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CLIENT UPDATE

QUESTIONS AND ANSWERS ON THE LIQUIDITY COVERAGE RATIO

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On September 3, the Board of Governors of the Federal Reserve (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC") and the Office of the Comptroller of the Currency (the "OCC") (collectively, the "Agencies"), released a final rule that applies a Liquidity Coverage Ratio (the "LCR") to certain U.S. banking organizations (the "Final Rule").[1] The rule finalizes a proposal published by the Agencies on October 24, 2013 (the "Proposed Rule"), and includes a number of substantive and technical changes.[2]

Currently, U.S. banking regulations do not impose a quantitative liquidity requirement on banking organizations but, instead, require the use of prudential risk management and other tools to manage liquidity needs. The Final Rule for the first time requires banking organizations to meet minimum quantitative liquidity standards and, thus, represents an important milestone in the post-crisis regulatory reform process.

1 Federal Reserve, FDIC, OCC, *Liquidity Coverage Ratio: Liquidity Measurement Standards* (Sept. 3, 2014), *available at* http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20140903a1.pdf ("Final Release").

2 Federal Reserve, *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring* (Oct. 24, 2013); FDIC, OCC, *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring* (Oct. 30, 2013).

The Final Rule is broadly consistent with the LCR finalized in January 2013 by the Basel Committee on Banking Supervision (the "Basel Committee") and with the Proposed Rule. However, as with U.S. regulators' implementation of other Basel Committee initiatives, the Final Rule is in certain key respects more stringent than the international standard. For example, the LCR has a shorter phase-in period than the Basel equivalent, and certain asset classes are treated less favorably by the Final Rule than by the Basel standards.[3]

The LCR, in combination with recent regulatory initiatives, such as those relating to over-the-counter derivatives, may increase the demand for high-quality collateral, as banking organizations seek to optimize usage of these assets. This increased demand in turn may lead to shortages of key assets in the marketplace. In addition, because high-quality liquid assets tend to generate lower returns (and also count in the denominator of the supplementary leverage ratio), the net effect of these reforms may be to cause banking organizations to rethink business lines, such as prime brokerage that, while profitable, demand significant amounts the high-quality, low net margin collateral to meet the LCR.

We summarize key aspects of the Final Rule in a series of questions and answers below. We also highlight differences between the Basel Committee LCR and the Final Rule *in italics*.

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[3] Basel Committee, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (revised Jan. 2013), *available at* http://www.bis.org/publ/bcbs238.pdf.

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I. Applicability and Scope

A. Which banking institutions are subject to the Final Rule?

The Final Rule applies differently to two different categories of U.S. banking organizations. A more stringent LCR applies to bank holding companies ("BHCs") and savings and loan holding companies ("SLHCs") with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure, as well as separately to their consolidated subsidiary depository institutions with $10 billion or more in total consolidated assets (the "Full LCR").

A simpler, less stringent LCR requirement (the "Modified LCR") applies to depository institution holding companies (but not their subsidiary banks) with $50 billion or more in total consolidated assets, but that do not meet the above-noted thresholds. The Modified LCR applies only on a consolidated basis (*i.e.*, at the holding company level).

(Throughout this update, we will distinguish between the Full LCR and the Modified LCR as applicable. When there is no distinction between the requirements, we will simply refer to the "LCR.")

B. Does the Final Rule apply to foreign banking organizations and their intermediate holding companies?

The Final Rule does not apply to foreign banking organizations and the U.S. intermediate holding companies ("IHCs") they are required to form under Regulation YY. However, to the extent a foreign bank has one or more U.S. subsidiaries that fall within the categories listed in I.A. above, those bank holding companies (and, if applicable, banks) must comply with the LCR. In adopting the Final Rule, the Federal Reserve indicated that it anticipates that a future rulemaking will extend an LCR to the IHCs and branches of large foreign banking organizations.[4]

C. Does the Final Rule apply to non-bank systemically important financial institutions designated by the Financial Stability Oversight Council?

No. However, the Agencies indicated that any liquidity requirements for these entities will be applied by separate rule or order.

D. Does the Final Rule apply to insurers owning full-service depository institutions or savings-and-loan holding companies with significant commercial operations?

Insurers owning banks are excluded from the LCR. Specifically, a company with substantial insurance operations, *i.e.*, a company (i) whose top-tier company is an insurance underwriting company or (ii) that holds 25 percent or more of its total consolidated assets in subsidiaries that are insurance underwriting companies, are excluded from the LCR requirements. Unlike recent final rules implementing the Basel III capital standards, which appear to contemplate only a temporary exclusion for insurers, there is no indication that insurance companies will be subject to similar liquidity requirements, despite the fact that Section 165 of the Dodd-Frank act requires so.

SLHCs with substantial commercial operations also are excluded from the LCR.

II. <u>Transition Periods</u>

A. When does the LCR become effective under the Final Rule?

The LCR becomes effective January 1, 2015, subject to a two-year phase-in period thereafter. The phase-in period affects both how quickly the daily LCR calculations must be performed, as well as the percentage of the coverage ratio. It also differs between those subject to Full LCR and those subject to Modified LCR.

This phase-in is more stringent than the Basel III LCR, which contemplates a 4-year phase-in process stretching from 2015 to 2019, with a 2015 LCR of 60 percent increasing 10 percent a year until 2019.

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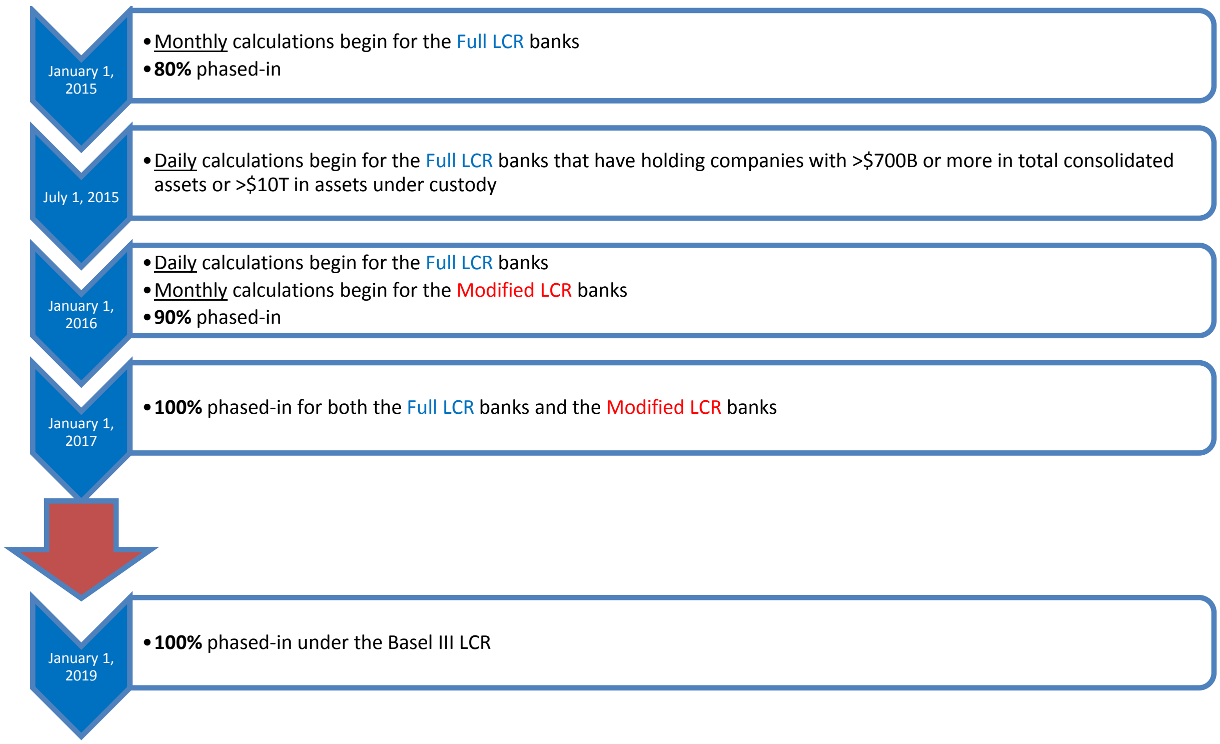
4 Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies, 77 Fed. Reg. 76,628 (Dec. 28, 2012).

The chart below summarizes the phase-in.



With respect to the Modified LCR, note that the percentages reflected above are applied after taking the 30% haircut on Total Net Cash Outflows as discussed below.

III. Summary of LCR Requirements

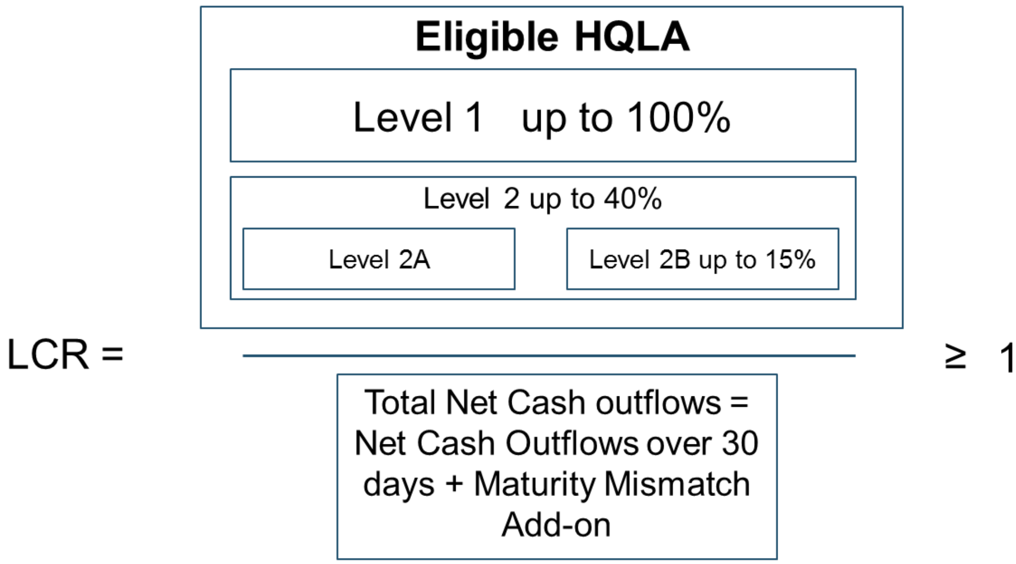
A. What is the goal of the LCR?

The LCR is designed to ensure that affected banking organizations maintain highly liquid assets to fund their short-term (30 days or less) liquidity needs with respect to a variety of categories of cash outflows.

B. How does the Full LCR seek to accomplish this goal?

The Full LCR requires each banking organization to which it applies to ensure that the ratio of its eligible High Quality Liquid Assets ("HQLA") (numerator) to Total Net Cash Outflows (denominator) equals or exceeds 1. The Final Rule sets forth the types of assets that constitute the three different levels of HQLA (known as Level 1, Level 2A and Level 2B). As discussed in more detail later, Level 1 HQLA are not subject to limitations as to amount, whereas Level 2A and Level 2B assets combined cannot exceed 40% of the banking organization's total HQLA and Level 2B cannot exceed 15%. The Final Rule also lays out the different types of cash outflows and cash inflows, as well as (for the Full LCR) the so-called "maturity mismatch add-on" that comprise the Total Net Cash Outflows formula.

Graphically, the Full LCR requirement can be represented by the following equation:



C. How often must the Full LCR be calculated?

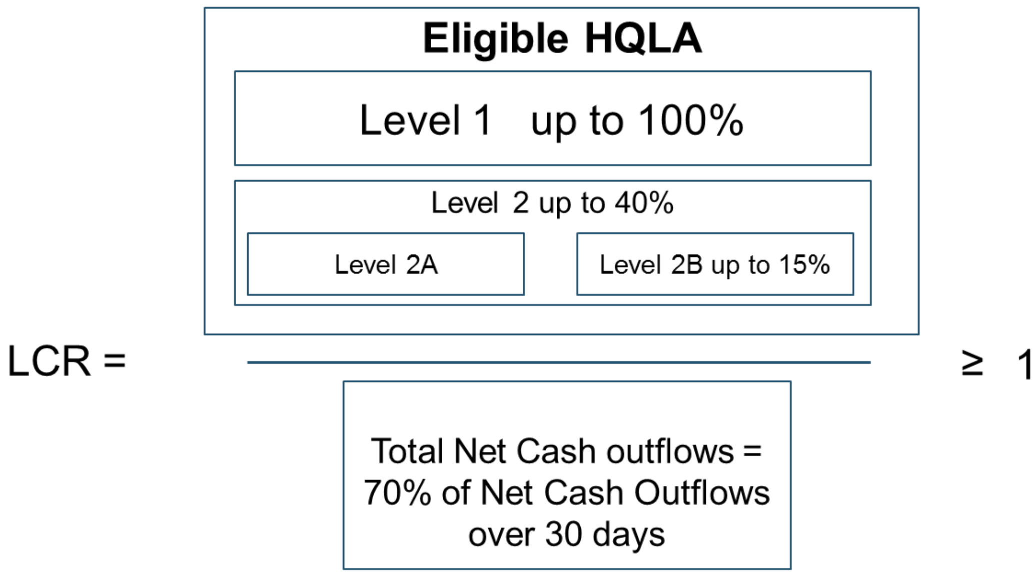
The Final Rule requires Full LCR banking organizations (after a transition period) to calculate their LCR daily.

D. How is the Modified LCR different from the Full LCR?

The Modified LCR requires a similar ratio, but with three key differences. First, the Total Net Cash Outflows receives a 30% haircut so that Modified LCR banking organizations effectively would only have 70% of the HQLA obligation of Full LCR banking organizations. Second, the calculation of Total Net Cash Outflows does not include the maturity mismatch add-on, resulting in a simpler calculation that likely will result in a lower number than would apply under the Full LCR. Third, the Modified LCR calculation must be performed only once a month instead of each day.

Additionally, consistent with the Proposed Rule, the Modified LCR would apply only at the holding company level and not with respect to subsidiary depository institutions.

Graphically, the Modified LCR requirement can be represented by the following equation:



IV. <u>High-Quality Liquid Assets (Numerator)</u>

General Requirements

A. What are the general eligibility requirements for all HQLA?

In order to be eligible to count towards the LCR numerator, HQLA must: (1) be unencumbered; (2) not be a client pool security held in a segregated account or cash received from a secured funding transaction involving client pool securities held in a segregated account; (3) not include any assets received under a re-hypothecation right if the counterparty that provided the asset or the beneficial owner has a contractual right to withdraw the assets without an obligation to pay more than *de minimis* remuneration at any time during the 30 calendar days following the calculation date; and (4) not be designated to cover operational costs.

Certain additional requirements apply to assets held in consolidated subsidiaries, including those that are not subject to the LCR on a standalone basis. Importantly, the banking organization may include the eligible HQLA of the consolidated subsidiary in its HQLA amount only up to the amount of net cash outflows of the subsidiary <u>plus</u> any additional assets that would be available for transfer to the top-tier covered company in times of stress without regulatory or statutory obstacles.

B. What are the operational requirements that apply to HQLA?

Banking organizations also need to meet certain operational requirements with respect to their portfolio of HQLA in order to include it as eligible for the numerator. Specifically, banking organizations must: (1) have the operational capability to monetize HQLA; (2) implement policies that require all HQLA to be under the control of the internal liquidity risk management function; (3) appropriately account for net cash outflows relating to transactions hedging HQLA that is included in eligible HQLA; and (4) implement and maintain policies and procedures to determine the composition of HQLA on a daily basis.

C. Are the HQLA requirements different under the Modified LCR?

No. The HQLA requirements and calculations are the same under the Modified LCR as those described above.

Specific Components

D. What are Level 1 HQLA?

The Final Rule includes the following assets as Level 1 HQLA:

- Reserve Bank balances
- Foreign withdrawable reserves
- A security issued by or unconditionally guaranteed by the U.S. Treasury
- U.S. Agency Securities that are fully and explicitly guaranteed by the full faith and credit of the U.S. government and are liquid and readily-marketable
- Certain claims unconditionally guaranteed by a sovereign entity or multilateral development bank

E. How is “liquid and readily-marketable” defined?

The Final Rule defines a “liquid and readily-marketable” security as one that is traded in an active secondary market with: (1) more than two committed market makers; (2) a large number of non-market maker participants on both the buy and sell sides of transactions; (3) timely and observable market prices; and (4) a high trading volume.

Because determinations of whether a particular security meets the liquid and readily-marketable definition require certain qualitative judgments by each banking organization, there could be differing results on whether a particular security is considered HQLA.

F. Is cash always treated as Level 1 HQLA?

No. The only cash that BHCs may treat as HQLA are Federal Reserve Bank balances (and certain foreign reserves). Cash in bank vaults or ATMs does not count towards HQLA, nor does cash held in customer reserve accounts established under SEC Rule 15c3-3. With respect to vault cash, the Agencies reasoned that such cash should not qualify as it "may be necessary to meet daily business transactions and due to logistical concerns associated with ensuring that the cash can be immediately used to meet the covered company's outflows."[5]

G. Are Level 1 HQLA subject to haircuts or requirements to establish their quality and/or liquidity?

Level 1 HQLA are not subject to any haircuts and, so long as they meet the eligibility requirements discussed above, can comprise up to 100% of the numerator for the LCR equation. Reserve Bank Balances, foreign withdrawable reserves and securities issued or unconditionally guaranteed by the Department of Treasury are not subject to quality or liquidity tests. The other Level 1 HQLA are subject to certain tests as noted above and set forth in more detail in the Final Rule.

H. What are Level 2A HQLA?

The Final Rule includes the following assets as Level 2A HQLA:

- Investment grade securities issued or guaranteed by a U.S. government-sponsored enterprise, provided that the claim is senior to preferred stock.
- Certain securities issued or guaranteed by a sovereign entity or multilateral development bank that is not included in Level 1 liquid assets but meet certain criteria that demonstrate that they have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions.

Level 2A does not include municipal securities, private-label mortgage backed securities or non-investment grade G.S.E. securities.

5 Final Release at 63.

I. Are Level 2A HQLA subject to haircuts or requirements to establish their quality and/or liquidity?

Level 2A HQLA are subject to a 15% haircut such that their value is reduced to 85% of fair market value when added to the formula for calculating total HQLA. In addition, the combined value of Level 2A and Level 2B HQLA cannot exceed 40% of the numerator of the LCR equation.

All Level 2A HQLA must meet the definition of liquid and readily-marketable, as well as specific other requirements applied to each category.

J. What are Level 2B HQLA?

The Final Rule includes the following assets as Level 2B HQLA:

- A corporate debt security that is:
  - investment grade;
  - issued or guaranteed by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions; and
  - not an obligation of a financial sector entity.
- A publicly traded common equity share that is
  - included in the Russell 1000 Index (or similar Index approved by a foreign supervisor);
  - issued in dollars or a currency of a jurisdiction where the bank operates and holds the common equity share;
  - issued by an entity whose publicly traded common equity shares have a proven record as a reliable source of equity in repurchase or sales markets during stressed market conditions;
  - not issued by a financial sector entity; and
  - if held by a depository institution, is not acquired in satisfaction of a debt previously contracted.

For shares held by a consolidated subsidiary of a depository institution, the depository institution can include the publicly traded common equity share in its level 2B liquid assets only if the share is held to cover net cash outflows of the depository institution's consolidated subsidiary in which the publicly traded common equity share is held.

Level 2B also does not include municipal securities, private-label mortgage backed securities or non-investment grade G.S.E. securities.

The final categories included changes from the Proposed Rule concerning both corporate debt securities and common equity shares. Where the Proposed Rule would have required corporate debt securities to be publicly traded, the Final Rule permits privately-issued corporate debt securities. The Proposed Rule limited common equity shares to those included in the S&P 500 index, whereas the Final Rule includes shares included in the Russell 1000 index. However, the Final Rule no longer permits banking organizations to establish the eligibility of other publicly traded common equity securities as Level 2B HQLA.

In a divergence from the Basel Committee LCR but consistent with the Proposed Rule, the Final Rule treats corporate debt securities only as Level 2B HQLA, instead of splitting them between Level 2A and Level 2B assets as under the Basel LCR.

K. Are Level 2B HQLA subject to haircuts or requirements to establish their quality and/or liquidity?

Level 2B HQLA are subject to a 50% haircut such that their value is reduced to 50% of fair market value when added to the formula for calculating total HQLA.[6]

All Level 2B HQLA must meet the definition of liquid and readily-marketable, as well as specific other requirements applied to each category.

L. What important types of securities cannot qualify as HQLA?

The Final Rule excludes from permissible types of HQLA any instruments issued by financial sector entities, including insured depository institutions, insurance companies and mutual funds, regardless of whether those instruments would have otherwise qualified. The Agencies noted that instruments issued by financial sector entities are correlated with covered companies and increase wrong-way risk.

The Final Rule did not include as HQLA (1) covered bonds, (2) debt securities issued by public sector entities such as states and municipalities, and (3) private-label residential mortgage backed securities. In this regard, the Final Rule is more stringent than the Basel

[6] As noted, the combined value of Level 2A and Level 2B HQLA cannot exceed 40% of the numerator of the LCR equation.

Committee LCR. The Federal Reserve has stated that it remains focused on municipal bonds and expects to propose a rule regarding municipal bonds qualifying as HQLA.

Calculation

M. What adjustments or deductions must be made when calculating total eligible HQLA?

In order to calculate the numerator (total eligible HQLA), the covered company sums its eligible Level 1, Level 2A and level 2B HQLA, after applying the appropriate haircuts, and then applies several adjustment factors in accordance with the Final Rule.

First, Level 1 HQLA must be adjusted by deducting the amount of the demand deposit reserve balance requirement under section 204.5 of Regulation D.

Second, the sum of Level 2A and Level 2B HQLA cannot exceed more than 40% of the banking organization's total HQLA, and Level 2B HQLA cannot exceed 15% of total HQLA. If the Level 2A and Level 2B liquid assets exceed the Final Rule's allotted limits, the covered company must subtract an amount according to a formula with the result being that Level 2A and 2B liquid assets would no longer exceed the caps.

Finally, a covered company must repeat the calculation, including applicable haircuts, deductions and adjustments, and perform a hypothetical unwind of all secured funding transactions (other than certain collateralized deposits), secured lending transactions, asset exchanges and collateralized derivatives transactions involving those HQLA. This includes the unwinding of repurchase and reverse repurchase transactions. If the eligible HQLA amount that results from this unwind is lower than the calculated amount without the unwind, the banking organization must use that lower, unwound HQLA amount as the numerator.

V. <u>Total Net Cash Outflows (Denominator)</u>

Generally

A. What are the components of Total Net Cash Outflows under the Final Rule?

The answer is different under the Full LCR compared to the Modified LCR.

<u>Under the Full LCR</u>, Total Net Cash Outflows are the sum of two components. The first component is cash outflows minus cash inflows, both as defined under the Final Rule. The

second component is a maturity mismatch "add-on" that reflects peak day cumulative net cash outflows for only certain categories of outflows and inflows.

Under the Modified LCR, Total Net Cash Outflows are determined by application of the first component only: total cash outflows minus total cash inflows, and then taking a 30% haircut.

B. Over what period of time are cash outflows and cash inflows determined?

The Final Rule definition of cash outflows looks at those that mature within 30 days after the calculation date (daily, after a transition period, in the case of Full LCR, and on the last day of each business day of each calendar month for the Modified LCR).

Cash inflows are measured for the same time period, but are capped at 75 percent of cash outflows such that outflows will always exceed inflows (and HQLA will be needed).

C. How are cash outflows and inflows calculated?

Cash outflows and inflows are determined by applying outflow and inflow rates (expressed as a percentage) to various categories and subcategories of a covered company's funding sources, obligations and assets, over a prospective 30 calendar-day period. The rates set forth in the Final Rule for each item seek to reflect a standardized stress scenario.

The Final Rule sets forth numerous categories and subcategories of cash outflows and inflows, each with a different applicable percentage. Transactions with and between consolidated subsidiaries are excluded from both calculations.

Please consult Appendices A and B, which detail, respectively, the categories and subcategories of outflows and inflows with the applicable percentage rate.

Maturity Mismatch Add-On For Full LCR Banks Only

D. What is the purpose of the Full LCR maturity mismatch add-on?

The add-on is intended to ensure that banks subject to the Full LCR address liquidity issues that arise from overnight funding from financial institutions as well as the maturity mismatch of contractual outflows and inflows. *This approach differs from the Proposed Rule's approach, which would have attempted to capture maturity mismatches with a different mechanic. It also is more stringent than the Basel LCR, which does not require banking organizations to hold HQLA for potential maturity mismatches that may occur during the 30-day time horizon.*

E. How is the maturity mismatch add-on calculated?

- The maturity mismatch add-on is calculated by first determining the day during the following 30 days during which the banking organization is expected to have the largest net cumulative cash outflow. This date has been referred to as the "peak day." For purposes of the peak day calculation, only certain categories of outflows are used.
- Second, the applicable subtractions from the peak day amount are calculated. These subtractions are designed to mitigate the possible double counting of items. Specifically, the total subtractions are determined by summing up the net cash outflows from the main net cash outflow calculation associated with the same categories used to determine the peak day amount, provided that this amount cannot be less than zero.
- Third, the subtractions amount is subtracted from the peak day amount so that the result can be added to the main net cash outflow calculation. This amount cannot be less than zero.

F. Why did the Agencies use this maturity mismatch add-on in the Final Rule?

This new approach to dealing with maturity mismatches over the 30-day stress period addresses industry comments that the Proposed Rule's peak cumulative net cash outflow methodology, which involved "frontloading" certain open maturity outflows onto day 1, was overly conservative, unrealistic, and inconsistent with the Basel Committee LCR. As discussed next, the Final Rule only requires that outflows in the few categories that must be considered in calculating the maturity mismatch "add-on" be "front-loaded" onto the day after the calculation date.

G. What are the maturity assumptions required when calculating cash outflows, cash inflows and the maturity mismatch add-on?

Generally, cash outflows are deemed to occur at the earliest date on which they could occur under the terms of the contract governing the transaction and assuming that any option a counterparty has to reduce maturity will be exercised.

Conversely, cash inflows are deemed to occur at the latest date on which they could occur under the terms of the contract governing the transaction and assuming that any option a counterparty has to extend maturity will be exercised.

Transactions without a designated maturity date are generally deemed to result in an outflow some time during the 30-day calculation period. The exact day on which it flows out does not matter for the purposes of calculating the first component of the Total Net Cash Outflows calculation, which only looks at net inflows and outflows over the entire 30-day stress period. For purposes of the maturity mismatch add-on, however, which does require calculation for each of the 30 days following the calculation date, relevant open maturity transactions are deemed to mature on the first calendar day after the calculation date, resulting in a front-loading of the calculation.

VI. LCR and Securities Financing/Asset Exchange Transactions

A. How will repos, reverse repos and asset exchanges be treated under the Final Rule?

Repurchase transactions ("repos") have long been a common funding source for financial institutions, especially broker-dealers. Reverse repurchase transactions ("reverse repos") also have been a popular way to generate returns on excess cash. Asset exchanges have allowed broker-dealers to obtain securities they need in exchange for securities in their portfolio. The implications of LCR on these types of transactions will be studied closely by broker-dealers affiliated with banks and bank holding companies subject to the LCR.

As expected based on the Proposed Rule, these types of transactions do not receive favorable treatment from several vantage points. First, banking organizations will be limited in their ability to obtain HQLA from reverse repos and asset exchanges, because they must ensure that HQLA are unencumbered and not subject to return within 30 days from the calculation date. Reverse repos most often are overnight or open maturity transactions that do not meet these requirements.

Second, as discussed above, these types of transactions must be treated as unwound in calculating the adjustment required to be applied in determining final eligible HQLA. This adjustment was designed to ensure particularly against attempts to boost Level 1 HQLA by receiving them in an asset exchange for other securities and then unwinding the exchange at a later date.

Third, the Final Rule applies unfavorable cash inflow rates to reverse repos and asset exchanges where the banking organization has given HQLA as security, such that the banking organization could get as little as zero percent credit for the inflows associated with these transactions.

Fourth, in conjunction with the upcoming Net Stable Funding Ratio rules, which are expected to penalize large matched books of securities lending and repurchase transactions, these restrictions are likely to increase the cumulative burdens on banks for engaging in such activities.

B. What impact will the LCR have on matched book securities lending activities?

The outflow and inflow rates for secured funding and secured lending transactions generally reflect a symmetry that is meant to recognize the benefits of a matched book approach to managing securities lending. For example, the 50 percent outflow rate for customer short positions was designed to recognize potential symmetry with the inflows generated from margin loans secured by assets that are not HQLA, to which the Final Rule applies an inflow rate of 50 percent. In addition, the Final Rule clarifies that the collateral on a securities lending transaction that has been rehypothecated will not alter the outflow or inflow rate, so long as the collateral will be returned within 30 days and will be available for use on the maturity date.

The Final Rule's treatment of matched book securities lending is consistent with Governor Daniel Tarullo's view that the LCR does not address risks associated with large matched books and that the to-be-proposed Net Stable Funding Ratio rule would address these issues.

VII. <u>Compliance</u>

A. What happens if a banking organization fails to meet its LCR requirement?

Under the Final Rule, a banking organization must notify the appropriate banking agency on any business day that its LCR falls below 100 percent. If a banking organization's LCR falls below the minimum requirement for three consecutive business days, or if the appropriate Agency determines the company is in material noncompliance with the LCR, it may require the banking organization to submit a liquidity plan that must include: an assessment of its liquidity position; the actions the banking organization has taken and will take to achieve full compliance with the LCR; a plan for adjusting the risk profile, risk management and funding sources; a plan for remediating operational or management issues that contributed to the noncompliance; an estimated time frame for achieving full compliance and a commitment to report to the appropriate Agency no less than weekly until full compliance is achieved. During the operational transition period for Full LCR banks and at all times for Modified LCR banks, failure to meet the required LCR results instead in a mandatory consultation with the appropriate Agency to discuss whether such a plan will be required.

* * *

Please do not hesitate to contact us with any questions regarding the Final Rule.

September 17, 2014

Appendix A: Outflow Rates

Category	Outflow	Description and Comments
Retail Funding § _.32(a)		
Retail Deposits	3%	A "stable retail deposit" is one that is fully covered by deposit insurance and is held in a transactional account or by a depositor who has other established relationships with the bank.
Other Retail Deposits	10%	"Other" retail deposits include all retail deposits that are not "stable retail deposits", including partially insured retail deposits.
Non-brokered deposits placed by third parties	20%	Applicable to fully insured non-brokered deposits placed by third parties on behalf of a customer or counterparty where the customer owns the account. Treatment mirrors that of wholesale funding that does not qualify as an operational deposit and is not provided by a financial sector entity[7] or one of its consolidated subsidiaries.
	40%	Applicable to partially insured non-brokered deposits placed by third parties on behalf of a customer or counterparty where the customer owns the account. Treatment mirrors that of wholesale funding that

[7] Financial sector entitles include investment advisers, investment companies, pension funds, non-regulated funds, regulated financial companies or certain companies that the Agencies have identified should be treated as a financial sector entity.

Category	Outflow	Description and Comments
		does not qualify as an operational deposit and is not provided by a financial sector entity or one of its consolidated subsidiaries.
Other Retail Funding	40%	Includes all retail funding that is not a retail deposit, a brokered deposit provided by a retail customer or counterparty or a debt instrument issued by a retail customer or counterparty. The Proposed Rule contained a 100% bucket.
Structured Transactions § _.32(b)		
Structured Transactions for which the issuing entity is not consolidated on the bank's GAAP balance sheet	See description	Structured transaction outflow is the greater of: (1) 100% of the amount of all debt obligations of the issuing entity and commitments to purchase assets that mature within 30 calendar days; and (2) the maximum contractual amount of funding a covered company may be required to provide to the issuing entity within 30 days through a liquidity facility, a return or repurchase of assets from the issuing entity.
Derivatives § _.32(c)		
Net derivative cash outflow	See description	Net derivative cash outflow, if positive, is the aggregate, across all counterparties, of contractual payments and collateral that a covered company will make or deliver from its counterparty 30 calendar days or less from the calculation date less the contractual payments and collateral that the covered company receive from the counterparty 30

Category	Outflow	Description and Comments
		calendar days or less from the calculation date, provided that, except for certain foreign exchange swaps, a covered company may not net against derivatives payments and collateral received unless the derivatives transaction is subject to a master netting agreement.
Mortgage Commitments § _.32(d)		
Mortgage commitment outflow	10%	Outflow applies to the amount of funds the covered company has contractually committed for its own origination of retail mortgages that can be drawn within 30 calendar days or less.
Committed Credit and Liquidity Facilities[8] § _.32(e)		
Retail Commitments	5%	Applicable to the undrawn amount of all committed credit and liquidity facilities extended by the covered company to retail customers or counterparties.
Depository Institution Commitments	0%	The 0% rate is applicable to the undrawn amount of committed credit and liquidity facilities extend by a depository institution to an affiliated depository institution subject to the LCR.

8 Commitment outflow may be offset to the extent the undrawn portion of a committed credit or liquidity facility is secured by level 1 or level 2A liquid assets that would be eligible HQLA if drawn but that are not currently included as HQLA.

Category	Outflow	Description and Comments
	50%	Applicable to all other depository institution commitments.
Wholesale Credit Facilities	10%	Applicable to the undrawn amount of all committed credit and liquidity facilities extended by the covered company to wholesale customers or counterparties that are not financial sector entities or consolidated subsidiaries thereof.
	40%	Applicable to all other wholesale credit facilities other than those extended to depository institutions.
Wholesale Liquidity Facilities	30%	Applicable to the undrawn amount of all committed credit and liquidity facilities extended by the covered company to wholesale customers or counterparties that are not financial sector entities or consolidated subsidiaries thereof.
	100%	Applicable to all other wholesale liquidity facilities other than those extended to depository institutions.
SPE Commitments	100%	Applicable to the undrawn amount of all committed credit and liquidity facilities extended to an SPE that issues or has issued commercial paper or certain other securities to the extent to covered by structured transaction outflows.

Category	Outflow	Description and Comments
		The Proposed Rule applied this 100% rate to all SPE commitments, regardless of the purpose of the SPE, whereas the Final Rule requires the covered company to look through to the underlying customer.
Other Commitments	100%	Applicable to committed credit or liquidity facilities extended by the covered company not otherwise assigned an outflow rate.
	Collateral Outflow § _.32(f)	
Changes in Financial Condition	100%	Applicable to all additional amounts of collateral a covered company could be contractually required to pledge or to fund under the terms of any transaction as a result of a change in the bank's financial condition.
Derivative Collateral Potential Valuation Changes	20%	Applicable to the fair value of any collateral securing a derivative transaction pledged to a counterparty by the covered company that is not a level 1 liquid asset. Also applicable to netted collateral, but only if the collateral can be netted under the same qualifying master netting agreement.
Potential Derivative Valuation Change	See description	Potential Derivative Valuation Change Outflow is the absolute value of the largest 30-consecutive calendar day cumulative net mark-to-market collateral outflow or inflow realized during the preceding 24 months resulting from derivative transaction valuation changes.

Category	Outflow	Description and Comments
Excess Collateral	100%	Applicable to the fair value of collateral (1) that the covered company could be required by contract to return because such collateral exceeds the collateral requirement under a governing contract; (2) is not segregated from the bank's other assets such that it cannot be rehypothecated; and (3) is not already excluded as eligible HQLA.
Contractually Required Collateral	100%	Applicable to the fair value of collateral that the covered company is contractually required to pledge to a counterparty and, as of the calculation date, the covered company has not yet pledged.

Collateral Substitution[9] § _.32(f)(6)		
Category		**Outflow**
Pledged	Replacement	
Level 1 eligible HQLA	Level 1 eligible HQLA	0%
Level 1 eligible HQLA	Level 2A eligible HQLA	15%

9 Applicable to the fair value of collateral pledged where the counterparty may replace the pledged collateral with replacement assets under the contract governing the transaction.

Level 1 eligible HQLA	Level 2B eligible HQLA	50%
Level 1 eligible HQLA	Not eligible HQLA	100%
Level 2A eligible HQLA	Level 1 or 2A eligible HQLA	0%
Level 2A eligible HQLA	Level 2B eligible HQLA	35%
Level 2A eligible HQLA	Not eligible HQLA	85%
Level 2B eligible HQLA	Any eligible HQLA	0%
Level 2B eligible HQLA	Not eligible HQLA	50%

Category	**Outflow**	**Description and Comments**
Retail Brokered Deposits § _.32(g)		
Reciprocal Retail Brokered Deposits	10%	Applicable to reciprocal brokered deposits if the amounts in the account are fully insured.

	25%	Applicable to reciprocal brokered deposits if the amounts in the account are partially insured.
Brokered Retail Sweep Deposits	10%	Applicable to brokered sweep deposits placed by contract between a retail customer or counterparty and a controlled subsidiary or a company that is a controlled subsidiary of the same top-tier company of which the covered company is a controlled subsidiary where the amounts in the account are fully insured.
	25%	Applicable to other brokered sweep deposits where the amounts in the account are fully insured.
	40%	Applicable to brokered sweep deposits if the amounts in the account are partially insured.
Other Retail Deposits	10%	Applicable to non-reciprocal, non-sweep retail brokered deposits that mature later than 30 calendar days after the calculation date.
	20%	Applicable to non-reciprocal, non-sweep retail brokered deposits held in a transactional account with no contractual maturity date if the amounts in the account are fully insured.
	40%	Applicable to non-reciprocal, non-sweep retail brokered deposits held in a transactional account with no contractual maturity date if the amounts in the account are partially insured.

	100%	Applicable to all non-reciprocal, non-sweep retail brokered deposits that mature within 30 days of the calculation date.
Unsecured Wholesale Funding[10] § _.32(h)		
Non-Financial Sector Unsecured Wholesale Funding	20%	Applicable to fully insured unsecured wholesale funding that is not an operational deposit, not a brokered deposit and is not provided by a financial sector entity or a consolidated subsidiary thereof
	40%	Applicable to partially insured unsecured wholesale funding that is not an operational deposit or is a brokered deposit, and is not provided by a financial sector entity or a consolidated subsidiary thereof.
Operational Deposits[11]	5%	Applicable to fully insured operational deposits other than those held in escrow accounts.
	25%	Applicable to all other operational deposits.
Other Unsecured Wholesale Funding	100%	Applicable to all unsecured wholesale funding that is not an operational deposit and not described above, including funding provided by a company that is a consolidated subsidiary of the same top-tier company of which the covered company is a consolidated

[10] Applicable to unsecured wholesale funding that matures within 30 calendar days of the calculation date. Includes collateralized deposits.

[11] The Final Rule includes substantial revisions and clarifications concerning operational deposits. Please refer to the discussion beginning on page 219 of the preamble to the Final Rule.

		subsidiary and debt instruments issued by the covered company.
Debt Security Buyback[12] § _.32(i)		
Non-Structured Securities Debt Buyback	3%	Applicable to debt securities that are not structured securities.
Structured Securities Debt Buyback	5%	Applicable to debt securities that are structured securities.

Secured Funding Transactions § _.32(j)(1)	
Secured by level 1 liquid assets	0%
Secured by level 2A liquid assets	15%
Transactions with sovereigns, multilateral development banks and U.S. GSEs subject to a 20% risk weight not secured by level 1 or level 2A liquid assets	25%
Secured by level 2B liquid assets	50%

[12] Applicable only to debt that matures more than 30 calendar days after the calculation date and for which the covered company or consolidated subsidiary of the covered company is the primary market maker in such debt.

Customer short positions covered by other customers' collateral that is not HQLA	50%
Secured by assets that are not HQLA, except as above	100%
If the outflow rate listed above is greater than that for a wholesale unsecured transaction (that is not an operational deposit) with the same wholesale counterparty	Apply to the secured funding transaction the wholesale unsecured non-operational outflow rate for that counterparty.
For collateralized deposits where the secured funding transaction outflow rate listed above is greater than that for a wholesale unsecured transaction with the same wholesale counterparty	Apply to each portion of the secured funding transaction amount the wholesale unsecured outflow rate applicable to that portion, for that counterparty, including amounts that may be operational deposits or excess operational deposit amounts.

Asset Exchange § _.32(j)(3)		
Where a covered company has the asset that it will be required to deliver at the maturity of an asset exchange or where the asset has been reused in a transaction that will mature no later than the maturity date of the asset exchange such that the asset required to be delivered will be available at the maturity date, and where the:		
Covered Company Must Deliver at Maturity	Covered Company Will Receive at Maturity	Asset Exchange Outflow Rate

Level 1 liquid assets	Level 1 liquid assets	0%
Level 1 liquid assets	Level 2A liquid assets	15%
Level 1 liquid assets	Level 2B liquid assets	50%
Level 1 liquid assets	Assets that are not HQLA	100%
Level 2A liquid assets	Level 2A liquid assets	0%
Level 2A liquid assets	Level 2B liquid assets	35%
Level 2A liquid assets	Assets that are not HQLA	85%
Level 2B liquid assets	Level 2B liquid assets	0%
Level 2B liquid assets	Assets that are not HQLA	50%
Where a covered company does not have the asset that it will be required to deliver at the maturity of an asset exchange and where the asset has not been reused in a transaction that will mature no later than the maturity date of the asset exchange, and where the:		

Level 1, 2A, 2B liquid assets or assets that are not HQLA	Level 1 liquid assets	0%
	Level 2A liquid assets	15%
	Level 2B liquid assets	50%
	Assets that are not HQLA	100%

Category	Outflow	Description and Comments
Foreign Central Bank Borrowings § _.32(k)		
Foreign Central Bank Borrowing	See description.	Applicable to amounts borrowed from a foreign jurisdiction's central bank in a foreign jurisdiction. The applicable outflow rate is the outflow amount assigned to such borrowings from central banks in that jurisdiction's minimum liquidity standard. Otherwise, the outflow is treated as secured funding.
Other Contractual Outflow § _.32(l)		

Category	Outflow	Description and Comments
Other outflows	100%	Applicable to all other amounts payable by the bank, but excluding operating expenses such as rents, salaries, utilities and other similar payments.

Appendix B: Inflow Rates

Category	Outflow	Description and Comments
Derivatives § _.33(b)		
Net derivative cash inflow	See description	Net derivative cash inflow, if positive, is the aggregate, across all counterparties, of contractual payments and collateral that a covered company will receive from its counterparty 30 calendar days or less from the calculation date less the contractual payments and collateral that the covered company will make or deliver to the counterparty 30 calendar days or less from the calculation date, provided that, except for certain foreign exchange swaps, a covered company may not net against derivatives payments and collateral received unless the derivatives transaction is subject to a master netting agreement.
Retail Cash § _.33(c)		
Retail Cash inflow	50%	Applicable to all payments contractually payable to the covered company from retail customers or counterparties.
Unsecured Wholesale Cash § _.33(d)		
Non-Financial Sector Unsecured Wholesale	50%	Applicable to all payments contractually payable to the covered company from wholesale customers or counterparties that are not financial sector entities or consolidated subsidiaries thereof, provided

Category	Outflow	Description and Comments
Funding		that with respect to revolving credit facilities, the amount of existing loan is not included as an inflow and the remaining undrawn balance is included as a commitment outflow.
Financial Sector Unsecured Wholesale Funding	100%	Applicable to all payments contractually payable to the covered company from financial sector entities, or from a consolidated subsidiary thereof, or central banks.
Securities Cash § _.33(e)		
Securities Cash Inflow	100%	Applicable to all contractual payments due to the covered company on securities it owns that are not eligible HQLA

Secured Lending Transactions § _.33(f)(1)	
Categories for Secured Lending Transactions Maturing within 30 Calendar Days of the Calculation Date	Secured Lending Inflow Rate Applied to Contractual Amounts Due from the Counterparty
Where the asset securing the secured lending transaction is included in the covered company's eligible HQLA as of the calculation date, and the transaction is:	

Secured by level 1 liquid assets	0%
Secured by level 2A liquid assets	15%
Secured by level 2B liquid assets	50%
Where the asset securing the secured lending transaction is not included in the covered company's eligible HQLA as of the calculation date but is still held by the covered company and is available for immediate return to the counterparty, and the transaction is:	
Secured by level 1, level 2A or level 2B liquid assets	100%
A collateralized margin loan secured by assets that are not HQLA	50%
Not a collateralized margin loan and is secured by assets that are not HQLA	100%
Where the asset securing the secured lending transaction has been rehypothecated and used to secure, or has been delivered into, any transaction or obligation which:	
Will not mature or expire within 30 calendar days or may extend beyond 30 calendar days of the calculation date	0%

Where the asset securing the secured lending transaction has been rehypothecated and used to secure any secured funding transaction or obligation, or delivered in an asset exchange, that will mature within 30 calendar days of the calculation date, and the secured lending transaction is:	
Secured by level 1 liquid assets	0%
Secured by level 2A liquid assets	15%
Secured by level 2B liquid assets	50%
A collateralized margin loan secured by assets that are not HQLA	50%
Not a collateralized margin loan and is secured by assets that are not HQLA	100%

Asset Exchange § _.33(f)(2)		
Covered Company Will Receive at Maturity	Covered Company Must Post at Maturity	Asset Exchange Inflow Rate
Where the asset originally received in the asset exchange has not been rehypothecated to secure any transaction or obligation, or delivered in an asset exchange, that will mature or expire more than 30 calendar days from a calculation date		

or may extend beyond 30 calendar days of a calculation date:		
Level 1 liquid assets	Level 1 liquid assets	0%
Level 1 liquid assets	Level 2A liquid assets	15%
Level 1 liquid assets	Level 2B liquid assets	50%
Level 1 liquid assets	Assets that are not HQLA	100%
Level 2A liquid assets	Level 2A liquid assets	0%
Level 2A liquid assets	Level 2B liquid assets	35%
Level 2A liquid assets	Assets that are not HQLA	85%
Level 2B liquid assets	Level 2B liquid assets	0%
Level 2B liquid assets	Assets that are not HQLA	50%
Where the asset originally received in the asset exchange has been rehypothecated to secure any transaction or obligation, or delivered in an asset exchange, which will mature or expire more than 30 calendar days from the calculation date or may		0%

extend beyond 30 calendar days of the calculation date:	

Category	Outflow	Description and Comments
Broker-Dealer Segregated Accounts § _.33(g)		
Reserve Account Balance Inflow	100%	Applicable to the difference, if positive, between the fair value of the required balance of the customer reserve account as of 30 calendar days from the calculation date and the fair value of the required balance as of the calculation date. In calculating this inflow, the covered company must assume that customer cash and collateral positions have changed consistent with the outflow and inflow calculations required under the rule.
Other Cash § _.33(h)		
Other Cash Inflow	0%	Applicable to all other cash inflow amounts not discussed above.