Basel Committee
on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III LCR regulations – United States of America

July 2017

BANK FOR INTERNATIONAL SETTLEMENTS

Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity

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Glossary

ALA	Alternative Liquidity Approaches
BIS	Bank for International Settlements
C	Compliant (grade)
CLAR	Comprehensive liquidity analysis and review
EUR	Euro
FCA	Farm Credit Administration
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FR	Federal Register
G-SIB	Global systemically important bank
GSE	Government-sponsored entity
HQLA	High-quality Liquid Assets
LC	Largely compliant (grade)
LCR	Liquidity Coverage Ratio
MNC	Materially non-compliant (grade)
NA	Not applicable
NC	Non-compliant (grade)
OCC	Office of the Comptroller of the Currency
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
RMBS	Residential mortgage-backed securities
SIG	Supervision and Implementation Group
SREP	Supervisory review and evaluation process
US	United States
USD	US dollar

Preface

The Basel Committee on Banking Supervision (Basel Committee) sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if the standards are implemented appropriately and consistently by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of an RCAP assessment on the domestic adoption of the Basel Liquidity Coverage Ratio (LCR) standard in the United States (US) and its consistency with the minimum requirements of the Basel III framework.

The focus of the assessment was on the consistency and completeness of US regulations with the Basel minimum requirements, with respect to the regulations applied to those US banks that are internationally active and of significance to domestic financial stability. Issues relating to prudential outcomes, the liquidity position of individual banks or the US authorities' supervisory effectiveness were not within the scope of this RCAP assessment. The assessment relied upon data, information and materiality computations provided by the US authorities and was based on US regulations in force as of 31 December 2016. The Basel Committee discussed and approved the report, which ultimately reflects its judgment on the consistency and completeness of the US implementation of the LCR.

The assessment began in April 2016 and consisted of three phases: (i) completion of an RCAP questionnaire (a self-assessment) by the US authorities; (ii) an assessment phase (July to December 2016); and (iii) a post-assessment review phase (January to June 2017). The second phase included an evaluation of the self-assessment provided by the US authorities as well as an on-site assessment, which involved discussions with US authorities and representatives of US banks. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel LCR in the US. The third phase consisted of a two-stage technical review of the assessment findings: first, by a separate RCAP Review Team and feedback from the Basel Committee's Supervision and Implementation Group (SIG); and second, by the RCAP Peer Review Board and the Basel Committee. This two-step review process is a key part of the RCAP process, providing quality control and ensuring integrity of the assessment findings. The Assessment Team prepared a draft report based on (i) its assessment and discussions with the US authorities and (ii) discussions of the report by the Committee's Supervision and Implementation Group (SIG). This report was later updated by the Basel Committee's Secretariat to reflect the views of the Peer Review Board and, ultimately, of the Basel Committee.

Where domestic regulations and provisions were identified to be non-conforming with the Basel framework, those deviations were evaluated for their current and potential impact (or non-impact) on the reported LCRs of a sample of US banks. Some findings were evaluated on a qualitative basis. The assessment outcome was based on the materiality of findings and use of expert judgment. One item was also identified for follow-up in future RCAP assessments (Annex 10).

The report has three sections and a set of annexes: (i) an executive summary with a statement from the US authorities on the outcome of the assessment; (ii) the context, scope and methodology, and the main findings; and (iii) details of the deviations and their materiality along with other observations of the Assessment Team.

The Assessment Team was led by Mr Pascual O'Dogherty, General Director of Financial Stability at the Bank of Mexico, and comprised two technical experts from India and the Netherlands (Annex 1). The main counterpart for the assessment was the Board of Governors of the Federal Reserve System (the Board), which in turn coordinated with other US regulatory authorities. The overall work was coordinated by the Basel Committee Secretariat with support from Bank of Mexico staff.

The Assessment Team acknowledges the professional cooperation received from the US authorities throughout the assessment process. In particular, the team sincerely thanks the staff of the Board for playing an instrumental role in coordinating the assessment exercise and, also thanks the US authorities for the comprehensive briefings and clarifications they provided. The Assessment Team also thanks the representatives of US banks that provided data and information. The Assessment Team is hopeful that the RCAP assessment exercise will contribute to the sound initiatives that have been undertaken by the US authorities and to strengthening further the prudential effectiveness and full implementation of the LCR in the US.

Executive summary

The US LCR framework was issued in October 2014 through the publication of an inter-agency regulation. This took effect in January 2015. The LCR disclosure requirements were issued in December 2016 by way of a Board regulation and took effect in April 2017. The LCR applies to all internationally active US banking organisations.

Overall, as of 31 December 2016 (the cut-off date for the RCAP assessment), the LCR regulations in the US are assessed as compliant with the Basel LCR standards. This is the highest grade. All four components, the definition of high-quality liquid assets (HQLA), liquidity outflows, liquidity inflows and disclosure requirements, are also assessed as compliant.

The Assessment Team identified two issues where further guidance from the Basel Committee is sought (Annex 9). First, the Basel LCR standard permits the inclusion of marketable securities representing claims on or guaranteed by public sector entities (PSEs) in Level 2A HQLA, provided that these securities meet certain conditions. The Assessment Team considers that the Committee should clarify the definition of PSEs in the Basel framework. Second, the Basel LCR standard permits jurisdictions to apply a 3% run-off rate to stable deposits subject to certain criteria on deposit insurance schemes and the jurisdiction being able to provide evidence of run-off rates for stable deposits during periods of stress. The Assessment Team believes that the Committee should clarify the evidence required for jurisdictions to be able to apply a 3% run-off rate.

Further, the Basel Committee recommends that the treatment of securities issued by two government-sponsored entities (GSEs) – the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – be reviewed in future RCAP assessments (Annex 10). Securities issued or guaranteed by those two GSEs form a large part of Level 2A HQLA for the US banks included in the RCAP sample. Currently, these GSEs are under the conservatorship of the US government, which has committed to support these entities and its obligations. Conservatorship is a temporary situation. After review and discussion of the Assessment Team's finding, the Basel Committee concluded that the current treatment in the US LCR regulations of securities issued by Fannie Mae and Freddie Mac (ie their inclusion in Level 2A HQLA) is appropriate and consistent with the Basel standard, so long as these entities are under conservatorship. While the Committee notes the uncertainty regarding any future changes to the legal or regulatory structure for these entities, it recommends that the treatment of securities issued by Fannie Mae and Freddie Mac as Level 2A HQLA be reviewed should the conservatorship end or their legal status otherwise materially change.

In addition to the formal assessment of the LCR standard and disclosure requirements, this report contains annexes that summarise the US implementation of the LCR monitoring tools and the Basel Committee's Principles for sound liquidity risk management (see Annexes 7 and 8). Further, a summary is provided of the key national discretions and approaches that the US authorities have adopted in their implementation of the LCR standard (Annex 12). These annexes show how national authorities implement certain aspects of the Basel standards that are not within scope of the formal RCAP-LCR assessment. Over time, the information detailed in these annexes will provide a basis for identifying sound practices and designing additional supervisory guidance that will help the regulatory community and the banking industry to improve the consistency of LCR implementation and to improve its effectiveness in practice.

Response from the US authorities

Introduction

The US federal banking agencies (agencies) thank the Assessment Team led by Mr Pascual O'Dogherty for the team's insightful comments and collaborative approach during the review of the implementation of the LCR in the United States. We recognise that the Assessment Team worked diligently and sought to understand the key features of the funding markets that are unique to the United States.

The agencies appreciate the opportunity to provide comments on the findings provided by the Assessment Team, which assessed the consistency and completeness of US regulations with Basel minimum requirements. We strongly support the implementation of a globally consistent LCR standard and appreciate the Basel Committee's efforts to accomplish this goal.

I. HQLA

A. Inclusion of GSE securities as Level 2A liquid assets.

The agencies disagree with the Team's finding that the Farm Credit System Administration (FCA) and Federal Home Loan Bank (FHLB) System securities' inclusion as HQLA Level 2A is a deviation. The grounds that the Team has given for this finding is that these securities are not eligible for the 20 percent risk weight that the Basel standardised credit risk framework makes available to exposures to PSEs, a necessary qualification for Level 2A designation. The agencies maintain that the FCA and FHLB constitute PSEs at the central government level, and the Basel standards assign PSEs, at national discretion with no conditions, a 20 percent risk weight or, even a 0 percent risk weight.

While the Team determined that the finding regarding the FCA and the FHLB System is not material, its finding is inconsistent with the findings in the 2014 Capital RCAP report, which looked closely at the US credit risk framework. The Capital RCAP report found the 20 percent risk weight for GSEs fully compliant with the Basel standards, stating that "Under the Basel Standardised Approach, the US agencies could justify a 0% risk weight for these exposures, but apply a more conservative risk weight of 20%." This finding applied to all US GSEs.

The Liquidity Assessment Team concluded that the FCA and FHLB System do not qualify as PSEs and, thus, that their securities are not eligible for the 20 percent risk weight or Level 2A HQLA status because their exposures are not "guaranteed by the full faith and credit of the US central government." In drawing this conclusion, the Assessment Team has gone beyond a plain reading of the Basel framework in the agencies' view. The Basel standards do not require a government guarantee for a 20 percent, nor a 0 percent, risk weight for PSEs. Instead the standards leave the designation of PSEs and their risk weighting to national discretion.

The standards avoid prescriptive criteria for government support mechanisms for PSEs because the structuring of such entities and their governmental support, particularly at the central government level, inevitably must fit within a jurisdiction's political structure and other well established national arrangements; all of these can vary widely across countries. As noted in Annex 9 of this report, the current Basel rules text leaves the determination of appropriate government support mechanisms for entities designated as PSEs to national discretion and does not provide prescriptive guidance on how that discretion should be applied. The agencies believe that any changes to this approach would require a revision to the Basel text following public consultation and careful consideration of comments received.

B. Currency alignment of eligible HQLA

US liquidity regulations require all covered companies to hold eligible HQLA that is appropriately diversified by currency and geography. The regulations also require covered companies to monitor and manage their cash flows and funding needs across these categories. Moreover, the agencies have monitoring tools and supervisory processes that ensure appropriate diversification of eligible HQLA and the agencies monitor currency mismatches.

II. LCR outflows

A. Not material findings

A1. Run-off rate for secured funding transaction with FHLB

Under the Basel standard, a 25% run-off rate is applied to maturing secured funding transactions with a bank's domestic sovereign, multilateral development banks or domestic PSEs that have a 20% or lower risk weight for purposes of determining risk-based capital, when the transactions are backed by assets other than Level 1 or Level 2A liquid assets. As for HQLA, the US agencies disagree with the Assessment Team's determination that FHLB does not meet the Basel definition of a PSE and, thus, does not qualify for the 25 percent runoff rate, as well as with the conclusion that the US treatment of FHLB funding is a divergence from the Basel LCR standard. If FHLB was not treated as a PSE, the Basel standard would require a run-off factor higher than 25 percent for FHLB funding with maturities within 30 days.

The agencies provided evidence that, consistent with its mandate as a GSE, the FHLB expanded secured funding during the financial crisis and that the rollover of maturing FHLB advances is appropriately and conservatively treated in the US rule. Furthermore, secured funding provided by the FHLB pertinent to the LCR timeframe is not material.

A2. Home/host retail deposit run-off rates

The Basel standard allows a home jurisdiction to apply stricter requirements for retail and small business customers than those that would otherwise be applicable in a host jurisdiction. The US LCR rule imposes a run-off factor of 10% on all retail and small business customers in host jurisdictions, in the expectation that this will be stricter than host requirements. However, the US authorities had not previously reviewed the parameters that have emerged in other jurisdictions as those jurisdictions implemented the standard.

Evidence from the Working Group on Liquidity's questionnaire on national implementation of the LCR indicates that some jurisdictions may apply higher run-off rates to less stable retail deposits as defined within those jurisdictions. The US agencies analysed the materiality of such treatment for the RCAP sample banks. The agencies believe that the treatment under the US rule is not materially different from the treatment in host jurisdictions.

A3. Foreign currency deposits

Foreign currency deposits should be considered as "less stable" if there is reason to believe that such deposits are more volatile than domestic currency deposits. US banks may receive deposits in foreign currencies and certain deposits might potentially be treated as stable deposits under the US rule. Currently, the quantum of such deposits is negligible.

A4. Retail customer threshold

As per Basel requirements, a small business customer is defined as that for which total aggregated funding raised amounts to less than EUR 1 million. Under the US rule, a small business customer is defined as a customer for which total funding does not amount to more than USD 1.5 million. The agencies provided data on the possible impact for the sample banks based on a conservative alternative limit and the Assessment Team concluded that this difference is not material.

B. Request for clarification

B1. Use of national discretion for a 3% outflow rate for stable retail deposits

The agencies support the Assessment Team's request for further guidance from the Basel Committee in respect of paragraph 78 of the Basel LCR standard. The standard permits jurisdictions to exercise national discretion in applying a 3% run-off rate to stable retail deposits subject to certain criteria on deposit insurance schemes and the jurisdiction being able to provide evidence of run-off rates for stable deposits within the banking system below 3% during periods of stress.

III. Cash inflows

The Assessment Team did not find any substantive differences between the Basel standard and US regulations on inflows.

IV. Public disclosure

The US rule to implement the public disclosure requirements for the LCR was issued by the Board in December 2016. The public disclosure requirements for the United States are consistent with the Basel standard.

1 Assessment context and main findings

1.1 Context

Status of implementation

In October 2014, the Board, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) each issued a regulation to implement the LCR for the banks within their respective scopes of supervision.[1] This took effect in January 2015 with a minimum LCR requirement of 80%, increasing to 100% from January 2017. The LCR applies to all US internationally active banking organisations, as well as to their consolidated subsidiary depository institutions with consolidated assets of USD 10 billion or more. The US authorities consider a banking organisation to be internationally active if it has at least USD 250 billion in consolidated assets or at least USD 10 billion in on-balance-sheet foreign exposure.

In addition, the Board applies a modified version of the LCR to bank holding companies, and saving and loan holding companies with USD 50 billion or more in consolidated assets that are not internationally active and do not have substantial insurance activities. These regulations are complemented with an Inter-agency Policy Statement and an additional Board regulation on liquidity risk management.

In December 2016, the Board issued a final rule on LCR disclosure requirements. This took effect in April 2017 and applies to all banks required to calculate an LCR under the Board's LCR rule.

The Basel standard allows jurisdictions that have a structural shortfall in high quality liquid assets to implement Alternative Liquidity Approaches (ALA). At the time of the assessment, the US authorities had not implemented ALA.

Structure of the banking sector

As of September 2016, the US had around 4,500 bank holding companies, 6,000 commercial banks and another 6,000 savings banks, savings and loan associations, and credit unions. There are 15 internationally active bank holding companies and 22 internationally active depository institutions. The banking system is mature and comprises institutions with a broad range of activities.

The US authorities apply the Basel liquidity standards to all internationally active banking organisations. These banks comprise around 70% of US banking assets. In evaluating the materiality of its findings, this RCAP assessment focused on the eight global systemically important banks (G-SIBs) based in the US. The assets of these banks comprise around 50% of the US banking system and about 90% of the on- and off-balance sheet exposures of US internationally active banks (see Annex 8).

Regulatory system and model of supervision

The US has a dual banking system in which a bank may choose to be chartered by the federal government or by a state. Banks chartered at the state level are supervised by both federal and state supervisors. Every US bank is regulated, supervised and examined by a primary federal banking supervisor: the OCC, the FDIC or the Federal Reserve System. The US federal banking agencies have the authority to regulate and supervise banks and bank holding companies subject to their jurisdiction. Annex 2 describes the hierarchy of legal instruments relevant to liquidity regulation.

In addition to the supervision of minimum liquidity requirements, the US authorities monitor the banks' liquidity buffers through the Basel liquidity monitoring tools (Annex 9). The quality of the banks'

[1] Annex 2 gives more detail on the regulations issued. The Board subsequently revised its regulation in April 2016.

liquidity risk management is further assessed against the principles for sound liquidity risk management and involves both on-site and off-site assessments (Annex 10). The US authorities are in the process of designing reporting requirements to implement the Basel monitoring tools for intraday liquidity management.

1.2 Structure, enforceability and binding nature of prudential regulations

RCAP assessments only take into consideration documents that implement the Basel framework in a manner that provides a formal basis for regulators, banks and associated third parties to ensure compliance with the minimum requirements. The hierarchy of prudential regulation in the US is set out in Table 1 and Annex 2. As in the previous assessment of the implementation of the Basel risk-based capital standards in the US,[2] the regulatory documents set out in Table 1 were considered binding and therefore eligible for the LCR assessment.

Structure of US laws and regulatory instruments	Table 1
Laws that empower the US authorities as banking supervisors	Federal statutes and legislative mandates authorise the federal banking agencies to establish minimum prudential requirements.
Supervisory regulatory instruments issued by the US authorities derived from the above law	Regulations and reporting requirements set out the LCR requirements.
	Policy statements, interpretations, supervisory guidance and manuals address significant prudential policy and procedural matters.

1.3 Scope of the assessment

The assessment was made of the LCR requirements as applicable to internationally active banking organisations in the US (henceforth, "banks"), as of 31 December 2016. The assessment had two dimensions:

- a comparison of domestic regulations with the Basel LCR standards to ascertain that all the required provisions have been adopted (*completeness* of the US domestic regulations); and
- whether there are any differences in substance between the domestic regulations and the Basel LCR standards and their significance (*consistency* of the US regulations).

The assessment took into account all binding documents that effectively implement the Basel LCR framework in the US. Importantly, the assessment did not evaluate the adequacy of liquidity or resilience of the banking system in the US or the supervisory effectiveness of the US authorities.

Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, both at the level of each of the four key components of the Basel

[2] Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III regulations – United States of America* (December 2014), www.bis.org/bcbs/publ/d301.pdf. In particular, see Annex 7, which describes the binding nature of US regulatory documents.

framework for the LCR and overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.[3]

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact (or non-impact) on banks' LCRs. The quantification was, however, limited to the agreed sample of banks. Wherever relevant and feasible, the Assessment Team, together with the US authorities, attempted to quantify the impact based on data collected from the agreed sample of banks (see Annex 6). In addition to the available data, the assessment relied on expert judgement as to whether domestic regulations met the Basel framework in letter and in spirit. The non-quantifiable aspects of identified deviations were discussed with the US authorities in the context of prevailing regulatory practices and processes.

The assignment of the assessment grades was guided by the collective expert judgement of the Basel Committee. In doing so, the Basel Committee relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Section 2 and Annex 6.

In a number of areas, the US rules go beyond the minimum Basel standards. Although these elements provide for a more rigorous implementation of the Basel framework in some aspects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (see Annex 11 for a listing of areas of super-equivalence).

1.4 Main findings

Summary of assessment grades — Table 2

Key components of the Basel LCR framework	Grade
Overall grade	C
Definition of high quality liquid assets (numerator)	C
Definition of net outflows (denominator)	C
Definition of net inflows (denominator)	C
LCR disclosure requirements	C

Compliance assessment scale (see section 1.3 for more information on the definition of the grades): C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

Main findings by component

High-quality liquid assets (numerator)

The principles regarding the definition of HQLA under the US rules are compliant with the Basel standards.

Two non-material finding were identified. The first relates to the inclusion of securities issued by the Farm Credit System and the Federal Home Loan Bank System in HQLA. The second relates to the distribution of banks' HQLA by currency.

[3] This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable. See www.bis.org/bcbs/publ/d361.htm for further details.

In addition, the assessment revealed difficulties in interpreting the definition of PSEs in the Basel framework, which could usefully be clarified (see also Annex 9). This arises from the fact that the Basel LCR standard permits the inclusion of marketable securities representing claims on or guaranteed by PSEs in Level 2A HQLA, provided that these securities meet certain conditions.

In several ways, the US definition of HQLA is stricter than the Basel requirements. The aspects of the definition that are stricter have not been taken into account in determining the component grade.

Outflows (denominator)

The US rules regarding the liquidity outflows are compliant with the Basel standards.

The Assessment Team identified four differences between the US rules on LCR outflows and those of the Basel standards. These concern the run-off factor applied to secured funding transactions with GSEs, the definition of small business customers, the run-off factor applied to foreign currency deposits and the incorporation of certain host LCR parameters into US rules. None of these differences are considered material.

In this area, the US rules are stricter than the Basel standards in several areas, but this has not been taken into account in determining the component grade. For example, the US LCR regulations apply a run-off factor of 3% to certain stable retail deposits whose total amount is insured by the FDIC but do not recognise insurance by any other deposit insurer.

As an aside to the findings, the Assessment Team recommends that the Basel Committee consider whether the following requirement can be clarified (see Annex 9). The Basel framework permits the use of a 3% run-off factor where the deposit insurance scheme meets certain conditions and where a jurisdiction can provide evidence of run-off rates being less than 3% during periods of stress. The US LCR regulations permit a run-off factor of 3% for stable deposits. The Assessment Team and the US authorities discussed evidence provided by the US authorities on run-off rates during the 2007–2009 financial crisis, including those at large US banks that subsequently failed. During these discussions, the question arose of whether the evidence required under the Basel LCR standard should be based on system-wide outflows, outflows at individual banks or some combination.

Inflows (denominator)

The US rules on liquidity inflows are compliant with the Basel III standards. The Assessment Team did not find any substantive differences between the Basel standard and US regulations on net inflows.

Disclosure requirements

The US disclosure requirements issued in December 2016 are compliant with the Basel LCR disclosure requirements. As with the inflows component of the assessment, the Assessment Team did not find any substantive differences between the disclosures required under the Basel standard and those included in the US disclosure requirements. The Assessment Team observes that the US disclosure requirements apply from April 2017, which is later than the effective date envisaged by the Basel standard.

2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the LCR in the Basel framework are detailed below. The focus of Sections 2.1 and 2.2 is on findings that were assessed to be deviating from the Basel minimum standards. Section 2.3 lists some observations and other findings specific to implementation practices in the US.

2.1 LCR

2.1.1 High-quality liquid assets (numerator)

Section grade	Compliant
Summary	Two non-material finding were identified, relating to the inclusion of securities issued by the Farm Credit System and the Federal Home Loan Bank System in HQLA and the distribution of banks' HQLA by currency.
Basel paragraph number	42
Reference in domestic regulation	22(a)(4)(i), 22(b)(4) and 22(c)
Findings	The Basel standard states that banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency. The US rules require banks to implement and maintain policies and procedures that determine the composition of its eligible HQLA on each calculation date, by (emphasis added): (i) **identifying its eligible HQLA by** legal entity**, geographical location**, **currency**, account, or other relevant identifying factors as of the calculation date; (ii) determining that eligible HQLA meet the criteria set forth in this section; and (iii) **ensuring the appropriate diversification** of the eligible HQLA **by** asset type, counterparty, issuer, **currency**, borrowing capacity **or other factors associated with the liquidity risk of the assets**. Paragraph 42 of the Basel text asks banks to maintain HQLA in line with their liabilities in various currencies. The US rule, on the other hand, solely focuses on a well-diversified buffer independent of the liability structure. The Assessment Team considers that banks do, in practice, assess their HQLA needs in various currencies. The US authorities provided data on the proportion of HQLA held in USD as of September 2016. Almost all of the HQLA not denominated in USD was held in non-US domiciled branches and subsidiaries. Therefore, this finding is not considered to be material.
Materiality	Not material
Basel paragraph number	52
Reference in domestic regulation	20 and 21
Findings	Level 2A assets include marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that satisfy certain conditions. The US rule includes securities issued or guaranteed by GSEs as Level 2A HQLA. Under US legislation, GSEs are entities that are established or chartered by the US government to serve public purposes specified by US Congress. They may be privately owned (either by the corporations that use their services or by private shareholders). There are currently four GSEs: Fannie Mae, Freddie Mac, the Farm Credit System and the Federal Home Loan Bank System. GSEs do not, in general, enjoy an explicit government guarantee. However, two GSEs (Fannie Mae and Freddie Mac) are currently under the conservatorship of the US government and enjoy a conditional guarantee from the US Treasury. The inclusion of securities issued or guaranteed by these GSEs is not considered by the Committee as a deviation from the Basel standard; this is discussed further in section 2.3.

	Securities issued by the Farm Credit System and the Federal Home Loan Bank System are not guaranteed by the full faith and credit of the US government. Nor do the organisations have revenue-raising powers equivalent to those of regional or local governments. The Assessment Team considers that these entities do not meet the Basel framework's definition of a PSE, and therefore that their inclusion in Level 2A HQLA is a divergence from the Basel LCR standard. Holdings of securities issued by the Farm Credit System and the Federal Home Loan Bank System are not material within internationally active US banks' HQLA. This is not expected to change in the short or medium term. Therefore, the inclusion of such securities in Level 2A HQLA does not represent a material difference between the US regulations and the Basel standard, nor is it likely to become so in the future.
Materiality	Not material

2.1.2 Outflows (denominator)

Section grade	Compliant
Summary	The Assessment Team identified four non-material findings: the treatment of foreign currency deposits, the definition of small business customers, the run-off rate applied to advances by GSEs and run-off rates applied to less stable deposits in other jurisdictions.
Basel paragraph number	81
Reference in domestic regulation	Federal register 79 - Oct 10, 2014. Para _.32(a)(2), _.32(a)(3), _.32(a)(4), and _.3 "Stable retail deposit" and "Deposit insurance"
Findings	As per Basel requirements, supervisors will determine the run-off factor that banks in their jurisdiction should use for foreign currency deposits. Foreign currency deposits will be considered as "less stable" if there is a reason to believe that such deposits are more volatile than domestic currency deposits. US banks have deposit accounts in foreign currencies and these deposits are treated as stable deposits under US rules. Currently, the quantum of such deposits is negligible. Of the eight sample banks, only two reported any non-USD balances held by retail or small business customers that were insured by the FDIC (and hence eligible to be treated as stable deposits for the LCR). In aggregate, these balances averaged USD 2 million during Q3 2016 and never exceeded USD 19 million. On average, this represented 0.0005% of stable retail and small business deposits for these firms. In the view of the Assessment Team, these deposits are unlikely to become significant in the short or medium term. The Assessment Team considers it unlikely that such deposits would be as stable as USD deposits. However, in view of the insignificance of the quantum of such deposits, this finding is not considered material.
Materiality	Not material
Basel paragraph number	90
Reference in domestic regulation	Federal register 79 - Oct 10, 2014. Para _.3 "Retail customer or counterparty"
Findings	As per Basel requirements, "small business customers" are defined as those for which total aggregated funding raised from one small business customer is less than €1 million. Using the USD/EUR exchange rate at the time the US LCR rule was implemented, this limit is around USD 1.25 million. Under US rules and regulations, a small business customer is defined as a customer with total funding of less than USD 1.5 million. Therefore, more businesses are treated as retail counterparties than under the Basel standards and, as such, are subject to a lower run-off rate than would otherwise be the case. The US authorities explained that USD 1.5 million is the threshold below which they consider the behavioural and liquidity characteristics of a business customer to reflect those of a retail customer or counterparty. Research on the financial crisis of 2007–2008 indicated that small business customers, which in the US are generally those with a few

	hundred employees and up to tens of millions of USD in annual revenue, generally behaved similarly to individual customers with respect to the stability of deposits. In US markets, a funding level of USD 1.5 million is indicative of a very small enterprise operated by an individual or small number of employees. The US authorities informed the Assessment Team that the number of businesses falling between USD 1.25 million and USD 1.5 million at any given point in time is likely to be extremely small in the context of US banks' deposit bases. The US authorities provided data on the possible impact on the sample banks' LCR based on a conservative alternative limit. Based on this information, the Assessment Team concluded that this finding is not material.
Materiality	Not material
Basel paragraph number	114
Reference in domestic regulation	Federal register 79 - Oct 10, 2014. Para _32(j)(1)
Findings	As per Basel requirements, a 25% run-off factor is applied to maturing secured funding transactions with the bank's domestic sovereign, multilateral development banks or domestic PSEs that have a 20% or lower risk weight, when the transactions are backed by assets other than Level 1 or Level 2A assets. This is in recognition that these entities are unlikely to withdraw secured funding from banks in a time of market-wide stress. This run-off factor applies to secured funding maturing within 30 days (the time horizon of the LCR). The US LCR regulations apply a 25% run-off factor to maturing secured funding transactions with GSEs, in addition to the other counterparties listed above. Currently, there are four GSEs: Fannie Mae, Freddie Mac, the Farm Credit System and the Federal Home Loan Bank System. The Assessment Team considered whether, by supporting agricultural and housing loans, the Farm Credit System and the Federal Home Loan Bank System provide functions similar to those of multilateral development banks within the US. However, these entities are not among the multilateral development banks currently recognised as such by the Basel standards. Furthermore, these entities do not have a mandate to lend to individual troubled institutions but rather to support a given sector in general. Their credit decisions are subject to strict risk assessments with collateral requirements set individually according to the perceived risk. Therefore, the Assessment Team considers that GSEs are not equivalent to any of the entities eligible for a 25% run-off rate under the Basel LCR standard. This represents a divergence from the Basel framework, which would require a higher run-off factor for non-HQLA secured GSE funding than the 25% used under US rules. Fannie Mae and Freddie Mac are not material providers of funding to US banks. Also, secured funding from the Farm Credit System is not material for the RCAP sample banks. The Assessment Team does not expect this to change in the short or medium term. Therefore, the use of a 25% run-off factor for funding from these GSEs does not represent a material difference from the Basel standards, nor is it likely to do so in the future. The Federal Home Loan Bank System does provide material funding to US banks, including the RCAP sample banks. The US authorities provided data to the Assessment Team on the amount of secured funding by GSEs. Advances from the Federal Home Loan Bank System generally have long maturities, with 77% of advances maturing at least one year in the future, and less than 5% within the 30-day horizon of the LCR (as of September 2016). As of September 2016, this was not a material component of LCR outflows for the RCAP sample banks and applying a 100% run-off factor (instead of 25%) did not have a material effect on the sample banks' LCRs. The Assessment Team considered whether short-term funding by the Federal Home Loan Bank System might become material in the future or whether the maturity profile of maturing funding was likely to change. It is conceivable that such funding could be advanced with lower maturities (especially during a crisis or if an individual bank's position appeared weaker). However, on balance, the Assessment Team considered it unlikely that the terms and volume of the funding provided would change so

	significantly such that outflows from Federal Home Loan Bank System funding became a material component of banks' LCR outflows. Therefore, this finding is not considered material, nor likely to become material in the short or medium term.
Materiality	Not material
Basel paragraph number	169 and 170
Reference in domestic regulation	Federal register 79 - Oct 10, 2014. Paras _.3 "Deposit insurance", _.32(a) and _.32(g)
Findings	As per the Basel requirements, when calculating the LCR on a consolidated basis, a cross-border banking group should apply the liquidity parameters adopted in the home jurisdiction to all legal entities being consolidated except for the treatment of retail or small business deposits. For the latter, the treatment should follow the relevant parameters adopted in host jurisdictions in which the entities (branch or subsidiary) operate, unless: (i) there are no host requirements; (ii) those entities operate in host jurisdictions that have not implemented the LCR; or (iii) the home supervisor decides that home requirements should be stricter than the host requirements. Since the US rules do not recognise deposit insurance provided by agencies other than the FDIC, they treat all retail and small business deposits abroad, according to the limit on small business customers in the US regulations (of USD 1.5 million), as less stable retail deposits. This implies a run-off rate of 10%. This treatment is applied to all such exposures in the overseas entities of US cross-border banking groups. The US authorities expected this treatment to be stricter than the host rules. However, the US had not reviewed the parameters in each jurisdiction to determine whether this was in fact the case. In most cases, the run-off rate set by the US authorities is more conservative than that applied in other jurisdictions for retail and small business deposits. However, the Assessment Team is aware of jurisdictions that have applied run-off rates above 10% to certain retail and small business deposits. Also, the US threshold for small business customers is above the Basel threshold and some jurisdictions apply even lower thresholds. This means that the US treatment is not always stricter than host requirements. The Assessment Team considered information provided by the US authorities that assessed the materiality of this deviation (as of September 2016). Using conservative assumptions to adjust the run-off rates applied to retail and small business deposits in foreign branches and foreign bank subsidiaries of the RCAP sample banks, the impact on the weighted average LCR across the sample banks was less than 1%. This is not considered material. The retail and small business deposits analysed above are concentrated in one of the RCAP sample banks. The US authorities provided a more detailed analysis of the possible effect on this bank, doubling outflow rates to deposits in regions with jurisdictions that have implemented such rates. This conservative estimate suggested an impact on the bank's LCR of approximately 1.5%. The Assessment Team concluded that the effect was likely to be smaller than this in practice, and that therefore the difference in the run-off factors used for host jurisdictions is unlikely to be material.
Materiality	Not material

2.1.3 Inflows (denominator)

Section grade	Compliant
Summary	The US implementation of the inflow requirements is aligned with the Basel standards. No substantive differences were identified by the Assessment Team.

2.2 LCR disclosure requirements

Section grade	Compliant
Summary	The Assessment Team did not identify any differences between the information to be disclosed under US disclosure regulations and that described in the Basel standard.

2.3 Observations and other findings specific to the implementation practices in the US

The following observations highlight special features of the regulatory implementation of the Basel LCR standards in the US. These are presented for contextual and informational purposes. Observations are considered fully compliant with the Basel standard and do not have a bearing on the assessment outcome.

2.3.1 High-quality liquid assets (numerator)

Basel paragraph number	18
Reference in domestic regulation	40(b)
Findings	The Basel standard describes how supervisors should approach decisions regarding a bank's use of its HQLA. In the US, several agencies are involved in the liquidity supervision of internationally active banks. The LCR rule is an inter-agency rule that establishes a common framework as the basis for supervision. In addition, the US authorities issue inter-agency liquidity guidance to banks, have established an informal inter-agency liquidity working group and have a centralised process for addressing industry questions. Furthermore, there is a formal inter-agency body, the Federal Financial Institutions Examination Council, which is empowered to prescribe uniform principles, standards and report forms for the federal examination of financial institutions. At the level of individual banks, supervisory teams communicate on a regular basis. Should a bank fall below the minimum LCR, it must report the occurrence to its primary regulator (the Federal Reserve, the FDIC or the OCC). This information would be shared with the other authorities. The US authorities have a flexible framework for managing non-compliance that allows supervisors to consider the key facts and circumstances of any individual breach, and make recommendations to ensure that a bank's liquidity risk is appropriately managed or reduced.
Basel paragraph number	50
Reference in domestic regulation	20(a)(4)
Observation	The Basel standard excludes securities representing an obligation of financial entities, such as government-guaranteed issuances during the crisis (or similar issuances in the context of government interventions). The overview to the US regulation explains that the obligations of financial sector entities are excluded from HQLA in the US LCR. The detailed rules contain an explicit exclusion for financial sector obligations in connection with guarantees issued by other sovereigns or multilateral development banks. However, paragraph 20(a)(3) includes securities unconditionally guaranteed by the US government without any exclusion for financial sector entities. The Assessment Team understands that the overview provides explanatory force for the rules. The US authorities explained that this text could be relied upon to exclude any financial sector entity obligations guaranteed by the government from HQLA. Also, there are currently no such obligations, the government did not guarantee any in the financial crisis of 2007–2008 and there is no expectation that the government will do so in the short or medium term.

Basel paragraph number	52
Reference in domestic regulation	20 and 21
Observation	Level 2A assets include marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that satisfy certain conditions. These conditions include being assigned a 20% risk weight under the Basel II standardised approach; being traded in large, deep and active cash or repo markets; having a proven record as a reliable source of liquidity even during stressed market conditions; and not being an obligation of a financial institution or any of its affiliated entities. The US rule includes securities issued or guaranteed by GSEs as Level 2A assets. Under US legislation, GSEs are defined as being separate from PSEs. A PSE is defined as a state or local authority or other governmental subdivision below the level of the US sovereign. GSEs are entities that are established or chartered by the US government to serve public purposes specified by US Congress. They may be privately owned and their debt obligations are not, in general, explicitly guaranteed by the full faith and credit of the US government. At the moment, there are four GSEs: Fannie Mae, Freddie Mac, the Farm Credit System and the Federal Home Loan Bank System. The HQLA treatment of the securities of the latter two organisations in HQLA is discussed in section 2.1.1. Since the financial crisis of 2007–2008, Fannie Mae and Freddie Mac have been in conservatorship, with the US government controlling the entities and being the major shareholder (owning about 80% of the shares of each of these two GSEs). During the conservatorship, the US government has provided capital support to these GSEs and the entities currently enjoy a conditional guarantee by the US Treasury. The securities issued by Fannie Mae and Freddie Mac are extremely important for the current operation of the US housing market and financial system and comprise a material share of current Level 2A HQLA for internationally active US banks. Since the entities have been under conservatorship, the markets for their securities have been very deep and liquid. Some consider such securities to be similar to those of the US government. Conservatorship is a temporary situation. After review and discussion of the Assessment Team's finding, the Basel Committee concluded that the current treatment in the US LCR regulations of securities issued by Fannie Mae and Freddie Mac, ie their inclusion in Level 2A HQLA, is appropriate and consistent with the Basel LCR standard, so long as these entities are under conservatorship. This is consistent with the assessment of the implementation of the Basel risk-based capital framework in the US carried out in 2014, which found appropriate the treatment of GSEs as PSEs for the purpose of calculating risk-based capital requirements. The Basel Committee notes that there is uncertainty regarding future changes to the legal or regulatory structure for these entities. The Committee recommends therefore that the treatment of securities issued by Fannie Mae and Freddie Mac as Level 2A HQLA be reviewed in future RCAP assessments (Annex 10).
Basel paragraph number	54
Reference in domestic regulation	20(c), 21(a)(3) and 3
Observation	The Basel standard requires that Level 2 assets have a long-term rating from a recognised external credit assessment institution, with the permissible rating depending on the different asset class. The US regulation uses its own ratings system as, due to the Dodd-Frank Act, the US authorities are not permitted to reference credit rating agency ratings in regulations. Nonetheless, the other criteria included in the US definition of HQLA means that any security of a lower quality than investment grade would not be included.

2.3.2 Outflows (denominator)

Basel paragraph number	99
Reference in domestic regulation	Federal register 79 - Oct 10, 2014. Para _.4(b)(6) and _.4(b)(7)

Observation	Under the Basel requirements, if the deposit under consideration arises out of correspondent banking arrangements that relate to the settlement of foreign currency transactions, then it will be treated as if there were no operational activity for the purpose of determining run-off factors. US LCR regulations do not refer to correspondent banking relationships directly. In the US, the term "correspondent banking" relates to a much broader set of deposit arrangements than those relating to foreign exchange. Instead, the US LCR rule excludes accounts used for foreign exchange settlement from being operational deposits by excluding such accounts from the list of 12 operational services.
Basel paragraph number	165
Reference in domestic regulation	Federal register 79 - Oct 10, 2014. Para _.1(b)(1)
Observation	Under the Basel requirements, national supervisors should determine financial entities that are not consolidated but for which banking group may be the main liquidity provider. Normally, a non-controlling investment (eg a joint venture or minority-owned entity) can be regarded as significant if the banking group is the main liquidity provider of such investment in times of stress (for example, when the other shareholders are non-banks or where the bank is operationally involved in the day-to-day management and monitoring of the entity's liquidity risk). National supervisors should agree with each relevant bank an appropriate methodology for quantifying such potential liquidity draws for the purpose of calculating the LCR, particularly those draws arising from the need to support the investment in times of stress out of reputational concerns. The US authorities have implemented specific requirements that apply when banks act as sponsors of a structured transaction. Also, the definition of a liquidity facility in the US regulations is very broad. The US authorities do not believe that any other examples of situations envisaged in the Basel rules might arise. Nonetheless, should such a situation apply, the US authorities have a general reservation of authority that enables them to impose bank-specific liquidity requirements.

2.3.3 LCR disclosure requirements

Basel paragraph number	10
Reference in domestic regulation	249.90(b)
Observation	The US implementation of the LCR disclosure requirements has been delayed relative to the Basel requirements. US banks with USD 700 billion or more in total consolidated assets or USD 10 trillion or more in assets under custody must comply with the disclosure requirements from April 2017. Other institutions covered by the rule, with the exception of modified LCR holding companies, must publish disclosures from April 2018. Modified LCR holding companies (though not the focus of this RCAP assessment) must comply with the requirements from October 2018.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Pascual O'Dogherty	Bank of Mexico

Assessment Team members

Mr Clemens Bonner	Dutch National Bank
Mr Puneet Pancholy	Reserve Bank of India

Supporting members

Mr Jorge Luis García	Bank of Mexico
Ms Louise Eggett	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team members

Mr Neil Esho	Basel Committee Secretariat
Mr Chua Kim Leng	Monetary Authority of Singapore
Mr Qi Xiang	China Banking Regulatory Commission
Mr Alexander Zhdanov	Central Bank of Russia

Annex 2: Local regulations issued by US authorities for implementing Basel LCR standards

Overview of issuance dates of important US liquidity regulations — Table A.1

Domestic regulations	Version and date
US LCR Final Rule, comprising: - Board Regulation WW 12 CFR Part 249 - OCC 12 CFR Part 50 - FDIC 12 CFR Part 329	Final version of inter-agency rule published in 79 Federal Register (FR) 61440-61541, October 2014. Amended for Board-regulated entities in April 2016 (Liquidity Coverage Ratio: Treatment of US Municipal Securities as High-Quality Liquid Asset, 12 CFR Part 249; 81 FR 21223-21233).
Liquidity Coverage Ratio: Public Disclosure Requirements; Extension of Compliance Period for Certain Companies to Meet the Liquidity Coverage Ratio Requirements	Final rule issued by the Federal Reserve System, December 2016, 12 CFR Part 249 Regulation WW, Docket No. R-1525; RIN 7100 AE-39
Liquidity risk management requirements implemented through Board Regulation YY CFR Part 252	79 FR 17240-17338, March 2014
Inter-agency Policy Statement on Funding and Liquidity Risk Management	75 FR 13656-13666, March 2010

Hierarchy of US laws and regulatory instruments — Table A.2

Level of rules (in legal terms)	Type
Federal statutes and legislative mandates	Enacted by US Congress
Regulations	Issued by US regulatory agencies
Reporting requirements	Issued by US regulatory agencies
Policy statements	Issued by US regulatory agencies
Interpretations	Issued by US regulatory agencies
Supervisory guidance	Issued by US regulatory agencies
Supervisory manuals	Issued by US regulatory agencies

The RCAP assessment of the US implementation of the Basel capital standards considered the binding nature of regulatory documents in the US. The findings of that assessment are given in Annex 7 of the previous RCAP assessment report.[4] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous RCAP findings.

[4] Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – United States of America*, December 2014, www.bis.org/bcbs/publ/d301.pdf.

Annex 3: List of LCR standards under the Basel framework used for the assessment

Basel documents in scope of the assessment

- *The Liquidity Coverage Ratio*, January 2013, including the *Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio*, April 2014
- *Liquidity coverage ratio disclosure standards*, January 2014

Basel documents reviewed for information purposes

- *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013 (part of liquidity risk monitoring tools)
- *Monitoring tools for intraday liquidity management*, April 2013
- *Principles for sound liquidity risk management and supervision*, September 2008

Annex 4: Details of the RCAP assessment process

Off-site evaluation

- Completion of a self-assessment questionnaire by the US authorities
- Evaluation of the self-assessment by the RCAP Assessment Team
- Independent comparison and evaluation of the domestic regulations issued by the US authorities with the corresponding Basel standards
- Identification of observations
- Refinement of the list of observations based on clarifications provided by the US authorities
- Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgement
- Forwarding of the list of observations to the US authorities

On-site assessment

- Discussion of individual observations with the US authorities
- Meeting with selected US banks
- Discussion with the US authorities and revision of findings to reflect additional information received
- Assignment of component grades and overall grade
- Submission of the detailed findings to the US authorities with grades
- Receipt of comments on the detailed findings from the US authorities

Review and finalisation of the RCAP report

- Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to the US authorities for comments
- Review of the US authorities' comments by the RCAP Assessment Team
- Review of the draft report by the RCAP Review Team
- Reporting of findings to the SIG by the Team Leader
- Review of the draft report by the Peer Review Board
- Approval of the report by the Basel Committee and publication

Annex 5: Key liquidity indicators of the US banking system

Overview of US banking sector liquidity as of 30 September 2016	Table A.3	
Size of banking sector (USD, millions)		
Total assets all banks operating in the jurisdiction (including off-balance sheet assets)*	22,305,000	
Total assets of all locally incorporated internationally active banks*	14,861,000	
Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied*	14,861,000	
Number of banks		
Number of banks operating in the jurisdiction (excl. local representative offices)	12,000	
Number of G-SIBs	8	
Number of Domestic Systemically Important Banks	8	
Number of banks which are internationally active banks	37	
Number of banks required to implement Basel III liquidity standards	37	
Number of banks required to implement domestic liquidity standards	12,000	
Breakdown of LCR for seven RCAP sample banks (USD, millions)	Unweighted	Weighted
Total HQLA	2,700,198	2,311,145
Level 1 HQLA	2,077,321	1,898,373
Level 2A HQLA	580,254	401,877
Level 2B HQLA	42,624	10,895
ALA HQLA	-	-
Total cash outflows	12,038,141	3,465,811
Retail and small business stable deposits	1,353,555	40,607
Retail and small business less stable deposits	1,387,044	211,330
Wholesale unsecured operational deposits	1,458,462	362,442
Wholesale unsecured non-operational funding	1,062,877	662,750
Secured funding	2,702,187	919,936
Debt issued instruments (including credit and liquidity facilities)	2,362,813	880,075
Other contractual outflows	142,216	104,261
Contingent funding obligations	1,568,987	284,410
Total cash inflows	3,355,284	1,373,799
Secured lending	2,543,939	757,748
Fully performing unsecured loans	595,571	400,834
Other cash inflows	215,774	215,217
Liquidity Coverage Ratio (%)		110.5%

* Total assets of bank holding companies including certain off-balance-sheet leverage exposures for internationally active holding companies.

Annex 6: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings, determined according to the RCAP assessment methodology. As a general principle, and mirroring the established RCAP assessment methodology for risk-based capital standards, a distinction is made between quantifiable and non-quantifiable findings. The RCAP-LCR materiality assessment is based on both quantitative and qualitative information with an overlay of expert judgment. Where possible, assessment teams and the Committee also take into account the dynamic nature of liquidity risks and seek to assess the materiality of any deviations at different points in time.

In line with underlying RCAP principles, for quantifiable gaps the materiality assessment is based on a determination of the cumulative impact of the identified deviations on the reported LCR ratios of banks in the RCAP sample (see below). The assessment of non-quantifiable gaps relies on expert judgment only. Following this approach, an attempt was made to determine whether findings are "not material", "material" or "potentially material". Table A.4 summarises the number of deviations according to their materiality.

Number of gaps/differences by component — Table A.4

Component	Non-material	Potentially material	Material
Definition of HQLA (numerator)	2	0	0
Outflows (denominator)	4	0	0
Inflows (denominator)	0	0	0
LCR disclosure requirements	0	0	0

RCAP sample of banks

The following US banks were selected for testing the materiality of quantifiable deviations. Together these banks represent around 90% of the total exposure of internationally active US banks.[5]

RCAP sample banks — Table A.5

Banking group	Share of banks' exposures in the total exposures of internationally active US banks (%)
Bank of America	18
Bank of New York Mellon	2
Citigroup	16
Goldman Sachs	9
JPMorgan Chase	21
Morgan Stanley	7
State Street	2
Wells Fargo	15

Source: US authorities.

[5] For this purpose, exposures include both on- and off-balance sheet assets.

Annex 7: US implementation of the Basel liquidity monitoring tools

In addition to the minimum standard for the LCR, the Basel LCR framework also outlines the metrics to be used to monitor liquidity risks ("the monitoring tools"). The monitoring tools capture specific information related to a bank's cash flows, balance sheet structure, available unencumbered collateral and certain market indicators. The monitoring tools supplement the LCR standard and are a cornerstone for supervisors in assessing the liquidity risk of a bank. This annex provides a qualitative overview of the implementation of the monitoring tools in the US.

Basel monitoring tools and corresponding US templates — Table A.6

No	Basel monitoring tool	Corresponding US reporting template	Effective since	Frequency of preparation	Frequency of submission
1	Contractual maturity mismatch	FR 2052a	Informally from Sep 2011; formally (via regulation) from Dec 2013	Daily (US G-SIBs); Monthly (US non-G-SIB)	Daily (US G-SIB); Monthly (US non-G-SIB)
2	Concentration of funding	FSB I-I funding template (counterparty concentration)	Informally from Nov 2011; formally from Jan 2015	Formerly weekly (until Jan 2015); currently monthly	Formerly weekly (until Jan 2015); currently monthly
		FR 2052a (product, currency and time-bucket concentration)	Informally from Sept 2011; formally (via regulation) from Dec 2013	Daily (US G-SIBs); Monthly (US non-G-SIB)	Daily (US G-SIBs); Monthly (US non-G-SIB)
3	Available unencumbered assets	FR 2052a	Informally from Sept 2011; formally (via regulation) from Dec 2013	Daily (US G-SIBs); Monthly (US non-G-SIB)	Daily (US G-SIB); Monthly (US non-G-SIB)
4	LCR by significant currency	FR 2052a	Informally from Sept 2011; formally (via regulation) from Dec 2013	Daily (US G-SIBs); Monthly (US non-G-SIB)	Daily (US G-SIB); Monthly (US non-G-SIB)

How are those reporting templates used by supervisors?

Supervisors use these templates for the daily monitoring of liquidity positions of US G-SIBs and the US operations of certain large foreign banking operations. The Federal Reserve also leverages the data in its semi-annual horizontal liquidity review, the Comprehensive Liquidity Analysis and Review (CLAR). These data are utilised to calculate a suite of metrics, including but not limited to the LCR and others aligned with the Basel liquidity monitoring tools.

These reports are critical to the supervisory process, and therefore supervisory actions may be taken in the event that a bank fails to submit data, or systematically submits incorrect data. The Federal Reserve conducts ongoing, detailed data quality reviews as a part of the CLAR process, and employs automated data quality checks to ensure that the data received accurately reflect each firm's liquidity position.

Brief explanation on the implementation of liquidity risk-related reporting templates

The implementation of supervisory reporting for liquidity risk has been an evolving discipline since the financial crisis of 2007–2008. Originating as ad-hoc reporting exercises during periods of crisis, the Federal Reserve instituted a daily reporting template to track key liquidity risk indicators at troubled firms in 2008. By 2009, the collection had changed to include forward-looking liability cash flows across several maturity buckets as well as measures of secured lending activity and unencumbered assets. In 2011, the collection reached its 4th "generation" in a form that was aligned closely with the December 2010 release of the

Basel III LCR. Upon finalisation of the Basel III LCR in January 2013 and, subsequently, the US LCR rule, the supervisory reporting template was again reconfigured in its 5th "generation" to include all data elements necessary to calculate the US LCR, and additional dimensions to enhance liquidity risk supervisory capabilities above and beyond what is necessary in the LCR and liquidity monitoring tools.

Basel guidance on monitoring tools for intraday liquidity management

The Basel Committee issued guidance on monitoring tools for intraday liquidity management in April 2013. US authorities are in the process of designing reporting requirements that adhere to the BCBS guidance and may include additional risk factors deemed pertinent to the measurement of intraday liquidity risk.

Annex 8: US implementation of the principles of sound liquidity risk management and supervision

This annex outlines the implementation of the Basel Committee's Principles for sound liquidity risk management and supervision (Sound Principles) in US regulation. The principles are not part of the formal RCAP assessment and no grade is assigned. This annex is for information only.

Fundamental principle for the management and supervision of liquidity risk – Principle 1

Principle 1 indicates that a bank is responsible for the sound management of liquidity risk and that it must establish a robust liquidity risk management framework. The framework must ensure maintenance of sufficient liquidity, including a cushion of unencumbered, high-quality liquid assets, to withstand a range of stress events, and must also consider the loss or impairment of both unsecured and secured funding sources.

In the United States, the Board's enhanced prudential standards regulation incorporates the principals of the agencies' policy statement on funding and liquidity risk management and includes established prescribed regulatory requirements. The enhanced prudential requirements for liquidity risk management apply to all internationally active US banking organisations.

Governance of liquidity risk management – Principles 2–4

Under regulatory requirements in the United States, the board of directors of a covered banking institution must:

- approve the acceptable level of liquidity risk of the bank holding company at least annually;
- receive and review information provided by senior management to determine whether the bank holding company is operating in accordance with its established liquidity risk tolerance; and
- approve and periodically review the liquidity risk management strategies, policies and procedures established by senior management.

Firms must maintain a risk committee that:

- is an independent committee of the board of directors that has, as its sole and exclusive function, responsibility for the risk-management policies of the firm;
- approves and periodically reviews the risk-management policies of the bank holding company's global operation;
- oversees the operation of the bank holding company's global risk management framework; and
- approves the contingency funding plan at least annually and approves any material changes to the plan prior to implementation.

Senior management of a covered firm must:

- establish and implement strategies, policies and procedures designed to effectively manage liquidity risk;
- oversee the development and implementation of liquidity risk measurement, and reporting systems;
- determine at least quarterly whether the bank holding company is operating in accordance with such policies and procedures;
- report to the board of directors or the risk committee regarding the bank holding company's liquidity risk profile and liquidity risk tolerance at least quarterly;

- approve new products and business lines and evaluate the liquidity costs, benefits and risks of each new business line and each new product that could have a significant effect on the company's liquidity risk profile;
- review at least annually significant business lines and products to determine whether any line or product creates or has created any unanticipated liquidity risk;
- review the cash-flow projections at least quarterly;
- establish liquidity risk limits and review the limits at least quarterly;
- approve the liquidity stress testing practices, methodologies, and assumptions;
- review the liquidity stress testing results at least quarterly;
- review the independent review of the liquidity stress tests; and
- approve the size and composition of the liquidity buffer.

Measurement and management of liquidity risk – Principles 5–12

Covered firms must produce comprehensive cash-flow projections that:

- project cash flows arising from assets, liabilities and off-balance sheet exposures over, at a minimum, short- and long-term time horizons;
- are updated daily for short-term cash-flow projections and at least monthly for longer-term cash-flow projections; and
- include cash flows arising from contractual maturities, intercompany transactions, new business, funding renewals, customer options and other potential events that may impact liquidity.

A covered firm must establish and maintain a contingency funding plan that:

- sets out the company's strategies for addressing liquidity needs during liquidity stress events;
- is commensurate with the company's capital structure, risk profile, complexity, activities, size, and established liquidity risk tolerance; and
- is updated at least annually, and when changes to market and idiosyncratic conditions warrant.

The contingency funding plan must:

- identify liquidity stress events that could have a significant impact on the bank holding company's liquidity;
- assess the level and nature of the impact on the bank holding company's liquidity that may occur during identified liquidity stress events;
- identify the circumstances under which the firm would implement its action plan, including failure to meet any minimum regulatory liquidity requirement;
- assess available funding sources and needs during the identified liquidity stress events;
- identify alternative funding sources that may be used during the identified liquidity stress events; and
- incorporate information generated by liquidity stress testing.

The contingency funding plan must include an event management process that sets out the bank holding company's procedures for managing liquidity during identified liquidity stress events. The liquidity event management process must:

- include an action plan that clearly describes the strategies the company will use to respond to liquidity shortfalls for identified liquidity stress events, including the methods that the company will use to access alternative funding sources;
- identify a liquidity stress event management team that would execute the action plan;
- specify the process, responsibilities and triggers for invoking the contingency funding plan, describe the decision-making process during the identified liquidity stress events and describe the process for executing contingency measures identified in the action plan; and
- provide a mechanism that ensures effective reporting and communication within the bank holding company and with outside parties, including the Board and other relevant supervisors, counterparties and other stakeholders.

The contingency funding plan must include procedures for monitoring emerging liquidity stress events. The procedures must identify early warning indicators that are tailored to the company's capital structure, risk profile, complexity, activities and size. A covered company must periodically test components of the contingency funding plan to assess the plan's reliability during liquidity stress events.

A covered firm must monitor sources of liquidity risk and establish limits on liquidity risk, including limits on:

- concentrations in sources of funding by instrument type, single counterparty, counterparty type, secured and unsecured funding and, as applicable, other forms of liquidity risk;
- the amount of liabilities that mature within various time horizons; and
- off-balance sheet exposures and other exposures that could create funding needs during liquidity stress events.

Each limit established must be consistent with the company's specific liquidity risk tolerance and must reflect the company's capital structure, risk profile, complexity, activities and size.

An in-scope firm must establish and maintain policies and procedures to monitor assets that have been, or are available to be, pledged as collateral in connection with transactions to which it or its affiliates are counterparties.

The firm must establish and maintain procedures for monitoring and controlling liquidity risk exposures and funding needs within and across significant legal entities, currencies and business lines, taking into account legal and regulatory restrictions on the transfer of liquidity between legal entities.

An in-scope firm must also establish and maintain procedures for monitoring intraday liquidity risk exposure. These procedures must address how the management of the bank holding company will:

- monitor and measure expected daily gross liquidity inflows and outflows;
- manage and transfer collateral to obtain intraday credit;
- identify and prioritise time-specific obligations so that the bank holding company can meet these obligations as expected and settle less critical obligations as soon as possible;
- manage the issuance of credit to customers where necessary; and
- consider the amounts of collateral and liquidity needed to meet payment systems obligations when assessing the bank holding company's overall liquidity needs.

A covered firm must conduct stress tests to assess the potential impact of the liquidity stress scenarios on its cash flows, liquidity position, profitability and solvency, taking into account its current liquidity condition, risks, exposures, strategies and activities.

- The firm must take into consideration its balance sheet exposures, off-balance sheet exposures, size, risk profile, complexity, business lines, organisational structure and other characteristics of the bank holding company that affect its liquidity risk profile in conducting its stress test.

- In conducting a liquidity stress test, the company must address the potential direct adverse impact of associated market disruptions on the bank holding company. It must also incorporate the potential actions of other market participants experiencing liquidity stresses under the market disruptions that would adversely affect the bank holding company.
- The liquidity stress tests must be performed at least monthly.

  Each liquidity stress test conducted must include, at a minimum:
- a scenario reflecting adverse market conditions;
- a scenario reflecting an idiosyncratic stress event for the bank holding company; and
- a scenario reflecting combined market and idiosyncratic stresses.

Each stress test conducted must include an overnight planning horizon, a 30-day planning horizon, a 90-day planning horizon, a one-year planning horizon, and any other planning horizons that are relevant to the bank holding company's liquidity risk profile. For purposes of this section, a "planning horizon" is the period over which the relevant stressed projections extend. The bank holding company must use the results of the stress test over the 30-day planning horizon to calculate the size of the liquidity buffer.

An in-scope firm must establish and maintain policies and procedures governing its liquidity stress testing practices, methodologies and assumptions. Such policies and procedures should provide for the incorporation of the results of liquidity stress tests in future stress testing and for the enhancement of stress testing practices over time.

The covered firm must maintain management information systems and data processes sufficient to enable it to effectively and reliably collect, sort, and aggregate data and other information related to liquidity stress testing.

An in-scope firm must maintain a liquidity buffer that is sufficient to meet the projected net stressed cash-flow need over the 30-day planning horizon of a liquidity stress test.

The liquidity buffer must consist of highly liquid assets that are unencumbered. Generally, the liquidity buffer must not contain significant concentrations of highly liquid assets by issuer, business sector, or region.

Public disclosure – Principle 13

US internationally active banking organisations disclose quantitative and qualitative information on a regular basis. Such information assists market participants in assessing their liquidity positions and the quality of their liquidity risk management practices. The agencies require banking organisations to publicly report information that can be used by market participants in their review of liquidity issues. Most recently, in December 2016, the Board issued a regulation requiring a firm that is subject to the US LCR rule to publically disclose its LCRs and various LCR components on a quarterly basis. The US LCR public disclosure requirements are consistent with the Basel disclosure standard.

The role of supervisors – Principles 14–17

The agencies have well-established and rigorous supervision programmes that assess the adequacy of liquidity positions and liquidity risk management practices at banking organisations of all sizes. These assessments are tailored to the size and complexity of the organisation and consider the systemic importance of the firm. These supervisory programmes include: ongoing continuous monitoring of firm activities through dedicated examination staff; targeted examinations to review risk management practice; and comprehensive comparisons across peer firms through horizontal examination assessments. The agencies collaborate on target examination and on horizontal exercises, including the Federal Reserve's CLAR, which is conducted annually for the largest and most systemically important banking organisations operating in the United States.

The agencies have access to a broad range of information provided by supervised banking organisations, together with market information. The agencies require supervised institutions to submit detailed regulatory reports on a regular basis. In conjunction with the implementation of the agencies' US LCR requirements, the Board recently augmented its Complex Institution Liquidity Monitoring Report to provide more granular, accurate and timely liquidity risk management data.

When assessing the liquidity positions and liquidity risk management practices at supervised institutions, the agencies provide feedback to the institutions and require the effective and timely remediation of any deficiencies observed.

The agencies communicate on supervisory issues on an ongoing basis. The Federal banking agencies also communicate with State banking authorities and regulatory agencies that have functional responsibility for nonbank activities. In the United States, the Financial Stability Oversight Council coordinates systemic activities across regulatory agencies. The agencies communicate internationally with the regulatory authorities in other jurisdictions to coordinate the oversight of internationally active banking organisations.

Annex 9: Areas for further guidance from the Basel Committee

Definition of PSEs

The Basel LCR standard permits the inclusion of marketable securities representing claims on or guaranteed by PSEs in Level 2A HQLA, provided that these securities meet certain conditions. While GSEs are defined under US regulations as being separate from PSEs, the securities issued or guaranteed by GSEs are included in Level 2A HQLA. While the Basel Committee assessed this treatment as appropriate, it also considered that the current Basel rules text regarding the definition of PSEs does not provide sufficiently clear guidance on what constitutes a PSE.

Under the Basel II framework, "subject to national discretion, claims on certain domestic PSEs may be treated as claims on the sovereigns in whose jurisdictions the PSEs are established". The Basel II standard gives the following examples that outline "how PSEs might be categorised when focusing on one specific feature, namely revenue raising powers". However, the standard recognises that "there may be other ways of determining the different treatments applicable to different types of PSEs, for instance by focusing on the extent of guarantees provided by the central government".

- Regional governments and local authorities could qualify for the same treatment as claims on their sovereign or central government if these governments and local authorities have specific revenue raising powers and have specific institutional arrangements the effect of which is to reduce their risks of default.
- Administrative bodies responsible to central governments, regional governments or to local authorities and other non-commercial undertakings owned by the governments or local authorities may not warrant the same treatment as claims on their sovereign if the entities do not have revenue raising powers or other arrangements as described above. If strict lending rules apply to these entities and a declaration of bankruptcy is not possible because of their special public status, it may be appropriate to treat these claims in the same manner as claims on banks.
- Commercial undertakings owned by central governments, regional governments or by local authorities may be treated as normal commercial enterprises. However, if these entities function as a corporate in competitive markets even though the state, a regional authority or a local authority is the major shareholder of these entities, supervisors should decide to consider them as corporates and therefore attach to them the applicable risk weights.

This current definition of a PSE in the Basel framework is based on examples rather than precise criteria that can be applied easily to a wide range of entities with a public sector purpose. Clarifying the definition of a PSE would promote greater consistency in national implementation of the Basel framework.

Run-off rate for stable deposits

Under the Basel framework, stable deposits may receive a run-off factor of 3%, provided that: (i) certain conditions as regards deposit insurance are met; and (ii) the jurisdiction has evidence that run-off rates for stable deposits within the banking system are below 3% during a period of stress consistent with the conditions for the LCR.

The US regulations provide a run-off of factor of 3% for stable deposits. The Assessment Team considers the conditions on the deposit insurance scheme to be met. In particular, the US deposit insurance scheme is pre-funded, has adequate means of ensuring ready access to additional funding and gives access to insured deposits in a short period of time.

The Assessment Team reviewed evidence provided by the US authorities on the run-off rates observed during the market stress of 2008. This included information on retail run-off rates at large US banks that were subsequently acquired by other banks or received public sector support as well as a discussion of run-off rates in the banking system as a whole. Given that the classification of deposits prescribed in the LCR did not exist during the 2007–2009 financial crisis, it is hard to obtain data to assess the behaviour of insured retail deposits. The data provided, while imperfect, suggested that, at least for most banks, it is unlikely that insured retail deposits exhibited run-off rates higher than 3% during late 2008.

Furthermore, the Assessment Team found it difficult to interpret the meaning of "evidence that run-off rates for stable deposits **within the banking system** are below 3%" (emphasis added). This could be interpreted as referring to run-off rates on average across all banks (ie the banking system), or that there should be no evidence of run-off rates above 3%, or that run-off rates should not exceed this in a majority of banks. The Assessment Team considers that this is a topic that would benefit from further discussions within the Basel Committee or clarification by it to promote more consistent application of the LCR standard.

Annex 10: List of issues for follow-up RCAP assessments

Based on the analysis by the Assessment Team, the Basel Committee identified the following issue for follow-up as part of any future RCAP assessment of the US.

Status of Fannie Mae and Freddie Mac

Section 2.3 discussed the current treatment of Fannie Mae and Freddie Mac as PSEs, along with the corresponding inclusion of their securities as Level 2A HQLA. Currently, these entities are under the conservatorship of the US government and enjoy a conditional guarantee from the US Treasury.

The Basel Committee observes that the conservatorship of Fannie Mae and Freddie Mac was intended to be a temporary situation. Therefore, the legislative and governance arrangements for these entities, including their government guarantee, may change in the future. The Basel Committee recommends therefore that future RCAP assessments review the status of Fannie Mae and Freddie Mac (including the extent of any government guarantee), any changes in the liquidity characteristics of the securities, and their treatment and significance within banks' HQLA. In particular, this issue should be reviewed should the conservatorship of Fannie Mae or Freddie Mac end, or if their legal status otherwise materially changes.

Annex 11: Areas where US LCR rules are stricter than the Basel standards

In several places, the US authorities have adopted a stricter approach than the minimum standards prescribed by the Basel Committee or has simplified or generalised an approach in a way that does not necessarily result in stricter requirements under all circumstances but never results in less rigorous requirements than the Basel standards. The following list provides an overview of these areas. It should be noted that these areas have not been taken into account as mitigants for the overall assessment of compliance.

- Accelerated phase in of the LCR minimum standard, by 2017
- Application of the LCR requirement to certain depository institution subsidiaries of covered companies
- More restrictive requirements for the inclusion of assets as HQLA
- A requirement to assess the Level 2 and Level 2B liquid asset composition caps both before and after the unwind of maturing secured transactions
- Addition of a maturity mismatch add-on amount within net cash outflows
- Applying an outflow for all retail deposits regardless of term and collateralisation
- More restrictive definition of insurance coverage
- Requiring deposit balances to be entirely covered by insurance to obtain reduced outflow rates
- Higher outflow rates for brokered deposits
- Higher outflow rate for fully insured operational deposits relative to retail deposits
- 100% outflow rate for debt instruments held by retail customers and counterparties
- Treatment for collateral received in secured lending transactions or asset exchanges that has been reused in secured funding transactions or asset exchanges
- Collateral outflows for changes in financial condition are not limited to a three-notch credit downgrade
- Collateral substitution requirements include substitution of various levels of HQLA while the Basel standard only requires an outflow where HQLA collateral may be substituted with non-HQLA assets.
- A committed facility may not be bifurcated by purpose between liquidity and credit facility (as is permitted under the Basel standard) but must be treated wholly as a liquidity facility, which attracts a higher outflow rate.

  More detail is given in Table A.7 below.

Stricter approaches in US rules		Table A.7
	US Final rule	Basel standard
Shorter transition period	2015 = 80% 2016 = 90% 2017 = 100%	2015 = 60% 2016 = 70% 2017 = 80% 2018 = 90% 2019 = 100%
More expansive application of the LCR calculation	Calculates LCR and applies caps/haircuts at the consolidated bank holding company and subsidiary insured depository institutions (over USD 10 billion)	Calculates a single parent consolidated LCR
More restrictive HQLA holdings	Covered bonds and private label RMBS do not count as HQLA Eligible corporate debt counts as Level 2B	Covered bonds count as Level 2A , private label RMBS count as Level 2B, Corporate debt counts as Level 2A (credit ratings of AA and above) or Level 2B
Assessment of maturity mismatches	Examines maturity mismatches through the add-on approach which assesses transactions maturing within the 30-day calendar window	Assumes all cash flows occur on day 30
Higher run-off rates for cash outflows	Financial commitments = 50% Retail brokered deposits = 10% to 40% Stable retail term deposits = 3%	Financial commitments = 40%, Retail brokered deposits =3% to 10% Stable retail term deposits = 0%

Source: US authorities.

Annex 12: Implementation of LCR elements subject to prudential judgment or discretion in the US

Table A.8 provides information on elements of LCR implementation that are subject to prudential judgment and national discretion. The information provided helps the Basel Committee to identify implementation issues when clarifications and (additional) frequently asked questions could improve the quality and consistency of implementation. It should also inform the preliminary design of any peer comparison of consistency across the membership that the Committee may decide to conduct, in similar fashion to the studies on risk-weighted asset variation for the capital standards.

Elements requiring judgment (non-exhaustive list) — Table A.8

Basel paragraph	Description	Implementation by the US authorities
24	Treatment of the concept of "large, deep and active markets"	The US addresses the concept of large, deep and active markets through the requirement that HQLA be liquid and readily marketable (LRM). The LRM requirement defined in section 3 of the US rule and applied in section 20 HQLA criteria, implements the large, deep and active concept. As stated in the preamble (p 61452)" the agencies believe that defining an asset as liquid and readily-marketable if it is traded in an active secondary market with more than two committed market-makers, a large number of committed non-market-maker participants on both the buying and selling sides of transactions, timely and observable market prices, and high trading volumes provides an appropriate standard for determining whether an asset can be readily sold in times of stress. These elements of the requirement are meant to ensure that assets included as HQLA are traded in deep, active markets to allow a covered company to convert them readily into cash by sale or repurchase transactions during times of stress."
50	Treatment of the concept of "reliable source of liquidity"	The US rule directly applies "reliable source of liquidity" as a requirement for HQLA (Level 1, 2A, and 2B) in section 20 of the rule. For Level 2A it specifies that the reliable source of liquidity in repurchase or sales markets during stressed market conditions be demonstrated by a market price decline of no more than 20% during a 30-day stress or market haircut of no more than 20%. For Level 2B the reliable source of liquidity must be demonstrated by a market price decline of no more than 40% during a 30-day stress or no more than 40% market haircut.
52	Treatment of the concept of "relevant period of significant liquidity stress"	The US rule applies the concept of relevant period of significant liquidity stress in the HQLA requirements relating to price decline and maximum haircut. The US rule applies this concept as "30 calendar-day period of significant stress" for both Level 2A and Level 2B HQLA.
74-84	Retail deposits are divided into "stable" and "less stable"	The US rule defines stable retail deposits as deposits entirely covered by FDIC deposit insurance (deposits abroad covered by other deposit insurance agencies are not considered insured) and held by the depositor in a transactional account or the depositor that holds the account has another established relationship with the bank such as another deposit account, a loan, bill payment services, or any similar service or product provided to the depositor. The bank should demonstrate to the satisfaction of the regulator that deposit withdrawal would be highly unlikely during a liquidity stress event. Under the US rule all other retail deposits would be considered less stable and receive a 10% outflow rate.

83, 86	Treatment of the possibility of early withdrawal of funding with maturity above 30 days (para 83 – retail deposits; para 86 – wholesale funding)	The US LCR does not recognise any term for retail deposits. Retail term deposits with a residual maturity greater than 30 days are included for the purpose of determining outflow amounts.
94-103	Deposits subject to "operational" relationships	The US rule specifies 12 services (section 3 definition of operational services) within the broader Basel operational categories cash management, clearing, or custody services that are necessary for classification as operational deposits. The prescribed services are: (1) Payment remittance; (2) Administration of payments and cash flows related to the safekeeping of investment assets, not including the purchase or sale of assets; (3) Payroll administration and control over the disbursement of funds; (4) Transmission, reconciliation, and confirmation of payment orders; (5) Daylight overdraft; (6) Determination of intraday and final settlement positions; (7) Settlement of securities transactions; (8) Transfer of capital distributions and recurring contractual payments; (9) Customer subscriptions and redemptions; (10) Scheduled distribution of customer funds; (11) Escrow, funds transfer, stock transfer, and agency services, including payment and settlement services, payment of fees, taxes and other expenses; and (12) Collection and aggregation of funds. In addition, the US rule requires (section 4b) that certain operational requirements also be met to qualify as operational deposits.
131f.	Definition of other financial institutions and other legal entities	The US rule defines a financial sector entity as investment adviser, investment company, pension fund, non-regulated fund, regulated financial company, or identified company in section 3. It also provides a definition of identified company as: "Identified company means any company that the [AGENCY] has determined should be treated for the purposes of this part the same as a regulated financial company, investment company, non-regulated fund, pension fund, or investment adviser, based on activities similar in scope, nature, or operations to those entities." To date no companies have been identified by any of the banking agencies.