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August 3, 2016

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide comment on the proposed rulemaking, *Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements* (proposal). The proposal represents a continuation of the agencies' efforts to combat the problem of too-big-to-fail megabanks and the risks that they pose to the national and international banking system. ICBA believes that the proposed net stable funding ratio, along with the other financial

[1] The Independent Community Bankers of America®, the nation's voice for more than 6,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With 52,000 locations nationwide, community banks employ 700,000 Americans, hold $3.6 trillion in assets, $2.9 trillion in deposits, and $2.4 trillion in loans to consumers, small businesses, and the agricultural community. For more information, visit ICBA's website at www.icba.org.

metrics that regulators have proposed, is necessary to ensure that these institutions are limited in the amount of unreliable funding sources that they have available when applying leverage to the balance sheet. By forcing these megabanks to maintain a stable funding profile that relies on consistent and transparent funding sources, many of the liquidity concerns that were highlighted during the recent financial crisis will be further mitigated. More importantly, the combination of the net stable funding ratio and the previously adopted liquidity coverage ratio will ensure that the largest banks will have the liquidity needed to efficiently handle periods of market and funding stress.

In addition to these enhanced liquidity proposals focused on the largest too-big-to-fail megabanks, regulators should concentrate their efforts on providing regulatory relief to community banks as they adopt the provisions of Basel III. Well-run and highly capitalized community banks should be permitted to revert back to the Basel I capital standard, a capital framework that better reflects the fact that community banks do not pose systemic risks to the deposit insurance fund, and the banking system as a whole.

The Proposal

The proposal establishes a net stable funding ratio (NSFR), a measure of a bank's available stable funding as compared to a measure of a bank's required stable funding. A bank's available stable funding would be assessed over a one-year period and at all times be required to meet or exceed a bank's required stable funding. A bank that does not maintain a ratio of available stable funding to required stable funding of at least 1.0 would be identified as being subject to a heightened liquidity risk profile, which could contribute to economic instability in periods of global financial stress.

The calculation of available stable funding will be made by applying weightings to a bank's equity and liabilities based on their respective stability. The determination of a bank's equity would be made using regulatory capital definitions for common equity tier 1 capital, tier 1 capital, and tier 2 capital. The calculation of a bank's required stable funding will be made by applying weightings to a bank's assets, derivative exposures, and commitments based on their respective liquidity. Liquidity would be determined based on certain asset characteristics including credit quality, counterparty, and the tradable markets of the asset.

The NSFR would take effect on January 1, 2018 and would apply to internationally active bank holding companies, savings and loan holding companies, and other depository institutions with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure. The NSFR would not apply to grandfathered unitary savings and loan holding companies, top-tier bank holding companies or savings and loan holding companies that are insurance underwriting companies, and top-tier bank holding companies or savings and loan holding companies that have 25 percent or more of their total consolidated assets in subsidiaries that are insurance underwriting companies. The proposal would also not apply to certain U.S. operations of foreign banking organizations or intermediate holding companies.

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A modified NSFR would be applicable to bank holding companies and savings and loan holding companies with total consolidated assets of $50 billion or more but less than $250 billion. Under the modified NSFR, the minimum amount of stable funding required would equal 70 percent of the amount of stable funding that would be required if the bank was subject to the full NSFR. The modified NSFR is designed to reflect the less complex and interconnected nature of these institutions when compared to the largest banks.

The weightings to be applied to a bank's available stable funding would range from zero percent weighting to 100 percent weighting with 100 percent representing the highest stability. Lower than 100 percent weightings would be assigned when there is a greater likelihood that the funding will need to be replaced during the next year and would be based on funding tenor, funding type, and counterparty. For example, retail deposits with full deposit insurance coverage would generally be viewed as more stable than retail deposits without deposit insurance coverage. Operational deposits would generally be viewed as more stable than other short-term wholesale deposits. Retail deposit funding would generally be viewed as more stable than wholesale deposits.

A bank's required stable funding would be based on the liquidity characteristics of its assets, derivative exposures, and commitments. Generally, less liquid assets will require more stable funding over a one-year timeframe. This sensitivity is reflected in required stable funding risk factors assigned to each asset, which would also range from zero percent weighting to 100 percent weighting. A zero percent risk weighting would not require the asset to be supported by available stable funding. As liquidity decreases across the spectrum of assets, the weighting increases. Liquidity would be determined based on credit quality, tenor, counterparty, market, and any encumbrances.

ICBA's Comments

The NSFR represents another positive step by the prudential bank regulators to rein in the nation's too-big-to-fail megabanks and the dangers they pose to depositors, stakeholders, and the global financial system. This proposal, along with the introduction of Basel III, the liquidity coverage ratio, and the risk-based capital surcharge for globally systemically important banks, strongly signal that these banks must maintain high levels of loss-absorbing capital, stable funding sources, and pools of quality assets in order to avoid an economic meltdown when these institutions encounter significant internal, market, or economically driven strife. Because this very small number of banks hold the majority of banking assets in the United States financial system, regulators must constantly measure the risk that a failure of one of these megabanks would trigger or help trigger instability among worldwide money center banks. Without constant scrutiny from regulators, the nation's ability to thrive under the risk of uncontrolled megabanks is under serious threat as the only bailout available would be the U.S. taxpayer.

ICBA questions whether a modified NSFR should be automatically applied to financial institutions that cross the $50 billion asset threshold. Because the proposal is designed to

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mitigate risks posed by the largest, too-big-to-fail megabanks, ICBA believes that regulators should not automatically subject a bank with total consolidated assets of $50 billion or more to such a rule. Rather, the regulator should take the necessary steps to assess the risk profile of the institution to determine whether attaching the NSFR requirement to the bank is warranted. Banks above the $50 billion asset threshold but below the $100 billion asset threshold that are deemed to have stable funding sources and a balance sheet that includes a large number of high quality assets with adequate liquidity should be shielded from the modified NSFR as long as they continue to avoid subjecting themselves to a risk profile that endangers the bank, depositors, and other stakeholders.

As regulators wrestle with implementing safeguards to be applied to the largest too-big-to-fail megabanks and the risks they pose to the financial system, they should also turn their attention to the harmful impact of applying the Basel III international capital accords to the thousands of smaller banks in the country that pose little to no risk to the financial system because they do not engage in the speculative, volume-based lending model that drives the earnings targets of the megabanks. Community banks have been subjected to Basel III automatically without regard to their business model, asset base, risk profile, or ability to weather an economic storm. New provisions in minimum regulatory capital standards such as classification as high volatility commercial real estate (HVCRE), regulatory deductions on mortgage servicing, and forced adoption of the capital conservation buffer harm local economies as otherwise strongly-positioned community banks shun certain activities out of fear of how they will be viewed and treated by a bank examiner. What continues to baffle community bankers across the country is why provisions of the Basel III capital accords specifically designed to address economic harm caused by the largest, internationally-connected, money center banks that pose the greatest systemic risk would be applied to community banks that experienced little to no financial losses during the recent financial crisis and that have always maintained robust levels of high-quality capital.

ICBA recommends that regulators take serious steps to look at the burden faced by community banks as a result of forcing the provisions of Basel III on these institutions and propose an alternative to Basel III for these banks that allows them to revert back to the provisions of Basel I when they engage in traditional community banking activities, are well managed, and maintain strong levels of regulatory capital. By allowing community banks to adopt such an alternative, the national and international financial system will be subject to no further amount of systemic risk in times of economic stress. Additionally, these community banks will be more likely to do what they do best: provide responsible, highly tailored lending solutions to consumer and small business customers in their communities as they have been doing for many years.

ICBA appreciates the opportunity to comment on this proposal. If you have any questions or would like additional information, please do not hesitate to contact me at james.kendrick@icba.org or (202) 659-8111.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy