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Introduction

We appreciate the opportunity to comment on the Consultative Document, *International framework for liquidity risk measurement, standards and monitoring* dated December 2009. While BOK Financial does not meet the definition of an internationally active bank, we have provided comments from our perspective in the event that the scope of this proposal changes, or elements are made applicable to a wider array of institutions. We have always operated BOK Financial with a strong liquidity profile and support the efforts of an effective regulatory framework to ensure system wide liquidity strength. There are certain provisions of this proposal, however, which we believe would not achieve the stated objectives and/or have unintended negative consequences. Below we offer several observations and recommendations that we hope will improve the final document.

About BOK Financial

We are a full service commercial bank with $23 billion in assets, 197 banking locations, and serve markets in 8 states including Oklahoma, Texas, New Mexico, Colorado, Arkansas, Missouri, Arizona, and Kansas. Our lines of business include middle market commercial banking, consumer banking, and wealth management. We serve the consumers and businesses of main street America.

From a financial perspective, we entered the credit cycle with very high Tier 1 common equity ratios, and have remained profitable throughout the credit cycle. Our markets have experienced economic stress, but our consistently prudent underwriting standards, conservative limits on certain types of commercial real estate exposure, and avoidance of subprime supported our financial strength. We elected to not take TARP capital investments and we maintained uninterrupted access to unsecured wholesale credit throughout the last couple years. We have supported the banking needs of the communities we serve throughout the financial crisis as we and our predecessors have for decades.

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Comments on proposals

In practice many banks employ a both a liquidity coverage ratio and a net stable funding or similar ratio as key internal liquidity measures. The inclusion of such ratios in the regulatory review of liquidity is reasonable. The runoff factors and other factors proposed in the consultative document, however, we think merit adjustment.

General comments

- We have presumed for the purposes of understanding the stress scenario in this proposal that the "3 notch downgrade" scenario described by the document means for example a senior unsecured long-term rating decline from single-A to single-B, although in the US many market participants would interpret the phrase "3 notch downgrade" to mean a long term rating decline from A to A- to BBB+ to BBB.
- The runoff factors for deposits are much higher than what has been experienced by US commercial banks in the circumstances described (even assuming single A to single B)
- The drawdown assumptions in the proposal are much higher than what has been experienced in this and previous periods of stress
- This proposal discourages core deposit funding and rewards term wholesale funding, although core deposit funding has been in hindsight generally a better funding source in periods of system-wide stress
- This proposal if adopted as presented would have the impact of materially reducing lending given the considerable liquidity cushions it would require, which would have a significant negative effect on the real economy
- This proposal would dramatically increase US Treasury bond investments and reduce agency mortgage securities held by banks which would increase mortgage rates and negatively impact the housing sector which would have a negative impact on the real economy
- In evaluating the liquidity issues over the past two years, the nearly unregulated investment banks and the more tightly regulated deposit taking commercial banks performed very differently. Care should be taken to ensure that relevant history is applied to factors used to regulate deposit taking commercial banks

Specific comments

- **Deposit runoff factors** should align with actual experience of banks which experienced this set of circumstances. The public filings of those institutions who suffered downgrades indicate much lower runoff rates.
- **Coverage should allow for secured borrowing capacity**, not just zero risk-weight sovereign debt. Federal Home Loan Bank secured borrowing, repo of liquid AAA securities (including GSEs) with reasonable haircuts, repo of AA securities with reasonable haircuts and Central Bank eligible collateral should be included in the numerator.

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- **Unfunded commitment draw-down assumptions** should align with actual experience in the most recent and previous periods of stress
  - Certain liquidity facilities such as those supporting variable rate demand note programs were drawn
  - Credit facilities to consumer, small business, and middle market customers were not drawn on, in fact these were paid down in aggregate
  - Credit facilities to large corporate customers had some small level of draw down as alternate actively used commercial paper lines dried up
- If collateralized liabilities are assumed to run-off, the additional collateral which becomes available after the liability exits should be added back to the available unpledged assets total.
- There appears to be an error in logic in the use of collateral and collateralized borrowings. If a bank buys a US Treasury bond and funds it with a repo, the liquidity position of the company is essentially unchanged. These ratios would reflect that set of trades as very negative to liquidity.
- Net stable funding ratio asset haircuts have some inconsistencies. The proposal prescribes a haircut of 20% for an AAA Fannie Mae bullet (which can be repoed for 97% in a crisis) but a corporate loan that matures in less than a year is a 50% haircut. If conditions are so bad that an AAA short term agency bond fetches a mere 80% of repo value, it is extremely unlikely that 50% of a corporate loan book is going to get refinanced somewhere else. If credit is being extended readily to corporate borrowers, the ability to finance AAA securities at low single digit haircuts is very highly likely.

The perception of liquidity becomes the reality of liquidity
A private liquidity measure is much more useful than a publicly disclosed one. Banks could "manage to" a public metric, and in the process make the metric of low value.

The comparability problem
This measure is insightful for companies to use internally as there are no incentives other than to measure it accurately. The nuances of the value proposition used to generate the deposit are the determining factor in the stability of the deposit and there is no way to regulate the measurement of that. If this measure were to become publicly disclosed it would become susceptible to the incentives of an externally viewed metric.

Conclusion

1. Our industry has enough recent experience to have an understanding of reasonable runoff and drawdown assumptions for commercial banks operating sustainable business models. Those assumptions should be informed by the relevant history and an understanding of the underlying business activity.
2. Liquidity coverage ratio should:
   a. Remain a non-public measure discussed between bank and supervisor,
   b. reflect reasonable runoff rates and drawdown rates supported by relevant historical behavior,

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c. and allow secured borrowing capacity and GSE debt in the numerator

3. Net Stable Funds Ratio should:
    d. Remain a non-public measure discussed between bank and supervisor
    e. Reflect reasonable runoff rates and drawdown rates supported by relevant historical behavior
    f. Reflect reasonable history-supported asset haircuts
4. Deposit stability is influenced by the value proposition that brought the deposit to the institution. That important nuance would be very difficult to capture in a regulation. Some flexibility should be allowed to account for judgmental factors.
5. An unreasonably harsh or mis-understood liquidity measure made public could create liquidity problems where there are none.
6. Liquidity is the most precious commodity to a bank. Liquidity risk is about assessing the likely behavior of liquidity providers. Doing this well is a combination of art and science. Regulation of such an important and difficult to measure facet should be done slowly and with great care. We recommend a slower timetable to the liquidity policy development process.

We hope these comments will be helpful in crafting the best possible outcome for this regulatory policy. Please contact me if we can be of any assistance in clarifying our comments or providing additional background information.

Sincerely,

Martin E. Grunst
Treasurer