UnionBank

John F. Woods
Vice Chairman
Chief Financial Officer

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:

Union Bank welcomes the opportunity to comment on the consultative document (CD) published by the Basel Committee on Banking Supervision (BCBS), *International Framework for liquidity risk measurement, standards and monitoring*. In general, we support the introduction of more rigorous liquidity risk standards to ensure greater stability in the banking system and applaud the move towards greater consistency across institutions and jurisdictions.

Union Bank, with total assets of $86 billion at 12/31/09, is a wholly-owned subsidiary of The Bank of Tokyo Mitsubishi UFG Ltd. and is regulated by the Office of the Comptroller of the Currency. While we are providing comments and are participating in the QIS through our parent, we feel it is critical that the BCBS have our input as a stand-alone US regional bank with substantially all operations within the United States. Union Bank is a full-service commercial bank providing an array of financial services to individuals, small businesses, middle-market companies, and major corporations. Our focus is on commercial and consumer credit products and customized deposit and global treasury management solutions. Our lending activity is primarily funded via commercial and retail deposits, supplemented by open-market wholesale funding. We are not active in proprietary trading and do not sponsor off balance sheet vehicles, such as Asset-Backed Commercial Paper conduits or Structured Investment Vehicles.

Below we provide our comments, both general comments and those comments that we think apply uniquely to Union Bank and our peers in the large regional US banking sector.

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General Comments

While we appreciate the need for consistency across sectors and jurisdictions to ensure appropriate attention to liquidity risk management, we question whether precise uniform standards can be applied to banks across the globe that encompass a variety of business models, bank regulatory frameworks and deposit insurance programs. The approach to liquidity proposed in the CD supposes that information gathered from balance sheets can be haircut equally across business models and jurisdictions to produce meaningful estimates of future behavior. This has been the approach favored for measuring capital adequacy, but may prove less meaningful for measuring liquidity which is as complicated or more so than capital. Regulators and banks have spent over 20 years refining capital measurements and that work continues, yet efforts to measure liquidity began only recently. Furthermore, unlike capital, liquidity is not directly derived from balance sheets and income statements. Rather, it is based on estimates of complex and dynamic relations with funds providers. As written, the proposed metrics reduce those relations down to financial positions with arbitrary static haircuts. When confronted with these types of issues in the Basel II capital framework, the Committee has solved them by requiring banks, with detailed oversight by local regulators, to be responsible for assessing their own positions based on internal models.

A more accurate approach to liquidity risk measurement and management may therefore be to utilize a Pillar 2-like approach, where each bank works closely with local regulators to determine the appropriate factors to apply given the business model and balance sheet of the bank and the point in the economic cycle. The inputs would therefore be dynamic and adjusted up or down according to the variables determined by the Committee and by local regulators. The results would be carefully reviewed by local regulators, and consistency across jurisdictions would be encouraged via communication at that level.

We have specific suggestions below that cover the following items:

- Federal Home Loan Bank (FHLB) borrowing program
- Securities issued or guaranteed by US Government Sponsored Enterprises (GSEs)
- FDIC insured retail deposits
- Commercial deposits
- Frequency of calculating the metrics.

Specific Comments

FHLB borrowing capacity: We understand the rationale of excluding direct central government support from both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) metrics; clearly the intent is to ensure that there is a liquidity buffer at the banks so that such support is used only as a last resort. However, available borrowing capacity from the FHLB system should not be excluded.

The FHLBanks were created in 1932 to provide liquidity support for banks during the Great Depression. The early failures during that period were a result of banks' inability to manage the liquidity gap that is the natural consequence of one of the expected functions of commercial banks: the transformation of short-term deposits into long-term loans. It was the intent in creating the FHLB system to provide a reliable tool for banks to manage that liquidity gap.

The FHLB system is not a lender of last resort. On the contrary, it is a significant stable source of funding that meets the regular funding needs of US commercial banks. Each FHLBank is a cooperative bank, privately owned entirely by the member banks which use them. The funding they provide is, and is intended to be, used to support the normal, ongoing lending operations of their member banks across the US.

Funding provided by the FHLB system proved to be reliably accessible for US banks of all sizes during the liquidity stress period of 2007-2009. When the private mortgage-backed securitization market collapsed in the third quarter of 2007, the FHLB system was the only stable source of balance sheet funding available to many banks since advances are based on the inherent value of collateral pledged. Advances from the FHLBanks increased approximately 58% from $640 billion outstanding at 6/30/07 to $1,012 billion outstanding at 12/31/08.

During this time period, the FHLBanks responsibly addressed deteriorating collateral values and troubled counterparties by reducing advance rates (the percentage of funding per each dollar of collateral pledged). This lending discipline is a consistent theme for the FHLB system: to date, no FHLBank has ever experienced a credit loss on a secured loan to a member bank. FHLB advances are therefore a reliable source of funding in that advance rates are commensurate with the inherent risk of the assets used as collateral, providing stable funding during periods of stress. Even in California, one of the regions most severely affected by declining home values, the advance rates on performing first-lien prime residential mortgages, which were at 80-90% levels pre-crisis, declined by less than 10%, demonstrating the stability of FHLB funding and the liquidity value of residential real estate loans.

We therefore recommend, with respect to the LCR, that loans pledgeable to the FHLB system qualify as liquid assets subject to advance rates in effect at the time of calculation, but further adjusted as necessary at the direction of the local regulator based on the level of stress assumed in the LCR and based on the experience of previous periods of stress.

We further recommend, with respect to the NSFR, that the required stable funding for pledgeable loans, regardless of maturity date, be reduced to reflect their value as collateral at the FHLBanks. The Required Stable Funding (RSF) factor should be likewise based on the advance rate in effect at the time of calculation, further reduced at the direction of local regulators.

Agency securities: Securities issued or guaranteed by US Public Sector Entities, such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Mortgage Corporation (Freddie Mac) (collectively: the Agencies), are excluded from the CD's definition of liquid assets in the LCR because they are not 0% risk-weighted. We understand that securities issued or guaranteed by the Agencies will be evaluated to understand their impact on the standard, but if they are to be included in liquid assets, they would receive substantial haircuts (20% or 40%) and could not comprise more than 50% of the overall liquid assets stock.

The Agencies were established to improve the efficiency of capital markets and to overcome market imperfections which hinder the movement of funds from suppliers to institutions that meet loan demand. A large part of their public mission, therefore, is the creation of high-quality liquid securities. Securities issued by the Agencies with a public mission to provide liquidity should not be valued simply as high-quality corporate bonds.

Agency debt and MBS were among the most reliable sources of secured funding during the liquidity crisis. During the fourth quarter of 2008 when most parties were not accepting corporate bonds as collateral at any level, haircuts in repurchase agreements generally did not exceed 3% on Agency MBS or 2% on Agency Debt. During that same period, haircuts on US Treasury obligations generally did not exceed 0.5%.

We therefore recommend that securities issued by the Agencies be included as high quality liquid assets in the LCR with a haircut not significantly greater than that applied to sovereign debt (see proposed relationship for NSFR in the following paragraph). If the Committee is concerned about future changes in quality or liquidity, we recommend that local regulators retain the ability to increase that haircut as situationally appropriate.

With respect to the NSFR, we recommend that the RFS factors for both Sovereign bonds and Agency securities be reduced to reflect the haircuts observed during the crisis. If the Committee remains committed to a RSF factor of 5% for Sovereign bonds, however, we

recommend that the RSF factor for Agency securities be no greater than 7.5% to reflect their liquidity value relative to Sovereign bonds.

FDIC insured deposits: Prescriptive run-off factors for retail deposits are one-size-fits-all and appear to be arbitrary. They do not leave room for specific bank circumstances or the application of knowledge gained from the specific experiences of US banks. According to the CD, stable retail deposits would be subject to a 7.5% run-off factor as long as 1) there is an effective deposit insurance scheme in place, 2) the depositors have other established relationships with the same bank which make withdrawal highly unlikely and 3) the deposits are in transactional accounts. In the United States, depositors are 100% insured up to the deposit insurance cap (currently $250,000), such that there is no co-insurance requirement that is present in some other jurisdictions. In addition, given the number of bank resolutions in the past year, the US experience has demonstrated and continues to demonstrate in a visible way that FDIC insured depositors are fully covered. Though there may be some deposit runoff during periods of intense negative media coverage, deposit balances over the recent crisis demonstrate that depositors have a great deal of comfort with the FDIC system and are generally indifferent to factors that may drive the loss of open-market wholesale funding.

Our observations of the crisis as it affected banks that ultimately failed in our home state of California during 2009 indicate that retail deposits remained very stable, even in the period immediately preceding the failure. Excluding brokered deposits, not only was there no runoff, but retail deposit balances actually tended to increase marginally in the period just prior to bank closure.

We recommend that, at least for US banks, the assumptions for retail deposits be adjusted to reflect the actual experience during the crisis. This would imply a runoff factor in the LCR of no more than 5%, regardless of account type or maturity date. In the NSFR, an Available Stable Funding Factor of 100% would be consistent, also regardless of account type or maturity date. Again, if the Committee has concerns about particular vulnerabilities at certain banks, a Pillar 2-type approach would allow for the adjustment of these factors by local regulators when appropriate.

Commercial deposits: The run-off factors for "non-operational" deposits provided by legal entities other than natural persons or small business customers are identical to open-market wholesale funding in the calculation of the LCR. While there is generally greater sensitivity to stress among corporate depositors than among retail depositors, it is overly simplistic to view corporate deposits as simply another form of open-market wholesale funding. Commercial banks such as Union Bank have a long history of providing services

and products to corporate customers which would drive different behavior in these depositors than in wholesale funding counterparties who may be motivated to remove funding based solely on changes in credit ratings.

Additionally, the definition of "operational" deposits seems to leave unintended room for interpretation. A narrow interpretation would seem to reduce this category to only funds required to manage short-term cash-flows. A broad interpretation would seem to include the funds that are typically maintained by commercial entities to cover unexpected expenses and obligations. The experience at Union Bank suggests that there is little or no difference in the behavior of these reserve funds versus funds maintained to cover short term cash flows. However, without clarification, there is likely to be uneven application of the 25% and 75% run-off factors amongst reporting institutions.

We recommend that an additional category of funding be added to the LCR for stable commercial deposits. The run-off factor would ideally be set by the local regulator who has the best insight into the reporting institution's business model. Alternatively, it could be set to match "less stable" retail deposits at 15%.

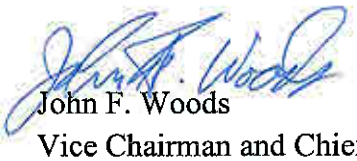
We further recommend that the category of stable commercial deposits be added to the NSFR, with an Available Stable Funding (ASF) factor identical to or greater than "less stable" retail deposits at 70%.

Frequency of calculating the metrics: Though paragraph 132 calls for the calculation of the metrics monthly, paragraph 131 states that, "Banks are expected to meet the requirements of the standards continuously." Additionally, paragraph 132 calls for each bank to be capable of calculating the metrics on a daily basis. There is no added benefit in doing daily or weekly stress testing. Additionally, the operational burden for banks has yet to be evaluated and we question whether the value would exceed the cost.

We recommend that the frequency of calculation for both metrics be clarified to be no greater than monthly during periods of relative stability. To address liquidity exposures between reporting periods, 1 and 7 day liquidity buffers maintained on top of accurate, back-tested cash-flow forecasts, should be maintained at all times.

We appreciate the opportunity to comment on the CD and would be pleased to answer any questions. Feel free to contact me at John.Woods@unionbank.com or my Treasurer, Erin Selleck, at Erin.Selleck@unionbank.com for any further information.

Sincerely,



John F. Woods
Vice Chairman and Chief Financial Officer

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