American Bankers Association
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James P. Sheesley,
Assistant Executive Secretary,
Federal Deposit Insurance Corporation,
550 17th Street NW,
Washington, DC 20429

Re: Request for Information on Deposits RIN 3064-ZA42

Dear Mr. Sheesley:

The American Bankers Association (ABA)[1] appreciates the opportunity to comment on the FDIC's Request for Information on Deposits ("the RFI"), which seeks information on additional deposit data not currently reported on the Consolidated Reports of Condition and Income (Call Report) or other regulatory reports. The RFI solicits information on the potential use of additional deposit data for a wide variety of topics, including assessing the stability and franchise value of different types of deposits, enhancing liquidity monitoring and supervision, and deposit insurance pricing. The RFI also asks whether additional reporting would provide the general public with more accurate and transparent data on a bank's financial condition.

ABA supports this inquiry in concept and appreciates the use of an RFI as the first step in what must be an ongoing and iterative process of research, development and implementation. It is essential that supervisors, market participants and other stakeholders have a robust and accurate data set from which to assess a bank's financial condition and risk exposure. Equally essential is that any additional reporting requirements be efficient, reasonable and workable for banks of all sizes.

As a threshold matter, however, the breadth of the questions within the RFI makes it unclear what the FDIC is ultimately trying to achieve. The FDIC is seeking data for three separate potential uses: (1) liquidity risk supervision and regulation, (2) enhanced market transparency, and (3) informing deposit insurance coverage, pricing and resolutions. From a technical reporting standpoint, many of the questions in the RFI ask for information that is difficult to provide without knowing the objectives or details of a potential new reporting requirement. This includes where the data input should be housed, if the Call Report should be reworked and whether the information should be confidential. While these questions are

[1] The American Bankers Association is the voice of the nation's $23.9 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard $18.8 trillion in deposits and extend $12.5 trillion in loans.

necessary and important, it is too early in the process to respond definitively or with certainty. To receive robust and helpful feedback, we urge the FDIC to systematically assess each policy or reporting objective, consider the data available from existing reporting, clearly define any relevant gaps and determine whether the solution requires public or supervisory reporting, working together with the other banking agencies as appropriate. Once a clearer and narrower purpose has been identified, we recommend that the FDIC issue subsequent RFIs in advance of any proposed rulemaking.

Regarding the questions on deposit insurance, given the complexity and significance of deposit insurance and related issues, we believe that a standalone RFI is required to collect robust responses to targeted and relevant questions. Many of our members remain concerned with the fairness and transparency of our current deposit insurance and resolutions system, and it is important that the FDIC begin a process to assess the pros and cons of various options, building off ideas it previously outlined. We know our members will be eager to share their perspectives on potential reforms. ABA looks forward to working with the FDIC and Congress to ensure a modern deposit insurance system that enhances the ability of banks of all sizes and charter types to compete and succeed in serving their customers and communities.

Allow a Holistic Evaluation of Liquidity Risk

Conceptually, ABA believes that an enhanced view of a bank's liquidity exposure may be beneficial to market participants, and that current Call Report deposit data is not a good indicator of risk and may encourage examiners, investors and other stakeholders to incorrectly focus on single data points when assessing a bank's financial condition. The way that banks fund themselves, and the characteristics that make a deposit stable or volatile depends on many factors, including the underlying business environment, a bank's overall funding strategy and business model, the underlying service or product offered, the depositor's relationship with the bank, the bank's experience with certain customers, products and activities, and the term of the deposit, among others.

We note that liquidity risk is managed on both sides of the balance sheet through a mix of funding types on the liabilities side and a store of cash and monetizable loans and securities on the assets side. Deposits are therefore only one component of a bank's funding structure and overall balance sheet. As was seen with the March 2023 stress events, market participants and the media focused heavily on one or two data points, impairing the ability of many liquid and well capitalized institutions to counter what was often a predetermined, potentially misleading and overly simplistic narrative. For their part, the banking agencies themselves also focused on uninsured deposits as a proxy for liquidity risk, even though that term encompasses a broad spectrum of deposits and, when taken from the Call Report, is based on an inadequate line item that is not meant to be a proxy for liquidity risk.

We are thus cautious about the potential for Call Report users to focus on and exaggerate the importance of one element of a bank's balance sheet. To mitigate this, any new or additional reporting geared toward greater market transparency should allow for a holistic assessment of liquidity risk exposure and its mitigants, on both the funding and asset side. Furthermore, to the extent examiners need additional information, a potential reporting of additional items should align with current regulatory and business definitions and uses, with components kept confidential as needed and appropriate. Additionally, the benefits of additional reporting—for supervisory, market transparency or other purposes—must be weighed against its costs and tradeoffs including its potential to cause, rather than mitigate, contagion.

Leverage Current Reporting and Regulations

When trying to assess depositor stability and behaviors, we recommend that the FDIC coordinate with the other banking agencies and take into account existing rules. For example, the Liquidity Coverage Ratio (LCR)[2], which was implemented by all three banking agencies in 2014, already represents a framework

[2] *See, e.g.*, 12 C.F.R. part 329.

for distinguishing between certain types of deposits based on various risk factors. To be clear, we do not believe that the LCR should be implemented for all banks or that it is a regulation without flaws. Conceptually, however, it does provide a well-understood basis for the types of factors that contribute to deposit stability during a period of short-term stress. Using the LCR's framework as a starting point would also help to ensure that any additional reporting the FDIC is contemplating is consistent with current regulatory and business definitions. This includes the clear and well-defined requirements which apply to operational deposits.

New Reporting Must Not Be Created in a Vacuum

Historically, changes to regulatory reporting often have caused unintended burdens or distortions that are not necessarily apparent at an early, developmental stage. To ensure that any new reporting or data elements are properly defined and structured, they must be developed with robust industry input. To that end, we encourage the FDIC to conduct industry focus groups through each stage of this initiative, similar to those conducted in 2017 and 2018 related to Call Report Reform. Such a process will allow for detailed and thoughtful input on potential line items, definitions and reporting structure from banks of all sizes. Taking these steps will ensure that any additional reporting is relevant to its purpose, and that it is neither redundant nor overly burdensome. In addition, while the FDIC is contemplating additions to current reporting, we also recommend a review to identify areas of reporting that are no longer needed.

In addition, the FDIC must work with the Federal Reserve and OCC to ensure a common set of consistent definitions and assumptions behind the assessment of deposit stability and agreement on factors that could mitigate liquidity and other risks. These questions are fundamental to bank safety and soundness and will likely have major consequences for a range of policy matters, including liquidity risk supervision and regulation, and the calibration of related policy, such as deposit insurance. To prevent confusion, misapplication of regulation and unnecessary burden, the definitions used for any new data collection on deposits should be aligned across the banking agencies. This will also help ensure that the banking agencies are assessing risk accurately and consistently.

Reporting of Estimated Uninsured Deposits

The current reporting of uninsured deposits in the Call Report may be confusing for examiners, market participants, policymakers and other stake holders as the line item reflects a wide variety of counterparties and deposit product types.[3] Given the mix of deposits contained in the current category "estimated uninsured deposits," the line litem as currently reported is not appropriate for either the evaluation of a bank's liquidity risk or as a factor in the pricing of deposit insurance.

As previously mentioned, uninsured deposits represent a broad spectrum of deposits, derived from a range of financial service and product features and behavioral characteristics**.** Accordingly, there are many differences across the heterogenous category of estimated uninsured deposits, and for many uninsured deposits, the relationship with the bank or the purpose and function of the deposit ensures their stability. For example, some uninsured deposits are defined contractually so they cannot be taken out of the bank quickly or prematurely in the face of stress. Other deposits, such as those from municipal and local entities, are collateralized, while still others, such as operational deposits, are the result of specific financial services provided to the customer as defined in regulation (*e.g.*, cash management, clearing or

[3]For example, included in this category are: public funds and other collateralized deposits; deposits protected by other government insurance funds; intra-institutional deposits from a bank's subsidiary, affiliate or holding company; operational deposits, as defined by the LCR; and contractual deposits not otherwise reported.

custody). All these factors, among others, serve to make such deposits more stable.. It is therefore potentially confusing for them to be disclosed to stakeholders who are unaware of these nuances.

Consider including information about Operational Deposits, as defined by the LCR, in RC_O

We encourage the FDIC to consider including top-line data on operational deposits, as defined in the LCR, in the Call Report. Operational deposits are limited to deposits that result from the provision of clearing, custody, and cash management services (collectively, "operational services"), where the client receiving these services must "place or leave deposits with a bank in order to facilitate their access (to) and ability to use payment and settlement services, and otherwise make payments." Furthermore, and unlike other categories of deposit liabilities, to be considered an operational deposit for the purposes of the U.S. federal banking agencies' LCR (and NSFR) rule deposits must meet a series of stringent requirements under the LCR rule, these requirements include:

- The operational service must be provided pursuant to a legally binding written agreement, subject to a minimum termination period of 30 days or significant "contractual termination costs or switching costs";
- The deposit must be held in an account that is specifically designated as an operational account;
- The client must hold the deposit with the banking entity for the "primary purpose of obtaining the operational services provided by the [banking entity]";
- "The deposit account must not be designed to create an economic incentive for the customer to maintain excess funds" on deposit with the banking entity;
- "The [banking entity] must demonstrate that the deposit is empirically linked to the operational service and that it has a methodology . . . for identifying any excess amount," which must be excluded from operational deposits;
- The exclusion of deposits resulting for the provision of either prime brokerage services or correspondent banking services, as well as the exclusion of "operational services provided to any non-regulated fund"; and
- The deposits must not be held for another banking entity that temporarily places excess funds in an overnight deposit with the banking entity.

Because the requirements for recognizing operational deposits specifically exclude any balances in excess of those required for the provision of operational services, the federal banking agencies require U.S. banks, as a supervisory matter, to implement detailed and empirically-driven processes for the identification of their operational deposit balances. This is reflected in the use of highly granular methodologies designed to determine deposit amounts that each client is expected to hold in support of its day-to-day transactional needs. These methodologies rely on historical data to identify a client's average daily deposit balance, which is then compared to similar client data in order to conservatively estimate deposits.

Refine Schedule RC_O

Exclude Intercompany and collateralized deposits from RC-O

We recommend adjusting RC-O Memo 2 to exclude certain deposits. For example, intercompany account deposits from bank subsidiaries are currently included in RC-O Memo 2 as uninsured deposits. However, the inclusion of these deposits artificially inflates the actual balance of uninsured deposits that would be at risk in the event of a bank failure.

Additionally, collateralized and insured deposits should also be excluded from RC-O Memo 2, as they also pose little to no risk to the deposit insurance fund in the event of a failure.

Exclude derivative cash collateral from definition of deposits for both FDIC Part 370 and Call Report RC_O:

Including required collateral amounts (i.e., non-excess collateral amounts) as uninsured deposits overestimates the risk to the Deposit Insurance Fund (DIF) that could be posed by collateralized derivatives. The counterparty would not have a claim against the receivership for the full amount of collateral posted, only for the excess amount of collateral over and above the amount owed by the counterparty to the bank. Furthermore, in the event of the firm's bankruptcy, such excess cash is expected to be settled under the associated ISDA/CSA associated with derivatives, and not settled by the FDIC DIF. Since excess cash collateral is not eligible for FDIC insurance, it is neither "insured" nor "uninsured" for FDIC Part 370.

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Meaningful conversation about deposit insurance, resolutions, liquidity risk identification, management and mitigation, and implementation of any related reporting changes, will take significant care and effort. We support the RFI and encourage ongoing work; the banking industry is ready to lend our best efforts to this initiative. Thank you for considering the comments and recommendations set forth in this letter. If you have any questions or need further information, please do not hesitate to contact the undersigned at atouhey@aba.com; 202-663-5182.

Sincerely,

Alison Touhey