

From: Daniel Cope  
Proposal: 1466 (RIN 7100 AE03)- Reg WW - Minimum Liquidity Standards  
Subject: R-1466 Minimum Liquidity Standards

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Comments:

Please refer to the attached file.

[p]Public Comments on Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring:=====[/p]

[p]Title: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring

FR Document Number: 2013-27082

RIN: 7100 AE-03

Publish Date: 11/29/2013 12:00:00 AM

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Comment:

The proposal should clarify the standard for liquidity and ensure the runoff assumptions are calibrated to the standard. In particular, the agencies should clarify whether LCR meant to ensure liquidity for:

1. A bank whose capital solvency has come into question precipitating a run on such a bank, or
2. Other banks whose solvency is not directly in question but who are operating in an environment where all parties are being cautious due to solvency questions about other market participants.

In other words, is the standard to prevent runs on Washington Mutual and Wachovia? Or is the standard to prevent runs on Chase and Bank of America in a world where WaMu and Wachovia are at risk?

My feeling is that the intention is to ensure (2) so that banks have sufficient liquidity to survive a period of stress where they themselves are not subject to solvency concerns. And indeed, attempting to ensure (1) would be nearly impossible so long as the solvency concerns are well founded -- even with a large stock of high quality liquid assets (HQLA) insolvent institutions will eventually become liquidity constrained.

To the extent that is true, the runoff assumptions should be calibrated to the runoffs experienced these banks during the last crisis, not to the runoffs experienced by the publicized failures. That is, the system should be calibrated to the experience of Chases and Banks of America of the world, not to the WaMus and Wachovias.