American Bankers Association
Building Success. Together.

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Acting Comptroller Michael J. Hsu
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

The Honorable Michael S. Barr
Vice Chair, Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman, Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Gentlemen:

On behalf of the American Bankers Association,[1] I am writing in response to the recent speeches by Vice Chairman Barr[2] and Acting Comptroller Hsu[3] on bank liquidity risk management, which outlined some potential new liquidity regulations. As a threshold matter, and as was highlighted by the recent capital proposals, it is essential that the Agencies gather and analyze sufficient and thorough data and information prior to releasing a proposed rule or guidance. In order to develop and accurately calibrate potential regulations to funding and liquidity exposures, the Agencies will at a minimum need more information than is currently available to evaluate factors related to deposit flows, stability and duration of deposits, depositor behavior and the relevance of deposit insurance for large corporate and institutional investors. To the extent the Agencies are considering additional liquidity regulations or related reporting requirements, we strongly encourage the use of Advance Notices of Proposed Rulemakings (ANPRs) to allow sufficient time for robust and detailed public comment from the industry, its customers, investors, policymakers and other interested parties.

[1] The American Bankers Association is the voice of the nation's $23.4 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard $18.6 trillion in deposits and extend $12.3 trillion in loans.
[2] Speech by Vice Chair for Supervision Barr on Bank Supervision and Regulation, February. December 01, 2023. https://www.federalreserve.gov/newsevents/speech/barr20231201a.htm

[3] Speech by Acting Comptroller Hsu "Building Better Brakes for a Faster Financial World." January 18, 2024. https://www.occ.gov/news-issuances/speeches/2024/pub-speech-2024-4.pdf

ABA and its members understand and acknowledge that robust liquidity risk measurement, monitoring, and management are critical for making both individual banks and the U.S. financial system resilient. We strongly support the current effort to ensure all banks have access to adequate and ready sources of liquidity through the normal course of business as well as through a variety of stress events. We also understand that the failures of Silicon Valley Bank and Signature Bank highlighted the importance of robust risk management and supervision, commensurate with the risks inherent in modern banking and banks' individual business models. As the Fed, FDIC and GAO have found, however, the failures of SVB, Signature[4] and First Republic banks were largely idiosyncratic, and primarily the result of inadequate risk management. It does not seem appropriate for preventable and controllable, idiosyncratic lapses in risk management to result in an overhaul of the prudential framework or application of one-size-fits-all requirements. Rather, we agree with Governor Bowman that the Agencies should assess how they are using existing supervisory resources to ensure banks are mitigating their exposures.[5]

We remain extremely concerned about the use of a simplistic, undifferentiated approach that focuses on uninsured deposits as a proxy for liquidity risk. The term "uninsured deposits" encompasses a diverse set of deposits from retail, business, state and local government, agricultural, commercial and institutional customers, and a broad array of deposit products offered by banks of all sizes and business models. Using a more granular approach to uninsured deposits will avoid penalizing certain banks, depositors and activities critical to economic and market function and the potential reallocation of deposits, including the movement of cash outside of the banking system.

"Uninsured deposits," as currently provided by the Call Report is not granular enough to conduct these critical assessments and should not be the basis on which liquidity regulations or other policies hinge. We urge the Agencies to issue an ANPR prior to a proposed rulemaking when contemplating any reporting changes, to ensure any additional reporting is relevant to funding and liquidity risk, has consistent definitions, and is neither redundant nor overly burdensome.

The Agencies recently updated their liquidity guidance[6] to encourage all banks to take steps to ensure they are operationally ready to access the discount window when needed. We support this as a conceptual matter, but as Vice Chair Barr and Acting Comptroller Hsu noted, banks currently face operational hurdles to usage. It is incumbent on the Federal Reserve to make several necessary improvements before banks view the discount window as a usable source of contingent liquidity. These include resolving the current timing mismatch between when a bank needs liquidity and when the Fed is open for business and minimizing the stigma of discount window usage. Logically, these improvements would be made prior to mandating usage. We encourage the Fed to make these changes through a collaborative and transparent process that allows for frequent input.

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[4] Preliminary Review of Agency Actions Related to March 2023 Bank Failure GAO-23-106736 April 2023.
Federal Reserve Silicon Valley Bank Review – Supervisory Materials
https://www.federalreserve.gov/supervisionreg/silicon-valley-bank-review-supervisory-materials.htm
FDIC's Supervision of Signature Bank. April 2023. www.fdic.gov/news/press-releases/2023/pr23033a.pdf

[5] Speech by Governor Bowman, *Considerations for Revisions to the Bank Regulatory Framework*, May 2023.
https://www.federalreserve.gov/newsevents/speech/bowman20230519a.htm

[6] Addendum to the Interagency Policy Statement on Funding and Liquidity Risk Management: Importance of Contingency Funding Plans https://www.fdic.gov/news/press-releases/2023/pr23057a.pdf

In addition to greater operational readiness, per Acting Comptroller Hsu, the Agencies also seem to be considering a new targeted requirement to mandate that banks pre-position a pool of collateral at the discount window to use in the event of a liquidity stress. We look forward to hearing the details, as requiring banks to pre-position high-quality assets raises broader policy questions. For example, it is unclear how a new requirement would affect moral hazard, interact with deposit insurance or impact other entities, such as the Federal Home Loans Banks. In addition, it will be important that the calibration of the targeted requirement take in to account existing liquidity requirements and banks' current practices of pre-positioning collateral (which includes allowing assets to remain unencumbered) to avoid any trapped liquidity that could have economic and market impacts. Moreover, we remind the Agencies that even if a rule is targeted to a specific cohort of large banks, the consequences of implementation will flow across the industry as both markets and supervisory expectations change.

In closing, ABA and its members support a commonsense liquidity framework that enhances the resilience of individual banks and the system as a whole. That framework cannot be achieved in a vacuum. As the Agencies pursue changes to the liquidity framework, it is also necessary to conduct a holistic review that allows a thorough understanding of how changes to current rules would impact banks, their customers and markets, and interact with other safety and soundness regulations, deposit insurance, the process and procedures surrounding orderly resolutions and financial stability mechanisms.

We and our members look forward to working with you in your efforts to evaluate the current framework for the supervision and regulation of bank liquidity monitoring, measurement and mitigation. Thank you for your consideration of our views and recommendations. If you have any questions or require any additional information, please do not hesitate to contact the undersigned at 202- 663-5182 (atouhey@aba.com).

Sincerely,

Alison Touhey
SVP, Bank Funding Policy

cc:

The Honorable Jerome Powell
The Honorable Phillip Jefferson
The Honorable Michelle Bowman
The Honorable Lisa Cook
Dr. Adriana Kugler
The Honorable Christopher Waller
The Honorable Martin Gruenberg,
Vice Chairman Travis Hill
Director Jonathan McKernan
The Honorable Rohit Chopra