Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

September 25, 2014

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, Savings and Loan Holding Companies,
and Foreign Banking Offices
in the Twelfth Federal Reserve District

Federal Banking Regulators Finalize Liquidity Coverage Ratio

On September 3, 2014, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency finalized a rule to strengthen the liquidity positions of large financial institutions.

The rule will for the first time create a standardized minimum liquidity requirement for large and internationally active banking organizations. Each institution will be required to hold high quality, liquid assets such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a 30-day stress period. The ratio of the firm's liquid assets to its projected net cash outflow is its "liquidity coverage ratio," or LCR.

The LCR will apply to all banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure and to these banking organizations' subsidiary depository institutions that have assets of $10 billion or more. The rule also will apply a less stringent, modified LCR to bank holding companies and savings and loan holding companies that do not meet these thresholds, but have $50 billion or more in total assets. Bank holding companies and savings and loan holding companies with substantial insurance or commercial operations are not covered by the final rule.

The final rule also does not apply to non-bank financial companies designated by the Financial Stability Oversight Council for enhanced supervision. Instead, the Federal Reserve Board plans to apply enhanced prudential liquidity standards to these institutions through a subsequently issued order or rule following an evaluation of the business model, capital structure, and risk profile of each designated nonbank financial company.

U.S. firms will be required to be fully compliant with the rule by January 1, 2017.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco’s website, at http://www.frbsf.org/banking-supervision/publications/district-circular-letters/.

For additional information, please contact:

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