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December 23, 2011

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Request for Comment on Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies
Docket No. 1438
RIN 7100-AD-86

Treasury Strategies appreciates the opportunity to provide input on the subject of Enhanced Prudential Standards, specifically regarding the section on Single-Counterparty Credit Limits. As the premier consulting firm in the area of corporate treasury, payments and liquidity, we have pertinent insights on this issue that we are pleased to share. By virtue of our work with global corporations and financial institutions, we have a 360-degree, worldwide view of payments and settlements.

We applaud your comprehensive efforts to strengthen the financial system and its institutions. Systemic risk is indeed a concern that must be fully addressed. Ensuring that banks are adequately monitoring and managing intraday credit and liquidity exposures is an important part of that effort.

We strongly agree with the proposed exemption of intraday transactions from credit limits. As your document correctly assumes, without this intraday exemption, single-counterparty credit limits could result in adverse, unintended and risk-exacerbating consequences for payments and settlements. Specifically, we would like to point out the following:

- Banks already set intraday limits based on an assessment of counterparty risk. Moreover, banks make individual decisions based on their knowledge of underlying cash flows and settlements.
- An arbitrary limit would actually induce banks to take <u>more</u> risk in some areas while limiting the underwriting of valid risks.
- Were banks to limit underwriting, an arbitrary limit could actually reduce access to intraday liquidity and could cause financial markets to seize, perversely introducing <u>greater</u> systemic risk.
- This systemic risk could cause Treasury Strategies' corporate and financial services clients to be unable to execute critical and time-sensitive financial settlements, which could disrupt economic activities and lead to financial crises.
- While oversight of intraday counterparty exposures is critical, it must be tailored to the risk of the counterparty <u>and</u> the nature of the underlying transaction. Flexibility is critical to the ongoing health of the payments system.

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Corporations make payments to each other via their banking partners. Similarly, securities dealers and foreign exchange dealers settle transaction obligations by wiring funds through their banks. Because of float, and timing and information differences that occur during the natural course of business, many of these payments are moving through the financial system at the same time. Banks perform the essential role of providing intraday liquidity to facilitate the smooth flow and settlement of these transactions. Without the intraday liquidity, payment flow would grind to a halt.

Treasury Strategies believes that if banks tried to meet the proposed 10% cap without the intraday exemption, they would be forced to slow down their customer payment processing, which could easily gridlock the system. For businesses, this slowdown could delay payments and subsequent shipment of goods. For securities dealers, delayed settlement payments could delay transactions or fail them altogether. Foreign exchange trading would be similarly restricted. In each of these circumstances, if the intraday exemption did not exist, the proposed credit limits could create entirely new risks where none previously existed. Any mild financial distress could turn into a true contagion.

Treasury Strategies appreciates the opportunity to share our thoughts in support of the intraday credit exposure exemption. We are available to discuss this issue further with you.

Respectfully,

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