DISCOVER
FINANCIAL SERVICES

Via Electronic Mail: baselcommittee@bis.org

April 16, 2010

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:

Discover Financial Services ("Discover") is a leading credit card issuer in the United States and an electronic payment services company. It is the parent company of Discover Bank, an FDIC insured state-chartered bank and issuer of the Discover Card. As of February 28, 2010, Discover had $45.8 billion in credit card receivables and $35 billion in deposits, including $14.8 billion in consumer deposits originated through the internet and other non-branch channels.

Discover appreciates the opportunity to submit this letter in response to the request for comment by the Basel Committee on Banking Supervision (the "Committee") on the Consultative Document, *International Framework for Liquidity Risk Measurement, Standards and Monitoring*. Discover supports the goals of the Committee of further elevating the resilience of banks to liquidity stresses across the globe and increasing international harmonization of liquidity risk supervision. We are, however, concerned with potential impacts of certain aspects of the Consultative Document. Discover is a member of the American Bankers Association ("ABA"), which has submitted a separate comment letter on the Consultative Document. Many of the comments contained in the ABA's comment letter touch directly on areas of concern to Discover, and we would like to express our support for the comments and suggestions in the ABA's comment letter.

This comment letter focuses on matters raised in the Consultative Document that are of particular importance to Discover. In particular, Discover is commenting on (i) the inclusion of internet deposits as "less stable deposits" and the higher runoff assumptions for such deposits for purposes of the proposed Liquidity Coverage and Net Stable Funding Ratios; and (ii) the exclusion of unconditionally revocable facilities that are unconditionally cancellable by a bank from the exposure categories identified by the Liquidity Coverage Ratio and Net Stable Funding Ratio standards.

Inclusion of Internet Deposits as "Less Stable Deposits"

The Committee has stated that throughout the global financial crisis many banks struggled to maintain adequate liquidity and that the crisis illustrated how quickly and severely liquidity risks can crystallize and certain sources of funding can evaporate, compounding concerns related to the valuation of assets and capital adequacy. The Committee is therefore proposing two measures of liquidity risk exposure, the Liquidity Coverage Ratio ("LCR"), designed to promote the short-term resiliency of the liquidity risk profile of institutions by ensuring that they have sufficient high quality liquid resources to survive an acute stress scenario lasting for one month and the Net Stable Funding Ratio ("NSFR"), designed to promote resiliency over longer-term horizons by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing structural basis.

We agree that an LCR and NSFR would be helpful metrics to monitor a financial institution's liquidity risk exposure, however we disagree with the suggestion in the Consultative Document that all deposits originated over the internet should be categorized as "less stable" and do not believe such deposits should be treated differently from similar deposits originated at a physical branch facility. Treating all deposits originated over the internet differently from deposits originated through a retail branch facility is an artificial distinction that does not recognize the evolution of retail banking in the last 20 years. We believe that all consumer deposits, regardless of how originated, should be evaluated against the same criteria to assess stability.

As an initial point, we believe that any type of deposit covered by an effective deposit insurance scheme, such as the FDIC insurance program in the United States, should be presumed to be stable. Additional factors that should be considered in assessing stability include (i) whether deposit customers have multiple relationships with the bank, (ii) historic deposit renewal rates and (iii) and the length of time the consumer has been a customer of the bank. These criteria should be applied in the same manner to all consumer deposit accounts, including internet accounts In the United States, customers who open deposit accounts at a branch facility routinely conduct their day-to-day banking activities via the internet. These deposits can be withdrawn just as quickly as deposits of customers who opened accounts over the internet. Further, there are no demographic or other characteristics of retail branch customers of which we are aware that serve to distinguish the stability of these deposits from internet deposits.

There is also the difficulty in applying a meaningful definition of what constitutes an "internet deposit." For example, would this definition include deposit accounts established by mail or through a call center, or accounts established over the internet at a bank that has a large retail branch network? With the evolution of consumer retail banking in recent years, including efforts by large retail banks to move customer servicing away from retail branches and to the internet and other remote channels, any prior differences in the behavior between accounts originated through a branch facility versus the internet have been diminished.

For these reasons, Discover believes that deposits originated over the internet should not be viewed as inherently less stable than deposits originated through a retail branch network. Rather, the underlying characteristics of the deposits should be considered in assessing stability. Only

by taking into account the underlying deposit characteristics will the stability of a bank's deposit base, whether originated at a branch of over the internet, be appropriately factored into the liquidity risk measurement and monitoring scheme.

Exclusion of Unconditionally Revocable Facilities

In connection with the LCR, the Committee has stated that credit and liquidity facilities are defined as explicit contractual agreements and/or obligations to extend funds at a future date to retail or wholesale counterparties. The Committee further stated that for the purpose of the proposed standard, these facilities only include contractually irrevocable ("committed") or conditionally revocable agreements to extend funds in the future and that unconditionally revocable facilities which are unconditionally cancellable by the bank are excluded. We strongly agree with the Committee's proposal to exclude unconditionally revocable facilities that are unconditionally cancellable by the bank, such as unused lines of credit on credit cards, because such facilities present far less liquidity risk than committed facilities. We also believe these types of facilities should also be excluded from the NSF standard for this same reason.

Discover very much appreciates your consideration of our comments to the proposals contained in the Consultative Document. Should you have any questions concerning our views and recommendations, please do not hesitate to contact me at 224.405.1076.

Sincerely,

Roy A. Guthrie
Executive Vice President and
Chief Financial Officer

cc: BaselComments-April2010@frb.gov