[6705-01-P]

FARM CREDIT ADMINISTRATION

12 CFR Part 615

RIN 3052-AD44

Bank Liquidity Reserve

AGENCY: Farm Credit Administration

ACTION: Advance Notice of Proposed Rulemaking

SUMMARY: The Farm Credit Administration (FCA, we, our) is contemplating revising its liquidity regulations so Farm Credit System (FCS or System) banks can better withstand crises that adversely impact liquidity and pose a risk to their viability. FCA is considering whether to amend our existing liquidity regulatory framework. We are seeking comments from the public on how to amend or restructure our liquidity regulations.

DATES: Please send us your comments on or before [INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: For accuracy and efficiency reasons, please submit comments by e-mail or through FCA's Web site. We do not accept comments submitted by facsimiles (fax), as faxes are difficult for us to process and achieve compliance with section 508 of the Rehabilitation Act of 1973. Please do not submit your comment multiple times via different methods. You may submit comments by any of the following methods:

- E-mail: Send us an e-mail at reg-comm@fca.gov.
- FCA Web site: http://www.fca.gov. Click inside the "I want to…" field near the top of the page; select "comment on a pending regulation" from the dropdown menu; and click "Go." This takes you to an electronic public comment form.
- Mail: Kevin J. Kramp, Director, Office of Regulatory Policy, Farm Credit Administration, 1501 Farm Credit Drive, McLean, VA 22102-5090.

You may review copies of comments we receive on our Web site at http://www.fca.gov. Once you are on the Web site, click inside the "I want to…" field near the top of the page; select "find comments on a pending regulation" from the dropdown menu; and click "Go." This will take you to the Comment Letters page where you can select the regulation for which you would like to read the public comments.

We will show your comments as submitted, including any supporting data provided, but for technical reasons we may omit items such as logos and special characters. Identifying information that you provide, such as phone numbers and addresses, will be publicly available. However, we will attempt to remove e-mail addresses to help reduce Internet spam. You may also review comments at our office in McLean, Virginia. Please call us at (703) 883-4056 or email us at reg-comm@fca.gov to make an appointment.

FOR FURTHER INFORMATION CONTACT:

Technical information: Ryan Leist, LeistR@fca.gov, Senior Accountant, or Jeremy R. Edelstein, EdelsteinJ@fca.gov, Associate Director, Finance and Capital Markets Team, Office of Regulatory Policy, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4414, TTY (703) 883-4056, or ORPMailbox@fca.gov; or

Legal information: Richard Katz, KatzR@fca.gov, Senior Counsel, Office of General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4020, TTY (703) 883-4056.

SUPPLEMENTARY INFORMATION

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I. Introduction

A. Objectives of the Advance Notice of Proposed Rulemaking

FCA's purpose in this Advance Notice of Proposed Rulemaking is to gather public input to:

- Ensure that each FCS bank operates under a comprehensive liquidity framework, so it consistently maintains adequate liquidity to cover all of its potential obligations, including unfunded commitments and other material contingent liabilities, under stressful conditions;
- Assess if, and to what extent, the Basel III International framework for liquidity risk measurement, standards and monitoring (hereafter "Basel III Liquidity Framework"), issued by the Basel Committee on Banking Supervision (BCBS), and regulations of the Federal banking regulatory agencies (FRBAs) implementing this framework for banking

organizations should influence revisions to FCA's existing liquidity framework;[1]

- Determine if the Basel III Liquidity Framework is appropriate for FCS banks, and evaluate the impacts of augmenting FCA's existing liquidity framework to incorporate appropriate aspects of the Basel III Liquidity Framework and the FBRAs' implementation of the framework;[2] and
- Determine the respective costs and benefits of updating FCA's liquidity framework for FCS banks.

B. Background on System Liquidity

In 1916, Congress created the System to provide permanent, stable, affordable, and reliable sources of credit and related services to American agricultural and aquatic producers. The System currently consists of 3 Farm

[1] The Federal banking regulatory agencies include the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System (hereafter Federal Reserve Board), and the Federal Deposit Insurance Corporation. *See* "Liquidity Coverage Ratio: Liquidity Risk Measurement Standards," 79 FR 61440 (October 10, 2014) and "Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements," 86 FR 9120 (February 11, 2021).

[2] Basel III was published in December 2010 and revised in June 2011. The text is available at http://www.bis.org/publ/bcbs189.htm. The BCBS was established in 1974 by central banks with bank supervisory authorities in major industrial countries. The BCBS develops banking guidelines and recommends them for adoption by member countries and others. BCBS documents are available at https://www.bis.org/. The FCA does not have representation on the Basel Committee, as do the FBRAs, and is not required by law to follow the Basel standards. The Basel III Liquidity Coverage Ratio and liquidity risk monitoring tools document was published in January 2013 and the Net stable funding ratio document was published in October 2014.

Credit Banks, 1 agricultural credit bank, 66 agricultural credit associations, 1 Federal land credit association, service corporations, and the Federal Farm Credit Banks Funding Corporation (Funding Corporation).[3] Farm Credit banks (which include both the Farm Credit Banks and the agricultural credit bank) issue System-wide consolidated debt obligations in the capital markets through the Funding Corporation,[4] which enable the System to extend short-, intermediate-, and long-term credit and related services to farmers, ranchers, aquatic producers and harvesters, their cooperatives, rural utilities, exporters of agricultural commodities products, and capital equipment, farm-related businesses, and certain rural homeowners.[5] The System's

[3] Number of institutions as of January 1, 2021. The Federal Agricultural Mortgage Corporation (Farmer Mac), which is also a System institution, has authority to operate secondary markets for agricultural real estate mortgage loans, rural housing mortgage loans, and rural utility cooperative loans. The FCA has a separate set of liquidity regulations that apply to Farmer Mac. This Advance Notice of Proposed Rulemaking does not affect Farmer Mac, and the use of the term "System institution" in this preamble does not include Farmer Mac.

[4] The Funding Corporation is established pursuant to section 4.9 of the Farm Credit Act of 1971, as amended, and is owned by all Farm Credit banks.

[5] The agricultural credit bank lends to, and provides other financial services to farmer-owned cooperatives, rural utilities (electric and telecommunications), and rural water and waste water disposal systems. It also finances U.S. agricultural exports and imports, and provides international banking services to cooperatives and other eligible borrowers. The agricultural credit bank operates a Farm Credit Bank subsidiary.

enabling statute is the Farm Credit Act of 1971, as amended (Act).[6]

In many respects, the FCS is different from other lenders. In contrast to most commercial banks and other financial institutions, the System lends primarily to agriculture and other eligible borrowers in rural areas. Unlike most other lenders, FCS banks and associations are cooperatives that are owned and controlled by their member-borrowers. Their common equity is not publicly traded. The System also funds its operations differently than most commercial lenders. FCS banks and associations are not depository institutions, and for this reason, System-wide debt securities, not deposits, are the System's primary source for funding loans to agricultural producers, their cooperatives, and other eligible borrowers. Although section 4.2(a) of the Act authorizes FCS banks to borrow from commercial banks and other lending institutions, lines of credit with such lenders are only used as a secondary source of liquidity.

As a government-sponsored enterprise (GSE), the System depends on continuing access to the capital markets to obtain the funds necessary to extend credit to agriculture,

[6] 12 U.S.C. §§ 2001-2279cc. The Act is available at www.fca.gov under "Laws and regulations," and "Statutes."

aquaculture, rural utilities, and rural housing in both good and bad economic times. If access to the capital markets becomes impeded for any reason, FCS banks must have enough readily available funds and assets that can be quickly converted into cash to continue operations and pay maturing obligations. Unlike commercial banks, the System does not have a lender of last resort and does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve.

As part of our ongoing efforts to ensure the FCS banks have sufficient liquidity to fund operations in the event of market disruptions, and in light of updated guidance and regulations published by the BCBS and FBRAs, we are soliciting comments on the best ways to enhance FCA's existing liquidity framework.

II. Recent Updates to System Liquidity Regulations

FCA regulations governing System banks' liquidity were last substantially updated in 2013 in response to the 2008 financial crisis.[7] FCA proposed amendments to its liquidity requirements in 2011 to improve the quality of liquidity and bolster the ability of the System banks to fund their

[7] *See* 78 FR 23438 (April 18, 2013), as corrected by 78 FR 26701 (May 8, 2013). In addition, technical, non-substantive revisions to the terms "Government-sponsored enterprise (GSE)" and "U.S. Government agency" were made in 2018 (83 FR 27486 (June 12, 2018)).

operations during times of economic, financial, or market adversity.[8] At the time, FCA considered the Basel III Liquidity Framework that was published in September 2008 and December 2010,[9] but decided not to adopt the Basel III liquidity ratios. The final rule incorporated the liquidity coverage principles of Basel III as appropriate to the System, improved the System's ability to withstand market disruptions by strengthening liquidity management practices at Farm Credit banks, and enhanced the liquidity of assets in their liquidity reserves. The objectives of our 2013 liquidity final rule[10] were to:

- Improve the capacity of FCS banks to pay their obligations and fund their operations by maintaining adequate liquidity to withstand various market disruptions and adverse economic or financial conditions;
- Strengthen liquidity management at all FCS banks;
- Enhance the liquidity of assets that System banks hold in their liquidity reserves;
- Require FCS banks to maintain a three-tiered liquidity reserve. The first tier of the liquidity reserve must consist of a sufficient amount of cash and cash-like

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[8] *See* 76 FR 80817 (December 27, 2011).
[9] *See* "Principles for Sound Liquidity Risk Management and Supervision." September 2008; and "Basel III: International framework for liquidity risk measurement, standards and monitoring." December 2010.
[10] *See supra footnote* 7.

instruments to cover each bank's financial obligations for 15 days. The second and third tiers of the liquidity reserve must contain cash and highly liquid instruments that are sufficient to cover the bank's obligations for the next 15 and subsequent 60 days, respectively;

• Establish a supplemental liquidity buffer that a bank can draw upon during an emergency and is sufficient to cover the bank's liquidity needs beyond 90 days; and

• Strengthen each bank's Contingency Funding Plan (CFP).

As explained in the preamble to the 2013 final rule, the amendments to § 615.5134 incorporated many of the principles that the BCBS and the FBRAs have articulated on liquidity management because many of these fundamental concepts apply to all financial institutions, including FCS banks. The comprehensive supervisory approach developed by the BCBS and the FBRAs effectively strengthens both the liquidity reserves and the liquidity risk management practices at regulated financial institutions.

FCA's update created three levels of liquid assets (levels 1, 2, and 3) which are similar to, but not exactly the same as, the three levels of high-quality liquid assets (HQLA) established in the Basel III Liquidity Framework (levels 1, 2a, and 2b) and used in the Liquidity Coverage

Ratio (LCR).[11] In addition, FCA's framework adopted core concepts of the FBRA's rules, including the supplemental liquidity buffer, specific policies and internal controls that combat liquidity risk, and CFPs based in part on the results of liquidity stress tests.

The Basel III Liquidity Framework is not the only basis for the existing liquidity regulation. The regulation was also based upon the System's own initiatives to improve liquidity management as well as the FCA's experiences from examining liquidity risk management at Farm Credit banks and the Funding Corporation. In this context, the regulation implemented the best practices available for liquidity management at FCS banks at the time.

The Farm Credit System Insurance Corporation (FCSIC) may use its Insurance Fund as a backup source of liquidity for System banks through its assistance authorities.[12] Additionally, subsequent to FCA adopting the rule, FCSIC entered into an agreement with the Federal Financing Bank (FFB) for a $10 billion line of credit.[13] Pursuant to this agreement, the FFB may advance funds to FCSIC when exigent

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[11] *See* 79 FR 61440 (October 10, 2014).

[12] *See* 12 U.S.C. 2277a-10(a)(1); Section 5.61(a)(1) of the Act.

[13] On September 24, 2013, FCSIC entered into an agreement with the FFB, a U.S. government corporation subject to the supervision and direction of the U.S. Treasury.

market circumstances[14] make it extremely doubtful that: the Funding Corporation can issue new System-wide debt obligations to repay maturing obligations; and one or more insured System banks will be able to pay maturing debt obligations without selling available liquidity reserve assets at a material loss. If necessary, FCSIC would use the funds advanced by the FFB to increase amounts in its Insurance Fund to provide assistance to the System banks until market conditions improve.[15]

The decision whether to provide assistance, including seeking funds from the FFB, is at the discretion of FCSIC, and each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by the System. This FCSIC-FFB revolving credit facility is subject to annual renewal. Additionally, the agreement only applies during exigent market circumstances, and can only be used if the amount needed to repay maturing System-wide insured debt obligations will exceed available Insurance Fund reserves. As such, FCA does not consider

[14] An "exigent market circumstance" is a broad disruption across U.S. credit markets that originates external to and independent of the Farm Credit System.

[15] The agreement provides for a short-term revolving credit facility of up to $10 billion, is renewable annually and terminates on September 30, 2021, unless otherwise further extended.

potential FCSIC assistance, including additional amounts available through its agreement with the FFB, when determining liquidity requirements or completing examinations of liquidity and related management practices at FCS institutions.

FCA has closely monitored how the FBRAs have adjusted Basel III and applied it to the institutions they supervise since 2013. In response to these developments and more recent adverse market conditions, FCA believes it is appropriate to consider updates to the existing FCA liquidity framework.[16]

III. Potential Areas for Improvement

Our current liquidity regulation § 615.5134, which we finalized in 2013, responded to the 2008 financial crisis. More specifically, this regulation improves the System's liquidity management and bolsters the ability of the System banks to fund their operations during times of economic, financial, or market adversity. At the time, FCA considered the Basel III Liquidity Framework and how to

[16] The FCA has broad authority under various provisions of the Act to supervise and regulate liquidity management at FCS banks. Section 5.17(a) of the Act authorizes the FCA to: (1) Approve the issuance of FCS debt securities under section 4.2(c) and (d) of the Act; (2) establish standards regarding loan security requirements at FCS institutions, and regulate the borrowing, repayment, and transfer of funds between System institutions; (3) prescribe rules and regulations necessary or appropriate for carrying out the Act; and (4) exercise its statutory enforcement powers for the purpose of ensuring the safety and soundness of System institutions.

tailor it to the unique circumstances of System banks. The FBRAs had not yet enacted regulations that implemented Basel III, and we decided it would be premature for FCA to adopt the LCR and the Net Stable Funding Ratio (NSFR) for System banks. FCA's existing regulation has achieved FCA's objectives by ensuring that System banks have a satisfactory liquidity framework. Yet, the time has come for FCA to revisit these issues and decide how best to strengthen and update § 615.5134 so System banks are in a better position to respond to emerging risks and constantly changing market conditions.

Between 2013 and 2020, the BCBS and FBRAs issued new guidance and regulations to improve the liquidity framework for the banking sector. The new regulations included the LCR that was finalized in 2014[17] and the NSFR, which was proposed in 2016[18] and finalized in November 2020.[19] The LCR[20] focuses on short-term liquidity risk from severe market stresses and the NSFR[21] promotes stable funding structures over a one-year horizon. The NSFR is designed to act as a complement to the LCR to mitigate the risks of

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[17] *See* 79 FR 61440 (October 10, 2014).
[18] *See* 81 FR 35124 (June 1, 2016).
[19] *See* 86 FR 9120 (February 11, 2021). The final rule will become effective on July 1, 2021.
[20] *See* BCBS, "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools" (January 2013).
[21] *See* BCBS, "Basel III: The net stable funding ratio" (October 2014).

banking organizations supporting their assets with insufficiently stable funding. The LCR applies to large banking organizations and does not apply to community banking and savings associations. When the final NSFR rule becomes effective on July 1, 2021, it too will apply to large banking organizations, but not community banks and small saving associations.

The Basel III Liquidity Framework encourages regulated entities to account for unfunded commitments and other contingent obligations in their liquidity reserve calculations, and for this reason, its concepts are relevant to this rulemaking and the maintenance of adequate liquidity at FCS banks. After careful consideration of the comments received on the 2011 liquidity proposed rule, FCA decided not to incorporate unfunded commitments into the existing regulation, however, FCA stated it may address unfunded commitments at a later time. As a result, FCA's liquidity reserve requirement does not capture funds held or unfunded commitments on retail loans or on the direct note. While these unfunded commitments are generally captured as part of the liquidity stress tests incorporated into a bank's CFP, the CFP in the existing rule gives System banks considerable discretion to determine the cash flow assumptions and discount factors used to determine the amount of liquidity reserves they should hold for these potential cash outflows.

Modifying FCA's liquidity reserve requirement to capture unfunded commitments or adopting an LCR/NSFR framework may promote stronger liquidity profiles at System banks by improving how liquidity is measured and reported. Furthermore, this modification would help ensure that a System bank has enough liquidity to meet its unfunded commitments during a liquidity crisis.

The containment measures adopted in early 2020 in response to COVID-19 slowed economic activity in the United States.[22] Financial conditions tightened markedly in March and April 2020 and sudden disruptions in financial markets put increasing liquidity pressure on certain credit markets. In response to the pandemic, the Federal Reserve Board established a number of funding, credit, liquidity, and loan facilities to provide liquidity to the financial system.[23] One of these programs, the Paycheck Protection

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[22] *See* Proclamation 9994, "Declaring a National Emergency Concerning the Novel Coronavirus Disease COVID-19 Outbreak," 85 FR 15337 (March 18, 2020).

[23] Section 1101 of the Dodd-Frank Wall Street Reform and Consumer Protection Act amended section 13(3) of the Federal Reserve Act, 12 U.S.C. 343(3), to allow the Federal Reserve Board, in consultation with the Secretary of the Treasury, to establish by regulation, policies and procedures that would govern emergency lending under a program or facility for the purpose of providing liquidity to the financial system. Under section 13(3) of the Federal Reserve Act, as amended, the Federal Reserve Board must establish procedures that prohibit insolvent

Program (PPP) Liquidity Facility, was directly available to System institutions, while other facilities indirectly increased the liquidity of System institutions' assets held in their liquidity reserves.[24] FCA provided System institutions with guidance to manage the challenges associated with the COVID-19 pandemic, including certain regulatory capital relief for PPP loans and PPP loans pledged to the PPP Liquidity Facility.[25] Throughout the market turbulence in early 2020, System banks maintained satisfactory liquidity reserves, however; the market conditions caused by COVID-19 provided FCA the opportunity to observe the existing liquidity framework under adverse market conditions.

Based on these developments, FCA is considering whether changes to our liquidity regulations are appropriate or needed.

IV. Request for Comments

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and failing entities from borrowing under the emergency program or facility.
See Public Law 11-203, title XI, sec. 1101(a), 124 Stat. 2113 (Jul. 21, 2010).

[24] To provide liquidity to small business lenders and the broader credit markets and to help stabilize the financial system, the Federal Reserve Board has created the PPP Liquidity Facility using its authority under section 13(3) of the Federal Reserve Act.

[25] *See* FCA's Supplement to the January 5, 2021, FCA Informational Memorandum: Guidance for System Institutions Affected by the COVID-19 Pandemic: Regulatory Capital Requirements for PPP Loans.

We request and encourage any interested person(s) to submit comments on the following questions and ask that you support your comments with relevant data, analysis, or other information. We remind commenters that comments, data, and other information submitted in support of a comment, will be available to the public through our website.

We have organized our questions into the following categories: (A) Existing FCA Liquidity Regulations and (B) Applicability of the LCR and NSFR.

A. Existing FCA Liquidity Regulations

<u>Unfunded Commitments of FCS Banks</u>

Each FCS bank has its own unique circumstances and risk profile and, therefore, exposure to unfunded commitments and other contingent obligations varies within the FCS. As part of each System bank's general financing agreement (GFA) with its affiliated associations, System banks have an unfunded commitment to each affiliated association that is a possible outflow of liquidity. The unfunded commitment amount is the difference between the association's maximum credit limit with the System bank under the GFA or promissory note[26] and the amount the association has borrowed from the System bank.

The GFA permits a System bank to terminate an association's loan or to refuse to make additional disbursements in the event of default. The Act prohibits an association from borrowing from commercial banks or other financial institutions without its funding bank's approval.[27] We believe there may be merit in incorporating these possible outflows for the bank's unfunded commitment to its affiliated associations into the existing liquidity reserve requirement because the associations are fully dependent on the bank for funding its operations so it can fulfill its mission.

System banks also have unfunded commitments or other material contingent liabilities to other financing institutions (OFIs) that increase liquidity risk.[28] System banks are required to provide funding, or provide similar financial assistance to any creditworthy OFI that meets certain requirements.[29] Although the GFAs with OFIs may permit a System bank to refuse to make additional

[26] *See* § 614.4125(d).
[27] Under section 2.2(12) of the Act, direct lender associations may borrower money from their affiliated Farm Credit bank, and with the approval of their funding banks, may borrow from and issue notes or other obligations to any commercial bank or financial institution.
[28] OFI means any entity referred to in section 1.7(b)(1)(B) of the Act.
[29] *See* § 614.4540(b) which specifies the criteria for assured access for certain OFIs.

disbursements in the event of default, a System bank would likely be required to give prior notice to cancel unfunded commitments to OFIs. As part of their GFA with OFIs, System banks can be legally obligated to fund these commitments. These types of outflows may include retail funding, contractual settlements related to derivative transactions, pledging collateral, or other off-balance sheet commitments.

FCS banks may also have outstanding lines of credit to retail borrowers who may draw funds to meet their seasonal, business, or liquidity needs. A line of credit may be used as a liquidity facility to function as an undrawn backup that would be utilized to refinance debt obligations of a borrower in situations where the borrower is unable to rollover that debt in financial markets. Alternatively, credit facilities provide a line of credit for borrower’s general corporate or working capital purposes. These lines of credit to retail borrowers may or may not be unconditionally cancellable. A sudden surge in borrower demand for funds under these lines may increase demands on the bank’s liquidity at a time when market access is becoming impeded. These unfunded commitments potentially expose both FCS banks and associations to significant safety and soundness risks.[30]

To incorporate consideration of these unfunded commitments, the liquidity rules of the FBRAs apply a multiplier or "factor" to the gross notional amount to reflect assumptions on how exposures will result in "cash outflows." These factors are multiplied by the total amount of each outflow item to determine the regulatory outflow amount. The factor applied is dependent on the type of exposure, and is consistent with the Basel III Liquidity Framework and the FBRAs' evaluation of relevant supervisory information. The factors applied consider the potential impact of idiosyncratic and market-wide shocks.[31]

While unfunded commitments at System banks should be analyzed in the CFP, banks have significant discretion about the assumptions (i.e., factor) applied. For example, to reflect varying drawdown assumptions System banks may

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[30] The Tier 1/Tier 2 Capital framework regulation requires that System banks hold capital against this unfunded wholesale commitment due to the risk presented. *See* § 628.33 and preamble discussion – 81 FR 49737 (July 28, 2016).

[31] *See* 79 FR 61440, 61444 (October 10, 2014). Examples include those shocks that would result in: (1) A partial loss of unsecured wholesale funding capacity; (2) a partial loss of secured, short-term financing with certain collateral and counterparties; (3) losses from derivative positions and the collateral supporting those positions; (4) unscheduled draws on committed credit and liquidity facilities that a covered company has provided to its customers; and (5) other shocks that affect outflows linked to structured financing transactions and mortgages.

apply a factor, similar to the factors applied in the FBRAs' rules, to notional amounts outstanding. A higher factor reflects a higher drawdown potential of the undrawn portion of these commitments and results in a higher liquidity requirement in the CFP. For example, a $10 billion exposure at a 10 percent factor would add only $1 billion to the discounted outflows, while a 40 percent factor would add $4 billion to the outflows.

To evaluate this further, we are seeking comment to determine if we should incorporate unfunded commitments into the existing FCA liquidity framework and what type of factor would be appropriate to capture the drawdown risks.

1. How should FCA incorporate the liquidity risk of unfunded commitments on affiliated associations' direct notes into the System banks' liquidity reserve requirement?
    a. Should drawdown factors be applied to unfunded commitments?
    b. If so, what would be an appropriate factor to apply to the direct note unfunded commitments?
2. How should FCA incorporate the liquidity risk of unfunded commitments to OFIs into the System banks' liquidity reserve requirement?

a. Should drawdown factors be applied to unfunded commitments?

b. If so, what would be an appropriate factor to apply to OFI unfunded commitments?

c. Does the liquidity risk of unfunded commitments to OFIs pose a different risk than unfunded commitments to affiliated associations' direct notes? If so, how should FCA incorporate this risk into the liquidity reserve requirement?

3. How should FCA incorporate the liquidity risk of unfunded commitments to bank retail borrowers into the System banks' liquidity reserve requirement?

   a. What would be an appropriate factor to apply to retail borrower unfunded commitments?

   b. Should unfunded commitments to retail borrowers that are not unconditionally cancellable be treated differently from those that are unconditionally cancellable? Please explain why.

   c. Should we consider applying different factors to differentiate the risk between retail credit and liquidity facilities for such retail borrowers?

Association Lines of Credit to Retail Borrowers

FCS associations often have outstanding lines of credit to retail borrowers who may draw funds to meet their seasonal or other business needs. Associations can be legally obligated to fund these commitments and would generally rely on their System bank for funding under the GFA. A sudden surge in borrower demand for funds under these lines may increase demands on the bank's liquidity at a time when market access is becoming impeded. More specifically, during periods of economic or market uncertainty, retail borrowers may desire to increase their cash holdings to cover operating and business expenses and accordingly, draw from their operating lines. As System banks are ultimately responsible to fund associations, we are seeking comment to determine if a revised liquidity requirement should "look-through" System banks to consider each association's unfunded commitment to retail borrowers as a potential outflow item.

4. How should FCA incorporate the risk of unfunded commitments from association retail borrowers for the funding banks' liquidity reserve requirement?
   a. What would be an appropriate factor for System banks to apply to association unfunded commitments?
   b. Should unfunded commitments at associations that are not unconditionally cancellable be treated

differently from those that are unconditionally cancellable? Please explain why.

c. If so, should we consider applying a different factor to differentiate the risk between credit and liquidity facilities for association retail borrowers?

d. Should FCA incorporate the liquidity risk of unfunded commitments to association retail borrowers through a "look through" approach or using the direct note unfunded commitment amount?

Voluntary Advance Conditional Payment Accounts

Section 614.4175 allows member-borrowers to make voluntary advance conditional payments (VACP) on their loans and allows institutions to set up involuntary payment accounts for funds held to be used for insurance premiums, taxes, and other reasons.[32] VACP (where the advanced payment is not compulsory) accounts have the potential to expose the System to additional liquidity risk in a crisis. More specifically, some VACP accounts may be structured so that System member-borrowers may withdraw funds at their request (although prior notice for withdrawals may be required). A sudden surge in member-borrower draws from

[32] Sections 1.5(6) and 2.2(13) of the Act authorize institutions to accept advance payments.

VACP accounts held at associations would increase the funding required from the bank to the association. This sudden increase in funding may increase demands on the bank's liquidity at a time when market access is becoming impeded. To evaluate this further, we are seeking comment on how we should mitigate the risk VACP accounts pose to the liquidity of System banks.

5. How should FCA incorporate the liquidity risk of VACP accounts at associations into the funding banks' liquidity reserve requirement?
   a. What would be an appropriate factor to apply to these VACP accounts?
   b. If different factors should apply to different types of VACP accounts, please specify.

<u>Continuously Redeemable Perpetual Preferred Stock</u>

Some System associations have issued continuously redeemable perpetual preferred stock (typically called Harvest Stock or H Stock) to their members who wish to invest and participate in their cooperative beyond the minimum member-borrower stock purchase. H Stock is an at-risk investment; it is issued without a stated maturity and is retireable only at the discretion of the institution's board. A common feature of H stock is that the issuing association will redeem it upon the request of the holder only if the association is in compliance with its regulatory capital requirements. Because of this feature, FCA considers the stock to be continuously redeemable. Some associations reduce the operational hurdles to redeeming H stock by delegating the board's authority to retire such stock to management provided certain board-approved minimum regulatory capital ratios are maintained. FCA has determined that holders reasonably expect the institution to redeem the stock shortly after they make a request. A sudden surge in member-borrower redemptions of H Stock held at associations would increase the funding from System bank to its associations. This sudden increase in funding may increase demands on the bank's liquidity at a time when market access is becoming impeded. To evaluate this further, we are seeking comment on how we should mitigate the risk H Stock poses to the liquidity of System banks.

6. How should FCA incorporate the liquidity risk of H Stock redemptions at associations into the funding banks' liquidity reserve requirement? What would be an appropriate factor to apply to H Stock?

<u>Cash Inflows</u>

As discussed above, modifying FCA's liquidity reserve requirement to capture potential cash outflows, including unfunded commitments, may promote a stronger liquidity profile at System banks. To improve how liquidity is measured and reported, we are also considering incorporating cash inflows into the liquidity reserve requirement. FCA's existing liquidity regulation, § 615.5134, does not consider how expected cash inflows would affect the bank's liquidity reserve requirement. Outside of CFP stress analysis (discussed below), FCA's existing liquidity framework views the discounted market value of assets held in the liquidity reserve and supplemental buffer as the only source of liquidity during a liquidity event.[33]

However, in a liquidity event, certain borrowers will still be making payments on their loans, allowing money to flow into the institution that can be used to support ongoing operations. Cash inflows from sources other than the liquidity reserve typically include payments from wholesale and retail borrowers and coupon and scheduled

[33] The discounts applied to the assets held for liquidity in FCA's regulations approximate the cost of liquidating investments over a short period of time during adverse situations. The mechanism of discounting assets is designed to accurately reflect true market conditions. For example, FCA regulations assign only a minimal discount to investments that are less sensitive to interest rate fluctuations because they are exposed to less price risk. Conversely, the discount for long-term fixed rate instruments is higher because they expose FCS banks to greater market risk.

principal payments from securities not included in the liquidity reserve.[34]

The CFP requirement at § 615.5134(f) allows System banks to consider inflows when analyzing how much contingent liquidity they must hold under a 30-day acute stress scenario. However, for the purposes of the CFP, System banks have considerable discretion to determine the assumptions pertaining to the amount of inflows that will offset potential outflows. To evaluate this further, we are seeking comment to determine if we should incorporate inflows into the existing FCA liquidity framework.

7. How should FCA incorporate the uncertainty of cash inflows into System banks' liquidity reserve requirements?
8. What would be an appropriate discount percentage to apply to the different types of inflows (such as payments from wholesale and retail borrowers, payments from securities not included in the liquidity reserve)?
9. What type of operational changes (such as data elements, general ledger requirements, and systems) would be required to accurately capture inflow and

[34] *See* FDIC's Liquidity Risk Management Standards. Inflow amounts are defined at 12 CFR 329.33.

outflow information to calculate liquidity ratios on a daily or monthly basis?

Stability of a Bank's Balance Sheet

The amount of liquid assets that a bank must maintain is generally a function of the stability of its funding structure, the risk characteristics of the balance sheet, and the adequacy of its liquidity risk measurement program. System banks provide funding to their affiliated associations through the direct note which is a significant portion of the bank's assets. The bank's direct note assets are impacted by the funding and liquidity demands of their affiliated associations. However, System banks directly control the mix of funding for these assets, as well as the risk characteristics of other assets acquired.

System banks issue System-wide debt securities as the primary source for funding loans and investments. As part of the examination process, FCA evaluates how each bank's debt structure helps limit liquidity risks. For example, if a bank funds its balance sheet wholly with short-term debt, the resulting large amounts of debt maturing each week would cause the bank to be vulnerable to market disruptions and liquidity risk. Therefore, debt maturities should be structured in a manner that they are extended and align with the tenor and composition of the bank's assets.

In addition, debt maturities should ensure longer-term stable funding.

FCA's existing liquidity framework does not directly address the stability of a bank's balance sheet and does not require compliance with specific debt structure ratios. To evaluate this further, we are seeking comment to determine if we should add requirements regarding the structure of a bank's balance sheet into the existing FCA liquidity framework.

10. How should FCA amend its liquidity regulations to strengthen the stability of the balance sheet structure at FCS banks?
11. Under what circumstances might it be appropriate for FCA's liquidity framework to better address funding methods such as discount notes and short funding?

Marketability of the Supplemental Liquidity Buffer

Currently, investments held in a bank's liquidity reserve must be marketable in accordance with the criteria in § 615.5134(d). However, investments held in the supplemental liquidity buffer are not subject to the same marketability standard.[35] Thus, there is the potential that

[35] Assets held in the supplemental liquidity buffer are not subject to the marketability standard in § 615.5134(d). However, a System bank must be able to liquidate any qualified eligible investment in its supplemental liquidity buffer within the liquidity policy timeframe

the supplemental liquidity buffer may include investments that are not marketable or liquid under certain circumstances. To evaluate this further, we are seeking comment to determine if we should hold investments in the supplemental liquidity buffer to the same or similar marketability standards as assets in the liquidity reserve.

12. Should FCA apply the criteria for "marketable" investments in § 615.5134(d) to assets that FCS banks hold in their supplemental liquidity buffer? If yes, why? If no, what criteria should FCA adopt to address its concerns about the liquidity and marketability of assets in the supplemental liquidity buffers of FCS banks when access to the markets are becoming impeded, and why?

Money Market Instruments and Diversified Investment Funds

The existing liquidity framework allows certain money market instruments and diversified investment funds to be included as Level 1 reserves at § 615.5134(b). The FBRAs decided not to include similar instruments in the LCR's HQLA framework, such as mutual funds and money market

established by the bank's liquidity policy at no less than 80 percent of its book value. Assets having a market value of less than 80 percent of their book value at any time must be removed from the supplemental buffer. *See* § 615.5134(e).

funds.[36] The FBRAs stated that certain underlying investments of the investment companies may include high-quality assets, however, similar to securities issued by many companies in the financial sector, shares of investment companies have been prone to lose value and become less liquid during periods of severe market stress or an idiosyncratic event involving the fund's sponsor. Additionally, Securities and Exchange Commission (SEC) rules regarding money market funds may also impose some barriers on investors' ability to withdraw all their funds during a period of stress.[37]

Certain money market instruments exhibited liquidity stress during the 2008 financial crisis and the economic shock in March 2020 caused by the COVID-19 pandemic.[38] For example, in March 2020, Commercial paper (CP) and Certificate of deposit (CD) markets both became stressed.[39]

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[36] FCA defined money market instruments to include short-term instruments such as (1) Federal funds, (2) negotiable certificates of deposit, (3) bankers' acceptances, (4) commercial paper, (5) non-callable term Federal funds (6) Eurodollar time deposits, (7) master notes, and (8) repurchase agreements collateralized by eligible investments as money market instruments. 83 FR 27486, 27489 (June 12, 2018). Of the seven items, the FBRAs only allow Federal funds to be included in Level 1 HQLA. *See supra footnote* 1. Federal funds represent a small amount of the System's cash and liquidity included in Level 1 money market instruments.

[37] *See* SEC, ''Money Market Fund Reform; Amendments to Form PF,'' 79 FR 47736 (August 14, 2014).

[38] *See* 79 FR 61440, 61465 (October 10, 2014) and Financial Stability Board's "COVID-19 Pandemic: Financial Stability Impact and Policy Responses; Report submitted to the G20." November 17, 2020.

[39] Both CP and CD are included in FCA's definition of money market instruments.

Under normal market conditions, secondary trading volume in CP and CD markets is limited as most investors purchase and hold these short-dated instruments to maturity. However, in March 2020, as some market participants, including money market mutual funds and others, may have sought secondary trading, they experienced a "frozen market." For liquidity purposes, both secondary trading and new issuances of CP and CD halted for a period of time during the pandemic.[40]

FCA's existing definition of "marketable" in § 615.5134(d) makes an exception for money market instruments. Specifically, § 615.5134(d)(4) exempts money market instruments from the requirement that investments in the liquidity reserve must be easily bought and sold in active and sizeable markets without significantly affecting prices. Additionally, money market instruments are not subject to FCA's investment portfolio diversification requirements and are not limited in the liquidity reserve requirement.[41] To evaluate the type of instruments and definitions allowed under the FCA liquidity framework, we are seeking comment to determine if we should align the

[40] *See* SEC's Division of Economic and Risk Analysis "U.S. Credit Markets Interconnectedness and the Effects of the COVID-19 Economic Shock." October 2020.

[41] *See* § 615.5133(f)(3)(iii).

instruments in FCA's liquidity reserve requirement with the FBRAs HQLA framework.

13. Given the risks of money market instruments and diversified investment funds and that the FBRAs do not consider these instruments to be high quality liquid assets, why should FCA continue to permit these instruments to be included in an FCS bank's liquidity reserve? If you believe that we should continue to allow money market instruments and diversified investment funds in the liquidity reserve requirement, how could FCA mitigate the risks they pose?
14. What factors should FCA consider in evaluating the risk of money market instruments and diversified investment funds in the context of the total liquidity reserve requirement?
15. Should FCA consider limiting money market instruments and diversified investment funds included in specific levels in the liquidity reserve to mitigate concentration risk? Please explain your reasoning.

FCA's Liquidity Reserve and High-Quality Liquid Assets in Liquidity Coverage Ratio

The FBRAs' HQLA allowed in the LCR differ from liquid assets allowed in FCA's liquidity regulation. FCA's regulation allows certain instruments to qualify as liquid assets even though they are excluded from the LCR, such as investment company shares (mutual funds and money market funds). However, the LCR allows certain instruments to be included in HQLA that are excluded from FCA's liquidity regulation, such as municipal obligations and certain corporate bonds.[42] There are also certain instruments in HQLA that System banks do not have the authority to purchase.[43] FCA's regulation also differentiates liquid assets by tenor while the LCR does not. Additionally, the LCR applies more substantial discounts or "haircuts" to HQLA than FCA's liquidity regulation applies to the same assets. The FRBAs also limit certain assets to a percentage of the total eligible HQLA amount, whereas FCA does not. To evaluate this further, we are seeking comment to determine if we should consider aligning FCA's existing requirements for liquid assets with the LCR's HQLA.

16. Should FCA consider expanding the instruments eligible under the liquidity reserve to more closely align with the HQLA framework of the FBRAs? If so, which instruments should be considered and how would

[42] System banks can purchase certain municipal securities and corporate bonds under § 615.5140(a)(1)(ii)(A) – non-convertible senior debt securities.

[43] Investments such as publicly traded common equity, certain corporate debt securities, and certain other securities are included in the LCR but are not eligible investments under § 615.5140.

including the instruments add strength to the existing liquidity framework?

17. Should FCA consider reviewing tenor requirements in its existing liquidity regulations? If so, which instruments should be considered and how would the requirements add strength to the existing liquidity framework?
18. Should FCA consider changing discount values assigned to assets held for liquidity to more closely align with those applied under the LCR's HQLA framework?
19. Should FCA consider limiting certain assets included in the liquidity reserve to mitigate concentration risk? If so, what assets should be limited and what percent should they be allowed to count towards the reserve requirement?

Liquidity and COVID-19

FCS banks withstood the recent economic and financial turmoil from COVID-19 with their liquidity intact. However, both the FCA and FCS continue to gain insights into the effects that sudden and severe stress have on liquidity at individual FCS institutions and in the entire financial system. For example, in March of 2020, financial markets experienced a "flight to cash" where demand for cash and the highest quality cash like instruments dramatically increased, while demand (and thus prices) for less liquid instruments declined.[44] System banks are required to adopt a CFP to ensure sources of liquidity are sufficient to fund normal operations under a variety of stress events.[45] Such stress events include, but are not limited to market disruptions, rapid increase in loan demand, unexpected draws on unfunded commitments, difficulties in renewing or replacing funding with desired terms and structures, requirements to pledge collateral with counterparties, and reduced market access.

As addressed above, we are reviewing our regulatory and supervisory approaches towards liquidity so that System institutions are in a better position to withstand whatever future crises may arise. As part of our ongoing efforts to limit the adverse effect of rapidly changing economic, financial, and market conditions on the liquidity of any FCS bank, we are seeking comment to determine if we should make updates to our regulations to better prepare for future liquidity crises.

20. How should FCA further incorporate the demand for cash and highly liquid U.S. Treasury securities during

[44] *See* Bank for International Settlements Bulletin No 14 "US dollar funding markets during the Covid-19 crisis – the money market fund turmoil." May 12, 2020.
[45] *See* § 615.5134(f).

times of crisis into the System banks liquidity reserve requirement?

21. What type of updates should FCA consider to the CFP requirements in § 615.5134(f)?

B. Applicability of the Liquidity Coverage Ratio and Net Stable Funding Ratio

System Banks and the LCR and NSFR

For the reasons discussed above, the FCA is exploring whether, and to what extent, the LCR and NSFR should apply to System banks now that the FBRAs issued final rules implementing the Basel III Liquidity Framework in the United States. More specifically, we are evaluating whether it is feasible to adjust the LCR **and** NSFR to the System's cooperative and non-depository structures and its mission as a GSE, and we are seeking your input. In the alternative, we are considering whether to incorporate specific elements of the LCR and NSFR into our liquidity regulation, and we are interested in your ideas about how to do so.

22. What core principles would be most important in FCA's consideration of the Basel III Liquidity Framework? How relevant is the Basel III Liquidity Framework to the cooperative and non-depository structure of the FCS?

23. To what extent should FCA propose a similar rule to the FBRA’s LCR and NSFR?
    a. Should FCA completely replace its existing liquidity regulations with an LCR and NSFR framework or only augment existing regulations with certain elements of the LCR and NSFR framework? If so, please explain.
    b. What specific modifications, if any, should FCA consider making to the LCR and NSFR ratios for application to System banks, and why?
    c. If FCA proposed to incorporate the LCR and NSFR ratios as part of the CFP requirement in § 615.5134(f), what types of modifications would be necessary to include elements of the ratios, without being redundant or overly burdensome?
24. If the FCA closely aligned the LCR and NSFR to the FBRA’s regulations, and made only narrow modification to accommodate the System’s unique structure, would the results enable FCS banks to better withstand liquidity crises, or in the alternative, prove too costly or burdensome? Please explain.
25. How would the implementation of an LCR and NSFR impact the System’s funding structure, lending activities, or use of discount notes?

Outflows to Credit Facilities

The LCR requires covered institutions to hold liquidity against the undrawn amount of a committed credit facility to a borrower. The outflow factor applied to this undrawn amount depends on the type of credit facility (credit or liquidity facility)[46] and the type of borrower (financial sector entity or non-financial sector entity). The direct notes from System banks to System associations under the GFAs are credit facilities, not liquidity facilities. Unfunded commitments on a credit facility to a financial sector entity have a 40 percent factor, while the same commitment to a non-financial sector entity only have a 10 percent factor. Financial sector entities typically have shorter-term funding structures and higher correlations of drawing down commitments during times of stress which support a higher factor when compared to non-financial sector entities.[47] A higher factor results in a higher liquidity requirement under the LCR.

[46] Credit and liquidity facility are defined at 12 CFR 329.3. A credit facility is a legally binding agreement to extend funds at a future date and generally includes working capital facilities (e.g., revolving line of credit used for general corporate or working capital purposes). A liquidity facility is a legally binding agreement to extend funds for purposes of refinancing the debt of a counterparty when it is unable to obtain a primary or anticipated source of funding. If a facility has characteristics of both credit and liquidity facilities, the facility must be classified as a liquidity facility.

[47] *See* 79 FR 61440, 61485 (October 10, 2014).

The FBRAs' LCR regulation defines a financial sector entity to include a regulated financial company, but specifically excludes GSEs. The FCS is a cooperative system of financial institutions that the FCA charters and regulates in accordance with the Act. System associations lend directly to and provide certain financially-related services to eligible borrowers. The System's lending activities to retail borrowers, and its structure are different than the activities and structure of other GSEs excluded from the FBRAs' definition of a financial sector entity.[48] Unlike the other GSEs, most FCS institutions lend directly to retail borrowers in a manner that is substantially similar to lenders that the FBRAs define as financial sector entities. To evaluate this further, we are seeking comment to determine if we propose an LCR, should FCA treat System institutions as financial sector entities and apply the relevant factor under the FBRAs' definition.

26. If FCA proposes an LCR, should FCA treat System institutions as financial sector entities and apply a

[48] Other GSEs currently include the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Bank System. As noted in footnote 3, supra, Farmer Mac is a GSE that has a charter to operate a secondary market for certain types of loans originated by retail lenders. Farmer Mac is not a cooperative. Instead, it is a stockholder-owned, federally chartered corporation.

40 percent factor to the unfunded portion of the associations' direct note commitments?

a. If so, what supports FCA treating System institutions as financial sector entities and applying a 40 percent factor on the unfunded commitments System banks have to associations?

b. If not, what supports FCA treating System institutions as non-financial sector entities and applying a 10 percent factor on the unfunded commitments System banks have to associations?

System Bank Member Investment Bonds

Two System banks offer investment bonds to their member-borrowers and other specified individuals, such as bank employees (Member Investment Bonds). Both programs are similar in that each bank offers overnight or short-term, uninsured bonds to the bank's members and other specified individuals. Member Investment Bonds are structured so that holders may redeem funds at their request (although prior notice for withdrawals may be required). Given their short maturity, a holder's investment may be continuously rolled over until they provide notice to redeem the investment, which may be at any time. Member Investment Bonds present a liquidity demand similar to maturing System bonds. Accordingly, FCA treats Member Investment Bonds and maturing System bonds the same under the existing liquidity rules. Under the LCR, there are several different outflow categories that Member Investment Bonds could fall into. To evaluate this further, we are seeking comment to determine if we propose an LCR, what the most appropriate factor for these investment bonds would be.

27. If FCA proposes an LCR, what would be an appropriate factor to apply to the Member Investment Bonds and why?

Voluntary Advance Conditional Payment Accounts

As discussed above, FCA regulation § 614.4175 allows member-borrowers to make VACP on their loans and allows institutions to set up involuntary payment accounts for funds held to be used for insurance premiums, taxes, and other reasons. A sudden surge in member-borrower draws from VACP accounts held at associations would increase the funding required from the System bank to the affiliated association at a time when market access is becoming impeded. To evaluate this further, we are seeking comment to determine if we propose an LCR, what the most appropriate factor for these VACP accounts would be.

28. If FCA proposes an LCR, given the uniqueness of VACP accounts and the ability of member-borrowers to

withdraw certain VACP account funds at their request, what would be an appropriate factor?

29. If different factors should apply to different VACP accounts, please specify.

High Quality Liquid Assets in LCR

As discussed above, the FBRAs' HQLA allowed in the LCR differ from liquid assets allowed in FCA's liquidity regulation. To evaluate this further, we are seeking comment to determine if we propose an LCR, should FCA consider aligning FCA's liquid assets with the LCR's HQLA.

30. If FCA proposes an LCR, should we replace the current list of eligible instruments for the liquidity reserve with a list that is more closely aligned to the FBRA's HQLA instrument list (excluding common equities)? Please explain.
    a. Should FCA's liquidity regulation continue to allow FCS banks to hold in their liquidity reserve instruments that are currently excluded from the FBRA's HLQA list? Which instruments and why?
    b. Should FCA allow FCS banks to hold in their liquidity reserves instruments that are included in the FBRAs HLQA list, but are currently

excluded from FCA's liquidity regulation? Which instruments and why?

Net Stable Funding Ratio Applicability

The BCBS introduced the NSFR to require banks to maintain a stable funding profile to reduce the likelihood that disruptions in a bank's regular sources of funding will erode its liquidity position that may increase its risk of failure. Furthermore, during periods of financial stress, financial institutions without stable funding sources may be forced to monetize assets in order to meet their obligations, which may drive down asset prices and compound liquidity issues. The NSFR implements a standardized quantitative metric designed to limit maturity mismatches and applies favorable factors to a commercial bank's primary funding source - deposits. The NSFR requires a bank to maintain an amount of available stable funding (ASF) that is not less than the amount of its required stable funding (RSF) on an ongoing basis. ASF and RSF are calculated based on the liquidity characteristics of a bank's assets, derivative exposures, commitments, liabilities, and equity over a one-year time horizon.

The NSFR and its corresponding factors adopted by the FBRAs were established to measure and maintain the stability of the funding profiles of banking organizations that rely primarily on deposits. In contrast, FCS banks issue System-wide debt securities as the primary source for funding its operations. The System would potentially need to modify its funding structure to meet an NSFR by incorporating more long-term debt issuances. To evaluate this further, we are seeking comment to determine if the NSFR is applicable to the System's funding structure, authorities, and mission.

31. What core principles would be most important in FCA's consideration of the NSFR? How does the cooperative and non-depository structure of the System relate to the NSFR?
32. How could NSFR metrics replace any existing regulations, to ensure System banks have sufficiently stable liabilities (and regulatory capital) to support their assets and commitments over a one-year time horizon?
33. Is it beneficial or detrimental to replace existing regulations with NSFR metrics and why?

Other Considerations

The BCBS developed the Basel NSFR standard as a longer-term balance sheet funding metric to complement the Basel LCR standard's short-term liquidity stress metric. In developing the Basel NSFR standard, the FBRAs and their international counterparts in the BCBS considered a number of possible funding metrics.[49] The Basel guidance and FBRA's NSFR regulation incorporated consideration of these and other funding risks.[50]

34. What other approaches or methodologies to measuring and regulating liquidity not discussed above should FCA consider and why?

C. Other Comments Requested

We welcome comments on every aspect of this advance notice of proposed rulemaking. We encourage any interested person(s) to identify and raise issues pertaining to other aspects of the liquidity framework for FCS banks and associations that we did not address in this ANPRM. Please designate such comments as "Other Relevant Issues."

* * * * *

Date: _____________ __________________________________

Dale L. Aultman,
Secretary,
Farm Credit Administration Board.

[49] For example, the BCBS considered the traditional "cash capital" measure, which compares the amount of a firm's long-term and stable sources of funding to the amount of the firm's illiquid assets. The BCBS found that this cash capital measure failed to account for material funding risks, such as those related to off-balance sheet commitments and certain on-balance sheet short-term funding and lending mismatches.

[50] *See* 86 FR 9120 (February 11, 2021). *See supra footnote* 19.