**Regulation WW, Docket No. R-1537**
On September 23, 2016, Board members received the following comments from the Managed Funds Association on the Net Stable Funding Ratio.

We share the concerns that, as regulators seek to buttress capital levels, other unintended risks may be magnified. For example, the recent news of JP Morgan's exit from the business of clearing and settling Treasury transactions has left participants with a single service provider to settle all trades in a vital market. As you know, this development has created a single-point of failure in the Treasury market and should be of concern as a systemic risk.

Recent regulatory initiatives are likely to extend that trend and may further reduce liquidity in markets that are central to MFA members' investment strategies and risk management. One such initiative is the Net Stable Funding Ratio proposal, which would require banks to maintain over a one-year period a minimum level of stable funding relative to the liquidity of their assets, derivatives, and commitments. The Fed notes the proposal is "designed to reduce the likelihood that disruptions to a banking organization's sources of funding will compromise its liquidity position."

- Liquidity in various markets may be adversely impacted. The proposed framework includes provisions that may disincentivize banks from funding customer short positions and participating in the repo market. Disincentives that make it uneconomical for banks to engage in low-risk, low-margin transactions with customers, create a risk of distorting market behavior toward higher-risk, higher-margin transactions.
- Given all the progress of other regulatory initiatives, the NSFR framework as proposed is likely to result in reduced liquidity and higher costs for end-users, with the potential for little additional prudential benefit. Academics have noted that the NSFR, as finalized at the Basel level, would require global banking organizations to raise approximately $500 billion of additional long-term funding to support existing bilateral derivatives activities. We are certainly not experts in bank regulation, but we would encourage U.S. regulators to move forward on the issue in a way that does not increase costs on end-users.