Liquidity and the Nation's Largest Banks

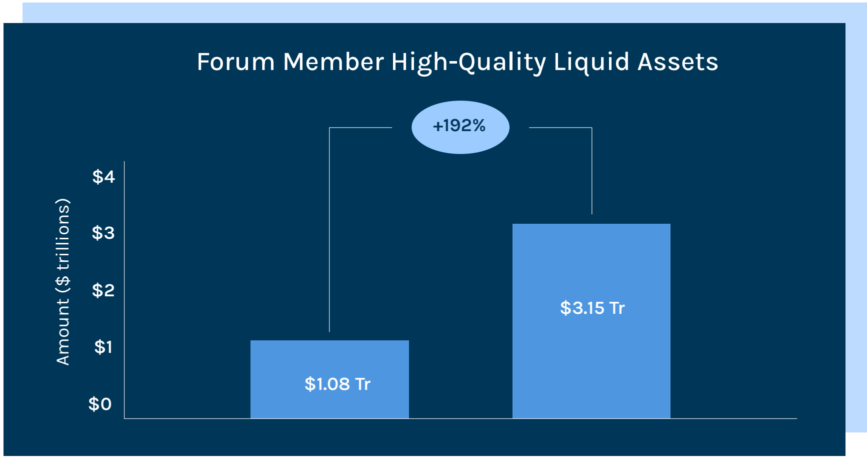
The nation's largest banks are required to maintain a very large quantity of liquid assets, to fund immediate needs of customers and clients under normal and stressed financial conditions. Given their importance to financial markets and the economy, the eight U.S.-based global systematically important banks meet the highest liquidity standards, setting them apart from the rest of the banking sector.

"Aggregate liquidity in the banking system appeared ample."

[Federal Reserve Board Financial Stability Report, April 2024]

Understanding Liquidity and Regulation

- Liquidity measures the cash and other assets banks have available to meet short-term business and financial obligations. To remain viable, a financial institution must have enough liquid assets to meet withdrawals by depositors and other near-term obligations.
- The nation's largest banks are subject to the most stringent liquidity standards among U.S. banks. Since 2009, Forum member firms' high-quality liquid assets, which complement capital, have nearly tripled from $1.08 trillion to $3.15 trillion.
- In response to the failure of SVB and other regional banks in 2023, some regulators have discussed potential proposals for new liquidity requirements as well as revisions to existing rules that may affect the entire banking sector. Liquidity regulation is complex and has changed significantly in the past decade. Regulators should solicit data and feedback on any potential changes before making any formal proposals.



Source: FR Y-9C data, available at https://www.ffiec.gov/nicpubweb/nicweb/HCSGreaterThan10B.aspx; Forum Members' LCR disclosures

Note: HQLA is reported according to Basel III at the Bank Holding Company level; Chart represents a rolling four-quarter average; 2022 Q3 HQLA data from firms' LCR disclosures

"Liquidity positions remain substantially above regulatory requirements."

Federal Reserve Supervision and Regulation Report, May 2024

The nation's largest banks are subject to the most stringent liquidity standards among U.S. banks. These standards include:

- **100% liquidity coverage ratio (LCR).** Requires GSIBs to hold a minimum amount of high-quality liquid assets that can be easily and immediately converted into cash at little or no loss of value. The amounts must exceed regulator-projected cash outflows over a 30-day horizon.
- **100% net-stable funding ratio (NSFR).** Requires GSIBs to maintain a minimum amount of stable funding, such as debt with maturity length in excess of one year.
- **Supervisory liquidity tests.** The Federal Reserve and other U.S. bank supervisors regularly conducts tests to determine the ability of the nation's largest banks to meet short-term funding demands.
- **Rigorous internal liquidity stress tests.** The GSIBs also conduct regular liquidity stress tests that are subject to supervisory review.
- **Resolution and recovery liquidity.** GSIBs are also required to maintain sufficient levels of liquidity available in the event of a recovery or resolution process.

Last year's regional banking turmoil was an idiosyncratic event involving a handful of banks, an event in which the Federal Reserve found there was a lack of appropriate supervision and management of liquidity risk at the failed banks. **Forum members were called upon by the U.S. government to act as a source of support in March 2023.**

"...capital and liquidity levels at our largest, most systemically important banks are at multi-decade highs."

Federal Reserve Chair Jermome Powell, January 2022