Meeting Between Staffs of the Federal Reserve Board, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC), and The Goldman Sachs Group, Inc.
October 6, 2016

Participants: Mark Van Der Weide, Peter Clifford, Kevin Littler, Rena Miller, Lesley Chao, Dafina Stewart, Adam Cohen, Brian Chernoff, and Josh Strazanac (Federal Reserve Board)

Henry Barkhausen, James Weinberger, Ang Middleton, Daniel Perez, David Malmquist, and David Stankiewicz (OCC)

Greg Feder, Suzanne Dawley, Eric Schatten, Andrew Carayiannis, and Nana Ofori-Ansah (FDIC)

Elisha Wiesel, Rajashree Datta, Faryar Shirzad, and Kyle Russ (Goldman Sachs)

Summary: Staffs of the Federal Reserve Board, OCC, and FDIC met with representatives of Goldman Sachs to discuss the notice of proposed rulemaking to establish the Net Stable Funding Ratio in the United States. Specifically, Goldman Sachs’ representatives discussed (1) the treatment of variation margin in the proposed rule, (2) the available stable funding factors assigned to certain brokered deposits in the proposed rule, and (3) the requirement in the proposed rule that intercompany transactions not count towards a firm’s available stable funding.

Attachment
Net Stable Funding Ratio
I. Derivatives securities variation margin
II. Legal entity considerations
III. Deposits
IV. Public disclosure
V. Resolution guidance
**Scenario 3**: No Funding Value under Leverage Ratio netting in

![Scenario 3 Table]

**Scenario 4**: Management strategy used

- A firm's funding requirement on a derivatives receivable can vary significantly depending on the type of collateral received and collateral
  - Is inconsistent with LC/FR final rule, which assigns a 0% haircut to Level 1 HOLA
  - Is consistent with NFR framework, which assigns a 5% RFS to unencumbered

**Scenario 1**: Left of collateral

- Improved Funding value of self-liquidating securities, which can generate funding through a variety of means including sale and repo

**Scenario 2**: Right of collateral

- Improved Funding value of self-liquidating securities, which can generate funding through a variety of means including sale and repo

**Proposal**: Allow Level 1 securities VM received to reduce a bank's derivative asset value with appropriate harmonization in line with those of

- High-quality US Treasuries VM, ignoring any funding value
- However, securities VM cannot reduce the bank's derivative asset value. NFR is therefore assigning a 100% RFS haircut to even
- Cash value margin that meets SLR conditions can reduce bank's derivative asset value, and is therefore assigned an RFS of 0%

**Scenario 5**: Under the new NFR, a firm can reduce its derivatives asset value after accounting for valuation margin that meets conditions of the U.S.
Banks would then have to execute additional transactions (e.g., reverse repos) for collateral management.

Under the proposed NSFR:
- Counterparties with securities collateral would have to execute additional secured funding transactions to convert securities to eligible cash collateral.
- These and users may have to hold higher cash buffers or rely on the repo market, as new entrants to transform their assets into high-quality securities collateral, such as USDTs, may be negatively impacted by the exclusion of many end users.

Certain end users (such as pension funds) currently post securities collateral as variation margin on derivative contracts with banks. For example, they use USDTs that deliver an investment return on the pension fund portfolio.

NFR could incentivize increased interconnectedness among market participants and gross up firm's balance sheets.

Potential Impact - Funding Value of Securities VM

Derivatives - Funding Value of Securities VM
<table>
<thead>
<tr>
<th>Company</th>
<th>Example 1:</th>
<th>Example 2:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation of Excess ASF</td>
<td>Legal Entity Considerations</td>
<td>Excess ASF from subsidiaries should not include intercompany transactions that are related to the company's consolidated subsidiaries.</td>
</tr>
</tbody>
</table>
Proposed: **Apply 90% ASF.** Regardless of affiliate status, if truly insured deposits. Where every bank's insured deposits and balances in depositories under a certain percentage of deposits would result in non-affiliated depositories and 50% AFR to non-affiliated depositories.

Non-Affiliate Deposits

---

**Deposits**

---

**Illustrative Example**

For example, a bank placed near the top of a broker dealer sweep program's priority list would realize outcomes only after a certain percentage of the program's balances are withdrawn. In many cases, a broker dealer provides contractual preferential treatment to non-affiliated banks under the NFR. 90% AFR is given to truly insured; affiliate brokered sweep deposits and 50% AFR to non-affiliated brokered sweep deposits.
Proposal: Deposits with \( t \) year term should receive 100% ASF, consistent with Basel NSFR, subject to meeting the above two criteria.

- **Proposal:** Deposits with \( t \) year term should receive 100% ASF, consistent with Basel NSFR, subject to meeting the above two criteria.

  - Firm must demonstrate that they do not allow a client to redeem term deposits prior to maturity (other than early withdrawal fees), even during a period of stress.
  - Additional contractual provision that document brokers are not required to maintain a secondary market for the deposits, thus allowing no expectation that the firm will redeem the deposit prior to contractual maturity date.
  - Historically, firms have no expectation that the firm will redeem the deposit prior to contractual maturity date.

### Contractual Restrictions
- **Deposits with \( t \) year term should receive 100% ASF.**
- Funds with contractual remaining maturity \( < t \) year should receive 100% ASF.
- This is inconsistent with the Basel rule that explicitly recognizes 100% ASF for term deposits \( < t \) year.
- Under the NFR, a 90% factor is given to term retail deposits maturing greater than \( t \) year.

---

Brokercertificates of Deposits with Contractual Maturities Greater Than \( t \) Year
Proposal: Public Disclosure of Average NSFR each quarter

Agencies' proposed LCR disclosure requirements disclosure of a quarterly average would also be more consistent with other public liquidity disclosures, namely, the quarterly average of a bank's average NSFR over the quarter would give market participants and regulators a more appropriate view of a bank's funding position over time, as spot margins may vary across business cycles.

Under the proposed disclosure requirements, Covered companies are required to disclose their NSFR on a spot basis at quarter-end.
Identifying Eligible HOLA Under the LCR Rule

**Question:** If an asset of a Group Inc. is pledged to a subsidiary pursuant to a CBM, may such asset be treated as unencumbered for purposes of

249.22(b)(1)

and (ii) The assets are not pledged, explicitly or implicitly, to secure or to provide credit enhancement to any transaction.

The assets are not pledged, explicitly or implicitly, to secure or to provide credit enhancement to any transaction.

and (ii) The assets are not subject to any restrictions on the ability of a Board-registered institution to monetize the assets; the assets are unencumbered in accordance with the following criteria:

- The assets must meet all of the following criteria:

LCR Rule Considerations

If such an agreement were put in place, the parent’s obligations to provide support pursuant to the CBM would be secured by assets to

- be contended, including HOLA

HOLA (including Material Events whenNovak parties leading to a Bankruptcy Filing occur)

Pursuant to the CBM, the parent would be contractually obligated to provide capital and liquidation support (such as contribution of

- with external counsel

To address the guidance that contemplates entering into a CBM, GS and some other banks that enter resolution plans have been working

- support alter the bankruptcy filing, including the effectiveness of a contractually binding mechanism (CBM), under the 2017 Resolution Plan, CBMs may require firms to consider mitigating risks to creditors, challenges to credit, capital and/or liquidation

- Background: The resolution strategy of most US G-SIBs involves recapitalization of the operating subsidiaries prior to the parent’s entry into

2017 Resolution Plan

Treatment of Pledged Assets Under LCR
Appendix
Calculation of Excess ASF

Legal Entity Considerations