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Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551  
Via Email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)  
Via Fax:: 202-452-3819

Re: Docket No. OP-1362

This letter is in response to the request for comment on the Proposed Interagency Guidance covering Funding and Liquidity Risk Management.

We are concerned that a high level of regulatory subjectivity is embedded in the Proposed Guidance. This subjectivity is likely to result in regulatory inconsistency with numerous financial institutions as varying perspectives define such issues as an “appropriate” risk tolerance policy based on the unique character or role of the institution, the “reasonableness” of stress test assumptions, the “appropriate” target amounts of unpledged liquid assets, the instability of certain “volatile” or “wholesale” funding types even though history might prove strong stability, and the “acceptable” levels of concentrations created by various types of liability products.

For example, is the volume of corporate demand deposits which have been successfully attracted from professionals now to be seen as a concentration of one type of funding? Is a relatively high average volume of corporate demand deposits, generally very necessary for strong profitability, now to be viewed as a concentration causing concern? And if large volumes of demand deposits are a concentration of funding type, can the financial institution be assured that they have identified an appropriate “stress test” and the appropriate level of the “cushion of liquid assets”? This same series of uncertainties would also exist in large volumes of money market demand accounts or other types of accounts with numerous sources of ownership.

While improving funding and liquidity risk management is the goal of this proposal, there should be regulatory concern regarding a zealous application of subjective guidelines. Banks are already contending with the dramatically escalated regulatory scrutiny of their loan portfolios, the enforcement of elevated provisions to loan loss reserves, and restrictions to reasonably serving customer loan requests caused by uncertainty over capital sufficiency. Thoughtful adoption of Liquidity Risk Management standards will enhance the long term stability of the banking industry, but an overly stringent or overly rapid application of the principles enumerated in this Interagency Guidance will likely further impede the recovery of already battered consumers and small businesses in the U.S. Higher unemployment and lessened credit availability, for a longer time frame, would be a likely consequence of banks moving rapidly into a required high volume “cushion of liquid assets”. Contending with

broad uncertainties over these same issues would yield the same detrimental effect on the economy.

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We request that the implementation of these Liquidity and Risk Management criteria be introduced only if concurrent with the publication of information that provides bankers with knowledge of the parameters that regulators will use in examining institutions (eg. "Examiners guide to Liquidity and Risk Management"). We believe, for example, that the definition of "sources" of liability funding and minimum standards of diversification needs to be very clear and that examples need to be provided so that bankers and regulators might measure concentrations consistently. Risk parameters of liquidity shock tests need to be fully described to mitigate confusion, and the resulting creation or partitioning of a volume of liquid assets should be straightforward. We also request that this information be announced with an enactment date no earlier than six months from the announcement.

We believe in the value of Community Banking and we hope that the implementation of the standards on Funding and Liquidity Risk Management can be accomplished in a manner that allows these institutions to expand their vibrancy and provide strength in the rekindling on economic growth in their markets. It is to this end that we request your earnest consideration of our comments.

Sincerely,

James H. McKillop, III

President and CEO  
Independent Bankers' Bank of Florida