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Submitted Via Email

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
Attn: ID OCC 2009-0009

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn: Docket No. OP-1362

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn: Comments

Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attn: ID OTS 2009-0011

Re: Proposed Interagency Guidance – Funding and Liquidity Risk Management

Ladies and Gentlemen:

The American Bankers Association (ABA)[1] appreciates the opportunity to comment on the proposed guidance on funding and liquidity risk management[2] (the Proposed Guidance) published by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (the Agencies). We support the Agencies' emphasis on the importance of good liquidity risk management to the safety and soundness of financial institutions. We further support the international dialogue being conducted on liquidity risk management and the efforts underway to achieve a consensus among global regulators.

In principle, the ABA supports the Proposed Guidance. However, we have the following specific comments on how the Proposed Guidance could be revised or clarified:

- The guidance should be accompanied by an examiner training program that emphasizes the concept of proportionality;

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[1] The ABA brings together banks of all sizes and charters into one association. The ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $14 trillion in assets and employ more than two million men and women.

[2] 74 *Fed. Reg.* 32035 (July 6, 2009).

- The guidance should include a materiality concept so that only those entities that pose *material* liquidity risk to the group and/or the insured depository institution are subject to the requirement to monitor liquidity risk on an entity-by-entity basis;
- The guidance should permit institutions to manage liquidity on a centralized, business line, or legal entity basis, depending upon the complexity and business model of the bank;
- The guidance should avoid applying a "one-size-fits-all" metric for determining an appropriate liquidity buffer; and
- The guidance should allow more flexibility in the design of contingency funding plans

These points are discussed in more detail below.

- The guidance should be accompanied by an examiner training program that emphasizes the concept of proportionality

The Proposed Guidance should be accompanied by a robust training program for the Agencies' examiners to align the guidance better with actual practice in the field. In particular, the Agencies should emphasize the proportionality concept contained in the Proposed Guidance; that is, financial institutions are expected to manage liquidity risk using processes and systems that are commensurate with the institution's complexity, risk profile, and scope of operations.

We applaud the inclusion of a proportionality principle in the Proposed Guidance and we understand that this is consistent with the principles expressed in the Basel Committee's September 2008 *Principles for Sound Liquidity Risk Management and Supervision*. However, we have heard from a number of members that examiner expectations can be inconsistent with the proportionality principle. For example, two banks, each with assets of approximately $10 billion, have been asked to conduct what they believe to be inordinately sophisticated risk analyses and stress tests in light of their risk profiles and business activities. One bank was asked to develop separately a wide variety of scenarios that reflect the interaction of liquidity risk with credit, market, and reputational risk, to run those scenarios on an extreme worst case basis and, then, to develop a firm, documented liquidity target that reflects the aggregate impact of those scenarios. Moreover, this bank was expected to repeat this resource-intensive exercise on a monthly basis.

In addition, ABA members have noted that some examiners criticize the use of *any* static measure of liquidity risk, even when combined with dynamic methodologies. We would encourage the Agencies to clarify with examination staff that static measures may be sufficient for smaller, less complex banks. While static measures may not be sufficient by themselves for larger or more complex banks, they can and, in some cases, should be included in the bank's "toolbox" for effective liquidity risk management. In this connection, it would be helpful to clarify that the list of measurements, limits, and guidelines contained in Paragraph 12 of the Proposed Guidance are examples and that banks may use alternatives metrics as well.

- Paragraph 9 of the Proposed Guidance should be clarified to include a materiality concept so that only those entities that pose *material* liquidity risk to the group and/or the insured depository institution are subject to the requirement to monitor liquidity risk on an entity-by-entity basis.

Absent the inclusion of a materiality concept, the Proposed Guidance could be construed as requiring the establishment of a robust monitoring system for entities that pose very minimal liquidity risk, such as bank service corporations that perform ministerial or administrative support services to the bank. Paragraph 11 includes a materiality concept in its discussion of the need for separate liquidity policies, procedures, and limits for individual currencies, legal entities, and business lines, and we would encourage parallel language in Paragraph 9.

- The guidance should permit institutions to manage liquidity on a centralized, business line, or legal entity basis, depending upon the complexity and business model of the bank.

The second sentence of Paragraph 21 states that separately regulated entities will need to maintain liquidity commensurate with their own risk profiles on a stand-alone basis. This language suggests that banks are discouraged from managing liquidity centrally at the parent or holding company level, a practice often followed by more complex banking organizations with multiple separately regulated subsidiaries. Centralized liquidity management allows these organizations to more efficiently deploy liquidity across the organization[3] and reduces the risk that liquid assets will become "trapped" in subsidiaries where they are not needed. The advantages of managing liquidity centrally were made evident in the recent market disruptions and the agencies should not discourage this practice. Imposing a stand-alone liquidity requirement for separately regulated entities will increase unnecessarily the cost of funding liquidity for some organizations without any clear corresponding benefit. This requirement could also require some organizations to restructure their operations, again incurring significant cost without any clear corresponding benefit. For these reasons, the first sentence of Paragraph 21 should be clarified and revised to reflect that liquidity may be managed on a centralized, business line, or legal entity basis, depending upon the complexity and business model of the bank.

Paragraph 22 states that banks are expected to aggregate data across multiple systems in order to develop a group-wide view of liquidity risk. Paragraphs 21 and 22, taken together, raise a very high standard that for many (even larger) banks is aspirational in nature. Work is underway in the Basel Committee and the Joint Forum to develop best practices for aggregating risks and identifying risk concentrations, including identifying and measuring concentrations across business lines and analyzing interdependencies among different types of risk. Expecting banks to operationalize fully the management of risk aggregations and risk concentrations at this point in time simply is not realistic. That said, for larger and more complex banks, the ability to do so is a worthy goal towards which these institutions should be working as sound practices for risk aggregation and risk concentration are developed by international regulators.

[3] Of course, banks understand the importance of strict adherence to the limits of Section 23A of the Federal Reserve Act and Regulation W, as well as other prudent limits on intra-group transactions.

- The guidance should avoid applying a "one-size-fits-all" metric for determining an appropriate liquidity buffer

Paragraph 29 provides that banks should establish a cushion of highly liquid, unencumbered assets that can be held as insurance against a range of liquidity stress scenarios. We agree with the importance of a liquid asset buffer, but we would encourage the Agencies to clarify that the size and composition of the buffer depends upon the complexity, risk profile, and scope of operations of the bank and that there is no "one-size-fits-all" metric for determining an appropriate buffer.

This comment reflects the recent experience of some members with respect to supervisory expectations for the liquid asset buffer. Some examiners appear to have a "rule of thumb" or standard metric that they apply in assessing the adequacy of a bank's liquid assets. We understand the heightened supervisory concern regarding liquidity and liquidity risk management, but we urge the continuation of a principles-based and proportionate approach that refrains from any standard metric that is applied across the board.

- The guidance should allow more flexibility in the design of contingency funding plans (CFPs)

Paragraph 35 of the Proposed Guidance states:

The CFP should delineate the various levels of stress severity that can occur during a contingent liquidity event and identify the different stages for each type of event. The events, stages, and severity levels identified should include temporary disruptions, as well as those that might be more intermediate-term or longer-term. Institutions can use the different stages or levels of severity identified to design early-warning indicators, assess potential funding needs at various points in a developing crisis, and specify comprehensive action plans.

At the outset, we fully support the need for CFPs as part of a bank's liquidity risk management toolbox. CFPs, as well as liquidity risk management more generally, must reflect the complexity, risk profile, and scope of operations of the bank. CFPs, in particular, should be flexible, dynamic, living documents that can be adjusted and updated periodically to take advantage of all available information and liquidity sources.

In contrast to the need for flexibility in CFPs, the language of Paragraph 35 could be read as requiring a detailed matrix of levels of stress severity, event stages, and responses for all of the possible combinations of events and severity. If so read, this would impose a serious burden on banks to develop matrices and action plans that may not be actionable in the case of an actual stress and could lead to either a false sense of security about the ability of the bank to respond to a wide range of stresses or inaction in the face of events that do not correspond to the matrix. Recent experience has shown that banks need a flexible approach to responding to liquidity stresses that reflects the fact that the source, nature, or duration of the stress may change quickly. Accordingly, we respectfully request that the above-quoted language of Paragraph 35 of the Proposed Guidance be revised to read as follows:

In designing a CFP, an institution should consider different potential stress events, various stages of those events, and the various levels of stress severity that can occur during a contingent liquidity event. The CFP should consider the potential for temporary disruptions, as well as those that might be more intermediate-term or longer-term. Institutions can also consider different stages or levels of severity identified in designing various risk management tools such as early-warning indicators.

Thank you for considering our comments and recommendations. Please contact Mary Frances Monroe at (202) 663-5324 or mmonroe@aba.com if you have any questions.

Sincerely,

Mary Frances Monroe

Mary Frances Monroe.