September 11, 2015

Submitted electronically

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

Re: Consultative Document – Interest Rate Risk in the Banking Book

Ladies and Gentlemen:

U.S. Bancorp, Minneapolis, Minnesota, appreciates the opportunity to provide comments to the Basel Committee on Banking Supervision (the Basel Committee) in response to the consultative document on “Interest Rate Risk in the Banking Book” (the Proposal). U.S. Bancorp, with $419 billion in assets as of June 30, 2015, is the parent company of U.S. Bank National Association, the fifth largest commercial bank in the United States (collectively U.S. Bank). We provide a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions. U.S. Bank is subject to U.S. rules that implement the Basel capital frameworks and therefore must meet the minimum risk-based capital ratio requirements under both the standardized and advanced approaches.

We participated in the preparation of the comment letters filed by the American Bankers Association as well as The Clearing House Association L.L.C., the Securities Industry and Financial Markets Association, and the Financial Services Roundtable (collectively, the Trade Association Letters) and the letter filed by a group of U.S. regional banks (the U.S. Regional Bank Letter). We file this comment letter to support the positions set forth in the above-mentioned letters and to identify aspects of the Proposal that are of particular concern to U.S. Bank.

We agree with the Basel Committee that banks must ensure adequate capital exists to cover potential losses from exposures to changes in interest rates. As supplemented by the discussion in the Trade Association Letters and U.S. Regional Bank Letter, however, we urge the Basel Committee to

1. forego adopting a mandatory, standardized Pillar 1 approach for interest rate risk in the banking bank, instead allowing national regulators to follow a robust Pillar 2 approach to supervising interest rate risk; and

2. exclude any standardized calculation of interest rate risk in the banking book and its disclosure from the Pillar 2 framework of the Proposal.

We strongly oppose the introduction of a mandatory Pillar 1 approach to interest rate risk in the banking book. In particular, the standardized calculation with respect to treatment of deposits products, specifically non-maturity deposits (NMDs), is substantially flawed. The overly simplified proposed Pillar 1 prescription for NMDs standardization fails to accurately quantify interest rate risk and fails to acknowledge the breadth of variety in deposit product offerings at a bank of our scale. U.S. Bank’s
portfolio of NMDs is comprised of accounts from a diverse base of product types, customer types, and geographies.

Our NMD portfolio is meticulously managed through in-depth empirical research of historical interest rate and balance behavior. We model both interest rates paid to depositors and weighted-average life (WAL) of NMDs using econometric models approved by independent validators. U.S. banking supervisors review these models with regards to interest rate risk management, stress testing, and capital adequacy.

The proposed Pillar 1 standardized WAL underestimates the empirically observed WAL of our NMD portfolio. In-depth analysis has shown that the WAL of our NMD portfolio is longer than the WAL limitations called for in the Pillar 1 standardization. Additionally, the restrictive pass-through floors and stability caps of the proposed Pillar 1 standardization misrepresent our researched NMD behavior. Combined, the incorrect measurements of WAL and core NMDs called for in the Pillar 1 standardization will misestimate the duration of equity at U.S. Bank. The proposed Pillar 1 standardized prescription for NMDs fails to account for the unique traits of our NMD portfolio and disregards historical deposit data leading to less effective, less rigorous interest rate risk management than currently exists at U.S. Bank.

Furthermore, in light of the fundamental flaws of a standardized measurement for interest rate risk, importing a standardized calculation and disclosure framework into Pillar 2 would not be a meaningful representation of any individual bank’s interest rate risk, would cause confusion in the markets, and may conflict with U.S. regulatory expectations regarding an individual bank’s management of interest rate risk in the banking book exposures commensurate with its own complexity, business model, and risk profile.

U.S. Bank continues to support robust interest rate risk management and strong supervisory oversight of the same through evaluation of both a bank’s interest rate risk management processes and a bank’s capital adequacy.

We thank you for the opportunity to comment on the Proposal and respectfully ask for consideration of the comments in this letter, the Trade Association Letters, and the U.S. Regional Bank Letter. Should you have any questions, please contact me at 612-303-4171 or john.stern@usbank.com.

Sincerely,

John C. Stern

Executive Vice President and Treasurer
U.S. Bancorp