

**FEDERAL RESERVE SYSTEM**

**12 CFR Part 249 Regulation WW**

**Docket No. R-1525; RIN 7100 AE-39**

**Liquidity Coverage Ratio: Public Disclosure Requirements; Extension of Compliance Period for Certain Companies to Meet the Liquidity Coverage Ratio Requirements**

**AGENCY:** Board of Governors of the Federal Reserve System

**ACTION:** Final rule.

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**SUMMARY:** The Board of Governors of the Federal Reserve System (Board) is adopting a final rule to implement public disclosure requirements for the liquidity coverage ratio (LCR) rule. The final rule applies to all depository institution holding companies and covered nonbank financial companies that are required to calculate an LCR under the Board's LCR rule (covered companies). Under the final rule, a covered company will be required to disclose publicly, on a quarterly basis, quantitative information about its LCR calculation and a discussion of the factors that have a significant effect on its LCR. The final rule also provides additional time for companies that become subject to the Board's modified LCR requirement in the future to come into compliance with the requirement.

**DATES:** *Effective Date:* April 1, 2017.

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**SUPPLEMENTARY INFORMATION:**

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**I. Background and Summary of the Proposed Rule**

On December 1, 2015, the Board of Governors of the Federal Reserve System (Board) invited comment on a proposed rule (proposed rule) to implement public disclosure requirements for certain companies subject to the Board's liquidity coverage ratio (LCR) rule: (1) all bank holding companies and certain savings and loan holding companies that, in each case, have \$50 billion or more in total consolidated assets or

\$10 billion or more in total consolidated on-balance sheet foreign exposure; and (2) nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision to which the Board has applied the LCR rule by separate rule or order (covered companies).<sup>1</sup> The LCR rule<sup>2</sup> requires a company subject to the rule to maintain an amount of high-quality liquid assets (HQLA) (the numerator of the ratio)<sup>3</sup> that is no less than its total net cash outflow amount over a forward-looking 30 calendar-day period of significant stress (the denominator of the ratio).<sup>4</sup> A modified LCR requirement (modified LCR requirement) applies to certain smaller, less complex banking organizations (modified LCR holding companies). Community banking organizations are not subject to the Board's LCR rule.<sup>5</sup>

The purpose of the proposed rule was to promote market discipline by providing the public with comparable liquidity information about covered companies.<sup>6</sup> The Board has long supported meaningful public disclosure by banking organizations with the objective of improving market discipline and encouraging sound risk-management practices.<sup>7</sup> Market discipline can mitigate the risk to financial stability by causing a firm

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<sup>1</sup> 80 FR 75010 (December 1, 2015).

<sup>2</sup> The LCR rule was adopted in 2014 by the Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. *See* 79 FR 61440 (October 10, 2014).

<sup>3</sup> A company's HQLA amount for purposes of the LCR rule is calculated according to 12 CFR 249.21.

<sup>4</sup> A company's total net cash outflow amount for purposes of the LCR rule is calculated according to 12 CFR 249.30 or 249.63, as applicable.

<sup>5</sup> The Board's LCR rule does not apply to state member banks with less than \$10 billion in total consolidated assets and less than \$10 billion in total consolidated on-balance sheet foreign exposure.

<sup>6</sup> 79 FR 61440, 61445 (October 10, 2014).

<sup>7</sup> *See* 78 FR 62018, 62128-9 (October 11, 2013).

to internalize the cost of its liquidity profile and encouraging safe and sound banking practices. For instance, a firm that consistently and predictably discloses a resilient liquidity profile to its investors and counterparties may have access to a lower cost of funding. Companies with less-resilient liquidity profiles would be incentivized to improve their liquidity positions in order to reduce their cost of funding and companies with more resilient liquidity profiles would be encouraged to maintain their sound risk management practices.

To the extent that disclosure can increase investor confidence and bolster transparency between counterparties, it increases liquidity in the market as a whole, thereby limiting the risk that a liquidity event will lead to asset fire sales and contagion effects in the financial sector. A funds provider that is uncertain about the liquidity conditions of its counterparties may be more likely to withhold funding during a liquidity event.

The Board receives and analyzes liquidity information from covered companies through supervisory reporting; market participants bring additional perspectives through their assessments of these firms, which will in turn help inform the Board's supervision of covered companies. In this fashion, market discipline complements the Board's supervisory practices and policies.

The proposed rule would have required a covered company to disclose publicly information about (1) certain components of its LCR calculation in a standardized tabular

format (LCR disclosure template), and (2) factors that have a significant effect on its LCR, to facilitate an understanding of the company's calculations and results.<sup>8</sup>

Under the proposed rule, a covered company would have been required to provide timely public disclosures, including a completed LCR disclosure template, each calendar quarter in a direct and prominent manner on its public internet site or in a public financial or other public regulatory report. A covered company would have been required to keep this information available publicly for at least five years from the time of initial disclosure, on a rolling basis. For example, the proposed rule would have required information that was initially disclosed on February 1, 2018, to remain available until at least February 1, 2023.

The Board received five comments from trade organizations, a public interest group, and other interested parties on the proposed rule. Although some commenters generally supported requiring covered companies to disclose publicly information about their LCR calculations, commenters objected to the frequency of the required disclosures

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<sup>8</sup> The Basel Committee on Banking Supervision published liquidity coverage ratio disclosure standards in January 2014 and revised the standards in March 2014 (BCBS disclosure standards). Basel Committee on Banking Supervision, "Liquidity coverage ratio disclosure standards" (March 2014), *available at* <http://www.bis.org/publ/bcbs272.htm>. The BCBS disclosure standards include a common disclosure template (BCBS common template) intended to improve the transparency of regulatory liquidity requirements, enhance market discipline, and reduce uncertainty in the markets. The final rule implements public disclosure requirements consistent with the BCBS disclosure standards and the BCBS common template with some modifications to require more granularity and to reflect ways in which the LCR rule differs from the BCBS LCR standard published in January 2013. *See* Basel Committee on Banking Supervision, "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools" (January 2013), *available at* <http://www.bis.org/publ/bcbs238.htm>. The differences between the final rule and the BCBS disclosure standards relate primarily to the enhancements implemented in the LCR rule. The disclosure requirements contained in the final rule ensure comparability of components of the LCR calculations on an international basis.

under the proposed rule and the granularity of the information required to be disclosed on the proposed LCR disclosure template. Two commenters supported the proposed scope of application of the proposed rule, which included depository institution holding companies and nonbank financial companies but not depository institutions.

Commenters raised concerns about the requirements for qualitative disclosure under the proposed rule. In particular, commenters argued that the disclosure requirements should include a materiality standard that is consistent with disclosure requirements applicable under other public disclosure regimes and a clarification that covered companies would not be required to disclose confidential or proprietary information. Finally, some commenters sought additional time before covered companies would have to comply with the proposed disclosure requirements.<sup>9</sup>

The final rule includes the same general requirements as the proposed rule with some modifications in response to comments as described below.

## **II. LCR Public Disclosure Requirement**

### **A. Frequency of Disclosure**

The proposed rule would have required a covered company to provide timely public disclosures after each calendar quarter. One commenter argued that the frequency of the required disclosure should be increased to daily because market participants need

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<sup>9</sup> One commenter argued that liquidity rules cause banks to reduce their investments in community development because such investments do not qualify as level 2A liquid assets, and thus do not receive beneficial treatment under the LCR rule. Although community development investments generally may not be included in a firm's HQLA amount, the LCR rule and the final rule do not prevent a covered company from making community development investments. Covered companies often make community development investments for other purposes, such as to comply with the Community Reinvestment Act of 1977. *See* 12 U.S.C. § 2901 *et seq.*

more timely information so they can adequately adjust their risk management and business activities based on the liquidity risk of covered companies. The commenter also argued that quarterly LCR disclosures could increase market instability, relative to more frequent disclosures, because large changes in a covered company's LCR between quarters would be more disruptive to the market compared to more frequent disclosures that revealed smaller incremental changes to a firm's LCR. Another commenter supported a monthly or weekly disclosure requirement, which could be made more frequent in the event of a market or idiosyncratic stress.

The final rule maintains the requirement that disclosures be made quarterly. Liquidity, by its nature, is subject to rapid changes. As a result, it is expected that the LCR of a covered company will exhibit some volatility in the short term, which may not be indicative of liquidity problems at the firm. Indeed, there are many potential causes for short-term fluctuations in a firm's liquidity, such as seasonal deposit flows and periodic tax payments. Public disclosure of these types of short-term swings in a covered company's LCR could potentially negatively affect the firm and may not be indicative of a company's medium-term liquidity position, which in most cases is a better indication of the overall strengths and weaknesses of a company's liquidity position. Disclosure on a quarterly basis should help market participants assess the liquidity risk profiles of covered companies consistent with other quarterly disclosures of financial information. For supervisory purposes, the Board will continue to monitor on a more frequent basis

any changes to a covered company's liquidity profile through the information submitted on the FR 2052a Complex Institution Liquidity Monitoring Report (FR 2052a report).<sup>10</sup>

As noted, under the proposed rule, a covered company would have been required to provide timely public disclosures, including a completed LCR disclosure template, each calendar quarter in a direct and prominent manner on its public internet site or in a public financial or other public regulatory report. One commenter asserted that the "direct and prominent" disclosure standard is unnecessary because the requirement for a covered company to make the required disclosures in its financial statements or on its website will cause that information to be accessible to the public. The final rule retains the direct and prominent standard to ensure that the required disclosures are easily accessible to interested market participants. Such disclosures must remain available to the public for at least five years from the time of initial disclosure.

As discussed in the Supplementary Information section of the proposed rule, the timing of disclosures under the federal banking laws may not always coincide with the timing of disclosures required under other federal law, including disclosures required under the federal securities laws and their implementing regulations by the Securities and Exchange Commission (SEC). For calendar quarters that do not correspond to a covered company's fiscal year-end, the Board would consider disclosures that are made within 45 days of the end of the calendar quarter (or within 60 days for the limited purpose of the covered company's first calendar quarter in which it is subject to the final rule's disclosure requirements) as timely. In general, where a covered company's fiscal year-

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<sup>10</sup> On November 17, 2015, the Board adopted the revised FR 2052a report to collect quantitative information on selected assets, liabilities, funding activities, and contingent liabilities from certain large banking organizations.



end coincides with the end of a calendar quarter, the Board considers disclosures to be timely if they are made no later than the applicable SEC disclosure deadline for the corresponding Form 10-K annual report. In cases where a covered company's fiscal year-end does not coincide with the end of a calendar quarter, the Board would consider the timeliness of disclosures on a case-by-case basis.

This approach to timely disclosures is consistent with the approach to public disclosures that the Board has taken in the context of other regulatory reporting and disclosure requirements. For example, the Board has used the same indicia of timeliness with respect to the public disclosures required under its risk-based capital rules.<sup>11</sup>

## **B. Quantitative Disclosure Requirements**

The proposed rule would have required a covered company to disclose publicly its LCR and certain components of its LCR calculation in a standardized tabular format. The standardized format was designed to help market participants compare the LCRs of covered companies across the U.S. banking industry and international jurisdictions. In this regard, the proposed format was similar to a common disclosure template developed by the Basel Committee on Banking Supervision (BCBS). However, the proposed rule was tailored to reflect differences between the LCR rule and the BCBS LCR standard.

Under the proposed rule, a covered company, other than a modified LCR holding company, would have been required to calculate all disclosed amounts as simple averages of the components used to calculate its daily LCR over the past quarter. A modified LCR holding company would have been required to calculate all disclosed amounts as simple averages of the components used to calculate its monthly LCR over the past quarter. The

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<sup>11</sup> See 78 FR 62018, 62129 (October 11, 2013).

proposed rule would have required a covered company to disclose both average unweighted amounts and average weighted amounts, as set forth in section 249.91(b)(2) and (3) of the proposed rule, for the covered company's HQLA, cash outflow amounts, and cash inflow amounts.

One commenter asserted that the detailed disclosures required by the proposed rule would create new vulnerabilities that could exacerbate market stresses. The commenter argued that the public disclosure of the granular information required by the proposed LCR disclosure template could precipitate or accelerate a significant liquidity event rather than promote market discipline as intended. The commenter also asserted that detailed disclosure of a covered company's liquid assets could constrain the covered company's ability to execute its risk management and business strategies in a stressed environment. For instance, the commenter argued that a covered company may find it difficult to adjust the composition of its HQLA because of a potential negative reaction from market participants in response to its LCR public disclosures or because other market participants could use the information in public disclosures to "front run" the covered company's planned liquidity management actions.

The commenter suggested the Board's policy objectives would be better achieved by requiring only disclosure of a firm's HQLA amount, aggregate outflows, and aggregate inflows, which the commenter argued would provide the market with sufficient information on a covered company's liquidity profile without resulting in the negative effects of overly detailed disclosures. The commenter also recommended that, in order to mitigate the impact of short-term fluctuations in a covered company's LCR, a covered company should calculate disclosed amounts as simple averages of the components used

to calculate its daily or monthly LCR over a rolling six-month rolling period, rather than over a quarter.

The final rule retains the requirement that a covered company make its disclosures using quarterly averages, rather than using six-month rolling average calculations. Extending the averaging period from three to six months would cause the public disclosures to be inconsistent with a covered company's other public regulatory disclosures, such as its quarterly reporting on the FR Y-9C Consolidated Financial Statements for Holding Companies and its quarterly disclosures under federal securities laws.

The final rule requires a covered company to make public disclosures with the same the level of granularity that would have been required under the proposal. In determining the appropriate amount of detail of the disclosure requirements, the Board weighed the benefits that detailed disclosures provide, such as promoting market discipline of firms and overall liquidity in the funding market, against the costs of such requirements, including the risk that the disclosures could potentially contribute to a liquidity event during stress.

The disclosure requirements are designed to provide market participants with information on covered companies' liquidity positions in order to enable them to distinguish among covered companies' liquidity risk profiles. The disclosure of only a firm's HQLA amount, aggregate outflows, and aggregate inflows may be insufficient to enable market participants to assess fully the nature of a covered company's liquidity risk profile. On the other hand, more granular disclosure would provide market participants a more accurate view of the covered company's liquidity risk profile and enhance covered

companies' incentives to maintain a robust liquidity risk profile. For example, more detailed disclosure about a covered company that has a high LCR, but also exhibits high dependence on a particular funding class or counterparty type, would allow market participants to better assess potential liquidity vulnerabilities. For a covered company with strong liquidity risk management, more granular disclosures would also reduce the likelihood that market participants would react overly negatively towards the covered company in the event of the public release of negative information about the covered company or the banking sector more generally. Without such granular disclosure, there is a greater likelihood that uncertainty over a covered company's liquidity position would cause counterparties to cease funding the covered company following the release of negative information. The granular disclosure requirements under the proposed and final rules would encourage covered companies to engage in safe and sound banking practices and strengthen financial stability, without causing firms to bear undue costs.

Although the final rule requires disclosure of relatively detailed liquidity data to enhance market participants' understanding of firm's liquidity risk management, several considerations should mitigate the potential for the disclosures to negatively impact a covered company or precipitate or accelerate a significant liquidity event during times of idiosyncratic or market stress. As noted, the disclosures are based on quarterly averages. Importantly, the due dates for the disclosures are several weeks after the end of the quarter. This means that the liquidity disclosures will include a lag that provides market participants with a broad understanding of a firm's medium-term liquidity position without causing the release of current liquidity data that could potentially negatively affect the firm. The final rule also does not require firms to disclose specific asset- or

transaction-level details, which will limit the risk that the public disclosures will constrain a covered company's ability to execute its risk management and business strategies.

The proposed rule would have required a covered company to disclose its average HQLA amount, average total net cash outflow amount, and average LCR. A covered company's HQLA amount and total net cash outflow amount are the numerator and the denominator of the LCR, respectively, and thus, are important to help market participants and other parties understand the liquidity risk profile of a covered company and compare risk profiles across companies.

At a more granular level, to describe the quality and composition of a covered company's HQLA amount, the proposed rule would have required a covered company to disclose its average amount of eligible HQLA,<sup>12</sup> as well as the average amounts of eligible level 1, level 2A, and level 2B liquid assets to identify the quality and composition of a company's HQLA amount.<sup>13</sup> The proposed rule would have required the disclosure of both average unweighted amounts and average weighted amounts of eligible HQLA and eligible level 1, level 2A, and level 2B liquid assets. The proposed rule also would have required a covered company to disclose both the average unweighted amounts and average weighted amounts of its cash outflows and inflows. This information helps identify the short-term liquidity risks facing a firm and, in particular, potential sources of liquidity strains during a period of market stress.

In the Supplementary Information section of the proposed rule, the Board clarified three points regarding a covered company's required quantitative disclosures. First, the

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<sup>12</sup> Eligible HQLA are high-quality liquid assets that meet the requirements set forth in 12 CFR 249.22.

<sup>13</sup> See 12 CFR 249.20-249.22.

Board noted that the average values disclosed for the HQLA amount, total net cash outflow amount, and the LCR (rows 29, 32, and 33 of the LCR disclosure template) may not equal the calculation of those values using component values reported in rows 1 through 28 of the LCR disclosure template. This lack of equivalence is due to technical factors such as the application of the level 2 liquid asset caps, the total inflow cap and, for modified LCR holding companies, the application of the 0.7 factor to total net cash outflows. The application of the asset and inflow caps and modified LCR requirement's 0.7 factor may affect a covered company's LCR calculation in varying degrees across the calculation dates used to determine the average values that are required to be disclosed in rows 29, 32, and 33 of the LCR disclosure template and, thus, would affect the averages for the covered company's HQLA amount, total net cash outflow amount, and the LCR. The LCR disclosure template includes a footnote that highlights this difference.

Second, because a modified LCR holding company is not required to calculate a maturity mismatch add-on calculation amount under the modified LCR requirement,<sup>14</sup> it would not have been required to disclose amounts in row 30 or 31 of the LCR disclosure template, which each relate to the maturity mismatch add-on amount calculation.

Third, while the proposed rule would have required a modified LCR holding company to disclose its average total net cash outflow amount after applying a factor of 0.7 (which reflects the fact that modified LCR holding companies are required to apply a factor of 0.7 to its average total net cash outflow amount under section 249.63 of the LCR

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<sup>14</sup> A covered company, other than a modified LCR holding company, is required to calculate a maturity mismatch add-on under 12 CFR 249.30(b) to address liquidity risks posed by maturity mismatches between a covered company's outflows and inflows during the LCR rule's prospective 30 calendar-day period.

rule), the proposed rule would have required a modified LCR holding company to disclose its average cash outflows and cash inflows without applying the factor of 0.7.

The Board did not receive comments, other than those described above, on these aspects of the proposal, and the final rule adopts these aspects without modification.

### **C. Qualitative Disclosure Requirements**

Under the proposed rule, a covered company would have been required to provide a “sufficient” qualitative discussion of its LCR. This discussion was intended to complement the quantitative disclosure requirements. In this regard, the proposed rule included a list of potentially relevant items for the covered company to address in its qualitative disclosures: (1) the main drivers of the LCR; (2) changes in the LCR over time; (3) the composition of eligible HQLA; (4) concentration of funding sources; (5) derivative exposures and potential collateral calls; (6) currency mismatch in the LCR; (7) the covered company’s centralized liquidity management function and its interaction with other functional areas of the covered company; and (8) other inflows and outflows in the LCR that are not specifically identified by the required quantitative disclosures, but that the covered company considers to be relevant to facilitate an understanding of its liquidity risk profile. The proposed rule also would have required that a covered company provide a brief discussion of any significant changes that have occurred since the end of the quarter (i.e., during the period following the quarter for which a covered company has prepared its LCR disclosures) such that current or previous quantitative disclosures were no longer reflective of a covered company’s current liquidity risk profile.

Two commenters argued that the qualitative disclosure requirement should be better aligned with public disclosures required by other regulations. The commenters requested that a covered company only be required to provide a qualitative discussion of items that are “material” to the firm’s LCR, rather than items that are “significant” or “relevant” to a firm’s LCR, as would have been required under the proposed rule. The commenters argued that adopting a materiality standard that is consistent with disclosure requirements applicable under other public disclosure regimes, notably federal securities laws, would be less confusing and ensure that covered companies approach the required disclosures in a consistent manner. In addition, one commenter argued that qualitative public disclosures should include an exemption, similar to that in the Board’s risk-based capital rules, for disclosure of certain confidential or proprietary financial information.

In response to the commenters’ concerns, the final rule clarifies that a covered company is not required to include in its qualitative disclosures any information that is proprietary or confidential. Rather, the covered company would only be required to disclose general information about those subjects and provide a reason why the specific information has not been disclosed.

The final rule continues to use the term “significant” to describe items affecting a covered company’s LCR about which a covered company should provide a qualitative discussion. However, in response to concerns raised by commenters, the Board agrees with commenters that a covered company may assess the relevant qualitative disclosures based on their materiality. Information is regarded as material for purposes of the disclosure requirements in the final rule if the omission or misstatement of the information could change or influence the assessment or decision of a user relying on that



information for the purpose of making investment decisions. This approach is consistent with the standards in the Board's risk-based capital rules, which also use a concept of materiality to inform the qualitative disclosure requirements required under those rules.<sup>15</sup>

The proposed rule's requirement that a covered company provide a qualitative discussion of the main drivers of its LCR and any changes in its LCR over time, to the extent such changes were significant, was intended to include a discussion of the causes of any such changes. However, in order to avoid any confusion, the final rule has been revised to state explicitly that, in addition to discussing any changes in its LCR over time, a covered company should also include a discussion of the causes of such changes. Changes in risk management strategies or macroeconomic conditions are examples of the type of causes that could potentially cause a change to a covered company's LCR and that, if significant, would have to be discussed in the firm's qualitative disclosures.

In addition, the final rule eliminates the requirement that a covered company provide a brief discussion of any significant changes that have occurred since the end of the quarter that would cause its quarter-end quantitative disclosures to no longer reflect its liquidity profile. Although it was not the intended result, this requirement could have been interpreted to require a covered company to disclose information about specific and recent developments in its liquidity risk profile, which could include short-term volatility of a firm's LCR. The disclosure of this information could have potentially adverse effects on a covered company, or precipitate or accelerate a significant liquidity event during times of idiosyncratic or market stress. Moreover, such a requirement would have been at odds with the final rule's requirement that all disclosed amounts be calculated as

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<sup>15</sup> See 78 CFR 62018, 62129 (October 11, 2013).

quarterly averages and that due dates for the disclosures be several weeks after the end of the quarter. For these reasons, the final rule does not include this requirement.

As noted above, the proposed rule would have required a covered company to provide a qualitative discussion of its LCR and would have included an illustrative list of potentially relevant items that a firm could discuss, to the extent relevant to its LCR.

Among the illustrative list of potentially relevant items was “other inflows and outflows in the LCR that are not specifically identified by the required quantitative disclosures, but that the covered company considers to be relevant to facilitate an understanding of its liquidity risk profile.” The Board has determined that this item is redundant of the proposed rule’s general requirement that a firm must provide a qualitative discussion of its LCR. For this reason, the final rule eliminates this example.

### **III. Transition and Timing**

The proposed compliance dates for the public disclosure requirements would have differed based on the size, complexity, and potential systemic impact of the covered companies that currently are subject to the LCR rule. The proposed rule would have required covered companies that have \$700 billion or more in total consolidated assets or \$10 trillion or more in assets under custody to comply with the proposed public disclosure requirements beginning on July 1, 2016. Other covered companies, not including modified LCR holding companies, would have been required to comply with the proposed public disclosure requirements beginning on July 1, 2017. These proposed compliance dates would have required covered companies that are currently subject to the LCR rule to comply with the proposed public disclosure requirements one year after the

date that they were required to calculate their LCR on a daily basis.<sup>16</sup> The proposed rule would have required modified LCR holding companies to comply with the public disclosure requirements beginning on January 1, 2018.

One commenter argued that covered companies need additional time to comply with the public disclosure requirements in order to align their existing liquidity data reporting processes under the FR 2052a report with the LCR public disclosure requirements. The commenter also asserted that a longer transition period was necessary so that covered companies would have sufficient time to clarify certain aspects of their LCR calculations with the agencies to ensure that the disclosed LCR data is calculated consistently across covered companies.

In response to the comments, the final rule extends the implementation timeline nine months such that a covered company currently subject to the LCR rule would be required to make LCR public disclosures approximately five calendar quarters after the covered company's liquidity information has been required to be submitted on the FR 2052a report.<sup>17</sup> The effect of this extension will be to require covered companies that have \$700 billion or more in total consolidated assets or

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<sup>16</sup> Under section 249.50 of the LCR rule, covered companies that have \$700 billion or more in total consolidated assets or \$10 trillion or more in assets under custody were required to calculate their LCR on a daily basis beginning on July 1, 2015, and other covered companies (other than modified LCR holding companies) were required to calculate their LCR on a daily basis beginning on July 1, 2016.

<sup>17</sup> The compliance dates for the FR 2052a report are based on the size of the reporter. Firms with total consolidated assets of \$700 billion or more or \$10 trillion in assets under custody are already subject to the FR 2052a report. Other firms will be phased in to reporting on this form through January 2018. For a covered company that is a subsidiary of a foreign banking organization ("FBO"), the covered company would be required to disclose publicly its LCR once the parent FBO had been required to submit information on the FR2052a report with respect to the covered company for a full year.

\$10 trillion or more in assets under custody to comply with the public disclosure requirements beginning on April 1, 2017. Other covered companies, other than modified LCR holding companies, will be required to comply with the public disclosure requirements beginning on April 1, 2018. Modified LCR holding companies that are currently subject to the modified LCR rule will be required to comply with the public disclosure requirements beginning on October 1, 2018.

A covered company that becomes subject to the LCR rule in the future will be required to make its first public disclosures for the calendar quarter that starts on its LCR rule compliance date (i.e., three months after the company becomes subject to the LCR rule). During the time such company is required to calculate the LCR monthly pursuant to 12 CFR 249.1(b)(2)(ii),<sup>18</sup> the company would be required to calculate all disclosed amounts as simple averages of the components used to calculate its monthly LCR over the quarter. A modified LCR holding company that becomes subject to the modified LCR requirement in the future will be required to make its first public disclosures for the calendar quarter that begins eighteen months after the date it becomes subject to the modified LCR requirement. For example, if a modified LCR holding company becomes subject to the modified LCR requirement beginning in January 2018, the final rule would require that company to comply with public disclosure requirements beginning July 1, 2019.

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<sup>18</sup> Under 12 CFR 249.1(b)(2)(ii), a covered company that becomes subject to the LCR rule after September 30, 2014 must calculate the LCR on a monthly basis from April 1 to December 31 of the year in which the covered company becomes subject to the LCR rule, and thereafter the covered company must calculate the LCR on a daily basis.

#### **IV. Amendment to the Modified LCR Requirement**

A company that becomes subject to the modified LCR requirement is currently required to comply with the requirement on the first day of the first quarter after which the company's total consolidated assets equal \$50 billion or more. As noted in the Supplemental Information section in the proposed rule, this compliance date may not provide sufficient time for these companies to build the systems required to calculate the LCR. In light of this operational challenge, the proposed rule would have amended the modified LCR requirement to provide these companies with a full year to come into compliance with the LCR requirement after becoming subject to the rule. The Board is clarifying that a covered company subject to the full LCR requirement that subsequently becomes subject to the modified requirement (e.g., following a decrease in the covered company's consolidated assets or on-balance sheet foreign exposure below the thresholds specified in section 249.1(b) of the LCR rule at the most recent year-end) would be required to comply with the modified LCR requirement (including the disclosure requirement) immediately upon becoming subject to the requirement. In this case, the covered company would already have the systems in place to calculate the LCR and would not need additional time to come into compliance with the modified LCR requirement.

The Board received no comments on this aspect of the proposed rule. The final rule includes this amendment to the modified LCR requirement without modification.

## **V. Plain Language**

Section 722 of the Gramm-Leach Bliley Act<sup>19</sup> requires the Board to use plain language in all proposed and final rules published after January 1, 2000. The Board sought to present the proposed rule in a simple and straightforward manner and did not receive any comments on the use of plain language.

## **VI. Regulatory Flexibility Act**

The Regulatory Flexibility Act, 5 U.S.C. 601 et seq. (RFA), generally requires that an agency prepare and make available for public comment an initial RFA analysis in connection with a notice of proposed rulemaking.<sup>20</sup> The Board solicited public comment on this rule in a notice of proposed rulemaking and has since considered the potential impact of this final rule on small entities in accordance with section 604 of the RFA. The Board received no public comments related to the initial RFA analysis in the proposed rule from the Chief Council for Advocacy of the Small Business Administration or from the general public. Based on the Board's analysis, and for the reasons stated below, the Board believes that the final rule will not have a significant economic impact on a substantial number of small entities.

Under regulations issued by the Small Business Administration, a "small entity" includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$550 million or less (a small banking organization). As of June 30, 2016, there were approximately 594 small state member banks, 3,203 small bank holding companies, and 162 small savings and loan holding companies.

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<sup>19</sup> Pub L. 106–102, 113 Stat. 1338, 1471, 12 U.S.C. 4809.

<sup>20</sup> *See* 5 U.S.C. 603(a).

As discussed above, the final rule requires certain companies that are subject to the LCR rule to disclose publicly information about components of their LCR. The final rule does not apply to “small entities” and applies only to the following Board-regulated institutions: (1) all bank holding companies and certain savings and loan holding companies that, in each case, have \$50 billion or more in total consolidated assets or \$10 billion or more in total consolidated on-balance sheet foreign exposure; and (2) nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision to which the Board has applied the LCR Rule by separate rule or order. Companies that are subject to the final rule therefore substantially exceed the \$550 million asset threshold at which a banking entity is considered a “small entity” under SBA regulations.

No small bank holding company, savings and loan holding company, or state member bank would be subject to the rule, so there would be no additional projected compliance requirements imposed on small bank holding companies, small savings and loan holding companies, or small state member banks.

The Board believes that the final rule will not have a significant impact on small banking organizations supervised by the Board and therefore believes that there are no significant alternatives to the rule that would reduce the economic impact on small banking organizations supervised by the Board.

## **VII. Paperwork Reduction Act**

Certain provisions of the final rule contain “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995, 44 U.S.C. § 3501-3521 (PRA). In accordance with the requirements of the PRA, the Board may not conduct or sponsor, and

the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board's OMB control number is 7100-0367 and will be extended, with revision. The Board reviewed the final rule under the authority delegated to the Board by OMB. The final rule contains requirements subject to the PRA. The disclosure requirements are found in sections 249.64, 249.90, and 249.91. The Board did not receive any public comments on the PRA analysis.

The Board has a continuing interest in the public's opinions of collections of information. At any time, commenters may submit comments regarding the burden estimate, or any other aspect of this collection of information, including suggestions for reducing the burden, to the addresses listed in the ADDRESSES section. A copy of the comments may also be submitted to the OMB desk officer (1) by mail to U.S. Office of Management and Budget, New Executive Office Building, Room 10235, 725 17<sup>th</sup> Street NW, Washington, DC 20503; (2) by fax to 202-395-6974; or (3) by e-mail to: oira\_submission@omb.eop.gov.

*Proposed Information Collection*

*Title of Information Collection:* Reporting, Recordkeeping, and Disclosure Requirements associated with the Liquidity Risk Measurement Standards (Regulation WW).

*Frequency of Response:* Event generated, monthly, quarterly, annually.

*Affected Public:* Insured state member banks, bank holding companies, savings and loan holding companies, and nonbank financial companies supervised by the Board, and any subsidiary thereof.

*Current Actions:* The final rule requires a depository institution holding company and nonbank financial company subject to the LCR (covered company) to disclose publicly information about certain components of its LCR calculation in a standardized tabular



format and include a discussion of factors that have a significant effect on its LCR. Public disclosure of information about covered company LCR calculations will help market participants and other parties consistently assess the liquidity risk profile of covered companies. Under the final rule, a covered company is required to provide timely public disclosures each calendar quarter. A covered company is required to include the completed disclosure template on its public internet site or in a public financial or other public regulatory report and make its disclosures available to the public for at least five years from the time of the initial disclosure.

A covered company must disclose publicly the information required under subpart J beginning on April 1, 2017, if the covered company is subject to the transition period under section 249.50(a) or April 1, 2018, if the covered company is subject to the transition period under section 249.50(b). For modified LCR holding companies, the final rule would require them to comply with the public disclosure requirements beginning on October 1, 2018.

Under the final rule, quantitative disclosures will convey information about a covered company's high-quality liquid assets (HQLA) and short-term cash flows, thereby providing insight into a covered company's liquidity risk profile. Consistent with the BCBS common template, the final rule requires a covered company to disclose both average unweighted amounts and average weighted amounts for the covered company's HQLA, cash outflow amounts, and cash inflow amounts. A covered company is also required to calculate all disclosed amounts as simple averages of the components used to calculate its daily LCR over a calendar quarter, except that modified LCR holding companies are required to calculate all disclosed amounts as simple averages of the components used to calculate their monthly LCR.

A covered company is required to calculate all disclosed amounts on a consolidated basis and express the results in millions of U.S. dollars or as a percentage, as applicable.

In addition, the final rule requires a covered company to provide a discussion of certain features of its LCR. A covered company's qualitative discussion may include, but does not have to be limited to, the following items: (1) the main drivers of the LCR; (2) changes in the LCR over time and causes of such changes; (3) the composition of eligible HQLA; (4) concentration of funding sources; (5) derivative exposures and potential collateral calls; (6) currency mismatch in the LCR; and (7) the covered company's centralized liquidity management function and its interaction with other functional areas of the covered company.

#### *Estimated Paperwork Burden*

Estimated Burden Per Response: reporting – 0.25 hours; recordkeeping – 10 hours and 100 hours; disclosure – 24 hours.

Frequency: reporting – monthly, quarterly, and annually; recordkeeping – annually; disclosure – quarterly.

Estimated Number of Respondents: 39 (only 35 respondents are affected by the new disclosure requirements).

Current Total Estimated Annual Burden: reporting – 13 hours; recordkeeping – 1,080 hours.

Proposed Total Estimated Annual Burden: reporting – 13 hours; recordkeeping – 1,080 hours; disclosure – 3,360 hours.

### **VIII. Riegle Community Development and Regulatory Improvement Act of 1994**

Section 302 of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA) requires a Federal banking agency, in determining the effective date and administrative compliance requirements for new regulations that impose

additional reporting, disclosure, or other requirements on insured depository institutions, to consider any administrative burdens that such regulations would place on depository institutions, and the benefits of such regulations, consistent with the principles of safety and soundness and the public interest. In addition, new regulations that impose additional reporting disclosures or other new requirements on insured depository institutions generally must take effect on the first day of a calendar quarter which begins on or after the date on which the regulations are published in final form.<sup>21</sup> Section 302 of the RCDRIA does not apply to this final rule because the final rule does not prescribe additional reporting, disclosures, or other new requirements on insured depository institutions. As discussed above in the Supplementary Information section, the final rule only applies to (1) all bank holding companies and certain savings and loan holding companies that, in each case, have \$50 billion or more in total consolidated assets or \$10 billion or more in total consolidated on-balance sheet foreign exposure; and (2) nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision to which the Board has applied the LCR rule by separate rule or order. Nevertheless, the final rule becomes effective on April 1, 2017, the first day of a calendar quarter.

#### **List of Subjects in 12 CFR Part 249**

Administrative practice and procedure; Banks, banking; Federal Reserve System; Holding companies; Liquidity; Reporting and recordkeeping requirements.

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<sup>21</sup> 12 U.S.C. 4802(b).

**Authority and Issuance**

For the reasons stated in the preamble, the Board proposes to amend part 249 of chapter II of title 12 of the Code of Federal Regulations as follows:

**PART 249—LIQUIDITY RISK MEASUREMENT STANDARDS (REGULATION WW)**

1. The authority citation for part 249 continues to read as follows:

**Authority:** 12 U.S.C. 248(a), 321-338a, 481-486, 1467a(g)(1), 1818, 1828, 1831p-1, 1831o-1, 1844(b), 5365, 5366, 5368.

2. Amend § 249.60 by revising paragraph (c)(2) to read as follows:

**§ 249.60 Applicability.**

\* \* \* \* \*

(c) \* \* \*

(2) A Board-regulated institution that first meets the threshold for applicability of this subpart under paragraph (a) of this section after September 30, 2014, must comply with the requirements of this subpart one year after the date it meets the threshold set forth in paragraph (a); except that a Board-regulated institution that met the applicability criteria in section 249.1(b) immediately prior to meeting this threshold must comply with the requirements of this subpart beginning on the first day of the first quarter after which it meets the threshold set forth in paragraph (a) of this section.

3. Add § 249.64 to subpart G to read as follows:

**§ 249.64 Disclosures.**

(a) Effective October 1, 2018, a covered depository institution holding company subject to this subpart must disclose publicly the information required under subpart J of this part each calendar quarter, except as provided in paragraph (b) of this section.

(b) Effective 18 months after a covered depository institution holding company first becomes subject to this subpart pursuant to § 249.60(c)(2), the covered depository institution holding company must provide the disclosures required under subpart J of this part each calendar quarter.

**Subparts H and I [Reserved]**

4. Add reserved subparts H and I.

5. Add subpart J, consisting of §§ 249.90 and 249.91, to read as follows:

**Subpart J – Disclosures**

Sec.

249.90 Timing, method and retention of disclosures.

249.91 Disclosure requirements.

**§ 249.90 Timing, method and retention of disclosures.**

(a) Applicability. A covered depository institution holding company or covered nonbank company that is subject to the minimum liquidity standards and other requirements of this part under § 249.1 must disclose publicly all the information required under this subpart.

(b) Timing of disclosure. (1) A covered depository institution holding company or covered nonbank company subject to this subpart must provide timely public disclosures each calendar quarter of all the information required under this subpart.

(2) A covered depository institution holding company or covered nonbank company subject to this subpart must provide the disclosures required by this subpart for the calendar quarter beginning on:

(i) April 1, 2017, and thereafter if the covered depository institution holding company is subject to the transition period under § 249.50(a); or

(ii) April 1, 2018, and thereafter if the covered depository institution holding company or covered nonbank holding company is subject to the transition period under § 249.50(b).

(3) A covered depository institution holding company or covered nonbank company that is subject to the minimum liquidity standard and other requirements of this part pursuant to § 249.1(b)(2)(ii), must provide the disclosures required by this subpart for the first calendar quarter beginning no later than the date it is first required to comply with the requirements of this part pursuant to § 249.1(b)(2)(ii).

(c) Disclosure method. A covered depository institution holding company or covered nonbank company subject to this subpart must disclose publicly, in a direct and prominent manner, the information required under this subpart on its public internet site or in its public financial or other public regulatory reports.

(d) Availability. The disclosures provided under this subpart must remain publicly available for at least five years after the initial disclosure date.

**§ 249.91 Disclosure requirements.**

(a) General. A covered depository institution holding company or covered nonbank company subject to this subpart must disclose publicly the information required by paragraph (b) in the format provided in the following table.

**Table 1 to § 249.91(a) – Disclosure Template**

<b>XX/XX/XXXX to YY/YY/YYYY</b> <b>In millions of U.S. Dollars</b>		<b>Average Unweighted Amount</b>	<b>Average Weighted Amount</b>
<b>HIGH-QUALITY LIQUID ASSETS</b>			
1	Total eligible high-quality liquid assets (HQLA), of which:		
2	Eligible level 1 liquid assets		
3	Eligible level 2A liquid assets		
4	Eligible level 2B liquid assets		
<b>CASH OUTFLOW AMOUNTS</b>			
5	Deposit outflow from retail customers and counterparties, of which:		
6	Stable retail deposit outflow		
7	Other retail funding outflow		
8	Brokered deposit outflow		
9	Unsecured wholesale funding outflow, of which:		
10	Operational deposit outflow		
11	Non-operational funding outflow		
12	Unsecured debt outflow		
13	Secured wholesale funding and asset exchange outflow		
14	Additional outflow requirements, of which:		
15	Outflow related to derivative exposures and other collateral requirements		
16	Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments		
17	Other contractual funding obligation outflow		
18	Other contingent funding obligations outflow		
<b>19</b>	<b>TOTAL CASH OUTFLOW</b>		

<b>CASH INFLOW AMOUNTS</b>			
20	Secured lending and asset exchange cash inflow		
21	Retail cash inflow		
22	Unsecured wholesale cash inflow		
23	Other cash inflows, of which:		
24	Net derivative cash inflow		
25	Securities cash inflow		
26	Broker-dealer segregated account inflow		
27	Other cash inflow		
<b>28</b>	<b>TOTAL CASH INFLOW</b>		
			<b>Average Amount<sup>1</sup></b>
<b>29</b>	<b>HQLA AMOUNT</b>		
<b>30</b>	<b>TOTAL NET CASH OUTFLOW AMOUNT EXCLUDING THE MATURITY MISMATCH ADD-ON</b>		
<b>31</b>	<b>MATURITY MISMATCH ADD-ON</b>		
<b>32</b>	<b>TOTAL NET CASH OUTFLOW AMOUNT</b>		
<b>33</b>	<b>LIQUIDITY COVERAGE RATIO (%)</b>		
<sup>1</sup> The amounts reported in this column may not equal the calculation of those amounts using component amounts reported in rows 1-28 due to technical factors such as the application of the level 2 liquid asset caps, the total inflow cap, and for depository institution holding companies subject to subpart G, the application of the modification to total net cash outflows.			

(b) Calculation of disclosed average amounts—(1) General. (i) A covered depository institution holding company or covered nonbank company subject to this subpart must calculate its disclosed average amounts:

(A) On a consolidated basis and presented in millions of U.S. dollars or as a percentage, as applicable; and



(B) With the exception of amounts disclosed pursuant to paragraphs (c)(1), (c)(5), (c)(9), (c)(14), (c)(19), (c)(23), and (c)(28) of this section, as simple averages of daily amounts over the calendar quarter;

(ii) A covered depository institution holding company that is required to calculate its liquidity coverage ratio on a monthly basis pursuant to § 249.61 must calculate its disclosed average amounts as provided in paragraph (b)(1)(i), except that those amounts must be calculated as simple averages of monthly amounts over a calendar quarter;

(iii) A covered depository institution holding company or covered nonbank company subject to this subpart must disclose the beginning date and end date for each calendar quarter.

(2) Calculation of average unweighted amounts. (i) A covered depository institution holding company or covered nonbank company subject to this subpart must calculate the average unweighted amount of HQLA as the average amount of eligible HQLA that meet the requirements specified in §§ 249.20 and 249.22 and is calculated prior to applying the haircuts required under § 249.21(b) to the amounts of eligible HQLA.

(ii) A covered depository institution holding company or covered nonbank company subject to this subpart must calculate the average unweighted amount of cash outflows and cash inflows before applying the outflow and inflow rates specified in §§ 249.32 and 249.33, respectively.

(3) Calculation of average weighted amounts. (i) A covered depository institution holding company or covered nonbank company subject to this subpart must

calculate the average weighted amount of HQLA after applying the haircuts required under § 249.21(b) to the amounts of eligible HQLA.

(ii) A covered depository institution holding company or covered nonbank company subject to this subpart must calculate the average weighted amount of cash outflows and cash inflows after applying the outflow and inflow rates specified in §§ 249.32 and 249.33, respectively.

(c) Quantitative Disclosures. A covered depository institution holding company or covered nonbank company subject to this subpart must disclose all the information required under Table 1 to § 249.91(a) – Disclosure Template, including:

(1) The sum of the average unweighted amounts and average weighted amounts calculated under paragraphs (c)(2) through (4) of this section (row 1);

(2) The average unweighted amount and average weighted amount of level 1 liquid assets that are eligible HQLA under § 249.21(b)(1) (row 2);

(3) The average unweighted amount and average weighted amount of level 2A liquid assets that are eligible HQLA under § 249.21(b)(2) (row 3);

(4) The average unweighted amount and average weighted amount of level 2B liquid assets that are eligible HQLA under § 249.21(b)(3) (row 4);

(5) The sum of the average unweighted amounts and average weighted amounts of cash outflows calculated under paragraphs (c)(6) through (8) of this section (row 5);

(6) The average unweighted amount and average weighted amount of cash outflows under § 249.32(a)(1) (row 6);

(7) The average unweighted amount and average weighted amount of cash outflows under § 249.32(a)(2) through (5) (row 7);

- (8) The average unweighted amount and average weighted amount of cash outflows under § 249.32(g) (row 8);
- (9) The sum of the average unweighted amounts and average weighted amounts of cash outflows calculated under paragraphs (c)(10) through (12) of this section (row 9);
- (10) The average unweighted amount and average weighted amount of cash outflows under § 249.32(h)(3) and (4) (row 10);
- (11) The average unweighted amount and average weighted amount of cash outflows under § 249.32(h)(1), (2), and (5), excluding (h)(2)(ii) (row 11);
- (12) The average unweighted amount and average weighted amount of cash outflows under § 249.32(h)(2)(ii) (row 12);
- (13) The average unweighted amount and average weighted amount of cash outflows under § 249.32(j) and (k) (row 13);
- (14) The sum of the average unweighted amounts and average weighted amounts of cash outflows calculated under paragraphs (c)(15) and (16) of this section (row 14);
- (15) The average unweighted amount and average weighted amount of cash outflows under § 249.32(c) and (f) (row 15);
- (16) The average unweighted amount and average weighted amount of cash outflows under § 249.32(b), (d), and (e) (row 16);
- (17) The average unweighted amount and average weighted amount of cash outflows under § 249.32(l) (row 17);
- (18) The average unweighted amount and average weighted amount of cash outflows under § 249.32(i) (row 18);

(19) The sum of average unweighted amounts and average weighted amounts of cash outflows calculated under paragraphs (c)(5), (9), (13), (14), (17), and (18) of this section (row 19);

(20) The average unweighted amount and average weighted amount of cash inflows under § 249.33(f) (row 20);

(21) The average unweighted amount and average weighted amount of cash inflows under § 249.33(c) (row 21);

(22) The average unweighted amount and average weighted amount of cash inflows under § 249.33(d) (row 22);

(23) The sum of average unweighted amounts and average weighted amounts of cash inflows calculated under paragraphs (c)(24) through (27) of this section (row 23);

(24) The average unweighted amount and average weighted amount of cash inflows under § 249.33(b) (row 24);

(25) The average unweighted amount and average weighted amount of cash inflows under § 249.33(e) (row 25);

(26) The average unweighted amount and average weighted amount of cash inflows under § 249.33(g) (row 26);

(27) The average unweighted amount and average weighted amount of cash inflows under § 249.33(h) (row 27);

(28) The sum of average unweighted amounts and average weighted amounts of cash inflows reported under paragraphs (c)(20) through (23) of this section (row 28);

(29) The average amount of the HQLA amounts as calculated under § 249.21(a) (row 29);

(30) The average amount of the total net cash outflow amounts excluding the maturity mismatch add-on as calculated under § 249.30(a)(1) and (2) (row 30);

(31) The average amount of the maturity mismatch add-ons as calculated under § 249.30(b) (row 31);

(32) The average amount of the total net cash outflow amounts as calculated under § 249.30 or § 249.63, as applicable (row 32);

(33) The average of the liquidity coverage ratios as calculated under § 249.10(b) (row 33).

(d) Qualitative Disclosures. (1) A covered depository institution holding company or covered nonbank company subject to this subpart must provide a qualitative discussion of the factors that have a significant effect on its liquidity coverage ratio, which may include the following:

(i) The main drivers of the liquidity coverage ratio;

(ii) Changes in the liquidity coverage ratio over time and causes of such changes;

(iii) The composition of eligible HQLA;

(iv) Concentration of funding sources;

(v) Derivative exposures and potential collateral calls;

(vi) Currency mismatch in the liquidity coverage ratio; or

(vii) The centralized liquidity management function of the covered depository institution holding company or covered nonbank company and its interaction with other functional areas of the covered depository institution holding company or covered nonbank company.

(2) If a covered depository institution holding company or covered nonbank company subject to this subpart believes that the qualitative discussion required in paragraph (d)(1) would prejudice seriously its position by resulting in public disclosure of specific commercial or financial information that is either proprietary or confidential in nature, the covered depository institution holding company or covered nonbank company is not required to include those specific items in its qualitative discussion, but must provide more general information about the items that had a significant effect on its liquidity coverage ratio, together with the fact that, and the reason why, more specific information was not discussed.

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By order of the Board of Governors of the Federal Reserve System, December 19, 2016.

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Robert deV. Frierson,  
Secretary of the Board.