January 31, 2014

Mr. Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551
Docket No. R-1466, RIN 7100 AE-03

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, S.W., Suite 3E-218
Mail Stop 9W-11
Washington, D.C. 20219
Docket ID OCC-2013-0016, RIN 1557 AD 74

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
RIN 3064-AE04

Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring

Ladies and Gentlemen:

The Charles Schwab Corporation ("Schwab")[1] appreciates the opportunity to provide comments on the interagency notice of proposed rulemaking, Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring, issued by the Office of the Comptroller of the Currency ("OCC"), Board of Governors of the Federal Reserve System ("FRB") and the Federal Deposit Insurance Corporation ("FDIC") (collectively, the "Agencies") and published in the Federal Register on November 29, 2013 (the "Proposal").[2]

We understand the Agencies' efforts to strengthen the liquidity positions of large banking institutions whose credit and market risk-taking activities make them both (1) vulnerable

[1] The Charles Schwab Corporation (NYSE:SCHW) is a leading provider of financial services, with more than 325 offices and 9.1 million active brokerage accounts, 1.3 million corporate retirement plan participants, 916,000 banking accounts, and $2.25 trillion in client assets as of December 31, 2013. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member SIPC), and affiliates offer a complete range of investment services and products including an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through Schwab Advisor Services. Its banking subsidiary, Charles Schwab Bank (member FDIC and an Equal Housing Lender), provides banking and lending services and products.

[2] Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring, Release Date: October 24, 2013, 78 Fed. Reg. 71818 (Nov. 29, 2013).

to a liquidity squeeze, and (2) a threat to the stability of the financial system. We are concerned, however, that the scope of the Proposal, without any articulated empirical support or explanation, extends substantially beyond addressing the risk-taking activities of large banking institutions. The Proposal fails to consider an individual's ability, through his affiliated broker and bank, to manage his or her cash while protected by a decades-old regulatory regime enforced by the Securities and Exchange Commission ("SEC"). The Proposal's one-size-fits-all approach will favor certain banking organizations and ultimately harm retail investing by clients of broker-dealers who will be subject to the consequent increased costs and burdens without any additional consumer protection benefit. Unlike the assumptions expressed without data in the Proposal, our research set forth below demonstrates that programs such as Schwab's affiliated sweep program between the broker and the bank enhance the ability of a bank to confront stress environments. Before imposing the burdens of the Proposal, it is imperative that the Agencies engage in a comprehensive public analysis that would clearly establish that their standards are not arbitrary and capricious. For these reasons, we strongly urge the Agencies to address the serious concerns highlighted in this letter, by responding with one of two actions:

- Exempting depository holding companies with substantial retail brokerage activities from application of the Proposal; or

- Withdrawing the Proposal as it relates to depository holding companies with substantial retail brokerage activities and re-issuing a new proposal after appropriate study, consultation with the SEC and consideration of the unique regulatory and behavioral aspects of retail investors.

I. The Proposal Fails to Consider the Functional Regulation of Broker-Dealers

A significant deficiency of the Proposal is that it fails to consider the SEC's functional regulation of broker-dealers. Specifically, the Proposal does not address the treatment of balances held in segregated accounts in accordance with SEC Exchange Act Rule 15c3-3. As a result, we can only guess as to what the Agencies' intentions were with respect to assumed outflow and inflow rates.

This regulatory conflict between the Agencies and the SEC was apparent in the FRB's press release issued in connection with its adoption of the Proposal, which stated that the Proposal defines various categories of high quality, liquid assets ("HQLA") and also "specifies how a firm's projected net cash outflows over the stress period would be calculated using common, standardized assumptions about the outflows and inflows associated with specific liabilities, assets, and off-balance-sheet obligations."[3] In other words, the Agencies are imposing specific requirements for HQLA holdings during a stress period based on assumptions drawn by the Agencies apparently without consulting the SEC about the potential impact of the requirements on - and assumptions about - a firm's retail brokerage and affiliated bank operations and, critically, its retail investors. More troubling is that the application of the Proposal's "assumptions" to the deposit activities of retail investors not only lacks the support of adequate empirical evidence, it is contradicted by available factual data and, in this regard, is bad

[3] Press Release, Federal Reserve Board, Proposed Rule to Strengthen the Liquidity Positions of Large Financial Institutions (Oct. 24, 2013), *available at* http://www.federalreserve.gov/newsevents/press/bcreg/20131024a.htm.

policy. Of particular note, it was the experience of Schwab that, during the most difficult periods of the recent financial crisis, banks affiliated with firms serving retail investors actually experienced significant inflows, and not outflows anywhere near the rates suggested in the Proposal.

In its memo to the Board, the FRB staff noted that depository institution holding companies with substantial insurance operations and savings and loan holding companies with substantial commercial operations would be exempted from application of the proposal.[4] The rationale offered for the exclusion was that "the liquidity requirements were not designed to reflect the liquidity risk profiles of insurance or commercial activities."[5] Unfortunately, not encompassed by the exemption are holding companies with significant retail securities brokerage operations, which also have liquidity risk profiles that fall outside the design of the liquidity requirements. Based on the empirical data presented below, it is evident that the liquidity risk profiles for holding companies with substantial retail brokerage activities were not considered in the Proposal, or if considered, were intentionally ignored to the detriment of retail investors.

Exchange Act Rule 15c3-3 is an SEC rule requiring segregation of customer assets. It is designed to protect a customer's assets held by a broker-dealer by placing limits on the broker-dealer's use of a customer's funds.[6] Under Rule 15c3-3, a broker-dealer must calculate on at least a weekly basis the amount of each customer's cash, securities or other assets that must be subject to lock-up (the "reservable amount"), which is generally the net amount the broker-dealer owes to the customer (i.e., the excess of customer credits over customer debits). The reservable amount is placed into a segregated, pooled account in which the funds are not assigned to specific customers. When the broker-dealer recalculates the reservable amount, the decrease in the net amount the broker-dealer owes a customer, if any, is released from the segregated account.

As summarized in SEC Release No. 34-55431, "[u]nder the rule, a broker-dealer must, in essence, segregate customer funds and fully paid and excess margin securities held by the firm for the accounts of customers. The intent of the rule is to require a broker-dealer to hold customer assets in a manner that enables their prompt return in the event of an insolvency. This, in turn, increases the ability of a firm to wind-down in an orderly self-liquidation and, thereby avoid the need for a proceeding under the Securities Investor Protection Act of 1970."[7]

Unfortunately, the Proposal fails to take into account the purpose and effect of SEC Rule 15c3-3 and, in failing to do so, ignores the SEC's functional regulation of broker-dealers. Rule 15c3-3 is, in effect, a liquidity rule; it ensures that broker-dealers have sufficient liquid assets to meet their obligations to customers. Thus, the Agencies should defer to the SEC's jurisdiction on an issue already addressed by that agency, and avoid creating unnecessary

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[4] Notice of Proposed Rulemaking, Board of Governors of the Federal Reserve System, Implementation of Minimum Liquidity Standards at 4 (Oct. 18, 2013), *available at* http://www.federalreserve.gov/aboutthefed/boardmeetings/board-memo-lcr-20131024.pdf.

[5] *Id.*

[6] We note that there are similar rules in other jurisdictions, including the U.K.

[7] SEC Release No. 34-55431 (March 9, 2007).

additional burdens and costs on top of the regulatory regime for broker-dealers constructed and enforced by the SEC.

Of specific concern with respect to this issue is that we understand the Agencies are intending to apply the Proposal in a manner that will ignore the liquidity enhancing qualities of Rule 15c3-3 segregated funds. This is because the Agencies are proposing to treat the associated assets to be encumbered and therefore not eligible to offset deposits subject to the liquidity coverage ratio ("LCR") outflow percentage applicable to an affiliate bank sweep structure. Because the Proposal neglects to discuss segregated accounts, such as those required by Rule 15c3-3, we have no meaningful ability to comment on the Agencies' approach. If our understanding of the Agencies' proposed approach is accurate, however, this treatment would be erroneous and reflect a poor understanding of the broker-dealer regulatory regime overseen by the SEC. In a period of stress, any run-off of customer affiliated sweep deposits would be offset by a release of funds from the segregated accounts. Ignoring the SEC's regulatory structure significantly discriminates against holding companies with substantial retail brokerage activities. If this is the thinking of the Agencies, we strongly urge the Agencies to re-issue the proposal so that holding companies with substantial retail brokerage activities will have an adequate opportunity to understand the logic of such a position, as well as other options, and to be able to provide meaningful comment in that context.

In the alternative, should the Agencies treat the release of 15c3-3 segregated funds as inflows, we believe that these inflows should not be subject to the 75% inflow cap under Section 33 of the Proposal (the "75% Cap"). The Proposal applies the 75% Cap to help ensure that a covered company holds a minimum of HQLA and is not entirely reliant on inflows to cover its liquidity needs. This treatment underscores the Agencies' failure to grasp in the Proposal an understanding of the role of the SEC as functional regulator of the broker-dealer and, specifically, the appropriate correlation for liquidity coverage purposes of outflows and inflows in the Rule 15c3-3 context. We understand the need for the 75% Cap to achieve the stated goals of the Proposal, but do not believe that these concerns are implicated in this context. The inflows from the release of segregated balances are not primarily a means of covering liquidity needs, rather they merely reflect the outflows of deposits back to the customer.

A proposed approach that would support functional regulation is for customer assets held on a segregated basis pursuant to regimes for the protection of customer trading assets, such as Exchange Act Rule 15c3-3, to be given one-for-one credit against affiliated sweep deposits before the LCR run-off rate applies. As investors reclaim affiliated sweep deposits from the affiliated bank, the segregated funds are released to the broker-dealer with no loss of liquidity up to the amount of segregated funds held under 15c3-3.

We urge the Agencies to recognize the unique nature of these segregated accounts, consistent with the Basel LCR. Indeed, Basel LCR ¶ 155 specifically provides that "Banks may also recognize in this category inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets, provided that these segregated balances are maintained in HQLA."[8] This issue

[8] Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (Jan. 2013), p. 37, *available at* http://www.bis.org/publ/bcbs238.pdf.

was not addressed in the Proposal; thus, we do not understand the Agencies' basis for varying from the Basel LCR. Accordingly, we request more specificity on the issue, including the opportunity to comment on any additional information.

In particular, it is important that any new proposal by the bank regulatory Agencies appropriately take into account the role of the SEC and other functional regulators and does not undermine regulatory efforts to ensure customer protection at a covered bank's affiliated broker-dealer. Concerns have recently been raised by several SEC Commissioners over what they perceive as the bank regulatory Agencies' overstepping their authority in the area of securities regulation.[9]

We encourage the Agencies and the SEC to coordinate their efforts whenever appropriate. The treatment of 15c3-3 accounts within the construct of the LCR is clearly a case of regulatory overlap that requires the involvement of the functional regulator, in this case, the SEC. The Proposal should be updated so that the SEC's current functional regulatory role in protecting broker-dealer customer assets, which has proven to be effective over time, can be maintained while also complementing the proposed LCR regime.

II. Retail Investor Behavior, Supported by Empirical Data, Justifies the Use of an Outflow Rate for Affiliated "Sweep" Deposits That, At a Minimum, Should be the Same as Used For Stable, Core Deposits

The Agencies have not referenced any study of investor behavior or similar information supporting the policy positions set forth in the Proposal, and we are not aware of any such study in the context of the Proposal. Thus, it is entirely arbitrary to pursue a significant policymaking initiative that assumes certain behavior without appropriate study, review and investigation. In fact, empirical data indicates that retail brokerage cash balances are extremely stable and, therefore, should not be discriminated against in favor of retail bank transactional balances. At a minimum, retail brokerage cash balances that are swept into an affiliated bank should be subject to the same outflow rates as stable, core deposits. Moreover, the brokerage cash balances have important "right-way" transactional and relationship components that make such balances more stable by definition and, thus, should not be discounted.

The Proposal calls for "stable retail deposits" to be multiplied by an outflow rate of 3%, whereas deposits placed by retail investors of a bank's securities affiliate that are subject to a "sweep" program under a deposit account agreement would be subject to a 10% outflow rate.

Our reading of the Proposal indicates that the Agencies' use and application of "common" and "standardized" assumptions regarding "stable retail deposits" and retail deposits

[9] In one case, in a speech on January 27, 2014, Commissioner Piwowar stated, "The second threat to our core mission is banking regulators trying to impose their bank regulatory construct on SEC-regulated investment firms and investment products." Speech by Commissioner Michael S. Piwowar, Advancing and Defending the SEC's Core Mission, Before the U.S. Chamber of Commerce, Washington, D.C. (Jan. 27, 2014), *available at* http://www.sec.gov/News/Speech/Detail/Speech/1370540671978.

that are subject to affiliate sweep programs is based upon the "supervisory experiences" of the Agencies. However, no data or studies were offered in the Proposal to support these assumptions or how effective these assumptions will be in addressing the perceived supervisory concerns. As demonstrated in the comment letter filed by Seward & Kissel, there is a significant body of academic and regulatory analysis that the underlying assumptions in the Proposal relating to brokered deposits and sweep programs are not only unsupported, but factually run counter to the evidence before the Agencies.[10]

In order to assist the Agencies, we directed Novantas, Inc.[11] to conduct the study described herein and shown in Appendix A.[12] This study clearly demonstrates that the Proposal makes erroneous assumptions and will require firms with liquidity risk profiles similar to Schwab to hold significantly higher amounts of HQLA that are not justified by any supervisory concern. We believe that using "common" and "standardized" assumptions is an arbitrary approach that will result in some firms holding insufficient liquidity and other firms holding too much liquidity. This will create, in effect, a "Liquidity Tax" on institutions like Schwab that effectively subsidizes other institutions that choose to pursue activities that result in a higher liquidity risk profile. In other words, the Proposal creates a systemic "Liquidity Subsidy" in favor of large, risk-taking organizations at the expense of institutions with lower risk profiles.

Cash held by Schwab's retail clients in brokerage accounts are a remarkably stable source of funding. Brokerage cash balances (also called cash-awaiting-investment) are automatically invested into products such as affiliated bank sweep accounts, brokerage interest-bearing free credits and money market funds. This sweep program automatically invests idle cash balances while providing investors with convenience, liquidity and yield. These sweep accounts reflect the growing market demands of increasingly sophisticated and knowledgeable retail investor-depositors seeking to balance the liquidity and stability of protected funds while facilitating trading in brokerage accounts to enable individuals to seamlessly buy and sell ETFs, stocks, bonds, and mutual funds. Individuals also can write checks, pay bills electronically and use debit cards on these accounts.

We see and can demonstrate through available data that customers manage these cash balances in a manner similar to retail checking balances, though in a different part of their

[10] We also wish to note and support the joint trades letter submitted by The Clearing House. In particular, we share their positions with respect to the definition of HQLA, the treatment of net cash outflows, the discussion of Exchange Act Rule 15c3-3, and treatment of affiliated sweep accounts.

[11] Novantas is a consulting and solutions firm with one of the largest dedicated banking practices serving the banks in the U.S., Canada, Europe, and Australia. Novantas is a recognized industry leader in providing strategic advice and operating services for managing deposits. Over the last decade, the firm has served financial institutions that manage over two trillion dollars of deposits.

[12] We analyzed all of the brokerage accounts of individuals held at Schwab, including their retirement accounts, using monthly data from 2006 to present. We examined the behaviors of these accounts across multiple dimensions in multiple segments. The dimensions we looked at were balance behaviors, account openings, and account closings across time. Segments included several levels of per account average Assets under Management, client-managed vs. professionally managed, FDIC insured and partially-insured balances, taxable and retirement accounts. We evaluated the different products that clients have available to them for the cash awaiting investment balances within their brokerage account. These include bank sweep, broker/dealer balance sheet interest bearing free credits, and sweep money market funds. We also calculated multiple crosstabs of these segments and cash awaiting investment product alternatives.

wallet (i.e., brokerage cash balances serve the same transactional purpose as balances in checking accounts). See Appendix A, Page 2-3. Further, we see that cash balances in brokerage accounts behave in a manner similar to bank transaction balances. See Appendix A, Page 2. Most importantly, account balances remain stable or increase in both stable and stressed economic environments, and are immune to interest rate levels and position relative to competitors. See Appendix A, Page 3 and 4.

Based on analyses of these data, we observe that cash balances (across all cash-awaiting-investment product alternatives) demonstrate highly stable behaviors in both stable and stressed economic markets. See Appendix A, Page 2. For all segments, average per customer account cash balances have trended up over time and showed little responsiveness in the stressed period, except that larger accounts tended to increase cash accumulations above trend in the downturn. See Appendix A, Pages 5 and 6. In regard to account openings and closings, both have remained stable throughout the time period, including the stress period. See Appendix A, Page 7. All of these behaviors occurred without interest rate incentives relative to alternatives in the market (i.e., the bank and brokerage did not price up to maintain these balances in the downturn). See Appendix A, Page 4.

We looked at the behavioral pattern of Schwab cash balances and accounts from the perspective of whether they were below outflow expectations embedded in the Proposal for stable and other retail deposits. Regulators have defined stable retail deposits as "a retail deposit, the entire amount of which is covered by deposit insurance, and either (1) held in a transactional account by the depositor or (2) the depositor has another established relationship with a covered company, such that withdrawal of the deposit would be unlikely."[13] These balances are subject to a minimum 3% outflow rate. Fully-insured Schwab cash balances not only meet the definitional criteria in the Proposal, in that they are fully covered by insurance and have a relationship component to them, but our data indicates that they have also been stable and beneficial to the brokerage and the bank holding the balances during stable and stress time periods. See Appendix A, Page 8. Further, these balances have never exhibited variability exceeding 3%, including during the economic downturn of 2008-2009. See Appendix A, Page 9.

We also looked at the behavioral pattern of Schwab cash balances and accounts from the perspective of whether behavioral differences exist between insured or uninsured balances. Our study shows that average account cash balances in partially-insured accounts also grew through the downturn and thereafter, despite a robust market recovery. See Appendix A, Page 9. This experience highlights another erroneous assumption of the Proposal.

There are also two components of cash held in a brokerage account that were not addressed in the Proposal:

<u>First, brokerage cash is transactional and exhibits "right-way risk".</u> Cash-awaiting-investment is held to be ready for a pending investment. Because it is transactional cash being held to make future investment, this cash also is created out of a desire by retail investors to "de-risk," wherein retail investors during a crisis sell their other holdings and hold cash until such time as they desire to move back into the market.

[13] 78 Fed. Reg. 71818, 71835 (Nov. 29, 2013).

Second, brokerage cash reflects a broader relationship. The relationship component of Schwab cash balances deserves emphasis, as it is an important feature that makes withdrawal of the deposits unlikely, thus making the balances more stable by definition. In particular, the bases for the deposits are firmly grounded in one-stop-shop convenience to the retail investor and brand loyalty, rather than a perennial chase for the highest interest rate that is the pervasive characteristic of so-called "hot money." As noted above and evidenced in Appendix A, Page 2, Schwab's cash-awaiting-investment funds were immune to interest rate levels and market alternatives altogether during both stable and stress time periods between 2006 – 2013.

Total cash balances in retail accounts grew at stable rates during the entire eight year study period, irrespective of alternatives being offered in the marketplace. This is true for all of the cash options offered by Schwab, including the MMFs. The fact that these accounts are client managed is evidence that brokerage customers do not exhibit switching behavior and prefer not to move their cash-awaiting-investment balances to other cash investments.

Accordingly, we strongly urge the Agencies not to engage in an unsubstantiated and unjustified wholesale categorization of sweep deposits as being inherently less stable and therefore subject to a higher outflow rate than stable, core deposits.

III. Empirical Data for Partially-Insured Affiliated Sweep Deposits Justifies the Same Outflow Rate Treatment as for Retail Deposits Without a Relationship Component

Partially-insured balances, i.e. accounts with balances over the $250,000 FDIC insurance limit, by definition do not meet the insurance criteria for a stable retail deposit, but do meet the defined required relationship criteria and show extreme stability. Our analysis proves that these accounts exhibit variability lower than the 10% recommended outflow rate for "other retail deposits" defined as deposits that are "not entirely covered by deposit insurance, or that otherwise do not meet the proposed criteria for a stable retail deposit."[14] This variability never even comes close to the proposed 40% outflow rate for partially insured affiliated entity sweep products. We urge the Agencies to adopt an approach for treatment of partially-insured affiliated sweep deposits that is consistent with a recognition that deposits, in general, that are subject to affiliated sweep programs exhibit the same features as retail deposits without a relationship component.

IV. Conclusion

In conclusion, the long term study of Schwab balances indicates that while some variability occurs at higher asset levels, no matter the measure (total cash balances, average cash balance, cash as a percentage of total assets at Schwab, growth in the number of clients) the outcome is the same:

- Retail brokerage cash balances are extremely stable and, therefore, should not be discriminated against in favor of retail bank transactional balances. At a

[14] 78 Fed. Reg. 71818, 71836 (Nov. 29, 2013).

minimum, retail brokerage cash balances should be subject to the same outflow rates as stable, core deposits.

- The investment transactional and client relationship components of Schwab cash balances are important features that make withdrawal of the deposits unlikely, thus making the balances more stable by definition. This aspect should not be discounted or ignored.

- Fully-insured balances have volatility rates below 3%, the proposed outflow rate for stable retail deposits, and partially-insured balances have volatility rates well below 10%, the proposed outflow rate for partially-insured retail deposits or accounts without a relationship component. Thus, both fully-insured and partially-insured affiliated entity sweep products have volatility rates at least as low as the comparable proposed outflow rates for retail transactional accounts.

- Because of the disparate treatment of insured and uninsured balances, large bank holding companies with multiple charters will be favored over smaller, simpler institutions that cannot "waterfall" their sweep programs to multiple affiliated banks. Furthermore, the Agencies have articulated a reluctance to grant new charters, thereby preventing the creation of an even and competitive playing field.

We believe that the Agencies, through their supervisory authority, have access to all of the data referenced herein, at Schwab and across the industry. Any outflow assumptions higher than described in our study should be the result of the unique liquidity risk profile of the subject institution.[15] We urge the Agencies to conduct their own study before making categorical and unsupported assumptions that will clearly benefit larger risk-taking banking organizations at the expense of other institutions such as Schwab. We believe this study will confirm that affiliated entity sweep products should be subject to an outflow rate of no more than 3%. We believe our data and the data available to the Agencies will also demonstrate that there is no justification to subject all balances to higher outflow rates simply because insurance levels are exceeded. While the data may support subjecting the portion of balances above insurance limits to a higher rate, it also supports imposing a rate of not more than 10%, and doing so only on those portions of the balances that exceed insurance limits.

For these reasons, Schwab is very concerned that the Proposal completely disregards the unique aspects of Schwab's retail clients, the financial services sector in which Schwab operates, and the associated regulatory structure for this segment of the industry. If implemented as proposed, the Proposal would result in a regulatory take-over by the prudential agencies from the financial oversight of functional regulators, such as the SEC in Schwab's case.

[15] In this regard, we note that the Proposal is based on assumptions that, in many cases, may bear little correlation to the actual historical experience of an institution, including through the most recent financial crisis. Instead of applying unsupported LCR standards to all institutions across the board, an alternative would be for the Agencies to adopt a tailored approach similar to how capital adequacy is measured at each individual institution. This could involve the application of lower standard liquidity ratio minimums coupled with the ability of an institution's management and board to determine the appropriate liquidity ratios based on their institution's unique risk profile. The regulators could then examine each institution's documentation and analysis used to substantiate the institution's liquidity ratio as part of the examination process.

We do not agree that the Agencies should, or may under the Administrative Procedures Act, adopt a one-size fits all "standardized" set of assumptions that, as demonstrated above, do not reflect a common risk liquidity profile.

We believe, at a minimum, in order to avoid being "arbitrary" and "capricious," the proposed LCR standards would have to be based on a common risk liquidity profile, which, as demonstrated above, the Proposal does not do. To address the serious concerns highlighted in this letter, we urge the Agencies to respond by one of two actions:

- Exempting depository holding companies with substantial retail brokerage activities from application of the Proposal; or
- Withdrawing the Proposal as it relates to depository holding companies with substantial retail brokerage activities and re-issuing a new proposal after appropriate study, consultation with the SEC and consideration of the unique regulatory and behavioral aspects of retail investors.

Because the Proposal fails to offer any transparency into what data and facts the Agencies considered in arriving at the choices made in the Proposal, Schwab's ability to offer meaningful comments was significantly limited. We hope that the study described above will allow the Agencies to pause, study and reconsider its approach.

Thank you very much for the opportunity to provide this comment. If you have any questions, please do not hesitate to contact me at 415-667-0958 or peter.morgan@schwab.com.

Very truly yours,

Peter A. Morgan III

Peter Morgan
Senior Vice President & Deputy General Counsel

cc: The Honorable Mary Jo White, Chair, Securities and Exchange Commission
The Honorable Luis A. Aguilar, Commissioner, Securities and Exchange Commission
The Honorable Daniel M. Gallagher, Commissioner, Securities and Exchange Commission
The Honorable Kara M. Stein, Commissioner, Securities and Exchange Commission
The Honorable Michael S. Piwowar, Commissioner, Securities and Exchange Commission
Scott G. Alvarez, General Counsel, Board of Governors of the Federal Reserve System
Amy S. Friend, Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency
Richard J. Osterman, Jr., Acting General Counsel, Federal Deposit Insurance Corporation

Schwab LCR Proposal Comment Letter

Supporting Exhibits Appendix A

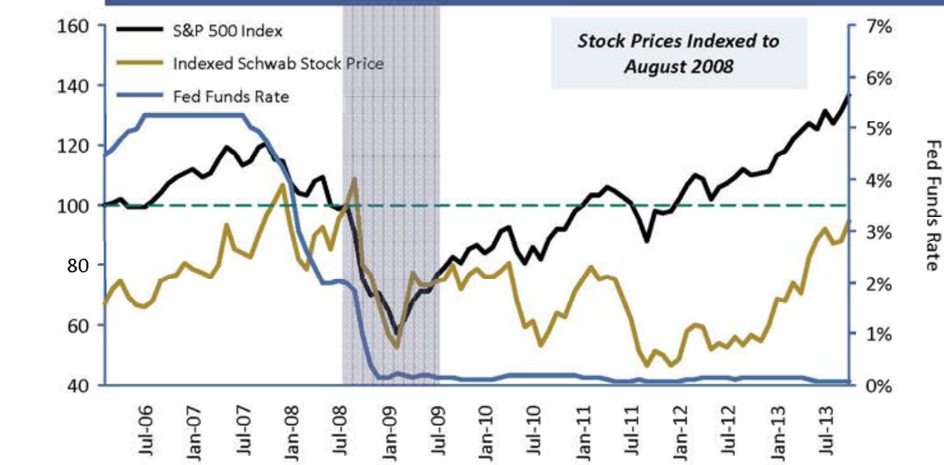
January 31, 2013

Definition – Cash Awaiting Investment

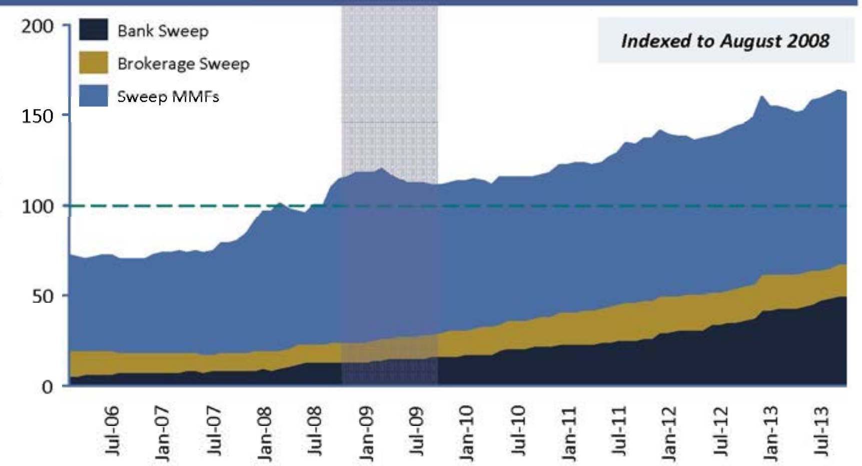
Field	Definition
Cash Awaiting Investment	Component in every brokerage account at Schwab designed to provide modest return to client cash to facilitate broader investment decisions. It is transactional in nature and not subject to significant changes. Several alternatives are available to clients for this purpose: Interest Bearing Brokerage Cash (client cash is held on Broker/Dealer balance sheet), Sweep Money Market Funds and Affiliated Bank Sweep (client cash is held at affiliated bank)

Despite significant market and economic stress, investor total and average per account brokerage cash balances grew throughout the crisis and recovery periods

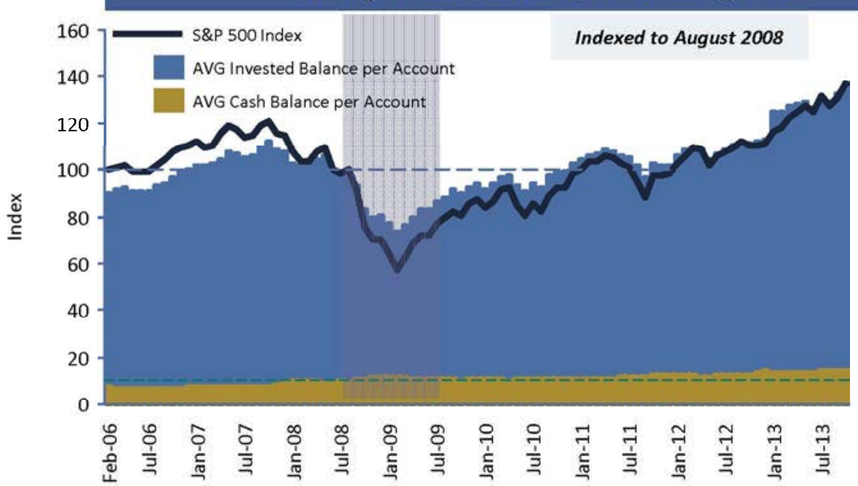
Equity and money markets Collapsed...



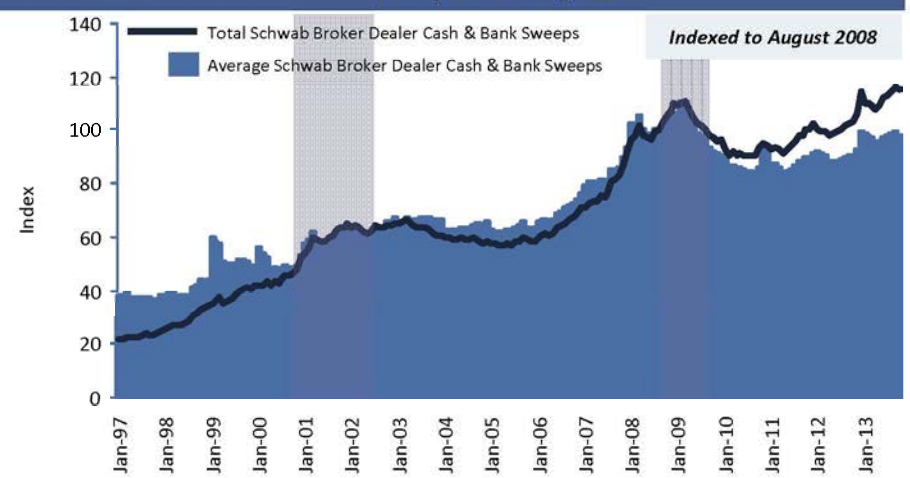
...but total investor cash balances remained stable and strong – regardless of the product used



In the depths of the Great Recession market decline and beyond, average cash balances per account grew...

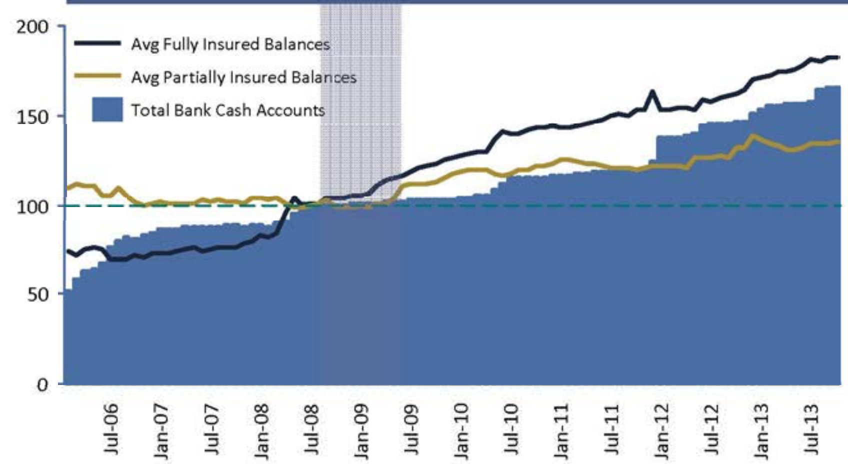


...and the trend of increasing cash balances is consistent through many market cycles

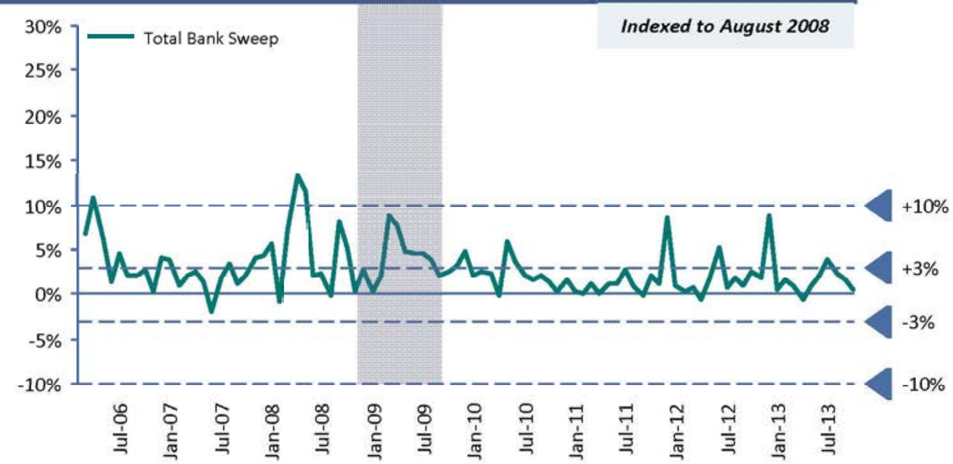


Average per account bank sweep balances increased whether fully or partially insured...Stability is further reinforced when examining month over month percent change - whether at the total or average per account

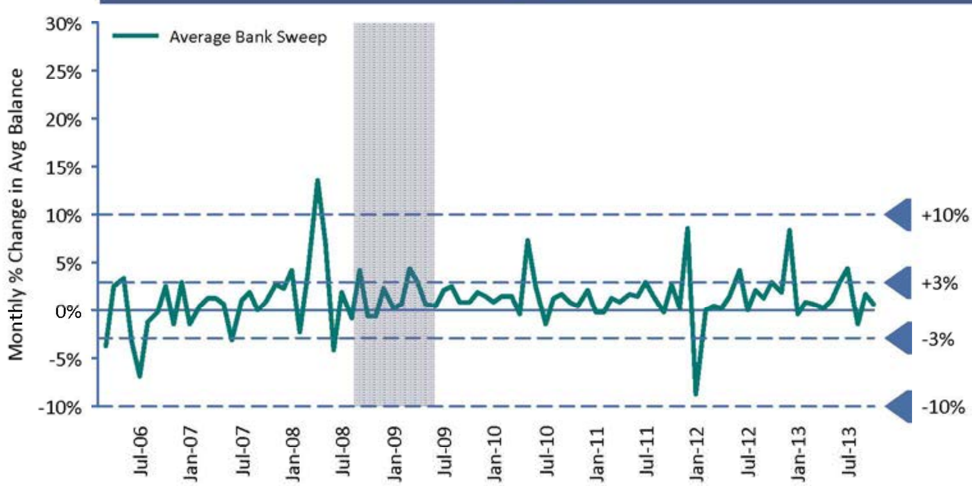
Average balances trend up over time, whether partially or fully insured Affiliated Bank Sweep Balances



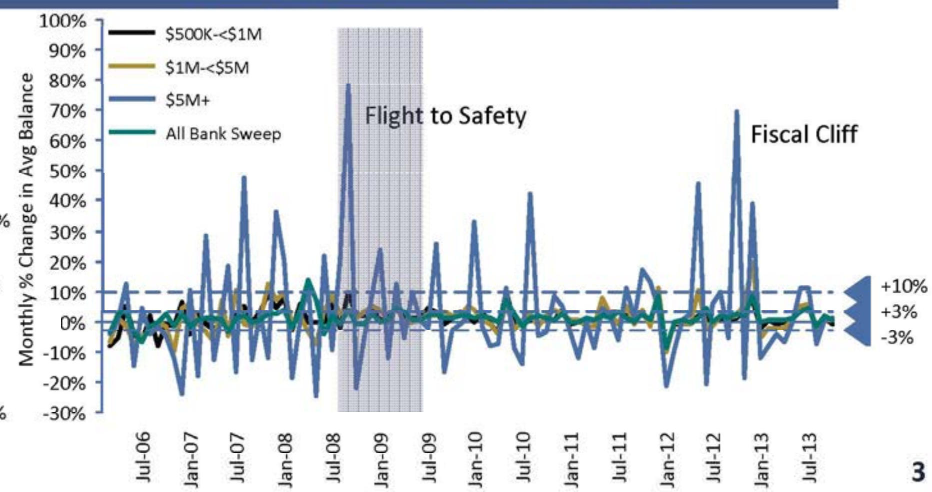
Total Bank Sweep month over month change in balances exhibit minimal variation



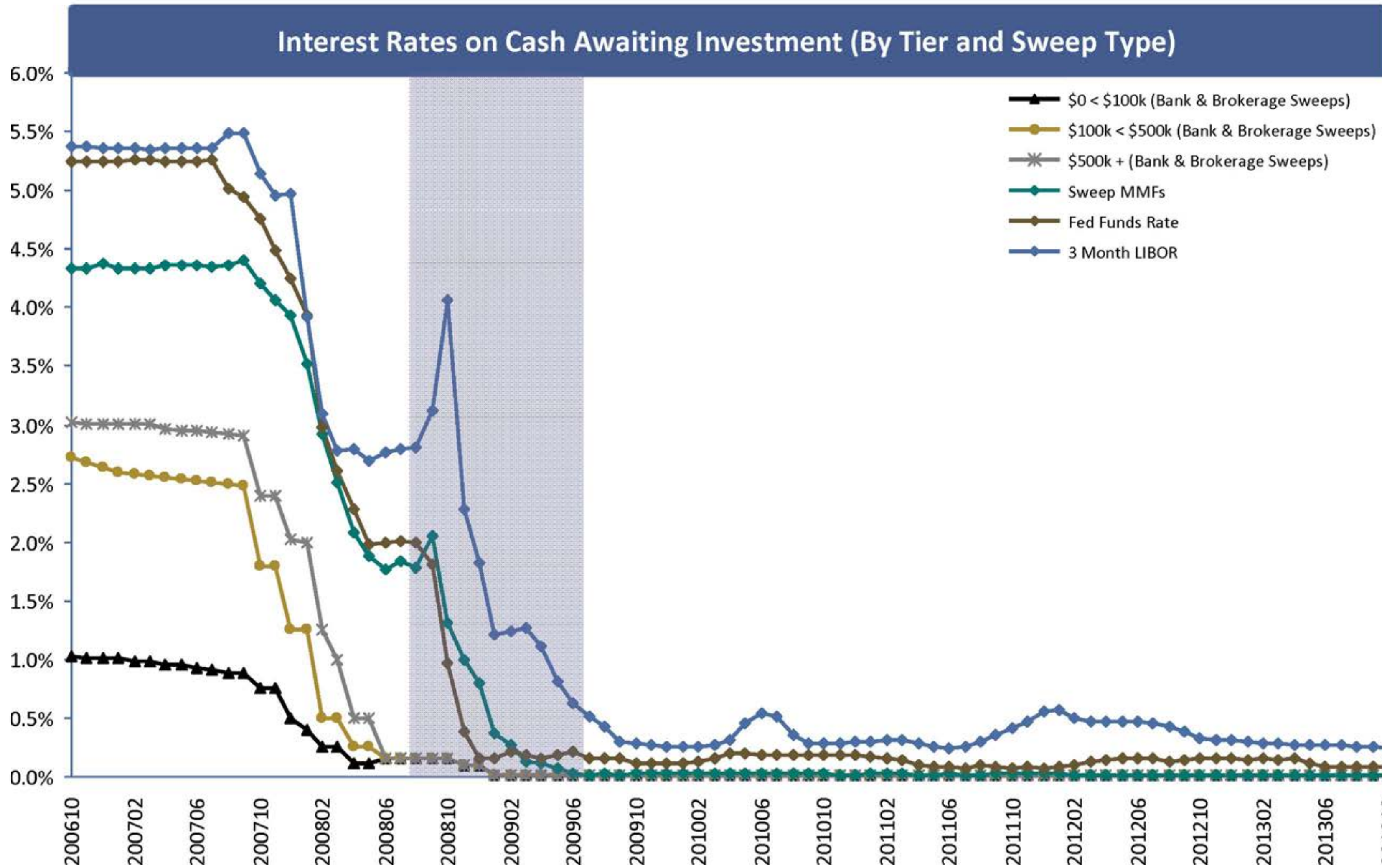
Average client account cash balances rarely fluctuate beyond +/- 3-4%



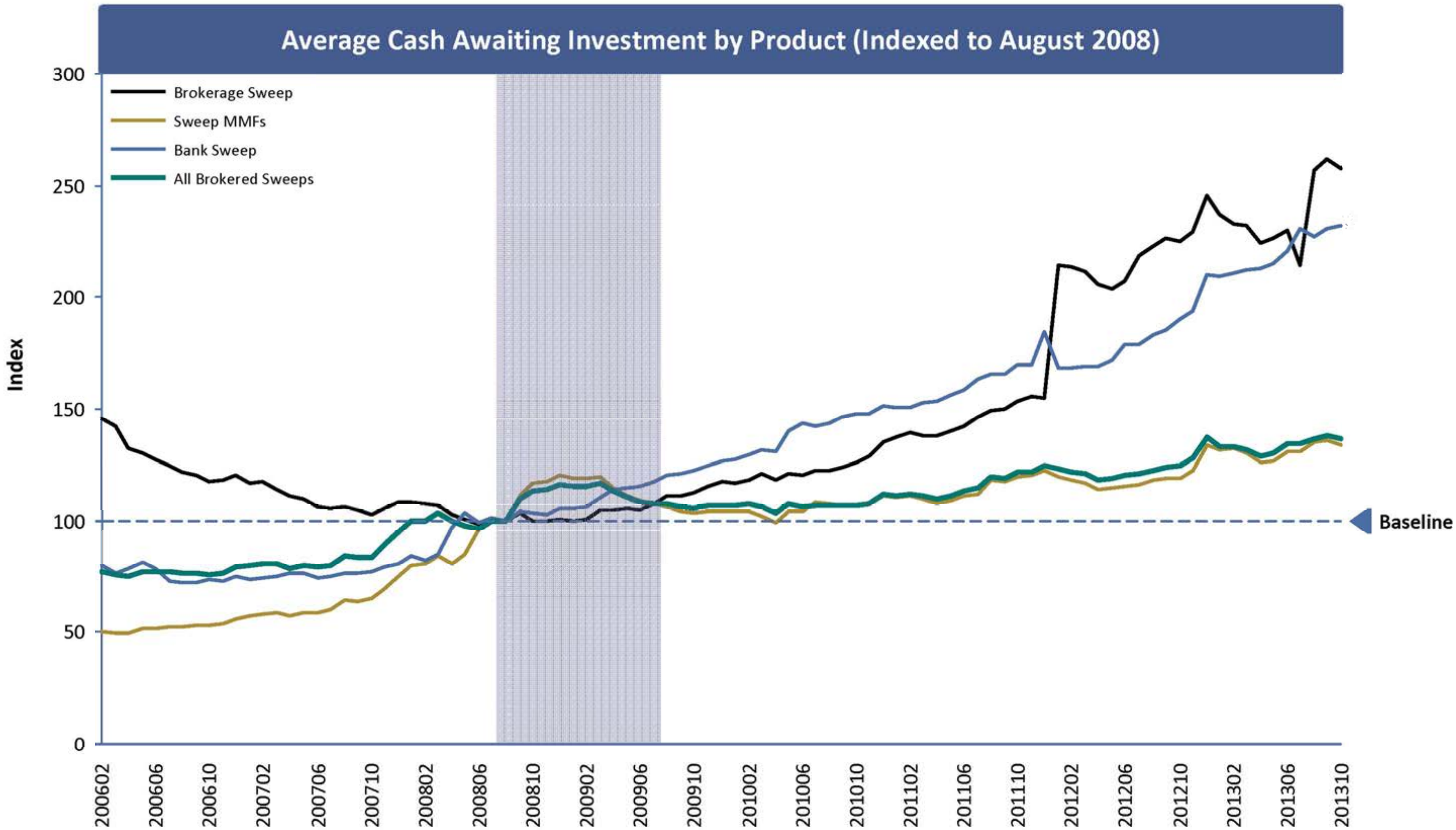
Very large client accounts average cash balances do show more volatility but still within a reasonable range



Yields available to investors at Schwab moderated to and stayed at 0% during the study period, cash awaiting investment did not experience outflows despite higher paying alternatives in the market

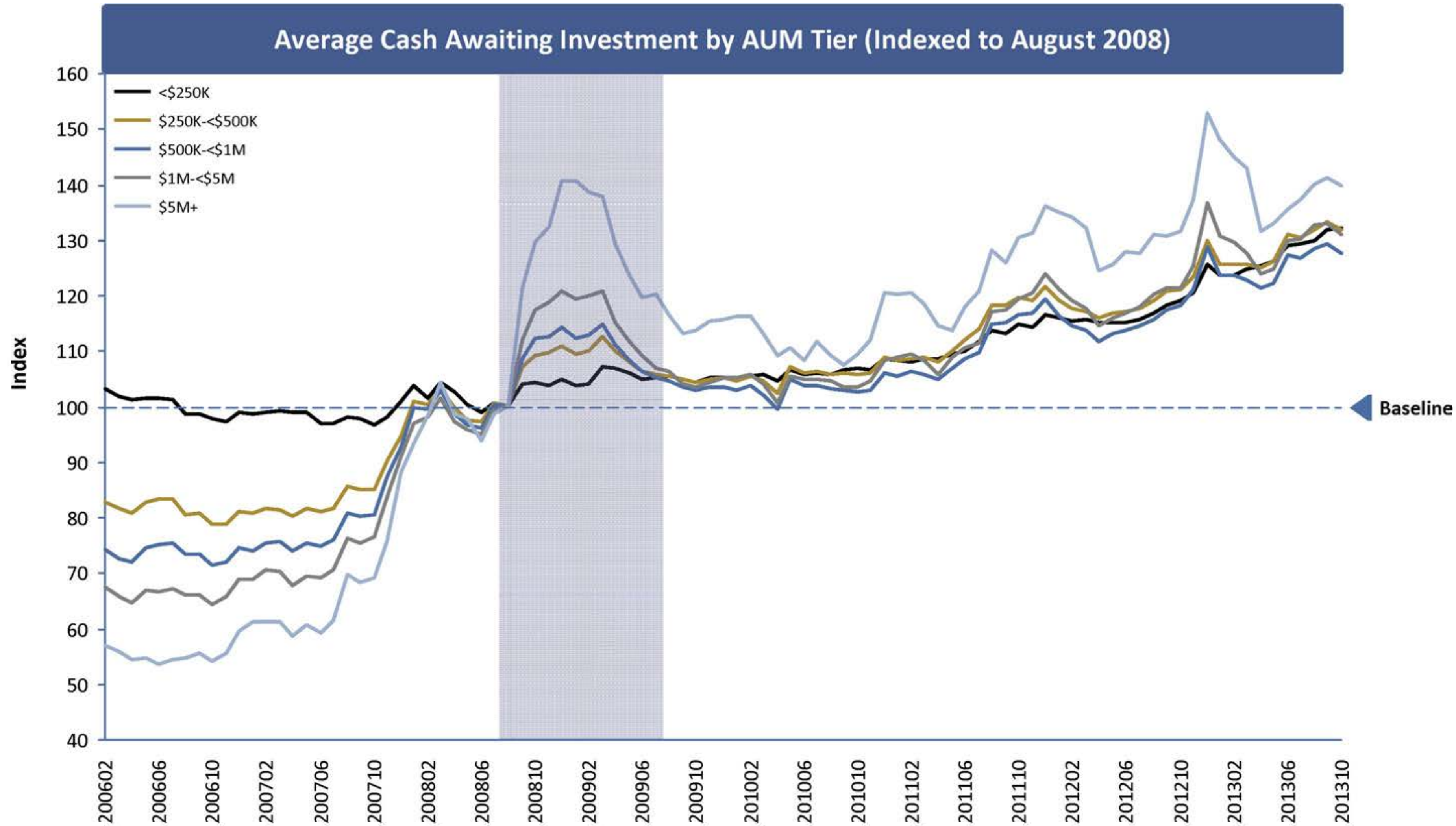


Average per account brokerage cash balances in all products increased during the crisis and continued to grow post crisis

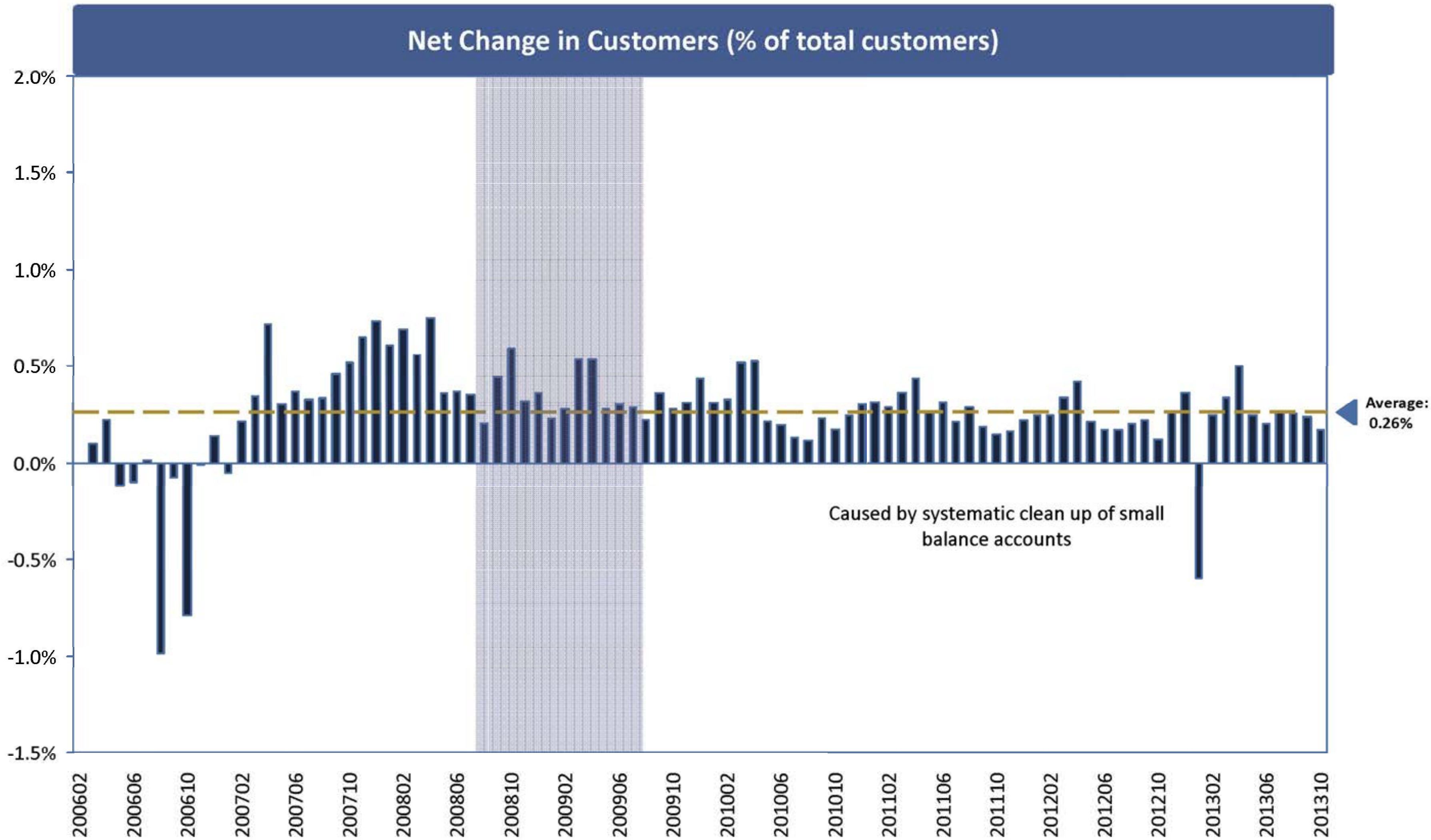


Note: Over the last few years, Schwab has conducted large scale transfers of client cash from one product to another, primarily from either the Sweep MMFs or the brokerage sweep into the bank sweep when the client no longer qualifies for the Sweep MMFs or Brokerage sweep. This has occurred annually, and explains the large increase in Bank sweep and corresponding decreases in brokerage sweep or Sweep MMFs.

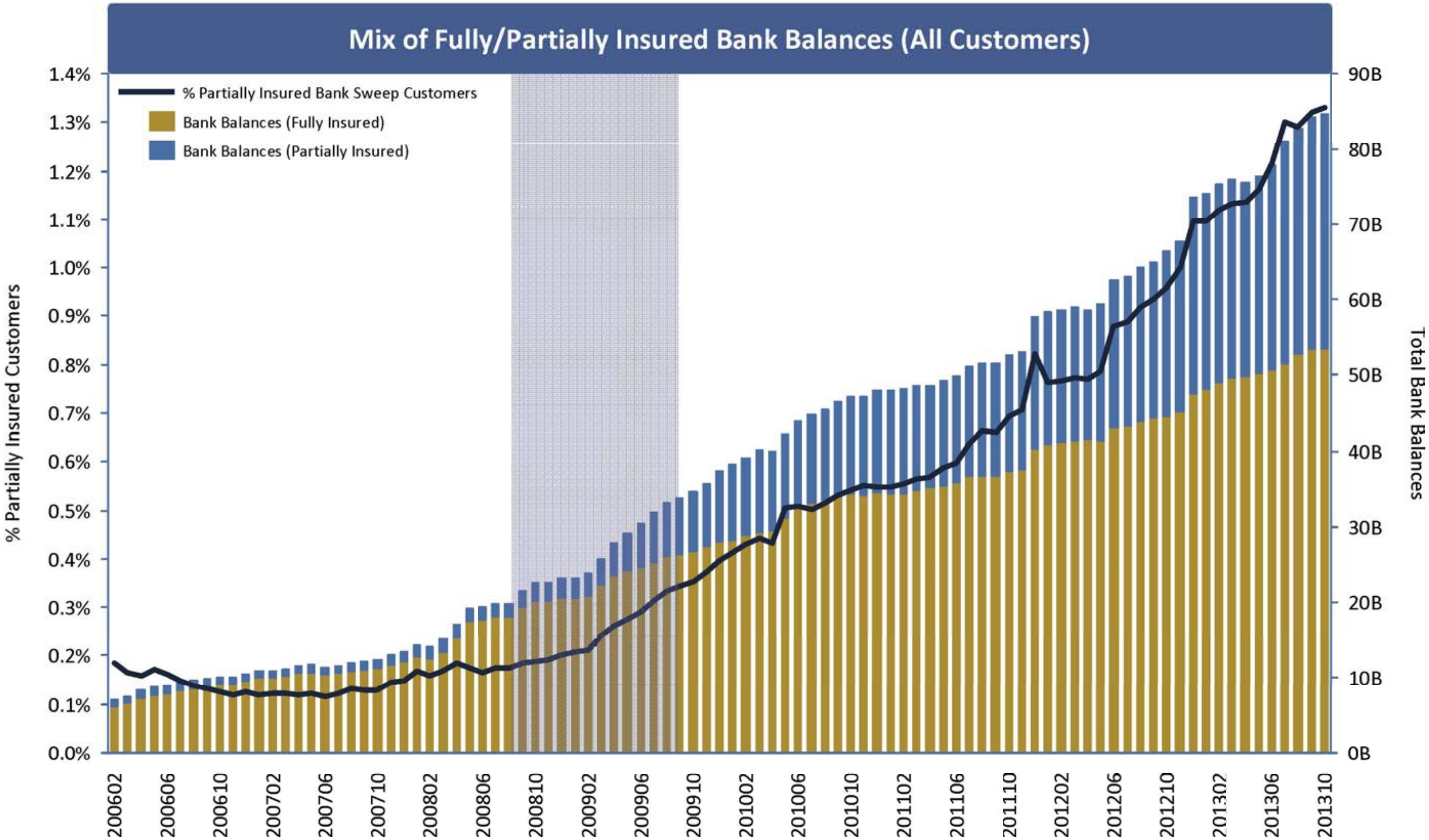
Larger accounts have slightly more variability in average brokerage cash balances during the study period than smaller accounts but both exhibited growth



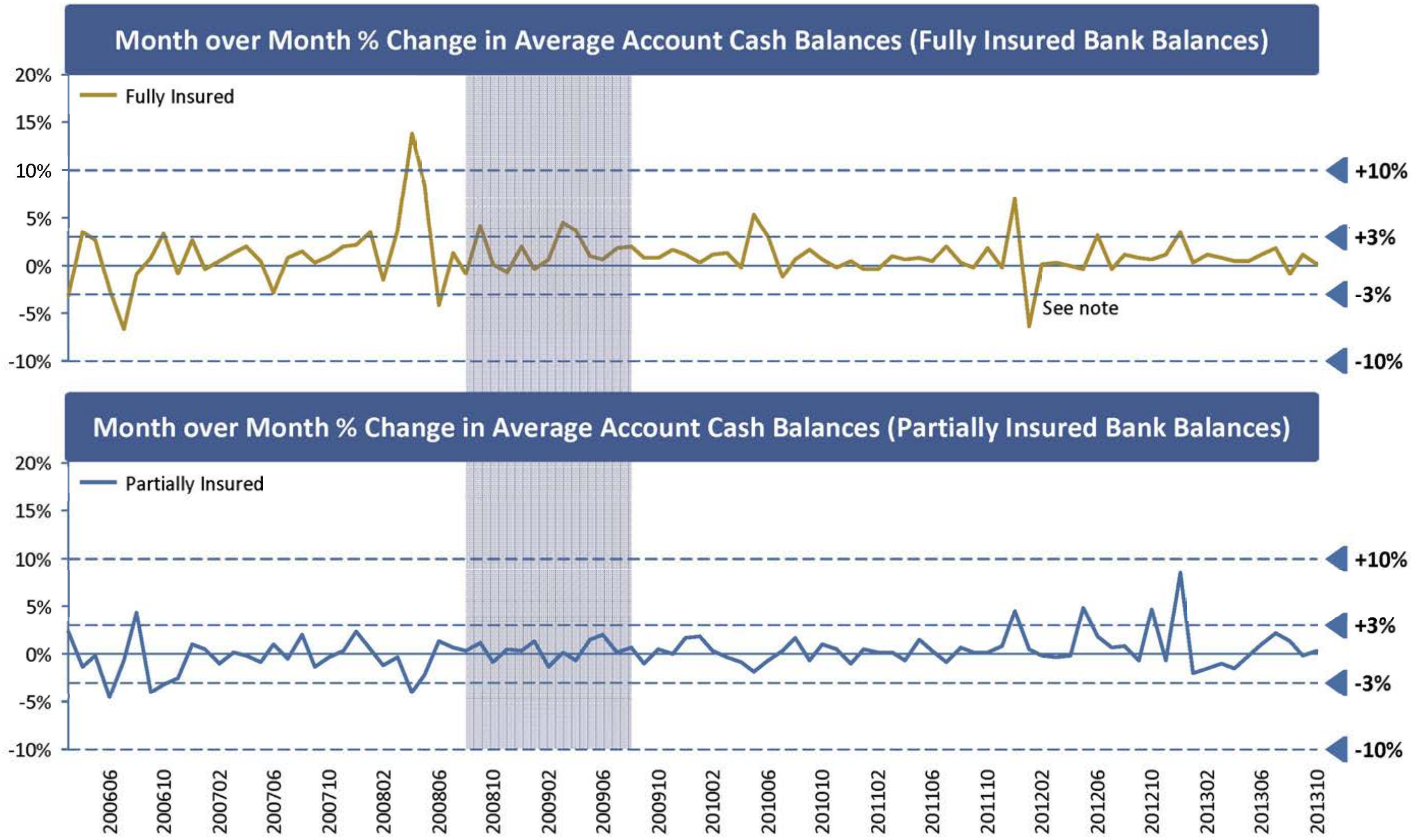
Net Change in Open/Active Customers was positive and relative consistent throughout the crisis and subsequent recovery period



Mix of Fully/Partially Insured Bank Balances



Average cash balance per account month over month change in fully and partially insured accounts showed little variability throughout the period



Note: Over the last few years, Schwab has conducted large scale transfers of client cash from one product to another, primarily from either the Sweep MMFs or the brokerage sweep into the bank sweep when the client no longer qualifies for the Sweep MMFs or Brokerage sweep. This explains the monthly % change drop – it was not caused by client behavior.