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

Via email: baselcommittee@bis.org

Re: Consultative Document*: **Strengthening International Framework for liquidity Risk Measurement, Standards and Monitoring.***

ViewPoint Bank welcomes the opportunity to comment on the above consultative document published by the Basel Committee on Banking Supervision, hereafter referred to as Committee. ViewPoint Bank is a United States federally chartered, $2.5 billion, public, community bank located in Plano, Texas.

We are concerned with the assumptions underlying the ratios, and believe the liquidity standards expressed in the consultative document reflect "worst case" market conditions. and are more severe than actual experience in stressed "tail event" liquidity conditions such as in the 2007-2008 period. We have highlighted specific concerns regarding the Committee's proposal below.

In the Consultative Document: ***International Framework for liquidity risk measurement, standards and monitoring***

- The definition of unencumbered, high quality liquid assets for purposes of calculating the liquidity coverage ratio is excessively narrow. This narrow definition, combined with prescriptive ratios, would cause banks to focus on the same funding sources and pricing incentives, thus increasing the likelihood of highly correlated "herd" behavior.
- The failure to include government-sponsored agency mortgage-backed securities in the definition of liquid assets could be detrimental to national markets and the housing sector.
- The proposal imposes overly aggressive cash outflow run-off rates for the liquidity coverage ratio. In particular, the degree of deposit runoff assumed for custodial deposits, corporate deposits and deposits from financial institutions with

well established relationships are unduly harsh and unsupported by empirical data.

- The draw down assumptions for committed lines of credit are insufficiently granular and do not reflect differences in draw downs across different types of firms during the recent market stress, including financial firms.
- Similarly, the available stable funding haircuts and required stable funding factors would be inadequate and insufficiently granular for different types of funding sources. The proposed haircuts fail to acknowledge that securities collateral already is haircut in the margining process.
- The net stable funding ratio assumptions are too severe for a one-year stress event and exceed conditions that can be expected in severe liquidity stress "tail events." The severity of these assumptions will prevent banks from playing their historical role as financial intermediaries and in maturity transformation. Moreover, these assumptions do not take into account banks' ability to change strategies or business plans over a one-year period in response to a stress.
- A complete runoff of wholesale market-based funding is unrealistic except in the case of a bank failure. During the most recent market disruptions, wholesale funding markets remained available, albeit at shorter maturities.
- A more reasonable assumption for the liquidity coverage ratio and the net stable funding ratio would be to recognize a "spectrum of liquidity" within the 30-day and one-year time periods, respectively.
- The assumption that the central bank would not provide support in a systemic shock runs counter to the long-standing role of banks as intermediaries and central banks as providers of liquidity and lenders of last resort.
- The assumptions underlying the liquidity ratios should be aligned in order to prevent a double counting of potential outflows. Moreover, these assumptions should be aligned with the assumptions set forth in the capital proposal.
- While metrics can be helpful "snapshots" of a bank's current liquidity position, they should be considered in a holistic context in light of the bank's overall liquidity risk management policies and processes.
- The assumption of no asset prepayments for purposes of the contractual maturity mismatch metric is excessively conservative and does not reflect banks' actual experience over many years and across economic cycles.
- The 1 percent of total liabilities threshold for purposes of the concentration of wholesale funding metric is excessively conservative, and does not take into consideration interest rate risk management considerations.
- The proposed public disclosures likely would result in an incomplete picture of a bank's true liquidity profile and confusing and misleading information as a result of the lack of comparability of disclosures across banks.

As noted above, metrics can be helpful "snapshots" of a bank's current liquidity position. However, they cannot be separated from disclosure of the bank's overall liquidity risk management program and should be subject to a "Use Test" requirement. Banks should be encouraged to make robust and complete disclosures of their liquidity positions and liquidity risk management programs, but the details of that disclosure should be left to the discretion of bank management.

Thank you for your attention to these matters and for considering our views.

Sincerely,

Patti McKee

Patti McKee
EVP / Chief Financial Officer
On behalf of the Board of Directors
ViewPoint Bank