



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

April 16, 2010

Re: Request for comment on consultative document

Ladies and Gentlemen:

Thank you for the opportunity to comment on the December 2009 consultative document entitled “International Framework for Liquidity Risk Measurement, Standards and Monitoring”. SunTrust supports the goals of the Basel Committee on Banking Supervision (“the Committee”) to improve liquidity risk management and promote more consistent supervisory expectations on the key elements of a robust framework for liquidity risk management. To this end, we should use the knowledge and experience gained during the recent financial market turmoil to address any gaps in liquidity risk management and enhance industry-wide policies, procedures and practices.

We have spent considerable time evaluating the proposed standards and do not believe that in their current form they accurately reflect the liquidity risks of most large US lending banks like SunTrust. Moreover, the proposed standards do not recognize the structural diversity of the US banking system in attempting to prescribe a “one size fits all” solution. While we recognize the desire to implement a rapid regulatory response to the recent financial crisis, we believe the international financial system would be better served by taking a more deliberate approach to ensure that all participants fully understand the impact of the proposed standards in the context of other proposed regulatory changes to bank capital and trading rules.

Most of our comments below highlight specific provisions in the standards that we believe overstate the liquidity risk of these institutions. Where possible, we illustrate how these provisions are inconsistent with the historical experience of the recent financial market turmoil which has been the catalyst for these proposed standards. We also comment upon an implicit assumption inherent in the standards that we believe fundamentally mischaracterizes the nature

of the financial system. The standards would be significantly improved by incorporating the following comments and we respectfully request your consideration thereof.

1. Include the debt and mortgage-backed securities (“MBS”) obligations of US government sponsored enterprises in the definition of high quality liquid assets receiving a 0% haircut in the Liquidity Coverage Ratio and a 0-5% Required Stable Funding factor in the Net Stable Funding Ratio.

The consultative document states that the Liquidity Coverage Ratio (“LCR”) is designed to ensure a bank maintains a sufficient stock of high quality liquid assets that can be converted into cash to meet its liquidity needs for a 30-day time horizon under an acute liquidity stress scenario. The document proceeds to describe high quality liquid assets as having the following fundamental and market-related characteristics:

- Low credit and market risk
- Ease and certainty of valuation
- Low correlation with risky assets
- Listed on a developed and recognized exchange market
- Active and sizable market
- Presence of committed market makers
- Low market concentration
- Flight to quality

The proposed standards in their current form would not recognize the debt and MBS obligations of the US government sponsored enterprises (“GSEs”) in the definition of high quality liquid assets. However, as outlined below, we believe these securities exhibit quality and liquidity characteristics equal or superior to those of certain marketable securities representing claims on non-central government public sector entities or multilateral development banks recognized as liquid assets in the currently proposed standards. We recognize that the Committee is assessing the impact of both a narrow definition of liquid assets and a broader definition that would include a portion of high quality corporate bonds and/or covered bonds (paragraph 29) and urge the Committee to assign these GSE securities a 0% haircut in the LCR.

We believe US GSE debt and MBS meet the Committee’s definition of high quality liquid assets. US GSE debt and MBS exhibit low credit and market risk as evidenced by their AAA credit ratings and the direct financial support their issuing institutions have received from the US government. These securities are easy to value as they are traded in large volume and readily quoted with tight bid-offer spreads on several widely used electronic trading platforms with active and sizable markets. Many of these securities are exchange-listed and enjoy the support of a broad and international investor base. In addition, all bulge-bracket (and many smaller) broker-dealers in the United States make markets in these securities. Moreover, these securities are eligible for pledging at the Federal Reserve Bank Discount Window with minimal (generally, 2-5%) haircuts.

US GSE agency debt and MBS also displayed a low correlation with risky assets and benefited from a flight to quality and large scale, direct purchases by the US government during the recent financial market turmoil. In particular, US GSE MBS spreads traded at historically tight spreads to US Treasury yields. Like many US banks, SunTrust was able to reposition its investment portfolio and sell billions of dollars of both GSE debt and MBS in short periods of time with little or no loss of market value during this period.

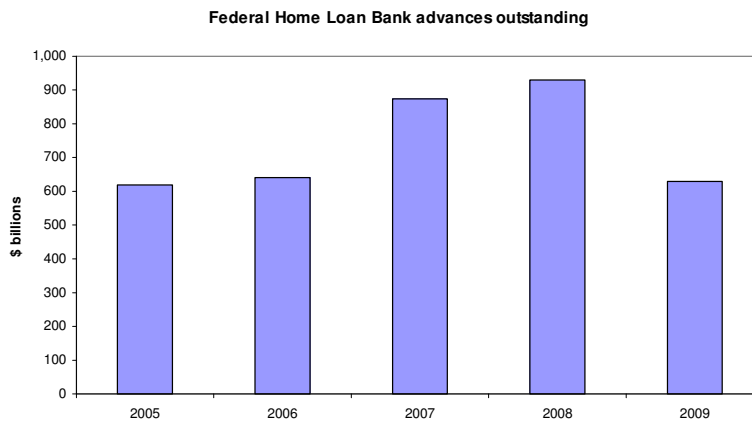
For these same reasons, we urge the Committee to assign US GSE debt and MBS, depending on its remaining time to maturity, a 0-5% Required Stable Funding (“RSF”) factor in the Net Stable Funding Ratio (“NSFR”). As stated in the consultative document, the NSFR’s RSF factors are intended to approximate the amount of a particular asset that could not be monetized through sale or use as collateral in a secured borrowing on an extended basis during a liquidity event lasting one year (paragraph 88). As outlined above, US GSE debt securities and MBS are quite liquid and enjoy large and deep repo markets. In recognition of this fact, we allocate the strong majority of our own investment securities portfolio, which we maintain primarily for liquidity purposes, to these securities.

2. Assign Federal Home Loan Bank advances with a maturity of less than one year a 100% Available Stable Funding (“ASF”) factor in the calculation of the Net Stable Funding Ratio and a 0% run-off factor in the Liquidity Coverage Ratio. Count available borrowing capacity at the Federal Home Loan Banks in the numerator of the Liquidity Coverage Ratio.

The Federal Home Loan Bank System serves as an important source of funding for many banks in the United States by utilizing its AAA credit ratings and broad investor appeal to access international debt markets on behalf of its member banks. For many small community banks, the Federal Home Loan Banks are one of the only reliable sources of wholesale funding. Large US banks like SunTrust with a super-regional or national footprint enjoy strong direct access to wholesale funding markets in most market environments. However, the Federal Home Loan Banks are vital to large banks as well as a source of contingency funding during stressed market environments and as a complement to short-term borrowing in the unsecured wholesale market during normal market conditions.

The proposed LCR is intended to ensure banks have access to sufficient liquidity in an acute, short-term stress scenario. The LCR properly identifies a securities portfolio of high quality, liquid assets as an important source of contingent liquidity, but it does not recognize other sources of contingent liquidity that are important to US banks. Therefore, the LCR materially overstates the liquidity risk that US banks assume. For contingency funding environments precisely like the one envisaged by the LCR, large US banks like SunTrust reserve borrowing capacity at the Federal Home Loan Banks by maintaining a portfolio of pledged securities. We urge the Committee to incorporate this important liquidity source in the LCR by including a bank’s available borrowing capacity at the Federal Home Loan Banks in the numerator of the LCR.

The Federal Home Loan Banks served as a reliable source of funding for many US banks during the most recent financial market turmoil. As the chart below illustrates, Federal Home Loan Bank advances (secured loans) to member banks remained available and peaked during the period that many US banks experienced impaired access to the debt capital markets.



For the reasons stated above, most large US banks borrow Federal Home Loan Bank advances in relatively short tenors. In its current form, the NSFR would assign a 0% ASF factor for advances with an effective maturity of less than one year while the LCR would assign a 100% run-off factor to any advances maturing during its 30-day time period. We believe this treatment would inaccurately depict the liquidity risk assumed by US banks given the strong track record of reliability of this source of funding during actual stressed market environments. Therefore, we advocate that Federal Home Loan Bank advances receive a 100% ASF factor in the NSFR and a 0% run-off factor in the LCR.

3. Reduce the draw down assumptions on committed liquidity facilities to non-financial corporate customers and other legal entity (non-retail) customers in the Liquidity Coverage Ratio.

The LCR would require banks to assume that 100% of any committed liquidity facilities extended to non-financial corporate customers and other non-retail legal entities would be drawn (paragraph 66). We believe this assumption is overly punitive and unrealistic for the following reasons. First, assuming 100% efficiency in the exercise of any option widely dispersed among numerous entities is unrealistic. Second and more importantly, it is inconsistent with the actual behavior bank customers exhibited during the recent financial crisis. SunTrust did experience liquidity facility draw downs from corporate customers who, for example, were unable to refinance their commercial paper or other short-term debt instruments during the depths of the financial turmoil. In the vast majority of these instances, however, corporate customers did not rush to access these facilities; the draw downs did not occur immediately and were dramatically lower in magnitude than the assumptions in the LCR imply.

Therefore, we urge the committee to lower the drawn down assumptions on these liquidity facilities in the calculation of the LCR. In order to set these factors at appropriate levels, we suggest the Committee charge its constituent regulators with organizing a quantitative study so

that banks can provide data on the draw downs actually experienced during the recent financial crisis.

4. The proposed standards make an implicit and misguided assumption that in periods of financial stress banks are isolated, semi-closed systems such that all banks and the financial system in aggregate lose liquidity.

In describing the LCR, the consultative document references a specified stress scenario that entails both institution-specific (i.e. idiosyncratic) and systemic shocks built around actual circumstances experienced in the global financial crisis (paragraph 11). We believe it is reasonable and prudent to measure and manage both idiosyncratic and systemic liquidity risks; SunTrust incorporates scenarios of both kinds in its own contingency funding plans.

However, we believe the proposed standards improperly combine the institution-specific and systemic shocks in a way that implies a net aggregate loss of liquidity throughout the entire financial system. The standards prescribe that during the acute stress scenario encompassed by the LCR, banks experience significant deposit run-off; for example, US banks would be required to assume that at least 7.5% of even FDIC-insured deposits would be lost to cash outflows. However, if all banks are losing significant amounts of deposits, there is an aggregate loss of liquidity in the financial system. In an idiosyncratic stress scenario, it may be quite logical to assume a significant deposit outflow from a particular bank. The logic breaks down, however, in a systemic shock unless the intent of the scenario is to simulate a world in which retail bank customers have suddenly decided to place their cash in the proverbial mattress.

5. In regard to bank deposits, the run-off factors in the calculation of the Liquidity Coverage Ratio and the ASF factors in the calculation of the Net Stable Funding Ratio are inconsistent with actual behavior and historical experience during times of financial stress.

Our fifth comment is related to the preceding one and is important not just from an intellectual or rhetorical perspective, but also because the implied scenario has no modern historical precedent. There were certainly individual banks that experienced deposit flight during the recent financial crisis. However, the system as a whole did not lose deposits and many banks, like SunTrust, experienced record deposit growth, due in part to deposits gained from troubled or failed institutions. From June 30, 2007 to December 31, 2009—the period encompassing what Federal Reserve Chairman Ben Bernanke called “the worst financial crisis in modern history”—SunTrust’s customer deposits grew 19%. In short, the proposed standards do not fundamentally recognize the significance of FDIC deposit insurance to the US banking system or the positive impact it had in the recent financial crisis.

In their current form, the proposed standards would encourage banks to replace retail deposits with relatively short term wholesale funding. For example, the NSFR would prescribe ASF factors of 70 to 85% for indeterminate maturity retail deposits while wholesale funding with 366 days left to maturity would receive an ASF factor of 100%. This approach penalizes deposit-funded banks and seems incongruous with the experience of the recent financial crisis during

which deposit-funded banks acquired institutions dependent upon wholesale funding, not the reverse.

The evidence from large bank failures during the recent financial crisis strongly suggests that retail deposit flight was not the root liquidity problem. For example, the well-publicized deposit run at Northern Rock occurred on September 14, 2007 *after* the Bank of England announced it would begin providing emergency liquidity support, which was primarily precipitated by Northern Rock's reliance on relatively short-term wholesale funding. The flight of retail deposits is driven primarily by a lack of confidence in the depository, which may erode over time but is not consistent with, for instance, an immediate 7.5 to 15% run-off as prescribed in the LCR.

For these reasons, we urge the Committee to reexamine its treatment of deposits by lowering the LCR run-off factor and raising the NSFR ASF factor. In keeping with our third comment above, we suggest the Committee charge its constituent regulators with organizing a quantitative study so that actual run-off data from the recent financial crisis can be used in setting these factors at appropriate levels.

In summary, we believe the proposed standards, if enacted in their current form, would materially overstate the liquidity risk in the US banking system. Requiring banks to conform to these proposed standards would precipitate disruptive capital markets activity, including large security reallocation out of US GSE debt and MBS and issuance of long-term debt on an unprecedented scale; estimates of the required debt issuance are in the trillions of dollars. These actions would cause material spread widening and a concentration of risk in the few classes of eligible liquid assets. Moreover, a material increase in the cost of borrowing will curtail the supply of credit to an economy still emerging from a long and deep recession.

While there are other aspects of the consultative document worthy of comment, we view the five items discussed herein as the most important and necessary for change. We strongly support the Committee's goal of improving liquidity risk management and very much appreciate the opportunity to offer our comments on the document. If you require any clarification of these comments or would like to discuss our views, please contact me at aleem.gillani@suntrust.com.

Sincerely,

Aleem Gillani
Executive Vice President and Treasurer

cc: Richard Gilbert
Ernest Coats
James Embersit