] National Financial Services's December 31, 2015 Statement of Financial Condition, p. 2, reported $82 billion of customer payables and payables to brokers, dealers, and clearing organizations of only $3.9 billion.

[8] TD Ameritrade's 2015 Form 10-K report, p. 12, stated: "Our liquidity needs to support interest-earning assets are primarily met by client cash balances or financing created from our securities lending activities." As of September 30, 2015, TD Ameritrade had payables to clients of $16.0 billion compared to $2.7 billion of payables to brokers, dealers, and clearing organizations, which included liabilities from securities lending.

[9] Raymond James Financial's 2015 Form 10-K report, p. 44, stated: "[Raymond James & Associates' ("RJ&A")] source of funds to finance clients' margin account balances has been cash balances in brokerage clients' accounts, which are funds awaiting investment." As of September 30, 2015, RJ&A had payables to clients of $4.7 billion and payables to brokers, dealers, and clearing organizations of only $479 million.

[10] The Jones Financial Companies' 2015 Form 10-K report, p. 7, stated: "[In addition to funds from securities lending transactions, t]he partnership may also use funds provided by free credit balances in client accounts to finance client margin account borrowings." As of December 31, 2015, Jones Financial Companies reported payables to clients of $12.5 billion and payables to brokers, dealers, and clearing organizations of $71 million.

[11] E*TRADE Financial's 2015 Form 10-K report, p. 55, stated: "The Company relies on customer payables, securities lending, and internal and external lines of credit to provide liquidity and finance margin lending." As of December 31, 2015, E*TRADE reported $6.5 billion of payables to clients and $319 million of payables to brokers, dealers, and clearing organizations.

[12] Note 8 to Scottrade's March 31, 2016 Statement of Financial Condition stated: "The Company finances its receivables from customers with customer free credit balances." Scottrade's balance sheet indicated $5.6 billion in payables to clients and $319 million in payables to brokers, dealers, and clearing organizations.

market's volatility. Moreover, CS&Co.'s free credit balances have also steadily increased by 38.4% from May 2009 through June 2016.[13]

At least part of the reason why retail brokerage payables tend to be much more stable than other types of retail non-deposit liabilities is because of two distinguishing features that make them more resilient. Both free credit balances and float (1) arise in a transactional context and (2) are part of a larger securities brokerage relationship that a retail client has with a broker-dealer.

As noted above, free credit balances are oftentimes referred to as "cash awaiting investment". With available free credit balances, a retail brokerage client is able to seamlessly buy stocks, bonds, mutual funds, and exchange-traded funds without the need to sell other securities or have other sources of funds for their purchases. Many retail brokerage clients can also use their free credit balances to write checks, pay bills electronically, and access their funds with a debit card. Thus, free credit balances can serve many of the same transactional purposes as deposit balances in a checking account. Float is similarly transactional in nature. It arises when a client transacts with a securities firm (1) by depositing funds into his or her brokerage account, (2) purchasing or selling securities in the account, or (3) requesting distributions from the account. Consequently, a broker-dealer's float can also be viewed as another transactional account-type client liability.

Also, as is evident from the foregoing discussion, while retail brokerage payables are liabilities of a securities firm, the main relationship of a retail client with a brokerage firm is not that of a creditor. Rather, free credit balances and float are an incidental aspect of the client having a brokerage account at the broker-dealer. The account enables the client to conveniently purchase and sell securities and have his or her securities held for safekeeping. A client having a brokerage account relationship with a securities firm also makes retail brokerage payable liabilities generated by the account a more stable source of funding.

In the deposit context, the Agencies noted in the preamble to their final LCR rule that deposits having the above transactional and additional relationship attributes are more stable and thus eligible for a lower 3% assumed outflow rate.[14] Retail brokerage payables have these same stabilizing attributes.

Because retail brokerage payables have been shown to be a commonly-utilized, stable source of funding for retail-oriented securities firms with features that make them more stable than other forms of non-deposit retail funding, they should have their own separate and much higher ASF factor, which as discussed below we believe should be 60%.

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[13] For an additional discussion of the stability of CS&Co.'s retail brokerage client cash balances, which includes both free credits and funds deposited in sweep accounts with Charles Schwab Bank, *see* Schwab's January 31, 2014 comment letter on the federal banking agencies' proposed LCR rule at https://www.fdic.gov/regulations/laws/Federal/2013/2013-liquidity_coverage_ae04-c_58.pdf.

[14] 79 Fed. Reg. 61,440, 61,480-481, Oct. 10, 2014.

II. A 60% ASF Factor Would Ensure Equivalent Treatment of Retail Brokerage Payables under the LCR and NSFR Rules that Is Comparable to the Treatment of Other Similarly Liquid and Stable Retail Liabilities

The ASF factor for retail brokerage payables should be increased to 60% in order to ensure that their assigned ASF factor under the NSFR rule is entirely consistent with their assumed 40% outflow rate under the Agencies' LCR rule. A 60% ASF factor would also ensure that retail brokerage payables are treated comparably with other similarly liquid and stable forms of brokered deposit funding.

Under the LCR rule, the Agencies originally proposed an assumed 100% outflow rate over a 30-day calendar period for all unsecured non-deposit retail funding other than debt instruments issued by a covered company and owned by retail clients. However, in the final rule, the Agencies reduced the outflow percentage for this catch-all category of retail liabilities to 40%. In the preamble to the rule, the Agencies stated that they were lowering the outflow rate because the 40% rate "better [reflects] the liquidity risks of categories of unsecured retail funding that have liquidity characteristics that more closely align with [retail brokered deposit funding]."

We acknowledge that the LCR rule and the NSFR rule have different time horizons and stress assumptions and have somewhat differently stated objectives. The LCR rule measures a banking organization's liquidity (i.e., ability to withstand funding source outflows) over a 30 calendar-day period using standardized stress assumptions (i.e., in a stressed scenario). In contrast, the NSFR rule measures the stability of a banking organization's capital and liabilities over a one-year time horizon with no stress assumptions built into its factor weightings. However, at their core, both rules have the same purpose of reducing a covered company's exposure to liquidity risk, and to a large degree the concepts of liquidity and stability in the two rules are mirror images of each other.

Given this similarity, the ASF factor assigned to a particular type of liability in the NSFR rule should equal (or, at a minimum, be very closely related to) the inverse of its assumed outflow rate under the LCR rule (e.g., a liability with an assigned ASF factor of 0% reflecting instability should have assumed 100% LCR outflow rate all else being equal). In fact, this inverse relationship is true for many liabilities under the Proposal. As one example, fully-insured affiliated brokered sweep deposits that have an assumed 10% outflow rate for LCR purposes would have an ASF factor of 90% under the Proposal.

This inverse relationship largely exists for the two types of retail brokered deposit funding that were assumed to have a 40% outflow rate in the LCR rule and were deemed by the Agencies in the preamble to the rule to have liquidity characteristics that aligned with those for retail non-deposit liabilities: (1) brokered sweep deposits where less than the entire amount of the client's deposit balance is covered by deposit insurance ("partially-insured brokered sweep deposits"); and (2) brokered deposits other than reciprocal brokered deposits and brokered sweep deposits that are held in transactional accounts with no maturity date where the entire amount of the deposit is not covered by deposit insurance ("partially-insured transactional brokered deposits"). Under the Proposal, these two categories of brokered deposits would be assigned a 50% ASF weighting. While we believe that a 60% ASF factor would be more appropriate to more closely match their 40% LCR outflow rate,[15] this proposed 50% weighting would at least be comparable.

In contrast, non-deposit retail liabilities including retail brokerage payables are treated much more harshly under the Proposal. Their assigned 0% ASF factor in the Proposal bears no relationship to their assumed 40% outflow rate in the LCR rule. In our view, there is no reason why retail brokerage payables should be treated so inconsistently in the two rules.

The Agencies do assert that retail non-deposit liabilities are not a regular source of funding or a commonly utilized funding arrangement for covered companies. The 0% ASF factor also reflects the Agencies' apparent view that these liabilities are unstable. However, as already noted above, this general reasoning does not apply in the case of a securities firm's retail brokerage payables. Thus, this type of retail non-deposit liabilities should be treated equally under the two rules. Since an assumed 40% outflow rate in the LCR rule would translate to a 60% ASF factor for NSFR purposes, we would strongly recommend that retail brokerage payables receive a 60% ASF weighting in the final NSFR rule.[16]

* * * *

In summary, we strongly recommend that the Agencies create a separate 60% ASF factor category for retail brokerage payables. A 60% ASF weighting still would not fully reflect the demonstrated stability of retail brokerage payables as a source of funding for securities broker-dealers; however, it would at least result in the equal treatment of retail brokerage payables under the LCR and NSFR rules and would make their stability rating in the NSFR rule much more in keeping with the ASF factor assigned to the two types of brokered deposits that have closely aligned liquidity characteristics.

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[15] A 60% ASF factor for partially-insured brokered sweep deposits and partially insured transactional brokered deposits would also maintain their parity with our recommended 60% ASF weighting for retail brokerage payables.

[16] We note that the Agencies do not have a separate 60% ASF factor category in the Proposal. The closest proposed ASF factor percentage is 50%, to which the two types of brokered deposits referenced above would be assigned. Thus, in the event that the Agencies elect not to add a new 60% ASF weighting category in the final NSFR rule as we recommend, retail brokerage payables should at least be placed in the existing proposed 50% ASF factor category.

Thank you again for providing Schwab with this opportunity to express its views regarding the ASF factor that should be assigned to retail brokerage payables in the final NSFR rule. If you have any questions, please do not hesitate to contact me at 415-667-0958 or peter.morgan@schwab.com.

Very truly yours,

Peter J. Morgan III

Senior Vice President and Deputy General Counsel