American Bankers Association
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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland

Re: Consultative Document: *International Framework for liquidity risk measurement, standards and monitoring*

Ladies and Gentlemen:

The American Bankers Association[1] (ABA) welcomes the opportunity to comment on the consultative document (CP) published by the Basel Committee on Banking Supervision (Committee or BCBS), *International Framework for liquidity risk measurement, standards and monitoring*. We share the Committee's goals of further elevating the resilience of internationally active banks to liquidity stresses across the globe, as well as increasing international harmonization of liquidity risk supervision. We are broadly supportive of quantitative liquidity standards, the implementation of which could be coordinated through the college of supervisors framework, in order to enhance the consistency of liquidity regulation across jurisdictions. We are, however, concerned with the potential macroeconomic and market impacts of adoption of the CP in its present form, especially when combined with other BCBS initiatives and those advanced in other fora, including the Financial Stability Board, the accounting standards setters, and national legislatures and sectoral regulators.

Overall, we believe that the parameters and assumptions set forth in the CP are excessively conservative and would create a significant funding gap that will exacerbate, not reduce, liquidity risk and, consequently, systemic risk. We support the goal of the Committee to improve liquidity resilience but believe that a major recalibration of the CP is necessary to achieve this goal.

We urge greater attention to the impact of the underlying assumptions in the CP and the unintended consequences that may result therefrom, only one of which may be to force banking-like activities into segments of the financial services industry not subject to comparable standards – and thereby frustrate the efforts toward harmonization of standards. There are also serious issues regarding workability and impairment of the ability of banks to manage their finances in the most efficient and safe manner. Specifically, we believe that the assumptions underlying the ratios are fundamentally flawed and should be revised substantially. The liquidity standards expressed in the CP reflect "worst case" market conditions. Indeed, we believe that the assumptions

[1] "The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $13 trillion banking industry and its two million employees."

underlying the net stable funding ratio are more severe than actual experience in stressed "tail event" liquidity conditions such as in the 2007-2008 period. These assumptions would likely give rise to an unwarranted and unsubstantiated liquidity "shortfall" that could undermine seriously market confidence.

Moreover, an assessment of the liquidity position of a firm needs to be broader than an assessment of two ratios that may not capture adequately the funding capabilities and vulnerabilities of all banks, nor appropriately accommodate the diversity within the industry. The net stable funding ratio and the liquidity coverage ratio should be used as two tools as part of the overall assessment of a firm's liquidity position and processes. The standardized assumptions that underlie these ratios mean that the measures would not be truly comparable across banks as a result of different business models or activities, geographies, and levels of market participation.

We appreciate the effort of the Committee to conduct a quantitative impact study (QIS) to assess the effect on banks of the Committee's initiatives. However, we are cognizant of the data and operational challenges that are posed by such a study and urge a flexible approach that does not view the QIS results as definitive evidence to support the calibration of liquidity standards and metrics. Indeed, the availability of funding liquidity can vary significantly by jurisdiction and we question whether a uniform calibration of liquidity standards and metrics is appropriate. We urge the BCBS to make public the research that supports the cash outflow run-off rates and the funding haircuts proposed in the CP for the liquidity coverage ratio and the available stable funding factors and required stable funding factors proposed for the net stable funding ratio. We encourage the Committee to allow the industry to examine the analysis conducted and offer comment.

The Committee should consider carefully how to phase-in new liquidity standards, taking into account the impact of those changes on the market during various stages of implementation. Adopting changes to prudential standards without proper phase-in can be extremely disruptive to national and international markets, especially during times of stress. We strongly encourage a measured approach and continuous monitoring of the impact of changes to the prudential standards for liquidity in order to minimize unintended consequences and market disruptions.

We are pleased that the Committee has recognized the need to take account of jurisdiction-specific considerations with respect to run-off factors. However, we believe that other parameters may also have to be adjusted to take into consideration national differences. The Committee should also consider carefully differences in banking operations across jurisdictions, including differences as to what constitutes a liquid asset, differences in market haircuts for funding sources, the required stable funding factors, and the parameters used to establish stressed market conditions. Moreover, banks in the same jurisdiction may warrant the use of very different parameters. A more flexible approach is appropriate to determine whether a bank has adequate short-term and longer-term funding liquidity sources, in light of the bank's overall liquidity risk management program.

Macroeconomic and Market Impacts of the CP

The potential macroeconomic and market impacts of adoption of the CP raise significant concerns, especially when combined with the potential impact of other BCBS initiatives and those advanced in other fora, including the Financial Stability Board, the accounting standards setters, and national legislatures and sectoral regulators. We believe that insufficient attention has been given to the potential cumulative impact of these various initiatives and the unintended consequences that may result therefrom.

These macroeconomic and market concerns are particularly acute at the current stage of the global economic cycle. A significant increase in holdings of liquid assets by banks could create market dislocations as banks would need to shift investments from consumer-, mortgage-, and business-related investments to sovereign instruments such as cash, central bank reserves, and government securities. This shift in investments would impair the recovery of the economy and make it very difficult for consumers and small businesses to obtain credit, to the detriment of national economies and the global economy. The cost of available credit could be expected to increase significantly with a lower supply.

Moreover, there is an additive effect when one considers other proposals that could constrain bank intermediation activities and growth. The BCBS has published for comment a consultative document on regulatory capital that would require significantly higher capital requirements through a much more limited definition of tier 1 capital, the phase-out of hybrid capital instruments, the inclusion of additional assets on banks' balance sheets as a result of accounting changes, and the need to maintain buffers in addition to minimum requirements. In addition, in a number of jurisdictions, consideration is being given to the imposition of taxes on banks to offset the cost of current interventions and/or to fund the cost of any future interventions. The proposals in the CP, when considered in concert with the heightened capital standards under consideration by the BCBS, proposals for tax schemes, and other proposals under consideration in various national and international fora, could have a significant negative impact of the ability of the global economy to recover from the current recession and on global growth rates for many years.[2] We strongly urge the Committee to utilize all available resources – including input from high-level policy makers – to study the potential cumulative impact on global growth of the CP and other initiatives. Only by studying this cumulative impact will the Committee be able to take appropriate steps to coordinate regulatory reforms based on a robust cost/benefit analysis of the cumulative impact and in a way that strengthens rather than damages the financial system.

The CP does not mention a specific date for implementation of revised liquidity standards, but it does quote the recommendation of the G20 that the BCBS and national authorities should develop and agree to by 2010 a global framework for

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[2] In the United States, both private and public sector economists are projecting high levels of unemployment persisting at least through 2011.

promoting stronger liquidity buffers at financial institutions.[3] We submit that developing and agreeing to a liquidity framework in this compressed timeframe, and given the need to coordinate a liquidity initiative with the regulatory capital and other initiatives underway, does not appear possible or practicable. We respectfully request that the Committee consider the cumulative impact of the CP and other proposals through the QIS process and provide the industry with the opportunity to contribute more effectively towards the data collection needed to product a robust QIS by extending the study through 2010. We also reiterate our encouragement of a gradual implementation and measured approach and continuous monitoring of the impact of changes to the prudential standards for liquidity in order to minimize unintended consequences and market disruptions.

In addition to the need for further study of the impact of the proposals in the CP, we would urge the Committee to consider carefully the timing of the implementation of any new requirements in light of economic conditions and the need for banks to make possibly significant changes to their liquidity risk management processes and management information systems. The Committee should seek the input of banks with respect to the timing of implementation and appropriate phase-in, transitional, and grandfathering arrangements once the QIS exercise has been completed. This may be best accomplished by publishing a second consultative document for public comment once the QIS has been completed and further details of the liquidity proposal have been agreed by the Committee.

With respect to individual banks, the cumulative impact of the CP and other initiatives likely would be higher costs of capital and lower returns that would make it more difficult to attract and retain investors, creating a banking sector that would be less resilient to future shocks. There is an acknowledged "announcement effect" that translates the tightening of bank prudential standards into lower ratings and share prices, even before those changes are implemented and despite the announcement of grandfathering or transitional provisions. For bank customers, both consumers and businesses, the cumulative impact would mean lower levels of lending and investment by banks, and a relative contraction of economic activity.

Our members have noted that the CP would require banks to maintain data at a level of granularity that generally is not available at the present time. As a result, banks would need to make considerable investments of time and resources to upgrade systems and processes at a time when they are faced with a number of competing calls for additional resources. The Committee should consider carefully the cost/benefit trade-off of imposing additional data requirements and the timing of any such requirements. The Committee should refrain from imposing requirements on a bank that would not be consistent with or contribute to the bank's overall liquidity risk management program, consistent with the Basel Committee's longstanding "Use Test." For example, the focus on contractual cash flows is not meaningful or justified on a cost-benefit basis, as it would not be comparable across banks.

[3] See Paragraph 4 of the CP.

Differences Across Jurisdictions

We are pleased to see that the Committee has recognized the need to take account of jurisdiction-specific considerations in Paragraphs 10 and 18 of the CP with respect to run-off factors. However, we believe that other parameters may also have to be adjusted to reflect national differences, most notably the definition of liquid assets, the available stable funding haircuts, the required stable funding factors, and the parameters used to establish stressed market conditions.

With respect to the cash outflow run-off rates, available stable funding haircuts, and required stable funding factors set forth in the CP, we question how these could be established by international agreement, given the acknowledged significant national differences in deposit behavior. We encourage the Committee to reconsider the approach of setting standardized run-off rates, haircuts, and factors for the liquidity coverage and net stable funding ratios in light of acknowledged national differences. Specifically, it would be more appropriate for individual banks to set these parameters, in coordination and consultation with their national regulators and consistent with overall principles. Banks are constantly developing new and improved models for funding liquidity; the use and further development of these models will enhance the management of liquidity risk. Standardized parameters are not only inaccurate for individual banks, they disincent good liquidity risk management and the development of more robust risk management techniques. Given the experience of the past several years, there is an opportunity to perform quantitative analysis to calibrate these factors better on a bank-specific basis.

In addition, we have the following specific comments on the CP:

- The definition of unencumbered, high quality liquid assets for purposes of calculating the liquidity coverage ratio is excessively narrow and too heavily relies upon the assumption of riskless sovereign instruments. This narrow definition, combined with prescriptive ratios, would cause banks to focus on the same funding sources and pricing incentives, thus increasing the likelihood of highly correlated “herd” behavior and the possibility of supply bottlenecks.

- The prohibition on commingling or using as hedges, collateral, or credit enhancements those liquid assets would raise serious operational problems for banks.

- The CP would impose overly aggressive cash outflow run-off rates for the liquidity coverage ratio akin to the Basel I credit risk weights. We believe that these run-off rates would prove to be inadequate and insufficiently granular for different types of funding sources just as the Basel I risk weights were found to be insufficiently granular for different types of assets.

- Similarly, the available stable funding haircuts and required stable funding factors would be inadequate and insufficiently granular for different types of funding sources. The proposed haircuts fail to acknowledge that securities collateral already is haircut in the margining process.

- The net stable funding ratio assumptions are too severe for a one-year stress event and exceed conditions that can be expected in severe liquidity stress "tail events." These assumptions do not take into account banks' ability to change strategies or business plans over a one-year period in response to a stress.

- A more reasonable assumption for the liquidity coverage ratio and the net stable funding ratio would be to recognize a "spectrum of liquidity" within the 30-day and one-year time periods, respectively.

- The assumption that the central bank would not provide support in a systemic shock runs counter to the long-standing role of banks as intermediaries and central banks as providers of liquidity and lenders of last resort.

- The assumptions underlying the liquidity ratios should be aligned in order to prevent a double counting of potential outflows. Moreover, these assumptions should be aligned with the assumptions set forth in the capital proposal.

- While metrics can be helpful "snapshots" of a bank's current liquidity position, they should be considered in a holistic context in light of the bank's overall liquidity risk management policies and processes.

- The assumption of no asset prepayments for purposes of the contractual maturity mismatch metric is excessively conservative and does not reflect banks' actual experience over many years and across economic cycles.

- The 1 percent of total liabilities threshold for purposes of the concentration of wholesale funding metric is excessively conservative, especially if supervisors apply this metric more broadly to smaller banks.

- The proposed public disclosures likely would result in an incomplete picture of a bank's true liquidity profile and confusing and misleading information as a result of the lack of comparability of disclosures across banks, potentially causing perverse and unjustified shocks to bank liquidity.

Definition of Liquid Assets

The definition of liquid assets in the CP[4] includes cash, central bank reserves available in times of stress, marketable securities not issued by financial firms that are assigned a zero risk weight and for which deep markets exist, and government or central bank debt issued in the domestic currency. Consideration is being given to including high quality corporate bonds and covered bonds subject to haircuts and diversification criteria.[5] We urge the Committee to disclose publicly the methodology used to compute the proposed haircuts in Paragraphs 36 and 37 of the CP so that the industry and other interested parties may study the analysis and provide comment as appropriate.

We have pointed out above the serious macroeconomic and market impacts that such a narrow definition of liquid assets would create. Specifically, the narrow definition of liquid assets, combined with prescriptive ratios, would cause banks to focus on the same sources of funding (e.g., sovereign debt) and pricing incentives, thus increasing the likelihood of highly correlated "herd" behavior, as well as exposing the overall banking system to significant funding shortages and bottlenecks – especially in times of overall system stress. The end result of this would be to constrain, not increase, banks' overall funding liquidity.

In order to avoid the risk of highly correlated bank behavior that would increase overall systemic liquidity risk, the definition of liquid asset should be made flexible, as well as open-ended to encompass new products as they are developed. In addition to including corporate and covered bonds in the definition of liquid assets, which we strongly favor, we encourage the consideration of appropriate mortgage-related instruments, subject to appropriate haircuts that could be modified over time as conditions in the secondary market for those assets improve. The failure to include government-sponsored agency mortgage-backed securities in the definition of liquid assets could be detrimental to national markets and the housing sector. Moreover, a failure to include mortgage-related assets such as agency mortgage-backed securities could disincent banks' holdings of these assets for prudent risk-mitigation purposes, such as to hedge interest rate risk.

We also urge the inclusion in the definition of liquid assets readily available funding from government-sponsored sources, such as the Federal Home Loan Banks and Federal Reserve Banks in the United States. We understand that banks in many of the Basel Committee jurisdictions have ready access to similar sources of funds in both business-as-usual and stressed conditions. The inclusion of these funds in liquid assets could be conditioned on the bank having in place all contractual arrangements needed to effect ready access to the funds.

We encourage the Committee to revisit the assumptions reflected in the proposal regarding the liquidity of the repo markets. The experience during the recent market disruptions was that the repo market remained active for a broad range of securities

[4] See Paragraph 34.
[5] See Paragraph 35.

beyond those defined as liquid in the proposal. During recent stress events, secured financing was not impacted significantly for U.S. and European investment grade corporate, U.S. and European equities, U.S. investment grade convertible debt, and investment grade private label collateralized mortgage obligations. For those assets that became more illiquid during the recent stress events, such as U.S. high-yield corporate debt, non-investment grade private label collateralized mortgage obligations, non-investment grade convertible debt, and emerging markets securities, the assumption of no liquidity is inappropriately conservative. Rather, we would encourage the Committee to use assumptions based on stress haircuts actually experienced during the 2007-09 period.

The asymmetric treatment of repurchase and reverse repurchase agreements and securities lending and borrowing transactions is inappropriate insofar as it assumes that borrowings are repaid contractually by the bank but that cash placed with counterparties is not repaid. In reality, if secured borrowing becomes limited, treasurers and finance desks will be recalling cash.

Prohibition on Commingling, Hedging or Use as Collateral or Credit Enhancements

Paragraphs 26 and 32 of the CP provide that the stock of high quality liquid assets that forms the numerator of the liquidity coverage ratio could not be pledged either explicitly or implicitly in any way to secure, collateralize, or credit enhance any transaction and could not be held as a hedge for any other exposure. We understand from our members that this limitation on the use of liquid assets would create considerable operational and management information systems capability issues. In many banks, individual business lines enter into collateral, credit enhancement, or hedging contracts as business and risk management needs dictate. While a centralized treasury function may track these contracts, it would be extremely cumbersome for business line executives to verify on a transaction-by-transaction basis whether a particular asset could be pledged or hedged. We encourage the Committee to reconsider the absolute prohibition on pledging or hedging. Instead, we suggest an approach where supervisors have the ability to assess the ability of a bank's stock of liquid assets to serve as a source of contingent funding, taking into consideration the composition of those assets and the risk management capabilities of the particular bank.

Cash Outflow Run-off Rates and Haircuts for Liquidity Coverage Ratio

The CP would impose cash outflow run-off rates for the liquidity coverage ratio akin to the Basel I credit risk weights.[6] We believe that these run-off rates would prove to be inadequate and insufficiently granular for different types of funding sources just as the Basel I risk weights were found to be insufficiently granular for different types of assets and, ultimately, would prove inadequate both for supervisory and risk management purposes. Moreover, we believe the run-off rates proposed are unduly conservative,

[6] Paragraph 41 et. seq.

even taking into account banks' experiences in the recent financial disruptions. In fact, available data demonstrates that the run-off rates actually experienced by banks immediately prior to failure are much lower than those proposed in the CP. Deposit trends from 121 bank failures from 2008 and 2009 show that deposits actually increased at banks in the third and fourth quarters prior to failure, decreasing by 1.3 percent in the second quarter prior to failure and 2.1 percent in the last quarter prior to failure. The greatest decline in deposits – that is, the greatest rate of run-off – of any bank in the last quarter prior to failure was 17 percent.[7]

In particular, the degree of deposit runoff assumed for custodial deposits, corporate deposits, and deposits from financial institutions with well established relationships are excessive. Experience during the recent market disruptions demonstrates that custodial and corporate deposits were resilient due to the stable, long-term nature of custodial deposits and strong underlying business relationships. A substantial proportion of financial institution deposits are associated with core businesses, such as payment and settlement and custodial accounts.

The CP provides a 10 percent draw down assumption for committed lines of credit to non-financial corporate customers and a 100 percent draw down assumption for committed lines to all other counterparties. This approach is insufficiently granular and does not reflect differences in draw downs across different types of firms during the recent market stress. In particular, we do not believe that this approach reflects accurately the liquidity profile of commitments to financial firms and would urge the reconsideration of assumptions related to financial firms and funds more along the lines of what is provided for non-financial corporate counterparties.

We strongly support an approach that would be agreed to by banks and their supervisors, utilizing banks' internal models and historical data to establish ranges of run-off factors that could be adjusted over time to account for changes in market conditions as well as idiosyncratic factors. Such an approach would have the benefit of greater accuracy and would contribute to more robust liquidity risk management methodologies and practices.

Available Stable Funding and Required Stable Funding Factors for Net Stable Funding Ratio

As is the case with standardized run-off rates for the liquidity coverage ratio, the available stable funding and required stable funding factors for the net stable funding ratio would be inadequate and insufficiently granular for different types of funding sources.[8] The use of these factors would be an inappropriate reversion to a Basel I-type standard that would prove inadequate both for supervisory and risk management purposes. Again, we strongly support an approach agreed to by banks and their supervisors that would utilize banks' internal models and historical data to establish

[7] Source: FDIC data through Q3 2009.
[8] Paragraph 86 et. seq.

ranges of factors that could be adjusted over time to account for changes in market conditions as well as idiosyncratic factors.

The calculation of the net stable funding ratio does not consider adequately the availability of collateral. For example, an asset subject to a repurchase agreement would require 100 percent long-term stable funding even if the agreement is for a relatively short term and adequate and appropriate collateral is posted. This proposed treatment does not reflect market practices and would disincent greatly the use of repurchase agreements, which have been shown to be a stable and cost-effective source of funding. The available stable funding factor haircuts also fail to recognize that securities collateral is already subject to haircut in the margining process. A second layer of haircuts would be a double counting of a conservative approach.

The use of similar assumptions for the liquidity coverage ratio and the net stable funding ratio would be inappropriate. The short-term liquidity coverage ratio implies a level of stress associated with a firm that will no longer be viable on a stand-alone basis. The longer-term net stable funding ratio should reflect a lower level of stress associated with a longer term, less stressful event.

Net Stable Funding Ratio Assumptions

The assumptions underlying the net stable funding ratio are too severe as to be meaningful over a one-year horizon. Indeed, the assumptions are more severe than the experiences of banks during recent funding liquidity disruptions. A complete run-off of market-based funding is unrealistic except in the case of a bank failure. During the most recent market disruptions, wholesale funding markets remained available, albeit at shorter maturities.

Over a one-year horizon, banks have many other sources of liquidity beyond the narrowly prescribed definition of available stable funding[9] that have served and can continue to serve as contingent liquidity sources. For example, over a one-year horizon, banks can plan for asset sales, curtail lending to shrink balance sheet size, and take other measures to improve liquidity through a range of liquidity risk management techniques. Moreover, banks should be granted full credit – that is, a required stable funding factor of zero percent – for scheduled amortizations and pre-payments on pooled investment securities with terms to maturity greater than one year, as these are stable and predictable cash inflows. The assumption of a total loss of funding from maturity term securitizations and asset-backed commercial paper is inappropriate and would reduce incentives for asset securitization, reduce the flow of liquidity to segments of the market, and potentially reduce economic activity.

We understand the concern of the Committee regarding the lack of liquidity in the securitization markets during the recent market disruptions. However, for purposes of a longer-term liquidity ratio, the lack of any credit for securitization exposures is unduly harsh, particularly for government agency-sponsored mortgage-backed securities. We

[9] See Paragraph 86 of the CP.

would encourage the Committee to reconsider this aspect of the proposal and provide a prudent partial credit for these exposures, given the long history of the securitization markets as a source of liquidity to banks. The proposal reduces incentives to securitize assets, thus decreasing liquidity and, potentially, economic activity.

The impact of these excessively severe assumptions underlying the net stable funding ratio would be a significant impairment of banks' ability to serve their traditional intermediation functions and play their role in maturity transformation as a result of the need to maintain excessive amounts of short-term, liquid assets on the balance sheet. The ultimate impact, of course, would be a serious curtailment of the amount of credit available and a significant increase in the cost of that credit, both of which are detrimental to economic growth and development and the exit from a global recession.

Spectrum of Liquidity

The proposal fails to recognize that there is a "spectrum" of liquidity for assets over time, even under stressed conditions. Moreover, the range of assets that can be monetized over a one-year period is markedly broader than those that can be monetized over a short-term timeframe. The proposal should consider the range of marketability of different assets over time. To fail to do so would only increase funding liquidity risk, as banks would migrate to the same narrow range of assets to meet their funding needs. Moreover, the proposal should recognize banks' ability, particularly over a one-year timeframe, to change their funding activities and business models to take into account new market information and adjust their strategies accordingly.

A very narrow focus on sovereign issuances would also have a potential negative impact on the ability of corporate issuers to access the market, as banks would be reluctant to purchase corporate paper not considered "liquid" or would require a considerable premium in the form of dividends or interest to hold this paper. At the same time, given the need to hold high levels of liquid assets, banks would not have the capital to provide corporate funding through traditional bank loans. The macroeconomic implications of constraining corporate credit availability in this manner could have wide-ranging and unforeseen consequences to the broader economy.

Central Bank Support

The assumption that the central bank would not provide support in a systemic shock runs counter to the long-standing role of banks as financial intermediaries with a maturity transformation role in the economy and central banks as providers of liquidity and lenders of last resort. The proposal, as it currently stands, would place banks in an unprecedented role as insurers of financial stability, with consequences for banks' market perception of stability. It would also cause banks to step back from some of their intermediation activities, increasing the cost and reducing the availability of credit.

Alignment of Assumptions in the Liquidity and Capital Proposals

The CP double-counts potential liquidity and capital outflows. For example, under the CP, a bank would assume it has no access to liquidity facilities it has established for its benefit while , at the same time, assume that banks to which it has provided liquidity facilities would execute unscheduled draws on all such facilities.[10] At a minimum, corporate committed facilities should be differentiated between those more likely to be drawn under stress – that is, leveraged finance, syndications, and bridge facilities – and those that have not seen increased draws under stress.

Moreover, the assumptions underlying the CP are misaligned with assumptions underlying the Committee's capital proposal.[11] For example, for purposes of calculating the leverage ratio, the bank would assume that liquidity facilities that it provides may not be cancelled.[12] However, if those facilities are provided to banks, those banks may not assume access to those funds.[13] The overall impact of the proposals is double-counted when assumptions are misaligned.

Metrics Generally

While metrics can be helpful "snapshots" of a bank's current liquidity position, they should be considered in a holistic context in light of the robustness of the bank's overall liquidity risk management policies and processes. Metrics should also reflect how a particular bank measures and manages its liquidity risk in order to satisfy the "Use Test." Metrics that do not reflect a bank's overall liquidity risk management program are not helpful, at best, and can be misleading.

We reiterate our view that the liquidity coverage ratio and net stable funding ratio are only two tools among many for managing liquidity risk. The measures are not comparable across banks as a result of different business models and activities, geographies, and degree of market participation, and efforts to make comparisons could be damaging to individual banks and the industry as a whole.

Prepayment Assumption for Contractual Maturity Mismatch Metric

Paragraph 97 of the CP would impose contractual cash flow assumptions on all asset flows for purposes of calculating the contractual maturity mismatch metric. Paragraph 98 would impose an assumption that liabilities do not rollover. These assumptions run counter to the historical and current experiences, even in extreme "tail events," and would be dangerously misleading. The assumptions may also give rise to an incentive for banks to rely more heavily on wholesale funding, which is more likely to contain prepayment penalties that protect the bank from premature withdrawal.

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[10] Paragraph 22 of the CP.
[11] See Consultative Document: *Strengthening the resilience of the banking sector*, Basel Committee on Banking Supervision, December 2009.
[12] Paragraph 206 of the CP.
[13] Id.

A contractually based metric is not meaningful in measuring liquidity mismatches either for a particular bank or across banks. A contractual metric does not reflect actual cash flows, nor does it capture the full range of contingencies and optionality inherent in many cash flows. Imposition of this metric would impose costs on banks with no realizable benefit and would not pass the Basel Committee's "Use Test."

In lieu of the proposed contractually based metric, we support strongly an approach that would utilize banks' internal models and historical data to establish appropriate prepayment assumptions for various classes of assets. This approach would be more closely aligned to the actual experience of the bank, provide a more meaningful metric for both banks and supervisors, and would contribute to more robust liquidity risk management methodologies and practices.

Concentration of Funding Metric Threshold

Paragraph 107 of the CP defines a "significant counterparty" for purposes of the concentration of funding metric as a single counterparty or group of connected or affiliated counterparties accounting for in the aggregate more than 1 percent of the bank's total liabilities. A 1 percent of liabilities threshold is also used for determining a "significant instrument/product" and a "significant currency."[14]

While we fully support the Committee's concerns about funding concentrations and encourage banks to have diverse sources of funding for both business-as-usual and stressed conditions, we believe that the 1 percent threshold would be inappropriately low for most banks and very difficult for smaller banks to meet.[15] Instead of a "one-size-fits-all" threshold, an analysis of the bank's liquidity position would be more appropriate. Consideration could be given, on a bank-by-bank basis, to the current level and prospective sources of liquidity compared to funding needs, as well as to the adequacy of funds management practices relative to the bank's size, complexity, and risk profile, including mismatch position. Ultimately, funding concentrations should be viewed in the context of the bank's overall balance sheet composition.

Public Disclosures

The proposed public disclosures would result in an incomplete picture of a bank's true liquidity profile that easily could be misinterpreted or misunderstood by recipients of such information. This misunderstanding could undermine confidence in a particular bank or in banks more broadly, without any appropriate basis for such lack of confidence.

As noted above, metrics can be helpful "snapshots" of a bank's current liquidity position. However, they cannot be separated from disclosure of the bank's overall liquidity risk management program and should be subject to a "Use Test" requirement. Banks

[14] Paragraphs 109 and 111 of the CP, respectively.
[15] The Committee would give national supervisors the discretion to apply the new liquidity standards to banks of all sizes pursuant to Paragraph 133 of the CP.

should be encouraged to make robust and complete disclosures of their liquidity positions and liquidity risk management programs, but the details of that disclosure should be left to the discretion of bank management.

We appreciate the opportunity to comment on the CP and would be pleased to answer any questions.

Respectfully submitted,

Mary Frances Monroe

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