U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

B-326346

October 27, 2014

The Honorable Tim Johnson
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Department of the Treasury, Office of the Comptroller of the Currency; Federal Reserve System; Federal Deposit Insurance Corporation: Liquidity Coverage Ratio: Liquidity Risk Measurement Standards*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Department of the Treasury, Office of the Comptroller of the Currency (OCC); Federal Reserve System (the Board); and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) entitled "Liquidity Coverage Ratio: Liquidity Risk Measurement Standards" (RINs: 1557-AD74; 7100-AE03; 3064-AE04). We received the rule on October 6, 2014. It was published in the *Federal Register* as a final rule on October 10, 2014, with a stated effective date of January 1, 2015. 79 Fed. Reg. 61,440.

The final rule implements a quantitative liquidity requirement consistent with the liquidity coverage ratio standard established by the Basel Committee on Banking Supervision (BCBS). The requirement is designed to promote the short-term resilience of the liquidity risk profile of large and internationally active banking organizations, thereby improving the banking sector's ability to absorb shocks arising from financial and economic stress, and to further improve the measurement and management of liquidity risk. The final rule establishes a quantitative minimum liquidity coverage ratio that requires a company subject to the rule to maintain an amount of high-quality liquid assets (the numerator of the ratio) that is no less than 100 percent of its total net cash outflows over a prospective 30 calendar-day period (the denominator of the ratio). The final rule applies to large and internationally active banking organizations, generally, bank holding companies, certain savings and loan holding companies, and depository institutions with $250 billion or more in total assets or $10 billion or more in on-balance sheet foreign exposure and to their consolidated subsidiaries that are depository institutions with $10 billion or more in total consolidated assets. The final rule focuses on these financial institutions because of their complexity, funding profiles, and potential risk to the financial system. Therefore, the agencies do not intend to apply the final rule to community banks. In addition,

the Board is separately adopting a modified minimum liquidity coverage ratio requirement for bank holding companies and savings and loan holding companies without significant insurance or commercial operations that, in each case, have $50 billion or more in total consolidated assets but that are not internationally active.

Enclosed is our assessment of the agencies' compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the agencies complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Linda Robertson
Assistant to the Board of Governors
of the Federal Reserve System

ENCLOSURE

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
DEPARTMENT OF THE TREASURY,
OFFICE OF THE COMPTROLLER OF THE CURRENCY;
FEDERAL RESERVE SYSTEM;
FEDERAL DEPOSIT INSURANCE CORPORATION
ENTITLED
"LIQUIDITY COVERAGE RATIO:
LIQUIDITY RISK MEASUREMENT STANDARDS"
(RINs: 1557-AD74; 7100-AE03; 3064-AE04)

(i) Cost-benefit analysis

In its Impact Assessment for the Liquidity Coverage Ratio (LCR), the Office of the Comptroller of the Currency (OCC) estimates that the overall cost to covered institutions of the final rule will be between $2.0 billion and $4.0 billion, of which $1.7 billion to $3.6 billion will recur annually. The cost to an individual bank will depend largely on the cost of eliminating its LCR shortfall. OCC estimates that the increase in banks' net funding costs, which will be the difference between the cost of funds used to acquire high-quality liquid assets (HQLA) and the rate of return earned on the acquired HQLA, will be between $1.7 billion and $3.6 billion per year once the rule is fully phased-in. In addition to these net funding costs, institutions subject to the rule may have to introduce new information systems to calculate the LCR, which would add operational costs of approximately $391 million across all OCC-supervised institutions subject to the final rule. OCC estimates that approximately $335 million of these operational costs will be non-recurring and approximately $56 million will be recurring annual costs related to reporting and system upkeep. Because profit-maximizing covered institutions will elect to close any LCR shortfall using the least expensive funds available first, OCC expects the overall cost of the final rule to be closer to the lower end of our estimated range than to the upper end.

OCC also expects this final rule to generate a number of potential benefits. The enhanced liquidity buffer required under the final rule will bolster bank solvency under liquidity stress and help ensure that covered institutions will have sufficient liquidity to sustain critical financial intermediation and liquidity provision during a 30-day stress period. The liquidity buffer also lowers the risk to and consequently the default probabilities for covered institutions, which in turn protects shareholders, creditors, and employees. Because the default of a covered institution could have broad systemic implications, the LCR standard and the HQLA buffer in particular also helps protect the U.S. financial system and consequently, the global economy and the economic welfare of the American people. When fully implemented, the rule provides a measure of liquidity that will be consistent across covered institutions and over time. Such a measure of liquidity should be of considerable benefit to bank supervisors and the managers of institutions subject to the new rule. Additionally, the agencies' joint rulemaking will introduce requirements with respect to calculating the consolidated LCR that have the effect of strengthening parent liquidity, which could enhance strength of support and thus the safety and soundness of covered depositories.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

OCC and FDIC certified that this final rule will not have a significant economic effect on a substantial number of small entities. The Federal Reserve System stated that it believes the final rule will not have a substantial impact on small banking organizations supervised by the Board.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

OCC determined that this final rule is likely to result in the expenditure by the private sector of $100 million or more in any one year. The final rule did not include OCC's analysis under the Act, but it stated that the analysis would be available at *regulations.gov*. In the analysis posted on that website, OCC estimated that the total cost of the final rule is between $2 billion and $4 billion, but OCC expects that the rule will not significantly affect local government financing, will not cause a significant increase in costs or prices, and will not have a significant adverse impact on economic growth, competition, employment, investment, productivity, or innovation. OCC does expect some banking business may shift from institutions covered by this final rule to institutions not covered by the final rule. As independent regulatory agencies, the Board and the FDIC are not subject to the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On November 29, 2013, OCC, the Board, and FDIC published a proposed rule. 78 Fed. Reg. 71,818. Each of the agencies received over 100 comments from U.S. and foreign firms, public officials, public interest groups, private individuals, and other interested parties. The agencies responded to comments in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

The agencies determined that this final rule contains an information collection requirement under the Act entitled "Reporting and Recordkeeping Requirements Associated with Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring." OCC and FDIC submitted this collection to the Office of Management and Budget (OMB) for review and the Board reviewed the final rule under the authority delegated to the Board by OMB. The agencies received no comments on the information collection requirement as stated in the proposed rule and invited comment on the burden estimates. The agencies estimate, in the aggregate, the total number of respondents to be 64 and the total annual burden to be 3,887 hours.

Statutory authorization for the rule

OCC promulgated this final rule under the authority of sections 1 to 16, 93a, 481, 1462 to 1470, 1818 of title 12, United States Code. The Board promulgated this final rule under the authority of sections 248(a), 321 to 338a, 481 to 486, 1467a(g)(1), 1818, 1828, 1831p-1, 1831o-1, 1844(b), 5365, 5366, and 5368 of title 12, United States Code. FDIC promulgated this final rule under the authorities of sections 1815, 1816, 1818, 1819, 1828, 1831p-1, and 5412 of title 12, United States Code.

Executive Order No. 12,866 (Regulatory Planning and Review)

As independent regulatory agencies, the Board and FDIC are not subject to the Order. The final rule did not address any actions OCC took in relation to the Order.

Executive Order No. 13,132 (Federalism)

As independent regulatory agencies, the Board and FDIC are not subject to the Order. The final rule did not address any actions OCC took in relation to the Order.