MORRISON | FOERSTER

Client Alert

December 2, 2013

Liquidity Coverage Ratio Impact on Covered Bonds

On October 23, 2013, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (the "Agencies") published a notice of proposed rulemaking addressing quantitative liquidity requirements for large domestic bank holding companies, savings and loan holding companies, depositary institutions and nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision. The notice proposes a liquidity coverage ratio for internationally active depository institutions and depository institution holding companies[1] and depository institution subsidiaries that have $10 billion or more in total consolidated assets.

Although covered bonds are considered to be eligible assets for the liquidity coverage ratio under the Capital Requirements Directive in the European Union, covered bonds would not be eligible assets under the proposed rule.

Under the proposed rule, an eligible asset may not be an obligation of a regulated financial company, investment company, non-regulated fund, pension fund, investment adviser, identified company[2] or any consolidated subsidiary of the foregoing. The definition of regulated financial company includes a foreign banking organization. Accordingly, covered bonds would not qualify as eligible assets because they are obligations of regulated financial companies.

Author

Jerry R. Marlatt
New York
(212) 468-8024
jmarlatt@mofo.com

About Morrison & Foerster

We are Morrison & Foerster—a global firm of exceptional credentials. Our clients include some of the largest financial

[1] More than $250 billion in total assets or more than $10 billion in on-balance sheet foreign exposure.
[2] An identified company is any company that an Agency has determined should be treated the same as a regulated financial company, investment company, non-regulated fund, pension fund or investment adviser.

institutions, investment banks, Fortune 100, technology and life sciences companies. We've been included on *The American Lawyer*'s A-List for 10 straight years, and *Fortune* named us one of the "100 Best Companies to Work For." Our lawyers are committed to achieving innovative and business-minded results for our clients, while preserving the differences that make us stronger. This is MoFo. Visit us at www.mofo.com.

For more updates, follow Thinkingcapmarkets, our Twitter feed: www.twitter.com/Thinkingcapmkts.

Because of the generality of this update, the information provided herein may not be applicable in all situations and should not be acted upon without specific legal advice based on particular situations.