Insights

Federal Reserve Board Adopts Final LCR Rules Implementing More Favorable Treatment of Unfunded Commitments to SPEs

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This morning, the Federal Reserve Board adopted final regulations implementing the liquidity coverage ratio (LCR) requirement in the United States.

Unfunded Commitments to SPEs

Together with the FDIC and the OCC, the Federal Reserve Board had initially proposed LCR regulations in October 2013 that, among other things, would have assigned a 100% outflow amount to any unfunded commitment provided by a U.S. bank to a special purpose entity. In response to industry comment, the Federal Reserve Board has adopted changes in the final rule that would apply a "look through" approach to determining outflow amounts for commitments to special purpose entities ("SPEs") that do not issue securities or commercial paper and that are consolidated subsidiaries of certain customers or counterparties of the bank. As such, under the final rule:

- The outflow amount for facilities extended to an SPE that is a consolidated subsidiary of a **wholesale customer or counterparty** that is not a financial sector entity is **10%** of the undrawn amount for committed credit facilities and **30%** of the undrawn amount for committed liquidity facilities; and
- The outflow amount for facilities extended to an SPE that is a consolidated subsidiary of a **financial sector entity** is **40%** of the undrawn amount for committed credit facilities and **100%** of the undrawn amount for committed liquidity facilities.

The outflow amount for undrawn amounts under committed credit or liquidity facilities extended to **SPEs that issue or have issued commercial paper or securities** other than equity securities issued to a company of which the SPE is a consolidated subsidiary, to finance its purchases or operations is **100%**. A **100%** outflow amount would also apply to undrawn amounts under committed credit or liquidity facilities to other SPEs not described above, including SPEs that are **not consolidated subsidiaries of the bank's customer or counterparty**.

High Quality Liquid Assets

Like the proposed rule, the final rules would not include asset-backed securities, covered bonds, or private label mortgage-backed securities in the definition of high quality liquid assets ("HQLA") used to calculate the numerator of the ratio.

Transition Period

The effective date of the final rule is January 1, 2015, and covered companies will be required to maintain a minimum LCR of 80% beginning on that date. However, the Federal Reserve Board has delayed implementation of the daily calculation.

- With respect to the daily calculation requirements, covered companies that are depository institutions holding companies with $700 billion or more in total consolidated assets or $10 trillion or more in assets under custody, and any depository institution that is a consolidated subsidiary of such depository institution holding companies that has consolidated assets equal to $10 billion or more are required to calculate their LCR on the last business day of the calendar month from January 1, 2015, to June 30, 2015, and, beginning on July 1, 2015, must calculate their LCR on each business day.
- All other covered companies are required to calculate the LCR on the last business day of the calendar month from January 1, 2015, to June 30, 2016, and beginning on July 1, 2016, must calculate their LCR each business day.

Modified LCR holding companies will not be subject to the final rule in 2015, and will be required to calculate and maintain their LCR monthly starting January 1, 2016.

Conclusion

We will provide additional information and analysis upon further review of the adopting release and final rules.

For a copy of the adopting release, click here.

For a copy of the Federal Reserve Board's memorandum, click here.