April 16, 2010

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland
baselcommittee@bis.org

Re: Consultative Document: International Framework for liquidity risk measurement, standards and monitoring

Ladies and Gentlemen:

KeyCorp is a large U.S. regional bank-based financial services company with assets of approximately $95 billion. KeyCorp companies provide investment management, retail and commercial banking, consumer finance, and investment banking products and services to individuals and companies throughout the United States and, for certain businesses, internationally.

KeyCorp welcomes the opportunity to comment on the consultative document, *International Framework for liquidity risk measurement, standards and monitoring* published by the Basel Committee on Banking Supervision (BCBS). We support the Committee’s objectives to strengthen global capital and liquidity standards. An effective liquidity risk management process is vital to improving liquidity standards and KeyCorp has enhanced its liquidity risk management process to align with the *Principles for Sound Liquidity Risk Management and Supervision* that were issued in September, 2008. KeyCorp believes that the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) should be used as tools in monitoring an institution’s liquidity risk management process and not used in isolation.

KeyCorp supports several of the proposals included in the Consultative Documents. However, we urge you to consider the combined effect of this proposal, the BCBS proposal on “Strengthening the resilience of the banking sector” and other regulatory changes and reform efforts. KeyCorp also believes that more flexibility is needed to allow national regulators to tailor for accounting and jurisdictional differences, as well as differences among banks.

Our comments reflect KeyCorp’s desire to ensure that sound clear principles are developed that will achieve the Committee’s stated objectives. Our comments focus on issues most relevant to KeyCorp.
Liquidity Coverage Ratio

I(a) Definition of High Quality Liquid Assets

26. Banks must hold a stock of unencumbered, high quality liquid assets which is clearly sufficient to cover cumulative net cash outflows over a 30-day period under the prescribed stress scenario.

If the goal of this ratio is to ensure that there are sufficient high quality liquid assets to meet short-term liquidity needs, an appropriate definition of high quality liquid assets (HQLA) and net cash outflows needs to be made.

We agree that high quality liquid assets need to be unencumbered and easily converted to cash with little or no loss of value. The proposal states that high quality liquid assets should also ideally be eligible at central banks. If this is a characteristic of a high quality liquid asset, then U.S. Agency securities should be considered high quality liquid assets. These securities historically have had an implicit guarantee by the U.S. government and there now is an even stronger backing since the government intervention of FNMA and FHLMC. The eligibility of the guarantor should flow through to the underlying security. Further evidencing the high quality nature of these assets, the Federal Reserve conducts open market operations with U.S. Agency securities, as well as Agency-backed mortgage-backed securities, including collateralized mortgage obligations. KeyCorp also believes that securities that are pledgeable at the Fed Discount Window are central bank eligible and should be considered high quality liquid assets. It seems incongruous that the Federal Reserve would accept AA securities at the Discount window, with a deep haircut, and yet banks would not be permitted to include those in their liquid asset portfolio. Utilizing a grid similar to the Federal Reserve’s collateral margin table would provide clear guidance as to what securities are considered high quality and the appropriate haircut. If the central bank is accepting these securities as collateral and utilizing them for open market operations, they should be deemed high quality.

A high quality liquid asset portfolio needs to be diversified. Having significant haircuts will incent banks not to invest in those securities, further limiting the investable pool from the bank’s viewpoint. Thus, banks would invest in similar securities and, during a crisis, the ability to sell these assets with little or no loss of value could be decreased. In a future crisis, securities that don’t qualify as HQLA will lose some of their liquidity. Furthermore, limiting the definition of high quality liquid assets will also cause HQLA to become more expensive. A bank will have to decide if it wants to accept lower returns, which will decrease its ability to attract capital, or invest remaining assets in higher yielding, potentially riskier assets. We encourage you to reconsider the proposed haircuts and a broadening of the definition of HQLA.

We also urge you to consider the effect on other markets when certain types of assets are not considered high quality liquid assets. For example, combined, the 19 largest U.S. banks hold close to a $1 trillion of U.S. Agency and U.S. Agency MBS on their balance sheets. Excluding these types of securities from the definition of high quality assets could cause a sell-off of these assets, driving up home mortgage lending rates, disrupting those markets, the U.S. economy and removing much needed liquidity.
1(b) Stress Scenario

22. The scenario proposed for this standard entails a combined idiosyncratic and market-wide shock...

23. The stress scenario incorporates many of the shocks experienced during the current crisis into one acute stress for which sufficient liquidity is needed to survive up to 30 calendar days.

Some of the assumptions in the stress scenario may not apply to all banks. The stress scenario assumes that banks will lose access to both secured and unsecured funding. Not all banks will lose access to both secured and unsecured funding in a stress scenario. Providing national regulators greater flexibility in this regard would allow more appropriate stresses for each bank.

In addition, some of the assumptions built into the stress scenario seem to be overly extreme. In a severely stressed environment, multiple downgrades may occur, but a three-notch downgrade in 30 days typically is an extremely rare “tail event” scenario. Given that there will be changes to capital and liquidity regulations as well as tighter regulation, a three-notch downgrade would be even more extreme and less useful for measuring and monitoring purposes. A more useful stress would be a quantified, staged deterioration in the credit quality of an institution’s loans.

1(c) Net cash outflows and inflows

38. Net cash outflows are defined as cumulative expected cash outflows minus cumulative expected cash inflows arising in the specified stress scenario in the time period under consideration.

KeyCorp also encourages the Committee to re-evaluate the proposed run-off rates for deposits and drawdown rates for loan commitments. The proposed run-off rates are higher than the actual run-off rates experienced in the very turbulent past two years. For example, KeyCorp’s stable deposits remained relatively flat during the recent crisis. While a bank may lose some deposits that are a flight risk, it will gather deposits from clients leaving other firms. It was also seen in the recent crisis that insured deposits were not a flight risk. Insured deposits should have a minimal, if any, run-off factor applied. Using run-off rates higher than what was just experienced is unwarranted.

In the proposal, the only short-term (30 day maturity or less) secured funding transactions which qualify for a 0% run-off factor are those involving government debt issued in domestic currencies or marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, BIS, IMF, EC or multilateral development banks. All other forms of short-term secured funding transactions are assigned a 100% run-off factor. For this type of funding, it would be more appropriate to use haircuts or utilize an average industry run-off rate during the recent crisis.

If the run-off rates are kept the same as in the proposal, banks will either have to shrink their balance sheets or replace deposit funding with expensive long-term funding, increasing the cost of credit.

The assumption that clients will be able to draw on their lines while a bank will be unable to draw on its lines of credit is often not the case. The utilization rates in the proposal are much higher than recently experienced. For example, the utilization rate at KeyCorp for home equity lines of credit remained stable throughout the financial crisis.

There should be some allowance for the ability of the bank to draw on its contractual lines of credit. For this type of funding, some allowance for access is warranted because, even in the recent crisis, there was not a complete loss of access. In addition, a bank’s borrowing capacity at central banks and
the FHLB is not taken into consideration for determining cash inflows in a stress period. Banks have been, and should be able to access the Fed’s discount window in a severe stress.

This has been the cornerstone of the safety and soundness of the U.S. banking system. KeyCorp recognizes that the discount window should only be utilized on rare occasions and would necessitate a plan to, as quickly as possible, replace that funding.

II. Net Stable Funding Ratio

| 82. Available stable funding is defined as the total amount of an institution’s: 1.) capital, 2.) preferred stock with maturity of equal to or greater than one year, 3.) liabilities with effective maturities of one year or greater, and 4.) that portion of “stable” non-maturity deposits and/or term deposits with maturities of less than one year that would be expected to stay with the institution for an extended period in an idiosyncratic stress event. |

The goal of this ratio is to promote resiliency over a longer term horizon by incenting banks to utilize more stable funding sources. We agree with this goal. However, there are several other sources of stable funding that aren’t considered in the proposal. First, FHLB advances typically roll-over at maturity and have been a reliable source of funding through the recent crisis and should be considered a stable funding source for this ratio.

Securitizations historically have been a significant source of funding for many institutions. Completely disallowing this form of funding would decrease an institution’s funding diversification and possibly decrease credit availability. In addition, disincentives to securitizations would lead to increased reliance by banks on unsecured funding. A limitation or haircut would seem be more appropriate to reaching the necessary balance of risk and credit availability.

Banks also have a contingency funding plan in place and utilize risk mitigants to help stabilize their funding. Over a one year horizon, banks can plan for asset sales, curtail lending to shrink the balance sheet and increase deposits. Taking risk mitigants into consideration is more in line with actual funding and liquidity risks.

The required stable funding factors (RSF) are overly conservative. Requiring 100% long-term funding for U.S. Agency and U.S. Agency MBS does not reflect the actual liquidity of these securities. In addition, assigning a 50% RSF factor to equity positions does not reflect the liquidity that these assets possess within a one year time frame. Again, KeyCorp recommends utilizing factors from the most recent crisis.
Conclusion

KeyCorp supports the Committee’s objectives of improving liquidity management and standards. The liquidity proposals as drafted could produce undesirable outcomes such as an increased concentration in liquidity sources, severe disruption in the short-term funding markets and an increased cost of credit. In addition, the final Consultative Document should be coordinated across other reform efforts and regulatory bodies.

KeyCorp believes that the Liquidity Coverage Ratio and the Net Stable Funding Ratio should only be used as tools to determine the adequacy of a firm’s liquidity position and liquidity risk-management process and not used in isolation.

We appreciate the opportunity to comment on the Consultative Document and would be pleased to answer any questions that our comments raise.

Respectfully submitted,

[Signature]

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