BB&T

BB&T Corporation

April 15, 2010

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
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The Honorable Secretariat:

The following comment letter is submitted on behalf of BB&T Corporation concerning the recent proposals on capital and liquidity contained in the consultative documents "Strengthening the resilience of the banking sector", "International Framework for liquidity risk measurement, standards and monitoring". Additionally our response will make reference to the "Principles for Sound Liquidity Risk Management and Supervision" document published in September 2008. We respectively ask that the BIS consider the following issues before implementation of any changes to international banking standards for capital and liquidity. We write our comments from the perspective of a U.S. based financial institution governed by a U.S. regulatory regime. BB&T is a $165 billion regional bank headquartered in Winston Salem, North Carolina. At Dec. 31, 2009, BB&T operated 1,857 banking offices in the Carolinas, Virginia, West Virginia, Kentucky, Georgia, Maryland, Tennessee, Florida, Alabama, Texas, Indiana and Washington, D.C. BB&T's common stock is traded on the New York Stock Exchange under the trading symbol BBT.

We strongly urge the Committee to evaluate the three proposals in a holistic manner. The connection between capital and liquidity cannot be separated into two components. We believe that much of the concern over liquidity is best addressed by the proposed capital regulations and that having separate proposals is additive and expensive. We believe that the U.S. firms that experienced liquidity challenges in 2007, 2008, and 2009 experienced these challenges due to solvency (capital shortfalls) and not due to a lack of stored liquidity. We do agree that the dislocation of the commercial paper and asset backed conduit markets disrupted liquidity for many nonbank financial firms. This liquidity challenge in short-term funding markets was not generally experienced by banking institutions. However, all financial institutions did experience an inability to issue term debt, particularly at the holding company level.

It is important to not have duplicative regulation. If all these proposals are implemented in their current form, we believe the cumulative effect of the proposals would cause banking companies to shrink their balance sheets due to the high cost of maintaining the liquidity reserve and the need to only deploy significantly higher capital levels into an asset mix that would support the market's required return on these higher capital levels.

This would result in a significant increase in the cost of credit and a significant reduction in the global availability of credit. The need to earn higher rates of return to cover these costs could actually drive banks to increase risk. It could also have the unintended negative consequence of re-establishing a shadow banking system thus pushing assets out of the regulated banking system. We believe that moving assets into the shadow banking system will work against the objective of lowering the leverage in the financial industry. Structured Investment Vehicles ("SIV's") and hedge funds are highly levered organizations that operate outside the regulated banking system. These organizations will not be bound by the regulatory limits in these proposals and will be able to maintain high leverage and low liquidity standards. There is nothing in these proposals that would limit the impact these types of organizations can have on the overall economy and the regulated banking system in the event of another economic downturn.

The contributing factors that led to the global economic collapse experienced over the past several years are a set of complex, integrated events, none of which are individually the triggering cause. Regulatory response to a problem often take aim at a specific result and falls short of a thorough evaluation of overall factors involved and how they worked together to cause a detrimental outcome. The contributors of the "great recession" include government mandates and public policy objectives; failures in regulatory oversight, especially among non-bank financial organizations like AIG; changes implemented in the accounting system over time; the behavior of consumers; overreaching by management teams; and the lack of adequate capital for both on and off-balance sheet loan exposure and disintermediation to the shadow banking system.

We believe that the integrated nature of the regulatory regime and the accounting conventions that pertain to banking organizations must be harmonious. As such, we offer several comments throughout this letter that refer to certain accounting standards / conventions in addition to the Committee's proposals.

Proposals Need to Address Accounting Conventions: The analysis of capital cannot be separated from the accounting rules governing financial institutions. The accounting standards implemented in the U.S. over the past decade have significantly increased the volatility of earnings for financial institutions and have made prudent management of the balance sheet more difficult. For example, there needs to be an ability for financial firms to build reserves in good economic times to be available in recessionary times. In the U.S. the SEC, concerned about "earnings management" by financial firms through adjusting reserves, forced the level of reserves down. The allowance for loan losses should reflect a long-term view of expected losses for each portfolio.

Accounting conventions such as mark-to-market ("MTM") accounting have been very punitive to capital. The impact of MTM accounting caused an acceleration of loss recognition and exacerbated the illiquidity of the markets as financial institutions no longer made a market in these assets due to the accounting risk of owning the asset. This created a self-reinforcing downward spiral of asset prices and forced an increase in classification of assets into Level 3 as observable market prices were no longer available. Without MTM accounting, we believe market liquidity would likely have remained much

stronger as firms would not have been concerned about a rapid change in value flowing to earnings and thus capital; therefore such firms would have continued to make a market in these asset classes with a wider bid / ask spread.

The overall accounting system has progressively moved away from the cost basis, cash flow, and accrual based principles which focused on the income statement to a MTM, theoretical value, change in net asset based accounting system where income is defined as the change in value of the balance sheet from one period to the next. This accounting regime has become disconnected from the purpose of financial firms. Banks and other financial intermediaries are not a mutual fund; they are a going concern where the cash flow generated by the business model is more relevant than the change in the net asset value of the organization. The current accounting system is often not reflective of the economics that are relevant to an investor in the firm's long-term business model.

We also think items like AICPA Statement of Position 03-3, which forces financial firms to present acquired loans net of expected losses while organically originated loans are presented gross with a reserve for incurred losses, needs to be reconsidered. These types of accounting distortions have greatly increased the challenges of presenting an understandable balance sheet to investors and have increased income statement volatility and reduced comparability. We believe these types of accounting disparities are a negative for the industry. We reference the Committee's own comments referring to the lack of comparability between an acquisitive firm and a firm that has not been acquisitive[1].

If MTM accounting is to remain a core aspect of the accounting presentation of balance sheets, it must be expanded to include all assets and liabilities so that all offsetting assets and liabilities will be recognized. However, we believe investors struggle with all of the MTM adjustments since much of the disclosure is developed using model based estimates. For example, a full MTM presentation would show indeterminate deposits such as transaction accounts at a discount which would be very confusing to an investor that does not understand the concepts that are used to model the value of these liabilities.

Capital Proposals

The BIS has put forth several capital proposals that are intended to strengthen the banking sector. BB&T applauds the efforts of the BIS for their desire to lower leverage in the industry and improve the quality of capital held by banks. However, there are also some concerns that these new proposals present. We would like to challenge some conclusions that we believe need to be reexamined prior to the implementation of any new rules and regulations. In particular we want to challenge the perception that Trust Preferred and Hybrid Securities did not perform well and provide going concern value during the great recession.

The need for sufficient high quality capital in the banking industry is critical. We believe capital is the foundation that allows any financial firm to function properly. Without an

[1] Basel Committee on Banking Supervision "Strengthening the Resilience of the Banking Sector" December 2009 page 23 paragraph 97.

adequate amount of quality capital, liquidity is unavailable and the deposit insurance fund is at risk. However, we believe there are several factors that have either been ignored in the capital debate or undervalued in their relative benefits to a well functioning, efficient financial system that will remain capable of making affordable credit available to businesses and consumers.

- **Forward Looking Provisioning and Reserves:** Capital is intended to provide protection for unexpected losses. Expected losses are intended to be addressed by reserves held on the balance sheet. In the United States the FASB and the SEC have implemented accounting changes over the past decade that have forced loan loss reserves down in good times (because only incurred losses could be reserved) which led banks to be under-reserved for the coming wave of losses realized in 2007, 2008, and 2009. Once loan losses began to build at an unprecedented pace, banks were ill prepared to make the significant contributions to their reserves needed to cover the coming losses. This started a downward spiral in earnings leading to losses being reported by most financial firms and the associated capital declines. Most firms went into a capital preservation mode and many firms had to raise expensive equity capital at depressed share prices. This made lending less available at a time when the economy needed support from the banking system.

  To this end, we fully endorse the concept put forth by the Committee to calculate loan loss provisions by using the expected loss approach. We further believe that the expected loss horizon needs to be a long-term view such as two or three years. However, there needs to be conforming changes to the accounting standards governing banks' public reporting to allow expected loss provisioning if this change is to be of any value to the industry. Without a change in the accounting standards and allowable practices by the SEC, there will be a significant disharmony between GAAP / SEC standards and regulatory standards.

  The current incurred loss approach, which US banks are required to use, should be changed. The incurred loss approach is pro-cyclical. Incurred loss is a latent variable and cannot be observed or measured directly. In addition, back testing and validation of incurred loss estimates is difficult because actual losses must be separated, using the same set of rules used to make the estimate, into those that qualify as "incurred" and those that do not, e.g., losses in the period that came from loans that were not yet on the books as of the observation date. In addition, incurred loss is inconsistent with the expected loss approaches required by FAS 114 (e.g., specific reserves, TDR impairment) and acquired loans under Statement Of Position 03-3.

  However, changing to expected loss is only a partial solution. First, the Allowance for Loan and Lease Loss ("ALLL") and Pillar 1 both assume a static pool of loans. In the U.S., the Federal Reserve Board is encouraging capital adequacy tests that assume a going concern. That is, the portfolio is at least a constant pool (i.e., run-off is assumed to be replaced by a like amount of like loans) or even a dynamic pool (i.e., where growth and mix changes are assumed to occur). As a result, there is no reason why ALLL and expected loss calculated in Pillar 2 would be the same. Second,

ALLL does not include any adjustment for the timing of losses while most economic capital models discount future losses. Again, the potential for differences is clear. Third, there is the issue of horizon. The Basel framework assumes a one year horizon. In the U.S., regulators are proposing a 2 year horizon for capital adequacy, with reserves equal to 12 months of future expected losses as of the horizon data. For ALLL, there is no definition of horizon.

We believe that conforming these disparate estimates (i.e., ALLL, Pillar 1, and Pillar 2) by applying a consistent framework to financial reporting and capital adequacy would enhance transparency and comparability. We also strongly support the Committee's plan to deduct the "shortfall of the stock of provisions to expected losses" from capital as a means of putting firms that have strong reserves on an equal basis with firms that have weak reserves. Under this proposal an under-reserved firm would have to deduct the lack of reserves from their capital account which would remove the incentive to under-reserve for expected losses.

- **Other Comprehensive Income ("OCI") Adjustment:** We also want to comment on the proposal that "no adjustment should be applied to remove from the common equity component of Tier 1 unrealized gains or losses recognized on the balance sheet". The result of this proposal will cause banks to shrink their investment portfolios and shorten durations significantly. We believe this is another instance where the accounting system and the regulatory system are at cross purposes. Unrealized gains and losses on securities are carried in OCI due to accounting conventions that require the item to be measured and reported. However, there are many other items on the balance sheet that have offsetting MTM characteristics that are not included in OCI. We also do not think that unrealized losses in the security portfolio necessarily represent a risk to capital. Whether there is risk to capital is conditioned upon the following:

    - Does the MTM represent interest rate changes or credit deterioration and associated liquidity discount for unknown credit outcomes?
    - Are the securities Treasury and Agency guaranteed assets or subject to credit risk?
    - What is the liquidity position of the company and what is the likelihood that a security held at a loss would have to be sold and the loss recognized?
    - What is the overall interest rate risk position of the balance sheet? A good measure of this is the economic value of equity results for an organization.

  If a bank holds Treasury and Agency securities, then any unrealized loss is not ultimately a risk to capital but a timing difference because the full par value will be realized at or by maturity. If a bank has the ability and intent to hold to recovery, no mark to capital should be required. Additionally, the requirement to leave unrealized gains and losses in the measure of Tier 1 will cause unnecessary volatility in the capital account due to interest rate changes. Again, the purpose of capital should be brought back into the discussion, the ability to absorb unexpected losses. Implementation of this standard will have the effect of forcing banks to capitalize

temporary market changes based upon increases in interest rates (i.e. capitalizing known but temporary losses) which conflicts with the very purpose of capital. We also feel leaving unrealized gains in Tier 1 Capital improperly exaggerates capital levels in a low interest rate environment. Usually a low rate environment accompanies a weak economic environment which would lead to banks showing higher levels of capital when the economy is soft. We do not believe this capital is quality capital that regulators would want a bank to hold in a recession. Counting OCI unrealized gains in the capital base would also tend to push potential capital raising activities further into a recessionary environment when it could more punitive or impossible to a bank to access the capital markets.

Currently, U.S. GAAP requires credit impairments to be taken through the income statement. We believe if this standard is implemented, that the OCI MTM for only nongovernment securities with credit risk and thus potentially subject to liquidity deficits remain in capital and that the mark on high quality Treasury and Agency securities be removed from OCI when computing regulatory and tangible capital. The liquidity component of nongovernment securities can represent the markets' view of potential future credit losses so deducting this liquidity discount from capital would have some basis (although we do not recommend this treatment). Known losses are already deducted from capital due to the requirement to charge credit impairments against earnings.

If BB&T reported using the proposed standard which leaves OCI in capital, our capital ratios would have been impacted as outlined below:

Category	4 Q 2008	1 Q 2009	2 Q 2009	3 Q 2009	4 Q 2009
Tier 1 Common	-.69	-.61	-.63	-.31	-.35
Tier 1 Risk Based	-.66	-.60	-.63	-.31	-.35

- **<u>Leverage Ratio and Capital Conservation:</u>** We understand the rationale for the Committee's implementation of a leverage ratio. The U.S. has operated under a leverage ratio concept for some time; we believe the inclusion of this ratio helps to bring consistency to the international standards. We support the inclusion of off balance sheet items in the calculation of the Leverage Ratio. However, in order to effectively restrain leverage in the financial system, the leverage ratio concept needs to be applied to all financial firms, not just banks.

  We think the Committee should allow some exposure netting in the implementation. Legal netting arrangements should be recognized and allowed to offset the significant capital impact from requiring gross notional amounts to be directly included in capital. We believe exposure netting for interest rate derivatives, repos, and foreign exchange positions is appropriate. Exposure netting for credit derivatives is more complex. Interest rate derivatives are a hedging product where netting is logical given the market convention for CSA's and the posting of collateral for market exposure with fairly low thresholds that typically have ratings based triggers requiring further reductions in net exposure as the credit rating of a counterparty

declines. If an interest rate derivative counterparty fails, the instrument is easily moved to a new counterparty and reestablished using the posted collateral. Two key features of interest rate derivatives are 1) the existence of natural counterparties or hedging strategies for market makers (i.e. market makers are able to offset the interest rate derivative by finding a natural counterparty by being an intermediary between someone who is asset sensitive with someone who is liability sensitive, or being long or short treasury securities to offset the swap) and 2) value changes are incremental not digital (i.e. interest rate changes are a continuous function from zero to infinity, credit derivatives are either on or off meaning the underlying reference instrument is either in default or not in default). Similarly, repos and foreign exchange contracts are incremental in their value changes.

Credit derivatives, while also used for hedging, do not have this natural counterparty. There are no natural sellers of credit protection, a seller is providing insurance (extending credit) and should have to reserve for the risk and provide capital in the same way a bank reserves for a loan. Also, credit derivatives can exhibit value changes that are not incremental. When an insured instrument experiences a default, there is a value jump in the credit derivative and the counterparty that holds the coverage experiences a significantly increased exposure to the counterparty that wrote the coverage. For this reason, full netting of credit derivatives should not be allowed. As was experienced in the failure of AIG, even a large sophisticated counterparty may not be able to make good on their obligation when there is a jump in the value of the exposure. The challenge is determining the right approach for allowable netting of these complex instruments. One approach would be to have credit derivatives traded on an exchange with a requirement that counterparties post collateral in excess of current MTM exposure levels to allow for the value gapping that can occur with these instruments.

It is also recommended that the Committee reconsider the treatment of contingent obligations such as lines of credit, liquidity facilities, and letters of credit. We agree with including a capital component for these items, but a 100% conversion factor will greatly increase the cost of these important and valuable sources of liquidity for businesses and consumers. Even during the extreme events of the past few years, few of these facilities were fully drawn at banks. The Committee should look at the actual experience of the products during the credit crisis and apply a conversion factor that is more in line with the actual history experienced by banks from their customers during the extraordinary events of the past few years. We also ask that the Committee reconsider its position on unconditionally cancellable commitments. These items should at most be assumed to have very low conversion factors as the bank may unilaterally cancel these facilities at any time.

If BB&T reported using the proposed standard which provides for a 100% conversion factor for all off balance sheet commitments, our capital ratios would have been impacted as outlined on the top of the following page:

Category	4 Q 2008	1 Q 2009	2 Q 2009	3 Q 2009	4 Q 2009
Tier 1 Common	-.49	-.41	-.49	-.54	-.54
Tier 1 Risk Based	-.79	-.70	-.63	-.72	-.73

Lastly, we support the Committee's view that there should be capital conservation by a firm if their capital falls below levels required for the institution to operate in a safe and sound manner. We think capital conservation should be a Pillar II item that is best left to the regulator.

If a predetermined capital buffer is established, we believe it will become the new minimum capital level. The concept of a buffer cannot be a "one size fits all" number as it should be tied to the risk and complexity of the firm. We also recommend that any final regulation makes it clear that a capital "buffer" can be consumed during times of stress so that it does not become a defacto minimum capital standard.

Calibration of new minimum capital thresholds will be an important decision, and we encourage the Committee to review comments from the industry and review the information from the Quantitative Impact Study ("QIS") prior to determining the thresholds. Because of the need for high quality capital we believe the Committee should enact a minimum Tier 1 Common ratio for an institution to be considered well capitalized. However, we believe any capital conservation triggers must be left to the local regulator. It is also recommended that the Committee publish a Notice of Proposed Rulemaking after the QIS to allow comments on any proposed capital standards.

- **<u>MTM and Identifiable Intangibles:</u>** We believe the impact of Mark-To-Market ("MTM") Accounting must also be discussed as part of the capital discussion. While there are several positive aspects of MTM accounting, the positives and negatives must be evaluated together. The impact of MTM accounting accelerated the loss of capital as liquidity disappeared from the system and the ability to value complex financial assets became exceedingly difficult. This acceleration led to negative impacts on capital during the height of the crisis far in excess of actual losses that would have been incurred without the creation of the self reinforcing feedback loop. Many of these losses were subsequently regained as liquidity came back. An example of this would be nonagency mortgages which lost almost half their value in the crisis and have recovered a significant portion of this value since liquidity has returned to the market.

  Banks are best served by an accounting system that allows losses to be absorbed over time. This approach best serves the public policy objective of minimizing the cost to the taxpayer for financial distress at an insured financial institution. MTM accounting works against this objective due to the acceleration of losses and the resultant stress on capital. Banks can absorb a significant level of losses if the losses can be expensed over time. The ability to carry an appropriate level of reserves prior to a stress event taking place would allow this to occur. If banks can build reserves

for all asset classes based upon a long-term expected loss, the impact of MTM accounting would be dampened.

The proposal also indicates that intangibles will need to be deducted from capital. The Committee needs to clarify if mortgage servicing rights ("MSR's") were intended to be included as one of the intangible items that would be deducted from capital. We believe that MSR's have real value and should not be deducted from capital. MSR's represent a set of contractual cash flows based upon a real asset and as such represent true economic value. We also believe there are many other intangible assets that represent real economic value that should not be deducted from capital. An example would be core deposit intangibles.

If BB&T reported using the proposed standard which provides for deduction of intangible items, our capital ratios would have been impacted as outlined below:

MSR Reduction					
Category	4 Q 2008	1 Q 2009	2 Q 2009	3 Q 2009	4 Q 2009
Tier 1 Common	-.42	-.33	-.54	-.55	-.71
Tier 1 Risk Based	-.34	-.32	-.54	-.55	-.71

DTA Reduction					
Category	4 Q 2008	1 Q 2009	2 Q 2009	3 Q 2009	4 Q 2009
Tier 1 Common	-.37	-.14	-.28	-.11	-.48
Tier 1 Risk Based	-.29	-.13	-.28	-.11	-.48

- **Elimination of Goodwill:** We support the Committee's proposal to eliminate goodwill from the common equity component of Tier 1. However, we would go further and once again look at the accounting system concerning goodwill. This is another example of a balance sheet driven approach to the accounting system which distorts the true earnings power of a company and the level of capital available to absorb losses. If "intangible capital" created by goodwill is not loss-absorbing, it should call into question the purpose of identifying, measuring, and carrying the goodwill asset and other associated purchase accounting entries on the balance sheet.

  If firms were required to report a tangible balance sheet in an acquisition, we believe the usefulness of financial reports to investors would be enhanced. It is difficult for an average investor to unwind the many impacts of purchase accounting to arrive at the true cash-generating power of an organization. If only tangible balances were booked in a business combination (akin to the former pooling accounting but without restatement), the impact of the merger would be easy to determine due to its impact on EPS, ROA, and ROE in periods after the combination.

  However, we want to point out a conflict between the capital regulations and stress testing practices. One of the best protections against a stress environment is strong pre-tax, pre-provision, net revenue ("PPNR"). A firm that may show low capital

when goodwill and other intangibles are deducted from capital may show very well in a stress test as these values that are deducted from capital should represent earnings power. Thus, we ask the Committee to evaluate the role of stress testing in its final regulations as we believe this is the best measure of solvency under an adverse environment. In fact, we think the Supervisory Capital Assessment Program ("SCAP") conducted by the Federal Reserve did more to reestablish market confidence than the injection of capital through the TARP program and the various liquidity programs implemented during the crisis. Banks that came out well in the SCAP tended to have strong PPNR and reasonable capital levels. Banks with weak PPNR and strong capital did not exhibit strong outcomes in the SCAP.

- **<u>Deduction for Pension Assets:</u>** We provide two observations regarding the proposal to deduct pension assets from capital. The proposal is unclear if the intent is to only deal with qualified plans or to also include nonqualified plans.

  Secondly, we believe this proposal will lead to unintended negative outcomes from a public policy perspective. Many financial companies fully fund their pensions. The requirement to net the asset out of capital will likely cause firms not to fully fund their pensions, putting employees and the Pension Benefit Guaranty Corporation at risk in the event of a bank failure. It would make sense to deduct a net pension liability from capital, but we do not agree with deducting a net pension asset. We assert that the pension asset could be available to satisfy corporate obligations by annuitizing the accrued benefit to employees and liquidating the pension plan thus freeing up excess plan assets.

  There has been a movement by corporations to eliminate their pension plans due to the changes in accounting over the years and the resultant volatility to earnings it has created. Having to deduct the pension asset from capital will likely add to this trend, thus leaving more workers without the security of a pension. We ask that the Committee not enact any rules that will discourage firms from having a defined benefit plan.

  If BB&T reported using the proposed standard which provides for deduction of the pension asset, our capital ratios would have been impacted as outlined below:

Pension Reduction					
Category	4 Q 2008	1 Q 2009	2 Q 2009	3 Q 2009	4 Q 2009
Tier 1 Common	-.13	-.48	-.46	-.49	-.69
Tier 1 Risk Based	-.10	-.47	-.46	-.50	-.68

- **<u>Overall Impact:</u>** The overall projected impact to BB&T's capital based on the aspects of the proposal that will impact BB&T's capital ratios are shown below. We remind the Committee that BB&T operated throughout the financial crisis without any liquidity concerns and was always viewed as having strong capital. These proposals would lower our Total Tier 1 risk based capital ratio by approximately 282 basis points, a significant reduction (see table on the next page).

Combined Impact on Capital					
Category	4 Q 2008	1 Q 2009	2 Q 2009	3 Q 2009	4 Q 2009
Tier 1 Common	-1.78	-1.86	-2.29	-1.91	-2.63
Tier 1 Risk Based	-2.09	-2.16	-2.43	-2.09	-2.82

TRUPS and Hybrids Worked: The Committee has proposed capital standards for Tier 1 components that would eliminate all current forms of trust preferred and hybrid securities (collectively "TRUPS"). We encourage the Committee to review the evidence that we think shows a very positive performance by these securities during the great recession. There was a significant amount of interest deferral particularly among hybrid securities. There was also a considerable dollar amount of hybrid securities that were converted into common equity. According to Fitch Ratings, 311 banks included in the Fitch CDO Default Deferral Index are currently deferring under their TRUPS securities[2]. An analysis by Barclays Capital indicated that $57 billion of TRUPS, subordinated debt, and preferred Stock was converted to common stock during 2009[3].

We also think it is important to have a variety of capital instruments available to the market so that investors are encouraged to invest in banks and can pick the amount of risk they wish to take. Having cost efficient forms of capital also encourages firms to carry a higher buffer. If capital regulations are made too stringent, firms are more likely to carry only the minimum levels to meet regulatory standards.

We encourage the Committee not to create such a stringent capital standard for the non-common component of Tier 1 capital as to prohibit the ability of US banks to use tax deductable security structures. The proposals as currently written would create a competitive advantage for banks in certain foreign jurisdictions that would still be able to maintain a tax deductable form of capital while the US banks would be limited to non-cumulative perpetual preferred stock. We think a calibration of the common component of capital can be accomplished that would leave room for the market standard TRUPS products that have a strong following among U.S. investors and acceptance by rating agencies. We also feel the industry needs a tax deductable form of capital to help keep the availability of credit high and the cost of credit affordable. Furthermore, if any changes are made that would limit the future use of these securities in the capital structure, we ask the Committee to grandfather all current securities for the life of the security. We think it is very dangerous precedent to retrospectively change what qualifies as capital for a financial institution.

Liquidity Management: The Committee has also published "International Framework For Liquidity Risk Measurement, Standards and Monitoring" and "Principles for Sound Liquidity Risk Management and Supervision" which address a standard for stored liquidity and principles for liquidity management by banks. The prudent management of liquidity is a mission-critical function for any financial institution. A prudent liquidity

[2] Fitch Ratings Structured Credit Report, February 10, 2010.
[3] Barclays Capital Liability Transactions analysis.

framework must address funding needs, funding availability, and potential market disruptions that can create a liquidity gap. We believe this is precisely what the Committee has tried to do with its proposals. We endorse the seventeen principles in the "Principles" document, but we believe the capital buffer called for in the "Framework" document is overly burdensome. The exceptional level of liquidity reserve proposed would be detrimental to the earnings of the industry and significantly impact the cost and availability of credit. The high cost of the stored liquidity proposals would lower returns on invested capital and discourage market participants from investing in banks thus working against the goals of the Committee.

For a bank, the most fragile component of its structure is the parent company. It is the parent company of financial firms that felt the liquidity pressure during the events of 2007 and 2008 prior to the implementation of the TLGP program. The vast majority of the bank issuance under this program (75%) was issued at the holding company level with the vast majority of that (78%) issued two years or longer and an additional 20% issued greater than one year and less than two years[4]. The implementing rule from the FDIC noted "The preamble to the Interim Rule explained that the purpose of the Debt Guarantee Program was to provide liquidity to the inter-bank lending market and promote stability in the unsecured funding market"[5] yet it would seem based upon the usage of the program, the need was not in the short-term interbank market but in term-holding company liquidity. Because market confidence comes from the ability of a company to meet its obligations, having a strong holding company will help maintain confidence in challenging economic times and bolster the public policy needs of the central bank to have a strong financial system.

BB&T did not issue any debt under the TLGP program because we operated our company with strong liquidity and were able to outlast the periods of market illiquidity. However, the new liquidity proposals would substantially increase the amount of stored liquidity BB&T would be required to hold. We cannot envision a liquidity crisis more difficult than the one experienced during the past three years.

However, if BB&T were to operate under the two liquidity ratios proposed in the International Framework For Liquidity Risk Measurement, Standards and Monitoring; BB&T would not appear to have a strong liquidity position and would in fact have to change its balance sheet profile significantly to obtain compliance with these ratios.

In order to obtain compliance with the Liquidity Coverage Ratio (LCR"), BB&T would have to bolster its balance sheet with approximately $8.5 billion in liquidity (taking into account money raised to satisfy the Net Stable Funding Ratio ("NSFR") and assuming that Agency securities are treated as corporates with a 20% haircut. In order to obtain compliance with the NSFR, BB&T would have to increase term funding by a projected

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[4] FDIC Website Monthly Reports on Debt Issuance Under the Temporary Liquidity Guarantee Program; Monthly Reports on Debt Issuance Under the Temporary Liquidity Guarantee Program, and Barclays Capital.
[5] Federal Register / Vol. 73, No. 229 / Wednesday, November 26, 2008 / Rules and Regulations page 72244.

$13.5 billion. The impact on BB&T's profitability for maintaining the liquidity required under the LCR and NSFR would be significant. If BB&T had maintained this level of short-term and long-term liquidity in 2009, it would have reduced BB&T's pre-tax income by approximately 57%.

The short term interbank market was always operating with well-capitalized names experiencing continued access to liquidity. The firms that suffered a liquidity crisis were those firms that were not well-capitalized where concerns of insolvency impacted their access to funds.

Based upon these experiences we would encourage the Committee to shift the focus of any new liquidity standard from very expensive stored liquidity at the operating company level to sufficient liquidity at the parent company level. Liquidity at the parent should be sufficient to carry a firm for a minimum of twelve months with maturities staggered to reduce refinance risk. The focus should also be towards a systemic event, not a short-term shock. If a short-term shock prevents market functioning, banks should be able to turn to their central bank as many did during the events of September 11, 2001 in the U.S. However, firms must be able to weather a systemic event such as that experienced from 2007 to 2010.

The implementation of a rule requiring 30 days of stored liquidity by banks will be a significant cost factor for financial firms. Banks provide maturity transformation for their customers. The requirement to have 30 days of stored liquidity would make transformation difficult. Instead of stored liquidity, banks should be encouraged to focus on generating liquidity from customer relationships and not national market wholesale funds. This does not necessarily mean all liquidity should be derived in the form of deposits; customers can fund a bank through commercial paper, repos, Eurodollars etc. While these sources may not be as "sticky" as core deposits, they are much more reliable than noncustomer wholesale funds.

The runoff factors for deposits proposed by the Committee seem to be high relative to experiences in the recent financial crisis. For example, BB&T evaluated the actual runoff of deposits at Colonial Bank, a troubled institution acquired by BB&T after being taken into receivership by the FDIC. Colonial suffered only 7.5% runoff in total deposits the 30 days prior to receivership and only 5.4% over the 60 days prior to receivership. This would indicate that Colonial actually increased deposits prior to the last 30 days it was in business. The primary runoff in deposits (5% of the 7.5%) occurred during the last week Colonial was in existence. Our analysis of Colonial indicated that most deposit categories were very steady. Colonial only had one deposit category that exhibited a significant decline, and it was a slow steady decline over an 18 month period. This account represented a high interest rate account targeted at large balances. The account balances declined slowly over a long period as Colonial continued to suffer higher degrees of stress and negative press over its financial condition. We did not see any evidence of unusual advances in outstanding lines of credit either at Colonial or at BB&T during the height of the crisis. As previously mentioned, we believe the assumption that liquidity lines and committed facilities will be drawn 100% and all other lines would be

drawn 10% is unrealistically conservative. It is also burdensome to require banks to "pre-fund" potential line of credit draws and maintain this funding consistently. The impact of this treatment on the cost and availability of lines of credit will be significant.

The Committee proposes to include liquidity from securities that are eligible at central banks. However, the proposal specifically indicates that securities have to be assigned a 0% risk weight under BASEL II. This would eliminate U.S. Agency Securities such as securities issued by Fannie Mae or Freddie Mac. However, in Annex 1 the Committee indicates they will consider certain qualifying high quality corporate bonds rated AA or higher. To this end, we suggest that the Committee allow U.S. Agency Securities be counted as high quality liquid assets. We would also ask the Committee to consider a unique aspect of the U.S. financial system, the Federal Home Loan Bank system. Given the structure of the U.S. banking system, and the role of the Federal Home Loan Bank System as a liquidity provider to banks, we propose that eligible bank borrowing capacity at the Federal Home Loan Bank be included in available high-quality liquidity for U.S. banks.

In addition to the potential liquidity from the defined high quality liquid assets provided in the proposal, we believe it would be appropriate to give credit to other liquidation of assets particularly in the NSFR. Over a one year period, many assets could be liquidated including commercial and consumer loans, banking facilities through sale leasebacks, and pension assets. Credit should be given for the ability for significant balance sheet management activities over the course of a one year horizon.

The proposal also eliminates sources of high quality collateral if it has been hedged or is subject to a repurchase agreement. This seems inconsistent with the ability to pledge these assets as a source of funding. Many assets that have been financed using repo could subsequently be pledged to the FHLB or to the Federal Reserve Discount Window if the repo could not be rolled at maturity. The proposal as currently designed does not seem to give any credit to this ability to "reuse an asset".

Overall, a one size fits all liquidity metric will be very difficult to achieve. There are significant firm specific aspects to liquidity. Overall liquidity monitoring lends itself best to a Pillar II approach under the supervision of local regulators. BB&T has always had a solid liquidity profile and made it through the events of 2007, 2008, and 2009 without reliance on government liquidity programs. Yet, the metrics proposed for the NSFR and LCR would seem to indicate BB&T has a significantly inadequate liquidity profile. We submit this is a strong indication that these ratios need reconsideration as they do not match a proven performance in the market during one of the most stressful liquidity periods in modern history.

The liquidity proposals that have been put forth have been developed very rapidly in response to the financial crisis. However, even a crisis does not justify implementing a significant change to industry standards that could result in very detrimental unintended consequences. The BASEL capital standards have been under development and refinement for decades; any new liquidity regulation also deserves the proper evaluation

and scrutiny by both academic and industry experts. The proposal, as currently contemplated, has the potential for significant negative outcomes for the global economy.

Conclusion: BB&T supports the efforts of the Committee to strengthen the resilience of the global banking system. We strongly encourage a review of the cumulative effect of the proposed changes to the regulatory regime. We believe the focus on capital, including appropriate reserves, is prudent and necessary. We urge the Committee to take a strong stand on having common equity represent a majority of the Tier 1 capital but urge reconsideration of the treatment of Trust Preferred and Hybrid securities. We believe the ability to continue to use these very efficient capital securities is critical to maintaining an efficient banking industry. We urge the Committee not to adopt the proposed changes that would leave the OCI debit or credit in capital. We also encourage the Committee to make clear in any regulation that a “capital buffer” could be consumed during times of stress.

While we agree with the philosophy of the “Principles for Sound Liquidity Risk Management and Supervision”, we believe the proposals in the “International Framework For Liquidity Risk Measurement, Standards, and Monitoring” are overly burdensome on banks. We believe adequate liquidity is best addressed through adequate capital, and that Central Banks should be viewed as an appropriate backstop for short-term shocks to a particular market. We also believe that an organization must be able to withstand a systemic liquidity event such as that experienced in 2007, 2008, and 2009, and that ability needs to be factored into a regulatory regime targeted at sound management of liquidity at the holding company level. It is essential that any regulations do not remove the ability of banks to provide maturity transformation to their customers. This is an essential role of banks as financial intermediaries.

Thank you for your consideration of the issues noted above. If you would like to discuss these items in more detail, you may call my direct number at (336) 733-2871.

Very Truly Yours,

Hal S. Johnson
Treasurer

C: Keith Mayle (Federal Deposit Insurance Corporation)
Judy Merritt (North Carolina Banking Commission)
Kerri O’Rourke-Robinson (Federal Reserve)