Record of Meeting

Federal Advisory Council and Board of Governors

Thursday, November 30, 2023

Item 1: Economic Activity

In September, the Council reported that the pace of economic activity had been slowing but that businesses were doing well overall and concerns about recession had lessened. Have conditions changed in recent months? If so, in what ways? Have Council members observed any new signs of strength or weakness?

Overall, the conditions and primary trends reported in the prior quarter remained relatively consistent: the pace of activity is continuing to slow while businesses do well, supported by a resilient consumer. Generally, business strength remained stable quarter over quarter. It was noted that small businesses still had cash buffers that were higher than pre-pandemic levels, but were normalizing and down year over year. Small business profits remained positive but below pre-pandemic levels due to higher interest rates and margin compression. Corporates also remained relatively consistent with the prior quarter, as most sectors continued to be stable. Consumers remained an area of strength, as evidenced by retail sales and indications that consumers are currently less interest-rate sensitive than they have been in previous cycles. Consumer spending on goods and services continued to be supported by solid employment trends, especially the structural undersupply of labor, which is blunting job losses as displaced workers appear to quickly find jobs elsewhere. The early read on holiday spending is that it is up 7-8 percent nominally, while transaction volume was generally flat. Disparities in spending by type and income bands are growing. Businesses tied to housing/home improvements experienced declines after strong post-pandemic highs.

A few new signs of strength were evident since the prior Federal Advisory Council meeting. Third-quarter GDP was surprisingly robust, supported by consumption and government spending, particularly on projects resulting from the Infrastructure Investment and Jobs Act. Freight volumes also climbed once again, and total unit volumes at the two largest U.S. ports (Los Angeles and Long Beach) recorded a strong September and August, notching the first year-over-year increase in 13 months. However, despite this recent improvement, it should be noted that volumes remained down approximately 20 percent year to date. This decline is the result of Chinese goods imports at the west coast ports having been down sharply in the first half of 2023 before rebounding recently . U.S. manufacturing also seems to be stabilizing, aided by further improvement in supply chain resilience along with firming demand.

While the consumer has been resilient, evidence of monetary policy lags impacting the consumer are becoming more evident. For example, increased utilization of credit facilities and rising labor force participation indicate consumers are financially stretching further as the cycle continues. Although most corporate sectors were stable, new weakness was noted in certain consumer sectors (discretionary and textile) in addition to construction/building materials and chemicals, where volumes trended down. Household balance sheets remained strong in aggregate, though Council members reported that they were starting to see (1) rising delinquency rates in subprime autos and (2) personal savings—which had been accumulated during the pandemic—rapidly being exhausted, especially among lower-income households. Ultimately the cost of funding for businesses and the cost of credit for consumers—in addition to continued impacts from inflation, volatile energy prices, housing affordability, and restarting student loan payments—continued to drive the slowdown.

Generally, the Council reported a range of experience related to economic activity that included geographic dispersion. Economic activity was reported to be the strongest in lower-cost Southern and Western states with strong in-migration, such as Texas, Nevada, Oregon, and Idaho. Meanwhile, California's labor market softened noticeably over the last three months as the Bay Area counties shed net payrolls and as Southern

California's economic activity was adversely impacted by the Writers Guild and Screen Actors Guild strikes.

Council members continued to note that the expectation or probability of a recession is declining or being pushed out, with growth expected to remain positive but marginal and well below historical trends. It is possible that forecasters have underestimated the extent to which companies and consumers had locked in low rates, which have shielded them from or delayed the impact of the sharp rise in interest rates.

Item 2: Labor Markets

In September, the Council reported that labor market tightness had moderated somewhat and wage increases were approaching a normal pace but that employers were still challenged to find skilled workers and employees' expectations remained elevated. Have Council members observed any indications that labor market conditions have shifted in recent months? If so, in what way?

In general, Council members expected the labor market to continue its current trend and become more balanced. Voluntary attrition continued to drop in the most recent quarter, a trend that is expected to continue into 2024. Similar impacts have been seen in slowing external hiring volumes. Although labor market pressures have somewhat normalized from 2022, the overall labor market is still highly competitive, with even more focus on niche skills (e.g., digital and technology) when compared with broader workforce trends. With attrition volumes decreasing, employees remain focused on competitive pay, benefits, stability, reputation, and workplace flexibility, as Council members migrate employees back to offices. Higher compensation expectations are still in place because of current inflation rates and the overall increase in cost-of-living expenses.

The sentiment from small business, middle-market, and large corporate clients regarding the labor market remained largely consistent with the sentiment shared during the last FAC meeting, with a few notable exceptions. Tight labor markets were reported in strong regional economies. Talent availability is trending in a positive direction in the aggregate, but hiring and retaining talent in geographies with a high cost of living—such as California—has been difficult. Compensation pressures are generally easing, but skilled employees continued to demand a wage and benefit premium. One common complaint voiced by commercial clients across a range of industry groups is how challenging it is to find skilled labor. While this challenge is not new, it does seem to have become more generalized across industry groups as opposed to being more concentrated among industry groups such as information services and finance.

Most companies have not indicated a near-term curtailing of the workforce, but some small businesses (especially those in direct-to-consumer industries) that over-hired immediately after the pandemic and some private equity group-owned companies have started to reduce full-time employment and restructure in light of rising borrowing costs. Labor markets in the healthcare sector are improving, albeit from a low base when the sector had to depend on agency staffing. Commercial real estate organizations are right sizing given the steep decline in transaction activity and current market conditions. Skilled labor shortages persist in the construction industry; however, stabilization is possible given the dramatic slowdown in new construction starts. Hospitality hiring is still strong, and government (at all levels) is fueling much of the increase in hiring overall.

Item 3: Credit Markets

At the September meeting, the Council noted that banks had tightened credit terms, while the customers' demand for credit had softened in all categories except consumer. Credit quality had also softened, though it remained good. Has Council's assessment of credit conditions changed in recent months? Are Council members seeing any noteworthy new developments in lending categories, such as consumer, residential real estate, construction, small and medium-size business, or corporate?

Assessment of Credit Conditions

Credit tightening – Banks are continuing to tighten credit across the board under current conditions. There is some additional tightening in consumer categories for marginally qualified borrowers. Among the factors resulting in tightened credit availability are lower leverage requirements, ancillary business relationships, less willing participation in shared credits, and general uncertainty regarding a potential recession. Other factors that are contributing to banks' decisions to tighten credit include increasing funding costs, access to liquidity in the securities portfolio, capital build requirements, global unrest, and a general decline of risk tolerance. There is also a continued lack of loan demand in the current environment. Banks are forecasting loan growth in the low single digits for 2024—which, remarkably, is below "normal."

Credit quality – We are coming out of a period in which credit quality was very good and problems were well below historical levels. Credit quality is starting to normalize, reflecting a point in the credit cycle at which the effect of higher interest rates is being realized. Near-term risk is being seen in C&I, small business, and consumer credit, while real estate assets—other than some categories with geographic biases—may have a delayed effect. Banks will likely continue to build reserves based on the recognition of increasing risk in loan portfolios.

View of Lending Categories

Consumer – Balances in home equity and credit card accounts are growing, reflecting a tight market in home purchases and increased equity value in existing homes along with a declining cash cushion for consumers. Auto is challenged due to both higher prices and higher interest rates causing a strain on affordability and ability to pay. Additional deterioration in consumer credit quality is expected.

Residential real estate – Single-family purchases are generally lower than normal based on low supply and higher rates. Select markets are building inventory to meet in-migration. Multi-family has seen a lot of momentum over the past months, although the rate of new inventory is slowing as supply is balancing with demand. It is interesting to note the increase in the percentage of all-cash purchases of single-family homes recently.

Construction – Construction funding is continuing for existing projects. New project demand is declining as the profitability of new projects at current rates in a tightened credit market is sidelining marginal projects. Multi-family and industrial warehouse construction demand—which ha propped up the construction book recently—is starting to decline as the additional capacity is more closely meeting current needs.

Small business – Demand in the small business category is down based on current market conditions. Lending in this category is primarily funding growth, maintenance, or some consolidation opportunities. Some Council members noted that they are starting to see a slight uptick in demand for small dollar loans as substantial cash balances start to decline.

Corporate – There is much less demand for syndications among banks as the elements of credit tightening take effect, including the desire for relationship-based lending. The share of private equity financing in this space is increasing, illustrating more participation from non-regulated non-bank entities. Higher debt service is eroding free cash flows, thus creating challenges in this category. The secondary market is still strong for loan purchases.

Other Comments

Some Council members noted that in this low-demand environment, competition for community development and affordable housing loans is increasing. Other Council members noted the negative effect of much higher current insurance costs and constricted availability on the cost structure of real estate projects.

<u>Item #4: Commercial Real Estate</u>

The economy is in the midst of tectonic shifts in the locations of, and facilities for, various activities, including employment, production, service delivery, residence, and recreation. These shifts and the heightened interest rate environment are creating stresses on commercial real estate. Where do Council members see the greatest risks to, and opportunities for, commercial real estate in their various Districts over the foreseeable future?

The greatest risk in commercial real estate remains in the office sector—especially in large central business districts. Although many companies have implemented "return to the office" plans, supply well exceeds demand. An entrenched remote-working trend is leading office tenants to operate with less space. Furthermore, tenants are using lease expirations as an opportunity to right-size occupancy needs. The situation is at its worst on older B- and C-grade urban office assets. Declining demand, softening rents, and increasing insurance and interest costs are leading to declining valuations. Loan-to-values are increasing significantly, and in some instances now exceed the amount of the outstanding debt. A meaningful percentage of multi-tenant office exposure matures over the next 18 months. Banks are proactively reviewing credit well in advance of these maturities. Sponsors have been and will be expected to reduce or right size these obligations; however, as sponsor liquidity declines, defaults and foreclosures will accelerate.

The single-family home building sector remained healthy; however, as rates rise and the economy slows, a significant challenge continues to be new home affordability, driven by elevated mortgage rates and purchase prices, and exacerbated by limited supply. Many first-time home buyers have been priced out of the market due to the lack of affordable new home inventory. With moderated new home demand, reduced level of new home starts, and supply chain issues easing, most material prices have stabilized. Builders have returned to a more traditional sales model that emphasizes pre-sales versus speculative builds, and builders continue to offer incentives—such as reducing the price, paying closing costs, and offering rate buy-downs—to attract buyers, including first-time home buyers. However, demand slowed over recent weeks as mortgage rates reached 8 percent. One Council member noted these conditions have created an environment well positioned for stronger single-family rentals.

Multi-family performance remained positive and comparatively well positioned. Rent growth, while positive, has moderated from pandemic highs. Operating expenses (primarily insurance and taxes) and interest rate increases are outpacing rent increases, impacting transaction volumes and the ability to maintain prudent coverage ratios. This creates concerns about leverage and refinance risk. Vacancy rates have risen considerably over the past two years. Many markets will continue to experience a significant increase in the new supply of apartment units, further pressuring occupancy rates and ultimately driving down rents.

A weakness in the senior housing/senior care space was noted by a couple of Council members. Slowing activity in this space is being compounded by the increase in homecare, which began during COVID. The cost and availability of skilled labor has also negatively impacted the operations of these facilities.

Fundamentals remained solid for industrial, hospitality, and retail, but softening consumer spending could impact these asset classes. Retail was noted as an area of further opportunity, as there seems to be pent-up demand given the limited construction of the last few years. Additionally, it is expected that industrial demand should continue to show positive performance through the anticipated slowing or evenslightly recessionary economy. Lastly, data centers continued to see solid performance with expectations for continued success. Geographically, domestic migration patterns reflected continued movement away from densely populated areas or urban centers to less populated regions. This trend has created opportunities for single-family, multi-family, and service-based commercial development in these growing areas.

Item #5: Inflation

At recent meetings, the Council has been reporting persistent moderation in the overall rate of inflation, with some unevenness across sectors. Since the last meeting, has the Council observed any indications of a shift in the pace of disinflation? If so, in which sectors, for example, consumer goods, housing, or other services? At this point, how would the Council characterize the inflation expectations of consumers and businesses?

Overall, it is the view of Council members that disinflation has slowed markedly in the past few months as core inflation has remained resilient and future inflation expectations among both consumers and businesses have remained elevated due to significantly higher costs across all categories over the past two years. Residential shelter costs remained high, mainly due to lack of supply, exacerbated by rising materials and financing costs inhibiting new construction. Rents have not kept pace with those rising costs and have impacted profit margins and the ability to refinance. In many markets, multi-family rent growth has slowed from an accelerated pace during the last few years, especially in areas—such as Austin, Raleigh, and Orlando—that continue to have increased new unit deliveries. Commercial insurance costs have increased by 10-20 percent for most property types—and much higher for waterfront properties if coverage can be obtained at all. Wages are rising faster than productivity gains, making further disinflation more difficult. Service sector inflation continued to outpace that for goods due to persistent staffing shortages, especially in health care, senior care, and hospitality.

Consumers seem to have adjusted to price hikes and are expecting sustained inflation rates above 3 percent, as evidenced by the most recent University of Michigan survey, validating the Federal Reserves' continued vigilance and caution. Broadly speaking, savings levels continued to decline for consumers, and credit quality in autos and credit cards has started to show signs of weakness. Anecdotally, Council members observed increasing levels of stress in the consumer finance company sector that primarily serves sub-prime consumers. Delinquencies and charge-offs there have returned to pre-COVID levels because inflation and rising interest rates have impacted consumer cash flows.

Operating margins have been compressed due to a reduced ability to pass along price increases, especially for small businesses and companies that purchased higher-priced inventory amidst pandemic-related supply chain constraints. This is reflected anecdotally in higher utilization of certain asset-based lending facilities, indicating longer inventory turnover cycles, and providing a potential catalyst for further margin/price compression after the holiday season.

Council members expect the path to sustained 2 percent inflation will be challenging, necessitating several quarters of below-trend growth. On the bright side, many goods-producing businesses have reported normalizing supply chains, lower order backlogs, faster delivery times, and cooling input price pressures. However, volatile energy prices, geopolitical risks of disrupted global supply chains, and significant government spending (including social security cost of living adjustments exceeding private sector increases) represent countervailing pressures. Service businesses continued to report rising input and labor costs with little sign yet that inflation pressures are materially subsiding. Although it appears that the worst of this period of elevated inflation is over, Council members agree that it is still too early to declare victory and that a continued cautionary stance is appropriate.

Item #6: Federal Reserve Policy

What are the Council's views on the stance of monetary policy, including portfolio activities?

The Council views the current stance of the Federal Reserve's monetary policy as already at—or very near—appropriate levels needed to return inflation back to the Federal Reserve's 2 percent target over time. Even so, the Federal Reserve will need to maintain the terminal Fed funds rate at restrictive levels for some time to ensure inflation remains on a downward path from recent peaks. With 525 basis points of rate hikes since March 2022, core CPI inflation has moderated to 4.0 percent from a year ago through October from a peak of 6.3 percent in October 2022. Declining goods, transportation, and energy price inflation have been the primary catalysts so far, but the Council expects that continued easing demand for services, a reduced demand for additionallabor, and for housing will also help bring down price inflation in those categories over the coming year. While hiring remained strong, the pace of wage gains has moderated, and the ratio of vacancies to unemployed persons has trended lower, suggesting some cooling of labor market conditions. The rapid monetary policy tightening to date has helped to anchor both short-term and longer-term consumer and bond market inflation expectations. The Council noted that rising geopolitical risks—including the wars in Israel and Ukraine—increasing supply shocks, climate change and climate change investments, and the ongoing COVID pandemic could continue to result in upward pressure on prices.

Reductions in the size of the Federal Reserve's balance sheet have had a meaningful impact on banking system liquidity. Quantitative tightening is directly moderating lending, further constraining economic growth. The reduction in the size of the balance sheet has likely contributed to the recent increase in longer-term interest rates. The rise in longer-term interest rates has been orderly, and the associated tightening in financial conditions is a warranted consequence of the Federal Reserve's efforts to cool demand. While it is important that the Federal Reserve reduces its balance sheet to a more normal level to preserve flexibility going forward, a slower pace of runoff, or a pause, could be warranted if acute pressure on the banking system reemerges.

With respect to the Federal Reserve's liabilities, it's notable that usage at the overnight RRP facility has continued to decline, even after the Treasury General Account has risen to levels more consistent with the guidelines set by Treasury's operating framework. The Council is encouraged that RRP has come down and think it reflects more abundant collateral. The reduced RRP usage also reflects increased demand for money market funds to extend duration as the Fed tightening cycle prospectively ends. Going forward, T-bill supply should remain a tailwind to reduced RRP demand. Accordingly, given that RRP demand is likely to decline organically over time, the Council does not see any compelling reasons for the Federal Reserve to adjust its administered rates or RRP counterparty limits at this time.

The Council supports the Fed's plan to keep monetary policy at a restrictive stance to help further cool inflationary pressures and keep long-term inflation expectations from becoming unanchored. With the sharp rise in long-term Treasury interest rates since August, inflation already starting to moderate, and an expected further slowdown in economic activity because of tightened credit conditions, the need for additional rate hikes has become less urgent, and Council members support a near-term pause in hikes to reduce the risk of unnecessary overtightening. Bond market inflation breakeven and consumer inflation expectations remained below their highs, suggesting that the FOMC's rate hikes, quantitative tightening, and messaging are having their intended effect. The Federal Reserve should continue the prescribed policy path to achieve its mandate of maintaining stable prices.

Item #7: Fraud

The growing digitization of payments and the increased speed of payments processing are creating new and greater opportunities for bank fraud and will likely continue to do so. What do Council members see as banks' most effective strategies for combatting the cadre of innovative and increasingly sophisticated fraudsters? What can the Federal Reserve do as a regulator, supervisor, or payments-service provider to support these strategies?

Fraud and Scams are Increasing Across Payments Ecosystem

Last year, the banking industry was the target of approximately \$85 to \$100 billion in fraud attacks, and sustained approximately \$10 billion in losses. To combat this barrage of attacks, Council members estimate that the payments industry—banks, networks, and payment processors—spend about \$10 billion annually, with banks alone spending more than \$5 billion a year—not including the amount that is spent on up-front controls to prevent fraud when new accounts are opened.

Legacy payment methods, such as checks and cash, have significantly higher fraud rates than digital payments. Banks and networks have more insight into digital transactions (e.g., P2P and wires), including enhanced identity of the sender; recipient data, including financial institution; digital behavioral data; device data; and IP addresses—which enable intervention if the transaction seems fraudulent. Thus, digitization of legacy payment methods is a top priority for banks to combat fraud.

However, fraud attacks are on the rise due to the proliferation of real-time digital payments, increased instances of identity theft, a surge in check fraud, and in some cases, escalation of first-party fraud by individuals exploiting bank and network policies. Council members noted that these trends disproportionately impact regional and smaller institutions.

Council Members' Assessments and Strategies

Bank-Specific Investments – Financial institutions currently make major investments in fraud prevention tactics "within their four walls" and must continue to do so. These investments include, but are not limited to, identity controls and restrictions (i.e., transaction limits and two-factor authentication); centralized fraud risk management functions; increased customer education, communication, and awareness; technology, data, artificial intelligence/machine learning, and fraud prevention tools and models; security measures within legacy platforms and business processes; flexible staffing to handle surges in fraud volume; and the application of the same rigor for account opening and other important transactions as is used for money movement. However, the overall payments ecosystem is only as safe as its weakest link, and not all participants have made sufficient investments.

Multi-Faceted, Industry, and Government-Wide Approach – Fraud will not be solved within one institution, and it is critical that we continue to build out network capabilities across venues to (1) promote information sharing, including fraud reporting and network intelligence that keeps pace with the speed of the payment settlement (including data standards and SLAs—and with appropriate government support and safe harbors); (2) create consistent minimum standards for consumer payment protection principles (including a governance framework, warranty rules, and network-based fraud monitoring); and (3) enhance security, including requiring tokenization.

Council members noted that Early Warning Services, LLC (EWS) and the major card networks are examples of networks that have well-established governance frameworks, appropriate minimum consumer protection standards, and assessment of risk indicators across their networks to spot and stop fraud.

- At EWS, industry participants have created a shared national database of bad actors to mitigate fraud.
- Card networks are policing both sides of transactions with fines as well as with rules on onboarding, offboarding, and liability.
- The Bank Policy Institute (BPI) has created a three-pillar strategy to advance fraud data sharing across the industry. BPI, together with the American Bankers Association, FS-ISAC, and the National Cyber-Forensics and Training Alliance are building capabilities to (1) enable industry-wide sharing of fraud negative data based on the JPMC Liink, a blockchain platform; (2) share cyber-fraud intelligence alerts at scale; and (3) develop large bad-actor cases to provide to law enforcement and help focus prosecutorial resources.

How the Board Can Support Fraud Mitigation Strategies

- Ensure regulatory interpretations promote information sharing—encourage ways for banks to share real-time data more broadly via a consortium model with safe harbors, such as under section 314(b) of the USA Patriot Act.
- The banking sector is often the victim of fraud that begins far upstream on social media and other platforms. Council members suggested that the Federal Reserve work together with the industry, the U.S. Department of the Treasury, the U.S. Department of Justice, and U.S. law enforcement

agencies to promote fraud mitigation strategies and information sharing across industry verticals (e.g., device manufacturers, telecoms, and social media). This could generate more thorough intelligence for securing digital payments and, additionally, deter future potential bad actors.

- The Council recommended that the Federal Reserve update Regulation CC to close loopholes, including those that have allowed fraudsters to take advantage of the outdated law for dual presentment of remote-captured checks and the disconnect between the allowable time frame for deposit holds versus deposit returns.
- Council members asked the Federal Reserve to consider—when the latter is engaging in broader policy making—the significant investment and effort financial institutions make to mitigate fraud and to protect consumers. Council members are concerned with the cumulative effects that proposals such as Regulation II and section 1033 of the Dodd-Frank Wall Street Reform and Consumer Protection Act will have on the resources available to banks to invest in fraud mitigation, technology, controls, and innovation.
- Consumer education is a key component of mitigating fraud, and the federal government is well positioned to serve as a trusted messenger to educate the American public about cyber hygiene—including how to detect and avoid fraud and scams.
- As a payments provider, it is crucial that the Federal Reserve operate FedNow with the same governance, consumer protections, and network-based fraud monitoring and data sharing capabilities as all payments systems—and not become a weak link or a magnet for fraud. In advance of delivering those capabilities, it is critical that participants are given flexibility to support only select use cases.

Item #8: Contingency Funding

In the aftermath of the Silicon Valley Bank episode, the Federal Reserve has underscored the need for banks to develop, maintain, and stand ready to use viable sources of liquidity in times of stress. In this regard, banks should note that the Federal Reserve's discount window offers a unique capacity to provide liquidity to those banks ready and willing to use it. What further steps can banks and the Federal Reserve take to advance contingency funding plans?

Council members agreed that the rapid deterioration and loss of confidence that occurred in the industry earlier this year reinforced the importance of maintaining strong and diverse contingency funding sources. Access to these sources is critical to prudent risk management and the overall safety of the banking system and availability of credit. Likewise, Council members said that utilization of alternate funding sources should be fundamental to a bank's contingency funding plan. However, Council members agreed that the Federal Reserve should be mindful of the stigma associated with accessing these funding sources and should work to educate those within financial services and those who analyze and invest in the sector to better understand why contingency funding sources are a normal and natural part of a healthy system—and not an indication of weakness in a particular institution. Similarly, Council members believe it is important to examine what works well with liquidity facilities, and what can be improved upon.

Council members shared several steps that the Federal Reserve can take to help advance the use of funding facilities (i.e., the Discount Window (DW), Bank Term Funding Facility (BTFP), Federal Home Loan Bank, and the repo markets including bilateral, standing repo facility, triparty, and centrally cleared fixed income clearing company). Council members stated that banks should be encouraged to test access to funding sources regularly and at meaningful levels, and that the Federal Reserve should be publicly clear that there are no repercussions or implications for this behavior. The Bank of England has taken this approach, and similar messaging by the Federal Reserve would be a key first step in reducing negative external sentiment. To accommodate this testing, banks should focus on building sufficient capacity and operational readiness to access facilities, and they should consider running tabletop exercises to ensure their ability to access alternate funding depending on stress conditions. As part of this exercise, banks should evaluate and ensure operational capabilities across all available contingency funding sources in the market—the diversity of which should help reduce concentration risk to government-sourced liquidity during times of stress. Additionally, altering the length of time a bank needs to borrow from these facilities may help to eliminate stigma. For example, banks typically use the DW funding only on a short-term basis (e.g., overnight or for a few days). But it would take far longer than a few days if a bank needed to structurally repair its balance sheet. The market's reaction warrants further consideration if these facilities are intended to play a role in aiding a distressed bank's recovery.

Council members also believe it would be worthwhile for bank supervisors to ensure there are diverse funding sources that are proportionate to the size, risk, and complexity of the bank, as one size may not fit all. Funding facilities may serve different purposes given the time, place, and circumstances. For instance, the DW offers contingent liquidity funding in crisis, but it also may have negative ramifications on companies due to the pledging of securities and the effect that it has on the liquid asset ratio. Meanwhile, the BTFP offers advantages that the DW cannot offer, given lower haircuts and term funding options for a narrow pool of asset classes. Both may have a place, but it should be clearer when and why an institution should access one instead of the other—and the BTFP should become permanent as opposed to the elegant temporary solution it was originally set up to be.

Council members noted another consideration could be an enhanced focus on setting up different time horizons for liquidity stress testing. Although regulatory metrics generally focus on a 30-day stress window, longer-term horizons that incorporate additional contingency funding sources may help provide a more realistic view and inform preemptive action planning.

Moreover, Council members said it would be worthwhile for the Federal Reserve and other agencies that provide contingency funding sources to continue to simplify access to these facilities and build alignment within organizations to grow credibility and interest in use. Given the advancements in technology and increased digital capabilities, there are clear opportunities to streamline the process and ensure harmonization of data across multiple functions and agencies.