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March 5, 2021

The Honorable Sherrod Brown
Chairman
The Honorable Patrick J. Toomey
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
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: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements*

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); Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies), entitled “Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements” (RINs: 1557-AD97; 7100-AE51; 3064-AE44). We received the rule on February 19, 2021. It was published in the *Federal Register* as a final rule on February 11, 2021. 86 Fed. Reg. 9120. The effective date of the rule is July 1, 2021.

The final rule implements a stable funding requirement, known as the net stable funding ratio (NSFR), for certain large banking organizations. According to the agencies, this rule establishes a quantitative metric, the NSFR, to measure the stability of the funding profile of certain large banking organizations and requires these banking organizations to maintain minimum amounts of stable funding to support their assets, commitments, and derivatives exposures over a 1 year time horizon. The agencies state that NSFR is designed to reduce the likelihood that disruptions to a banking organization’s regular sources of funding will compromise its liquidity position, promote effective liquidity risk management, and support the ability of banking organizations to provide financial intermediation to businesses and households across a range of market conditions. The agencies also state that NSFR supports financial stability by requiring banking organizations to fund their activities with stable sources of funding on an ongoing basis, reducing the possibility that funding shocks would substantially increase distress at individual banking organizations.

According to the agencies, this rule applies to certain large U.S. depository institution holding companies, depository institutions, and U.S. intermediate holding companies of foreign banking organizations, each with total consolidated assets of $100 billion or more, together with certain depository institution subsidiaries (together, covered companies). The agencies state that, under this rule, the NSFR requirement increases in stringency based on risk-based measures of the top-tier covered company. According to the agencies, U.S. depository institution holding companies and U.S. intermediate holding companies subject to the final rule are required to publicly disclose their NSFR and certain components of their NSFR every second and fourth calendar quarter for each of the two immediately preceding calendar quarters. The agencies state that this rule also amends certain definitions in the agencies' liquidity coverage ratio rule that are also applicable to NSFR.

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. 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 Shari Brewster, Assistant General Counsel, at (202) 512-6398.

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Enclosure

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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
"NET STABLE FUNDING RATIO: LIQUIDITY RISK MEASUREMENT
STANDARDS AND DISCLOSURE REQUIREMENTS"
(RINs: 1557-AD97; 7100-AE 51; 3064-AE 44)

(i) Cost-benefit analysis

The Department of the Treasury, Office of the Comptroller of the Currency (OCC); Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) estimated the overall annual cost of this final rule to be $270,100,000. Specifically, the agencies estimated the cost of eliminating any net stable funding ratio (NSFR) shortfall borne by OCC-supervised banks to be approximately $240,000,000, the operational compliance costs for OCC-supervised banks to be approximately $26,000,000, and additional start-up expenses to OCC to be approximately $4,100,000. The agencies also identified some non-monetized costs of the rule in that, as some policymakers have noted, liquidity regulation has the potential to generate unintended effects, such as multiple incentives for firms to hoard accumulated liquidity in periods of stress and systemic implications from banks reacting to the threat of breaching a regulatory ratio, which could place stress on the banking system.

According to the agencies, this final rule is unlikely to generate many separate benefits beyond establishing a long-horizon quantitative liquidity measure. The agencies state that one such long-term benefit is that, regardless of whether the remaining OCC-supervised institutions do or do not face an NSFR funding shortfall upon implementation of the final rule, the NSFR requirement will likely cause firms to modify their funding profile, especially in terms of placing limits on extremes of maturity transformation.

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

OCC and FDIC certified that the final rule will not have a significant economic impact on a substantial number of small entities. The Board stated, based on its analysis, it does not believe the final rule will have a significant economic impact on a substantial number of small entities.

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

OCC concluded that the final rule will result in private sector costs that exceed the threshold for a significant regulatory action under the Act. Specifically, OCC estimated the total costs under the Act to be approximately $266,000,000 per year, comprised of $26,000,000 in compliance related expenditures and $240,000,000 in shortfall funding.

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

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

On June 1, 2016, the agencies published a proposed rule. 81 Fed. Reg. 35124. Subsequently, the agencies published various tailoring proposals and, on November 1, 2019, published a tailoring final rule on the scope of liquidity coverage ratio (LCR). 84 Fed. Reg. 59230. According to the agencies, they received approximately 30 comments on the proposed rule, as well as approximately 20 comments related to the rule in response to the tailoring proposals, from U.S. and foreign banking organizations, trade groups, public interest groups, and other interested parties. The agencies stated that their staff also met with some commenters at their request to discuss their comments on the proposed rule and the tailoring proposals. The agencies responded to comments in this final rule.

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

The agencies determined that this final rule contains information collection requirements under the Act. According to the agencies, OCC and FDIC submitted the information collection requirements (ICR) contained in this rule to the Office of Management and Budget (OMB) for review, while the Board reviewed the rule under the authority delegated to the Board by OMB. The agencies estimated the following annual burden hours for the ICRs associated with this rule: 4,722 hours for OCC's ICR entitled "Reporting and Recordkeeping Requirements Associated with Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring" (OMB Control Number 1557-0323); 2,793 hours for the Board's ICR entitled "Reporting, Recordkeeping, and Disclosure Requirements Associated with Liquidity Risk Measurement Standards" (OMB Control Number 7100-0367); and 994 hours for FDIC's ICR entitled "Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring (LCR)" (OMB Control Number 3064-0197).

Statutory authorization for the rule

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

Executive Order No. 12866 (Regulatory Planning and Review)

As independent regulatory agencies, the agencies are not subject to the requirements of the Order.

Executive Order No. 13132 (Federalism)

As independent regulatory agencies, the agencies are not subject to the requirements of the Order.