Mark D. Linsz
Corporate Treasurer

Bank of America

April 16, 2010

VIA E-MAIL: **baselcommittee@bis.org**

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Basel Committee on Banking Supervision Consultative Document "International Framework for Liquidity Risk measurement, Standards and Monitoring", December 2009

Dear Messrs. and Mmes.:

Bank of America Corporation (together with its affiliates, "Bank of America") appreciates the opportunity to comment on the Basel Committee on Banking Supervision's consultative paper entitled "International Framework for Liquidity Risk Measurement, Standards and Monitoring" published on December 16, 2009. Bank of America, with total assets of over $2.2 trillion at December 31, 2009 is the sole shareholder of Bank of America, N.A. and Merrill Lynch & Co. Inc., and has full-service consumer and commercial operations in 50 states and the District of Columbia. We serve clients in more than 150 countries worldwide. Bank of America provides banking, investing, corporate and investment banking services and financial products to individuals and businesses across the United States of America and around the world.

The unprecedented nature of the recent economic turmoil and its consequences for many financial institutions has illustrated the importance of liquidity risk management. We remain very supportive of efforts to strengthen global liquidity risk management and promote a more resilient banking sector. We commend the goal of the Basel Committee on Banking Supervision (the "Committee") to improve the banking sector's resilience to liquidity stresses and to increase international harmonization of liquidity risk supervision. The proposals of the Committee support and reinforce efforts currently being undertaken by financial institutions to improve their liquidity risk management capabilities. Many of the proposals of the Committee contained in the "International framework for liquidity risk measurement, standards and monitoring" Consultative Document (the "Consultative Document") support and reinforce efforts currently being undertaken by banks to improve their liquidity risk management capabilities.

Bank of America is a member of the Institute of International Finance ("IIF"), The Clearing House Association L.L.C. ("the Clearing House") and the American Bankers Association ("ABA"). With some minor differences, we endorse their comment letters. These letters contain detailed responses to many of the individual recommendations contained in the Consultative Document and therefore are not repeated in Bank of America's comment letter.

We highlight the most critical areas associated with the Consultative Document below. We ask that the Committee consider the following areas as it works to improve the liquidity risk management practices of banking organizations:

- Substantial improvements in liquidity risk management practices, in accordance with earlier guidance from the Committee, have been made following the start of the global financial crisis in mid-2007. These efforts continue today. Coupled with the reductions in leverage and the Committee's other proposal on capital adequacy, financial institutions are advancing considerably from the period prior to the crisis;

- Liquidity stress modeling is a core risk management tool for many banking institutions and we are supportive of the Committee' efforts to strengthen these initiatives. We are supportive of the Committee's efforts, through the development of the Liquidity Coverage Ratio ("LCR") or 30-day stress test, to ensure financial institutions have sufficient liquidity to withstand severe short-term funding and liquidity shocks. And, we are supportive Committee's efforts to ensure financial institution's do not excessively rely on short-term funding and move toward more medium and long-term funding, through the development of the Net Stable Funding Ratio ("NSFR");

- However, we have several concerns with the LCR and the NSFR as constructed, as well as with the Committee's aggressive timeframe for implementation. We believe this proposal transforms more than just liquidity risk management frameworks and the Committee must give proper consideration to potential unintended consequences;

- We believe stress modeling is an internal analytical tool for managing liquidity risk and determining risk appetite through regular reporting to and discussions with management, the Board of Directors and primary regulators. These analyses may be less well suited for broader distribution due to their potential to be misunderstood, attributable to their highly technical characteristics;

- The LCR and NSFR are standardized stress models that do not fully account for fundamental differences across financial institutions. Liquidity stress models must be tailored to each firm's unique business mix, geographic diversity, historical experiences and relative financial strength as described in earlier papers from the Committee. The Committee's proposals do not yet incorporate these important adjustments;

- We believe the proposals will increase systemic risk as management judgment on liquidity risk appetite decisions are largely replaced with the standardized LCR and NSFR management tools;

- We believe the LCR and NSFR are not appropriately calibrated – even in consideration of the market disruptions during the recent crisis. The Committee has not provided the industry with data and rationales to support the proposed modeling assumptions;

- We believe there will be significant ramifications to the delivery of financial services to consumers and clients, reductions in the flow of credit, increases in the cost of credit and broader market that may not yet have been considered by the Committee; and

- We provide several recommendations for metrics and analysis that may be more easily standardized and externally disclosed, as well as potential improvements to the Committee's proposed ratios.

Additionally, we request the Committee publish a second more complete consultative paper including proposed calibration levels after completion of the Quantitative Impact Study, allowing a comment period congruent with the significance of its impact (120 days minimum). While this may delay the ultimate adoption of the new rules, the two year transition period contemplated by the Committee for implementation is unrealistically brief given the current state of the economy and the magnitude of the effort.

We believe the standards suggested by the Consultative Document will have enormous implications on traditional retail and commercial banking businesses and capital markets that are not yet fully understood. Moreover, this framework must be developed in light of the need to coordinate with ongoing and foreseeable regulatory, legislative, and like initiatives. It will require close and careful coordination. We respectfully suggest that the Committee consider the cumulative impact of the Consultative Document together with all other proposals over a relatively long time horizon. We believe a balanced, coordinated approach will be most likely to minimize unintended consequences and market disruptions.

Improvements in Liquidity Risk Management and Capital Adequacy

Substantial improvements in liquidity risk management practices and capital adequacy, in accordance with earlier guidance from the Committee, have been made following the start of the global financial crisis in mid-2007. These efforts continue today. Coupled with the reductions in leverage and the Committee's proposals on capital adequacy, financial institutions are advancing considerably from the period prior to the crisis.

The most visible change is an increase in the liquidity reserves currently held by financial institutions relative to pre-crisis levels. The assets composing liquidity reserves are carefully considered by management, and financial institutions are holding these highly liquid assets that will maintain resiliency and are able to be readily monetized during a stress event. Equally important is the decision on where to locate these assets geographically and many firms will seek to centralize funding and liquidity functions to ensure operational flexibility. The effort to increase the quantity and improve the quality of liquidity reserves is consistent with the goals of many financial institutions to reduce leverage.

Financial institutions have significantly reduced leverage from the levels preceding the market disruptions mid-2007. Through a combination of smaller balance sheets and capital initiatives, the overall profile of the industry has strengthened. The Committee's proposals to improve capital adequacy will invariably reduce leverage and increase liquidity and must be considered in the Committee's final liquidity standards.

Internally, financial institutions have focused on enhancing liquidity risk reporting and systems to improve analytics and inform decisions. These efforts have resulted in changes to business practices, including extending term funding profiles, better matching of assets and liabilities, increased pricing for contingent funding risks and reductions in other risk-taking activities. As boards of directors and senior management determine each individual firm's risk appetite, liquidity risk is an integral component in these decisions.

It is important to note that liquidity risk cannot be viewed in isolation. The failures of high-profile financial institutions during the most recent crisis cannot be blamed merely on inadequate levels of liquidity reserves. As counterparties and customers pulled away, certain financial institutions did not have adequate liquidity reserves to meet their obligations and continue operations, ultimately resulting in bankruptcy, sales under distressed conditions, government ownership or a combination thereof. However, we believe liquidity focused explanations underestimate the role of earnings and capital in these failures. Large realized and unrealized losses accumulated at these institutions preceding their liquidity crises. Equity market values approached zero and although book equity results may have appeared adequate, many counterparties were outspokenly skeptical. Without market confidence, the crippling liquidity outflows then ensued, as counterparties and clients were no longer willing to lend to firms that appeared distressed and over-leveraged. To be clear, we are not downplaying the role of liquidity for financial institutions, as maintaining sufficient liquidity is vital for any firm in any industry. Rather, we are highlighting the point that liquidity must be evaluated within the context of an institution's earnings profile, capital adequacy and overall risk management practices.

We believe the Committee's final requirements on liquidity risk management, standards and monitoring need to factor in the improvements in the management and levels of liquidity risk in the industry and the Committee's simultaneous proposals to strengthen the banking sector's resiliency. The capital proposals may also serve to reduce the level of liquidity risk in the banking system. We encourage the Committee to conduct studies to understand the cumulative impact on the financial industry and market participants from the combination of the liquidity and capital proposals. Given the importance of these two initiatives, we believe the Committee, following the publishing of such studies, should provide for a comment period prior to the release of final requirements. A phase-in of required liquidity risk management standards may work better than an immediate approach. We believe this would minimize unintended consequences and market disruption. Fundamental modernization of prudential standards without phase-in can be disruptive to markets, especially during times of stress.

Liquidity Stress Modeling – Current Approach

One of the more important developments in the industry has been the improvement in liquidity stress modeling and we are supportive of the Committee's efforts to incorporate these analytical tools into core risk management practices. At Bank of America, liquidity stress modeling is fundamental to our liquidity risk management and results are regularly reported to and discussed with the relevant risk committees, senior management, the Board of Directors and regulators as part of prudential supervision. We use these models to analyze our potential contractual and contingent cash outflows and liquidity requirements under a range of scenarios with varying levels of severity and time horizons. These scenarios incorporate market-wide and Bank of America-specific events, including potential credit rating downgrades. Our assumptions are granular and tailored specifically to our mix of businesses and historical experience. We believe stress modeling is an invaluable tool in assessing potential financing vulnerabilities, identifying proactive steps to limit risk, developing contingency funding plans and sizing our Global Excess Liquidity Sources[1]. As with any risk model, management judgment is fundamental to establish stress scenarios, determine assumptions and evaluate courses of action in accordance with Bank of America's overall risk appetite. We believe this approach is consistent with the Committee's "Principles for Sound Liquidity Risk Management and Supervision."[2]

We expect other financial institutions have similar scenarios and stress events to ours, but the assumptions will vary based on, but not be limited to, the unique nature of their businesses, geographic diversity, management judgment, historical and expected client behaviors and relative strength of their financial position. Each institution's risk appetite will drive their management's response to liquidity stress modeling results and the appropriate level of liquidity reserves to hold.

[1] Global Excess Liquidity Sources are our cash and high-quality, liquid, unencumbered securities that we can use to meet our funding requirements. We believe we can quickly obtain cash for these securities, even in stressed market conditions, through repurchase agreements or outright sales. We publicly disclose our total Global Excess Liquidity Sources and the amount available to the parent holding company, our bank subsidiaries and our broker-dealer subsidiaries.

[2] "Principle 10: A bank should conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with a bank's established liquidity risk tolerance. A bank should use stress test outcomes to adjust its liquidity risk management strategies, policies, and positions and to develop effective contingency plans." Basel Committee on Banking Supervision, *Principles for Sound Liquidity Risk Management and Supervision*, September 2008, Page 4.

Liquidity Stress Modeling – Committee's Proposal

We believe liquidity stress modeling that is already performed by large financial institutions is consistent with the concepts and intentions of the proposed LCR, or 30-day stress test. We are supportive of the Committee's efforts to ensure financial institutions have sufficient liquidity to withstand severe, but plausible, short-term funding and liquidity shocks. However, the Consultative Document proposes to globally standardize liquidity stress modeling across financial institutions. The proposed approach should be complemented with opportunities for each firm to adjust the LCR inputs and liquidity requirements for reasonable differences in business models, customer and client behavior, geographic footprint, historical experiences and certainly risk appetite. This adjustment appears to be consistent with earlier guidance provided by the Committee.[3,4]

Liquidity stress modeling is inherently non-standard, unique and requires specialization by institution to evaluate and manage the liquidity risk within that institution. We do not believe a one-size fits all approach works here. Standardized stress tests may seem appealing, but risk models need to be customized sufficiently to appreciate the differences in liquidity risk across financial institutions. Further, we believe the standardization the Committee is targeting will be limited by the wide range of business activities covered by the proposals, the differences in global accounting standards and the application across regulatory regimes. Inconsistent treatment across regulatory jurisdiction certainly creates the possibility of an uneven competitive landscape for internationally active financial institutions. We expect a false sense of comfort will actually be replaced with unintended consequences.

Due to the highly technical characteristics of liquidity stress modeling, this type of analysis may be less well suited for broader distribution. We believe there is potential for market participants to misunderstand changes to a financial institution's stress modeling results, even in normal market conditions. We have witnessed the destabilizing effect on financial institutions, and the capital markets, if the liquidity condition of a major participant is unfairly called into question. We believe externally disclosing the LCR and NSFR may increase this risk and may even become self-fulfilling. These detrimental effects of mandatory disclosure may outweigh the perceived benefits.

We also address below several other areas of concern with the proposed LCR and the NSFR, or one-year stress test.

Systemic Risk

We believe the proposals will increase systemic risk as management judgment on liquidity risk appetite decisions are largely replaced with the standardized LCR and NSFR

[3] "In designing stress scenarios, the nature of the bank's business, activities and vulnerabilities should be taken into consideration so that the scenarios incorporate the major funding and market liquidity risks to which the bank is exposed. Id., Page 25.
[4] "A banker's judgment plays an important role in the design of stress tests. A bank should carefully consider the design of scenarios and the variety of shocks used." Id., Page 25.

management tools. The Committee should not underestimate the profound changes adoption of the two proposed ratios will create. Liquidity risk appetite decisions will largely be removed from each institution and replaced by the standardized LCR and NSFR. Liquidity risk management at large, global financial institutions will revolve around the management, reporting and forecasting of these two binding ratios. Extensive investments in data capture and reporting systems will need to be developed to support the ongoing internal and external disclosure requirements. The likely result is that the primary liquidity risk management tools for the largest global financial institutions will all have the same assumptions. Adoption of the LCR and NSFR as proposed will undoubtedly create correlated behavior across financial institutions through all market environments. Unfortunately, this raises the potential of model risk as any calibration errors by the Committee and regulators will have a magnified effect across the globe.

We see this risk particularly manifesting in the "Narrow Buffer Assets," or the assets that qualify for inclusion in liquidity reserves. Large financial institutions already hold liquidity buffers, including Bank of America and our Global Excess Liquidity Sources, which are assumed to be monetizeable, even in stressed market conditions. Before including an asset class for eligibility in a liquidity buffer, each financial institution may consider prior experience during liquidity stress periods, current market depth for a particular asset class and management's own expectations for an asset's performance.

The Committee is proposing to limit the composition of liquidity buffers generally to sovereign debt and central bank deposits. Importantly, we believe this proposed definition excludes many asset classes that remained highly liquid during the latest crisis, including mortgage-backed securities issued by U.S. government-sponsored agencies. To comply with the Committee's proposals, financial institutions will likely need to migrate from the range of investments currently utilized to deploy liquidity, into a subset of primarily government guaranteed securities and deposits.

With the largest global financial institutions employing virtually the same investment policy, firms may be monetizing the same asset classes at the same time in scale during periods of liquidity stress. This foreseeable herd behavior would risk corrupting these once perceived liquid securities into less liquid assets as the supply to liquidate outstrips market demand to finance and own. We can easily envision these dynamics leading to "fire-sales" by relatively more distressed institutions with contagion effects on stronger institutions as the liquidity value of their assets becomes called into question. A similar situation may occur if the eligible security list changes due to a credit rating downgrades, potentially classifying a security as illiquid from a regulatory perspective. Multiple financial institutions will be forced simultaneously to react in an identical fashion to preserve liquidity. Additionally, the severity of sovereign risk events may be meaningfully magnified. Thus, the Committee's efforts strengthen liquidity standards may in fact be undermined as uniform, prescriptive investment policies increase the severity of market shocks on a global basis.

Given our concerns and similar ones raised by other industry participants, we recommend the Committee undertake a study on how a credit rating downgrade or even default of a major sovereign, drawing upon the recent events in Greece, would impact "Narrow Asset Buffers" in the industry. Expected changes in regulatory requirements, impact on financial institutions holding the affected securities and expected market reactions would be helpful for the financial industry and related participants to understand and comment upon.

Liquidity Coverage Ratio and Net Stable Funding Ratio Calibration

We believe the LCR and NSFR ratios have not been appropriately calibrated. We are sensitive to the fact that our experience may be influenced by survivor bias. However, even by this standard, we believe the proposed liquidity calibrations are additive of worst-case scenarios, well exceeding actual conditions during the recent market events. Under the LCR for example, certain customer and relationship-driven deposit funding sources provide little or no liquidity value under the proposed LCR ratio. During the latest crisis, bank deposits remained stable and even increased as many institutions represented a "flight-to-quality" for depositors. The LCR also requires banks to assume the majority of wholesale borrowing sources are unavailable, which is not reflective of the observed market conditions. These assumptions when applied to all financial institutions at the same time exceed even recent experience and appear to calibrate the LCR for all firms to a "gone-concern" rather than an "ongoing concern" basis.

We are also concerned that the NSFR has been calibrated as simply an extrapolation of the 30-day LCR, in effect creating an unrealistic one-year version of an acute 30-day stress. The Committee did not consider the potential adjustments to strategy and balance sheet that financial institutions would employ under such an extreme, one-year stress scenario. These elements have not been factored into development of the proposed ratio. The NSFR also fails to properly account for Tier 1 and Tier 2 capital deductions. The proposed NSFR calculation reduces stable funding greater than one year for Tier 1 and Tier 2 capital deductions, such as goodwill, but no corresponding reduction in assets is allowed. The calculation is onerous and essentially proposes $2 of long-term funding against every $1 of Tier 1 and Tier 2 capital deductions, like goodwill. Similarly, while $1 of other assets such as accounts receivable require $1 of long-term funding (*i.e.* greater than one-year), corresponding other liabilities such as accounts payable receive no long-term funding credit. While we are supportive of the Committee's efforts to ensure financial institution's do not excessively rely on short-term funding and move toward more medium and long-term funding, these NSFR calibration issues highlight the difficulty in establishing prescriptive risk models.

As a point of comparison, we would encourage the Committee to use the process established in the development of capital adequacy standards in the establishment of a liquidity framework. The Committee has been working with industry participants over the past 20 years to develop risk-sensitive capital adequacy standards. Capital requirements are based on sophisticated approaches to capturing risk, and the precise factors are often driven by the each institution's counterparty and business profile. The requirements are not the mechanical summations of worst case scenarios, but rather probability based and incorporate diversification benefits. Globally, regulatory bodies then prescribe minimum capital adequacy levels. Based on these standards, each institution then determines their target capital levels, often with a cushion based on each firm's risk appetite.

Similarly, we would expect financial institutions to target a cushion in excess of the LCR and NSFR liquidity requirements to ensure compliance through market cycles and to maintain market confidence. As calibrated, the LCR and NSFR do not permit the establishment of reasonable cushions. We believe the proposed liquidity standards are additive of worst case scenarios with already substantial built-in cushions. The proposed ratios have no provisions for distinctions across firms, including differences in relative financial strength, breadth of funding capabilities and development of liquidity risk management practices. This is in noticeable contrast to the approach taken by the Committee in establishing the capital adequacy framework, where demonstrating robust risk management practices lead to adjustments in requirements.

Overall, the Committee's proposals incorporate a high-degree of specificity on run-off assumptions and liquidity requirements and we are concerned that, to date, the Committee has not provided the industry with any rationales or benchmarks. We believe the Committee should provide support data and research supporting the calibration as this insight into the Committee's approach will be helpful to financial institutions and market participants.

Impact on Traditional Banking Activities and Market Ramifications

The consequential effects of the Consultative Document as initially proposed are likely to have significant implications for traditional retail banking businesses and the broader market. We cannot identify all the unintended consequences, but we believe there are several that may have not yet been fully considered by the Committee.

We believe that competition for certain types of deposits that are provided relatively preferential treatment within the proposal will dramatically increase, which in turn will cause the assumed liquidity risk characteristics to change. The Committee appears to assume that insured retail deposits have the highest retention levels versus deposits from corporate, government and other financial institutions. This premise may seem reasonable, but the relative differences in the Committee's proposed retention levels are unsupported by actual experiences for banking organizations. However, banks will be driven by the Committee's expectations of deposit retention levels, competing for whatever deposits deemed to have the highest liquidity characteristics and under-serving other sectors of the economy. The artificially driven competition will actually reduce the realized retention levels as the "most-favored" depositors are regularly provided an incentive to move their accounts.

Financial institutions will be restricted in their ability to transact with one another as a result of the Consultative Document. An unintended consequence of the Committee's proposal will be the reduction in flow of capital and liquidity throughout the financial system, as the Consultative Document creates strong incentives for financial institutions to reduce their dealings with one another. For example, under the Committee's proposal each banking organization must assume that it cannot access liquidity facilities established for its benefit;

but it must simultaneously assume that all other banks to whom it has provided liquidity facilities would execute unscheduled draws on all of them. It is a high prudential bar indeed for every financial institution to prepare to be the sole one remaining.

We believe that the cumulative impact of Consultative Document proposal will require banking organizations to issue substantial amounts of longer-dated capital and debt instruments, likely exceeding existing market demand. This financing requirement is proposed to occur at a time when, at least in the United States, the economic recovery is in its early stages. Obtaining this financing will become more difficult if not impossible, as financial institutions that are traditional buyers of these types of instruments, are also restricted by the proposals within the Consultative Document. This may make it difficult to attract and retain investors, risking a banking sector less resilient to future shocks. We expect the Committee's proposal to result in higher costs of capital for financial institutions, reducing profitability and stifling the industry's ability to strengthen equity capital bases.

Recommendations

Given our concerns described above and our understanding of the importance of liquidity risk management reform, we respectively propose several recommendations for the Committee's consideration.

Enhance Public Disclosure of Management Defined Liquidity Reserves and Unsecured Debt Coverage Metrics

We believe financial institutions globally should externally disclose, for shareholders, investors and other constituents, the size, legal entity location and composition of their internally defined liquidity reserves. Firms should be able to describe the criteria and rationale for the assets included these reserves. Liquidity reserve disclosure provides insight into those assets available for stressed market conditions and demonstrates robust liquidity risk management. Financial institutions should also disclose metric(s) on unsecured debt coverage. Unsecured debt coverage metrics are informative, providing insight to how a firm intends to finance its obligations as a going concern and each individual firm's risk appetite. A significant risk faced by financial institutions in the recent financial crisis was the reduction cost-effective funding in short- and long-term unsecured debt markets. Unsecured debt coverage metrics describe this risk and provide a greater opportunity to achieve the global standardization desired by the Committee. We believe external disclosure of liquidity reserves and unsecured debt coverage are consistent with Basel principles and will enable market forces to weigh in on composition, size and adequacy of liquidity levels at each institution.[5]

[5] "Principle 13: A bank should publicly disclose information on a regular basis that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position." Id., Page 4.

Revise LCR Calibration and Utilize as Internal Risk Management Tool and for Discussions with Regulators

We are supportive of the Committee's efforts to have financial institutions incorporate short-term, extremely severe liquidity stress modeling into their liquidity risk management frameworks. This is conceptually consistent with the proposed LCR. However, we believe a tailored approach by institution, rather than a standardized metric with rigid assumptions, is the most appropriate course of action. Scenarios considered by each institution should include both extremely severe low probability events as well as less severe but higher probability events. Scenario development, assumptions and results should be regularly reported and discussed with senior management, the Board of Directors and regulators as part of prudential supervision.

Revise NSFR Calibration and Utilize as Internal Risk Management Tool and for Discussions with Regulators

As noted, we believe the NSFR as currently proposed will function as a one-year version of the LCR, or 30-day stress test. Similar to the LCR, the NSFR is overly prescriptive and further does not reasonably consider the numerous action steps management would undertake to continue to maintain operations and finance the firm's activities. We believe this calibration limits the utility of the NSFR. We recommend instead that each firm, along with the primary regulator, develop realistic one-year scenarios and the potential actions management would pursue.

We would welcome feedback from the Committee on these recommendations and would be pleased to work with the Committee on further developing the concepts.

Summary

Bank of America strongly supports the objective of improving the liquidity risk management of the banking sector, particularly in light of market events over the last two years. In doing so, it is important to ensure that the framework of international liquidity risk management remains sound. We are supportive of the Committee's efforts to strengthen and harmonize global liquidity standards and promote a stronger banking sector. Sensible improvements to the banking sector's ability to absorb liquidity shocks arising from financial and economic stress will allow banking organizations to serve better their consumer and commercial clients, and to stand as a reliable source of strength performing core financial intermediation functions for the real economy during all points in future business cycles.

We would be happy to discuss our views in greater detail or discuss any new ideas the regulatory authorities wish to pursue. In that regard, please contact Marlene Debel, Managing Director and Head of Global Liquidity Risk Management at (212) 449-5969.

Sincerely,

M - D 7 —

Mark D. Linsz
Treasurer
Bank of America