

# The Charles Schwab Corporation Liquidity Coverage Ratio Disclosure Report

For the quarter ended December 31, 2020

The logo consists of a blue square containing the text "charles" in a white, lowercase, serif font, and "SCHWAB" in a white, uppercase, sans-serif font below it.

*charles*  
SCHWAB

*Own your tomorrow*

## I. About the Charles Schwab Corporation

The Charles Schwab Corporation (CSC) is a savings and loan holding company, headquartered in San Francisco, California as of December 31, 2020, the date of this report. CSC was incorporated in 1986 and engages, through its subsidiaries (collectively referred to as Schwab or the Company), in wealth management, securities brokerage, banking, asset management, custody, and financial advisory services. CSC is regulated, supervised, and examined by the Board of Governors of the Federal Reserve System (Federal Reserve). CSC is also subject to various requirements and restrictions under state and other federal laws.

## II. U.S. Liquidity Coverage Ratio Overview

### A. General Requirements

The U.S. Liquidity Coverage Ratio (LCR) rule is designed to promote short-term resilience of the banking sector by requiring that certain large U.S. banking entities (Covered Companies) maintain a liquidity risk profile which ensures that they have sufficient High Quality Liquid Assets (HQLA), such as central bank reserves, government securities, and eligible corporate debt that can be converted easily and quickly to cash, to survive a significant stress event lasting 30 days.

The LCR rule requires Covered Companies including Schwab to maintain an amount of HQLA that are unencumbered and controlled by the Covered Company's liquidity management function in an amount sufficient to meet a designated percentage of their total stressed net cash outflows over a prospective 30 calendar-day period, as calculated in accordance with the LCR rule.

As a Category III Covered Company, Schwab has been subject to the reduced version of the rule from the first quarter of 2020. Under the reduced version, Schwab is required to maintain HQLA to cover at least 85% of total stressed net cash outflows on a daily basis. Schwab also includes in its LCR calculations the maturity mismatch add-on to net cash outflows. Schwab also calculates a separate LCR, also using the reduced version of the rule, for each of its depository subsidiaries with \$10 billion or more of total assets. Although not subject to a separate public disclosure requirement, Schwab's depository subsidiaries subject to the rule were in compliance with their respective LCR requirements. If Schwab is not in compliance with its LCR requirements, it must provide notice to the Federal Reserve.

### B. High-Quality Liquid Assets

The LCR rule classifies HQLA into three categories of assets: Level 1, Level 2A, and Level 2B liquid assets. The rule provides that Level 1 assets, which are considered to be the highest quality and most liquid assets, are included in a Covered Company's eligible HQLA without limit and without haircuts. The LCR treats Level 2A and Level 2B liquid assets as having characteristics that are associated with being relatively stable and significant sources of liquidity, but not to the same degree as Level 1 liquid assets. Accordingly, the LCR subjects Level 2A liquid assets to a 15% haircut and, when combined with Level 2B liquid assets, they may not exceed 40% of the total eligible HQLA. Level 2B liquid assets, which are associated with a lower degree of liquidity and more volatility than Level 2A liquid assets, are subject to a 50% haircut and may not exceed 15% of the total eligible HQLA. Other classes of assets do not qualify as HQLA.

To be included in a Covered Company's eligible HQLA, which is the numerator of the LCR, Level 1, Level 2A, or Level 2B assets must meet a variety of specific standards designed to ensure that such assets have robust liquidity characteristics. In general, Level 1 assets include central bank reserve balances, both domestic and foreign, that are withdrawable by a Covered Company without restriction; securities that are issued or guaranteed by the U.S. Treasury Department, or in some cases, by other agencies of the U.S. government; and certain other securities that are issued or guaranteed by non-U.S. sovereign governments, multi-lateral development banks, and similar institutions. Level 2A assets include certain investment-grade securities issued or guaranteed by U.S. government-sponsored enterprises, and certain other securities that are issued or guaranteed by

select non-U.S. sovereign governments, multi-lateral development banks, and similar institutions that do not meet Level 1 asset criteria. Level 2B assets may include certain corporate debt and common equity securities that are not issued by financial sector entities and that meet a variety of eligibility criteria, including market price stability in periods of significant stress.

### **C. Total Net-Cash Outflows**

A Covered Company's total net-cash outflow amount, which is the denominator of the LCR, is determined by applying mandated outflow and inflow rates, which reflect certain prescribed, industry-wide stressed assumptions, against the balances of a Covered Company's funding sources, obligations, transactions, and assets over a prospective 30-day calendar period. Inflows that can be included to offset outflows are limited to 75% of outflows to ensure that Covered Companies are maintaining sufficient on-balance sheet liquidity and are not overly reliant on inflows, which may not materialize in a period of stress. Accordingly, a Covered Company will always be required to maintain a certain amount of HQLA to satisfy its LCR rule requirements.

## **III. LCR Public Disclosure Requirements**

The LCR Public Disclosure rule requires Category III Covered Companies subject to the reduced version of the LCR rule to disclose on a quarterly basis their average daily LCRs over the quarter, as well as quantitative and qualitative information on certain components of their LCRs.

The information presented in this document is based on calculations prescribed by the LCR rule and is presented in accordance with the public disclosure provisions of the rule.

The LCR disclosure presented is based on the current understanding of the LCR rule, which may be subject to change as Schwab receives additional clarification and interpretive guidance from the Federal Reserve and as the LCR rule evolves over time.

## **IV. LCR Qualitative Disclosures**

### **A. The Main Drivers of the Liquidity Coverage Ratio**

The LCR quantitative disclosures reflect the simple average of daily values for each disclosure category over the quarter. When discussing the main drivers of its LCR, the Company is referring to the average of these daily values.

The Company's cash outflow amounts for the quarter were predominantly driven by two categories: first, deposit outflows from retail customers and counterparties, primarily from brokered sweep deposit outflow and second, from non-operational funding outflow, which represents primarily deposit outflows associated with counterparties, that due to deposit size, are categorized under the LCR Rule as wholesale counterparties and presumed to be less stable. These two accounted for over 93% of weighted cash outflows.

Offsetting a portion of cash outflows are cash inflows, which were predominantly driven by three categories: first, secured lending and asset exchange cash inflow, which is concentrated in Schwab's broker-dealer business representing primarily unwinds of customer margin loans and new balances from margin stock borrow; second, securities cash inflow primarily representing inflow from short-term investments of our working capital or principal and interest due in the Company's investment portfolio; and third, broker-dealer segregated account inflow, which is the fair value of the broker dealer's actual segregated assets held under the customer protection rule as of the calculation date, less the fair value of the required balance of the customer reserve account in a period of prescribed stress. Together these account for over 94% of calculated cash inflows.

### **B. Changes in the Liquidity Coverage Ratio Over Time and Causes of Such Changes**

The Company's average LCR increased between the third quarter of 2020 and fourth quarter of 2020, from 108.41% to 108.51% primarily due to the acquisition of TD Ameritrade Holding Corporation (TDA Holding) and its consolidated subsidiaries leading to an increase in balances from broker-dealer segregated account inflows and free credit outflows. The fourth quarter ratio includes TDA Holding business effective from October 6, 2020. Schwab's LCR may fluctuate period over period as a result of its liquidity profile, market conditions, client behavior, legal or regulatory developments, liquidity risk management limits, or other factors in the markets in which it operates.

### C. The Composition of Eligible HQLA

As shown in the below chart, approximately 75% of the Company's total eligible consolidated HQLA was concentrated in Level 1 HQLA, on an average weighted basis in the fourth quarter of 2020. Level 1 HQLA are represented predominantly by excess cash on deposit with the Federal Reserve Bank, U.S Treasury securities, and other eligible high-quality securities, such as certain securities guaranteed by the Government National Mortgage Association. Approximately 25% of eligible consolidated HQLA was Level 2A, which is predominantly comprised of mortgage-backed securities and collateralized mortgage obligations guaranteed by U.S. government-sponsored enterprises. The decline in Level 1 assets and increase in Level 2A assets from prior quarter is driven by the deployment of higher excess reserve levels in Q1 and Q2 into non-Level 1 investment securities and loans. Schwab has Level 2A in excess of 40% of the total eligible HQLA amount that are excluded by the rule from eligible HQLA. In addition, HQLA that are held at the subsidiaries in excess of the subsidiaries' total net cash outflows, and are not transferable to non-bank affiliates, are also excluded by rule from the Company's eligible HQLA.

HQLA Categories as a Percentage of Schwab's Total Eligible HQLA		
	Average Unweighted	Average Weighted
Level 1 Assets	72.27%	75.41%
Level 2A Assets	27.73%	24.59%
Level 2B Assets	0%	0%

### D. Concentration of Funding Sources

Schwab has adopted a comprehensive liquidity risk management program designed to ensure funding is available for its ongoing commitments and to meet obligations to clients. While our primary source of funding is generated by client activity and the cash they deposit with it, Schwab also maintains various long and short-term funding sources. These include long-term corporate debt, which the Company periodically issue in the capital markets and is used for long-term needs, or short-term debt such as commercial paper issuance or borrowing against third party lines of credit, which may be utilized for short-term funding needs.

### E. Derivative Exposures and Potential Collateral Calls

Schwab does not have material exposure to commonly defined derivatives or collateral calls.

### F. Currency Mismatch in the Liquidity Coverage Ratio

Schwab does not have material exposure to a currency mismatch.

### G. Centralized Liquidity Management Function

The Company's management has adopted a formal liquidity risk management framework that imposes responsibilities on the centralized liquidity management function (first line of defense), the

independent risk management oversight function (second line of defense), and the internal audit function (third line of defense).

With oversight and challenge by the second and third lines of defense, the first line of defense within the Company's corporate treasury function is tasked with identifying and assessing liquidity risks, incorporating risks into liquidity stress testing, and conducting rigorous liquidity stress testing to measure liquidity risks over a range of scenarios and time horizons. Together, in consideration of both Schwab's liquidity risk tolerance and its business needs, these activities allow the Company to assess liquidity and funding needs under adverse conditions and drive the sizing of its liquidity buffer, which is composed of HQLA. Schwab's treasurer has overall responsibility for the management of HQLA.

Schwab further manages liquidity risk through a broader risk governance framework that includes a liquidity risk management policy (Policy) and other key risk policies. The Policy establishes standards for defining, measuring, limiting and reporting liquidity risk. It reflects the Company's risk appetite which is memorialized in its risk appetite statement and adopted by CSC's board of directors. Compliance with the risk appetite statement is overseen by the chief risk officer and the second line of defense. The second line of defense is also responsible for governance of liquidity risk management and provides analytical challenge to the Company's liquidity risk management framework. CSC's board of directors reviews and approves liquidity management strategies and policies.

## V. LCR Quantitative Disclosures

In the following table, the figures reported in the "Average Weighted Amount" column reflect the prescribed, industry-wide assumptions and haircuts defined by the LCR rule to determine a Covered Company's eligible HQLA, cash outflow amounts and cash inflow amounts. The figures reported in the "Average Unweighted Amount" column reflect gross values that are not included in the calculation used to determine the Company's compliance with LCR requirements.

10/01/2020 to 12/31/2020 \$ in millions	Average Unweighted Amount	Average Weighted Amount
<b>HIGH-QUALITY LIQUID ASSETS (HQLA)</b>		
1 Total eligible HQLA of which: <sup>1</sup>	81,527	78,136
2 Eligible level 1 liquid assets	58,920	58,920
3 Eligible level 2A liquid assets	22,606	19,215
4 Eligible level 2B liquid assets	0	0
<b>CASH OUTFLOW AMOUNTS</b>		
5 Deposit outflow from retail customers and counterparties, of which:	322,816	81,291
6 Stable retail deposit outflow	6,666	200
7 Other retail funding	72,030	28,034
8 Brokered deposit outflow	244,121	53,057
9 Unsecured wholesale funding outflow, of which:	106,645	47,186
10 Operational deposit outflow	0	0
11 Non-operational funding outflow	105,829	46,369
12 Unsecured debt outflow	817	817
13 Secured wholesale funding and asset exchange outflow	7,453	6,980
14 Additional outflow requirements, of which:	10,948	1,000
15 Outflow related to derivative exposures and other collateral requirements	0	0
16 Outflow related to credit and liquidity facilities including unconsolidated structured transactions	10,948	1,000
17 Other contractual funding obligation outflow	1,074	1,074
18 Other contingent funding obligations outflow	0	0
19 TOTAL CASH OUTFLOW	444,938	137,532
20 Secured lending and asset exchange cash inflow	23,927	10,673
21 Retail cash inflow	127	63
22 Unsecured wholesale cash inflow	2,890	2,889
23 Other cash inflows, of which:	39,194	39,194
24 Net derivative cash inflow	0	0
25 Securities cash inflow	5,531	5,531
26 Broker-dealer segregated account inflow	33,663	33,663
27 Other cash inflow	0	0
28 TOTAL CASH INFLOW	66,138	52,820
<b>Average Amount<sup>2</sup></b>		
29 HQLA AMOUNT		78,136
30 TOTAL NET CASH OUTFLOW AMOUNT EXCLUDING THE MATURITY MISMATCH ADD-ON <sup>3</sup>		72,005
31 MATURITY MISMATCH ADD-ON		0
32 TOTAL NET CASH OUTFLOW AMOUNT		72,005
33 LIQUIDITY COVERAGE RATIO (%)		108.51%

<sup>1</sup> Excludes non-transferable liquidity at subsidiaries

<sup>2</sup> Amounts reported may not equal the calculation of those amounts reported in rows 1-28 due to technical factors such as the application of the level 2 liquid asset caps, the total inflow cap, and for depository institution holding companies subject to subpart G, the application of the modification of total net cash outflows

<sup>3</sup> After the 85% modifier