

Date: [Insert Date]

To: Chief Executive Officers and Boards of Directors of All Supervised Financial Institutions

Subject: Supervisory Guidance on Managing Uninsured Deposit Volatility

Purpose

This letter provides formal guidance on managing risks associated with a high reliance on uninsured deposits. Recent market events have highlighted that uninsured deposits can exhibit greater volatility and higher outflow rates during periods of financial stress or systemic concern.

Risk Assessment and Monitoring

Financial institutions are expected to maintain robust frameworks for identifying and monitoring the concentration of uninsured deposits. Specifically, institutions should:

- Analyze the composition of the deposit base to identify large individual or related-party balances.
- Monitor the speed of potential outflows through enhanced liquidity stress testing scenarios.
- Evaluate the sensitivity of depositors to negative news or market rumors.

Liquidity Risk Management

Institutions with significant levels of uninsured deposits should ensure their liquidity risk management practices are commensurate with their risk profile. This includes:

- Maintaining a sufficient cushion of high-quality liquid assets (HQLA) to cover potential rapid outflows.
- Ensuring diverse and reliable sources of secondary funding.
- Testing the operational readiness of contingent funding lines, such as the discount window.

Contingency Funding Plans (CFP)

CFPs must be updated to reflect the increased velocity of digital banking withdrawals. Plans should include specific "trigger" events related to deposit levels and outline clear communication strategies for stakeholders and regulators.

Conclusion

Effective management of deposit volatility is critical to maintaining safety and soundness. Examiners will review the adequacy of liquidity management and deposit concentration risks during upcoming safety and soundness examinations.

Sincerely,

[Insert Name/Department]

[Insert Regulatory Body Name]