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

October 28, 2013

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 Reserve Board Proposes Rule to Strengthen Liquidity Positions of Large Financial Institutions

On Thursday, October 24, 2013, the Federal Reserve Board proposed a rule to strengthen the liquidity positions of large financial institutions. The proposal would for the first time create a standardized minimum liquidity requirement for large and internationally active banking organizations--generally, those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure--and systemically important, non-bank financial companies designated by the Financial Stability Oversight Council. These institutions would be required to hold minimum amounts of high-quality, liquid assets such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash. Each institution would be required to hold liquidity in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a short-term stress period. The ratio of the firm's liquid assets to its projected net cash outflow is its "liquidity coverage ratio," or LCR.

The proposal also would apply a less stringent, modified LCR to bank holding companies and savings and loan holding companies that are not internationally active, but have more than $50 billion in total assets. Bank holding companies and savings and loan holding companies with substantial insurance subsidiaries and non-bank, systemically important financial institutions with substantial insurance operations are not covered by the proposal.

The liquidity proposal is based on a standard agreed to by the Basel Committee on Banking Supervision. It is generally consistent with the Basel Committee's LCR standard, but is more stringent in several areas. In addition, the proposed transition period is shorter. The LCR would also establish an enhanced prudential liquidity standard consistent with section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The Federal Reserve developed the proposed rule with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. Comments will be received through January 31, 2014.

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:

Federal Reserve Bank of San Francisco
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Attachment:

Federal Register notice (PDF)