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July 29, 2008

Basel Committee on Banking Supervision  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel  
Switzerland

Sent via email

Dear Sir or Madam:

U.S. Bancorp welcomes the opportunity to respond to the Committee's Principles for Sound Liquidity Risk Management and Supervision. U.S. Bancorp is a large diversified financial services organization headquartered in Minneapolis, Minnesota with banking functions in 24 states. U.S. Bancorp's principal businesses include retail banking, corporate lending, merchant processing, consumer finance, trust and investment management.

U.S. Bancorp supports the principles in the paper as appropriate liquidity management principles. We believe that a principles-based approach is the best framework for defining liquidity management.

We ask that the Committee further clarify the board responsibilities in paragraph 11. While we agree that the board is accountable for ensuring the bank is well managed, there can be multiple interpretations of the sentence which states that the board should ensure management has sufficient expertise and systems are adequate for liquidity management. We believe that the board should have discretion in determining management expertise and liquidity management system performance. It is common for the board to assign responsibility for these assessments to the audit function or risk functions which would then report to the board on performance levels. The principle as written doesn't state that the board has this discretion to delegate its liquidity management obligation. A clarification of the intent of the Committee would help us better understand the principle.

In paragraph 16 it is noted that "It is critical that personnel in independent control functions have the skills and authority to challenge information and modeling assumptions provided by the business lines." We believe that at U.S. Bancorp, Corporate Treasury is the appropriate organizational unit for the management of liquidity risk. Treasury is closely tied to the financial markets and U.S. Bancorp's funding processes and also closely interacts with the business lines to understand the nature of the funding risks. We recommend that the Committee clarify its intent on independent control functions.



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Paragraph 123 states that "... a bank should hold a core of the most reliably liquid assets, such as cash and high quality government bonds or similar instruments, to guard against the most severe stress scenarios." We believe that further clarification should be added to this paragraph to include consideration of a bank's risk profile. Stored asset liquidity is an important resource for banks with a risk profile indicating a potential for dramatic changes in daily liquidity needs. When a bank is more core funded and has modest contingent liquidity risks, diversified secured funding sources may be sufficient to cover its contingent funding needs.

We also believe the Committee's focus upon stored asset liquidity as the sole provision for severe stress scenarios ignores other liquidity sources. In the U.S., banks have resources for accessing secured borrowings from the Federal Home Loan Banks and the Federal Reserve Bank's Discount Window, both of which are appropriate for certain systemic scenarios. Other idiosyncratic scenarios or systemic scenarios can be met using other key liquidity sources. Stored asset liquidity is an important component of liquidity contingency plans, but it should not be the sole factor that a bank considers. For these reasons, we would urge the Committee to include in the text comments similar to paragraph 64 which references the mix of funding risks based upon the nature of the bank's business.

Paragraph 128, which is part of the Public Disclosure Principle, states that "... a bank should provide quantitative information about its liquidity position." However, analyst reports and the media may misinterpret the quantitative data as we have seen from time to time during the current credit market turmoil. Providing this data could lead to additional confusion and misinformation in the marketplace thereby exacerbating liquidity problems in the marketplace.

We believe public confidence is the most important key in the maintenance of deposits and funding sources. This confidence is driven by the performance of the bank's credit portfolios, its earnings strength and capital positions. Existing quantitative disclosures on credit, earnings and capital provide the information necessary to depositors and investors to assess the financial strength of a bank. Additionally, we believe that it is appropriate to include qualitative disclosures about the liquidity risk management processes and whether a bank complies with its liquidity policies. Therefore, we would urge the Committee to strike paragraph 128 in favor of an increased focus on paragraphs, 126, 127 and 129, which address the qualitative information sections of the Public Disclosure Principle.

Sincerely,



Kenneth D. Nelson  
EVP & Corporate Treasurer  
U.S. Bancorp

