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January 31, 2014

*Via Electronic Mail*

Robert deV. Frierson, Secretary  
Board of Governors of the Federal Reserve  
System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551  
regs.comments@federalreserve.gov  
**Docket No. R-1466**  
**RIN 7100 AE-03**

Robert E. Feldman, Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation  
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**RIN 3064-AE04**

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**Docket ID OCC-2013-0016**  
**RIN 1557 AD 74**

**Re: Notice of Proposed Rulemaking—Liquidity Coverage Ratio: Liquidity Risk  
Measurement, Standards, and Monitoring**

Ladies and Gentlemen:

U.S. Bancorp (“U.S. Bank”) welcomes the opportunity to comment on the notice of proposed rulemaking by the Office of the Comptroller of the Currency (the “OCC”), the Board of Governors of the Federal Reserve System (the “Federal Reserve”), and the Federal Deposit Insurance Corporation (the “FDIC” and, collectively, the “Agencies”), entitled *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring* (the “Proposal”).

U.S. Bank also appreciates the Agencies’ efforts to meet with U.S. Bank, other financial institutions, and trade groups to ensure that the responses to the Proposal are informed and contribute to strengthening liquidity risk management in the financial sector.

U.S. Bancorp, with \$364 billion in assets as of December 31, 2013, is the parent company of U.S. Bank National Association, the fifth largest commercial bank in the United States. The company operates 3,081 banking offices in 25 states and 4,906 ATMs and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust, and payment services products to consumers, businesses, and institutions.

This letter focuses on the elements of the Proposal which are of primary importance to U.S. Bank. U.S. Bank is also commenting on the Proposal through its endorsement of comment letters submitted by a group of prominent financial trade organizations<sup>1</sup>. In addition, U.S. Bank is responding to the proposal through comment letters submitted by a group of its regional peer banks and by the Corporate Trust Committee of the American Bankers Association.

### **Principal Concerns**

U.S. Bank agrees with the Agencies' efforts to increase the quality of liquidity risk management in the banking sector. However, U.S. Bank has serious reservations regarding certain elements of the Proposal. These concerns are as follows:

- regional banking organizations such as U.S. Bank should be subject to the Modified Liquidity Coverage Ratio ("LCR") and not to the "full" LCR applicable to large, internationally active banking organizations;
- the operational and Excess Operational Deposit methodology is not consonant with how customers manage their bank accounts and implies the need for a models-based approach and lacks clarity, thereby promoting inconsistent interpretations among covered institutions;
- deposits arising from corporate trust services meet the definition of Operational Deposits and should be exempt from the Excess Operational Deposit methodology;
- the calculation of the Adjusted Excess HQLA Amount (the "Unwind Methodology") which severely impacts the level of High Quality Liquid Assets ("HQLA") includable in the numerator should not apply to collateralized deposits;
- daily calculation of the LCR and the "worst day" calculation are not meaningful and do not enhance liquidity risk management.

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<sup>1</sup> The Clearinghouse Association LLC, the American Bankers Association, the Securities Industry and Financial Markets Association, the Financial Services Roundtable, the Institute of International Bankers, the Institute of International Finance, the Mortgage Bankers Association, and the Structure Finance Industry Group

### **U.S. Bank Should be Subject to the Modified LCR**

The “full” LCR is proposed to apply to all banking organizations with \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposures. We believe this threshold inappropriately captures certain regional banking organizations, including U.S. Bank, whose business models, operations, and funding profiles are more similar to Modified LCR banks than to the internationally active banking organizations such as the Globally Systemically Important Banks (“G-SIBs”) subject to the “full” LCR. U.S. Bank believes that the Agencies should broaden the scope of the Modified LCR in the final rule to ensure that all regional banking organizations are excluded from a liquidity risk measurement and management regime designed for larger, more complex banking organizations with demonstrably different funding sources.

The Proposal intends that the “full” LCR be applied to internationally active banking organizations<sup>2</sup>, whose failure would have a significant systemic impact. The Proposal also recognizes that the Modified LCR is appropriate for organizations that are less complex in structure, less reliant on riskier forms of market funding, and have simpler balance sheets. Such banking organizations, the Modified LCR proposal notes, have liquidity risks that are easier for management and supervisors to monitor and address quickly in a stressed scenario. Accordingly, these regional banking organizations would likely not have as great a systemic impact as larger, more complex companies should they experience liquidity stress.

As the tables in Appendix 1 demonstrate, U.S. Bank clearly exhibits all of the characteristics the Agencies cite as criteria for the Modified LCR. U.S. Bank believes that its streamlined corporate structure and straightforward traditional banking business model qualify it for the Modified LCR rather than the “full” LCR. Over 99% of U.S. Bancorp’s assets are contained in its sole commercial bank, U.S. Bank National Association. U.S. Bank’s business model focuses on traditional retail and commercial banking products and services and has only limited broker-dealer and foreign activities.

To highlight the differences between U.S. Bank and larger, more complex financial institutions, we provide the following comparisons<sup>3</sup>:

- the average ratio of the G-SIBs’ total trading assets to total assets is 16%, the corresponding ratio for U.S. Bank is less than 1%, as it is for all banks qualifying for the Modified LCR;

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<sup>2</sup> *Basel III Framework*, ¶¶ 6 and 164. The Basel III Framework does not define “internationally active banks” or otherwise define the scope of the LCR.

<sup>3</sup> The source of the information for these comparisons is SNL – FR Y-9C (9-30-13)

- the average ratio for reliance on wholesale funding (as calculated under the methodology used by the OCC as part of its canary supervisory system) is 46% for the G-SIBs, 18% for U.S. Bank, and 24% for all banks qualifying for the Modified LCR;
- the average ratio of securities sold and repo to total liabilities is 11% for G-SIBs, less than 1% for U.S. Bank and for all banks qualifying for the Modified LCR; and
- the ratio of average foreign loans to average total loans for the G-SIBs is 18% and less than 1% for U.S. Bank and for all banks qualifying for the Modified LCR.

The Agencies already have recognized that regional banks are simpler and less complex in a variety of other characteristics. For example, the Federal Reserve recognizes that the liquidity profiles and risks of regional banks differ from those of banks that produce the daily 4G and the proposed FR 2052 liquidity reports.<sup>4</sup> The Federal Reserve and the FDIC also recognize that regional banks are simpler and less complex in setting the schedule for initial submissions of resolution plans required under the Dodd-Frank Act.<sup>5</sup> Unlike other LCR banking organizations, regional banks subject to the “full” LCR were all required to submit initial resolution plans in the third or the final round established by the joint Federal Reserve-FDIC rules.

The Basel LCR Framework does not define “internationally active banks” or otherwise define the scope of the framework. Therefore, we believe the agencies have the flexibility under the Basel LCR Framework to apply the Modified LCR to regional banks such as U.S. Bank.<sup>6</sup> Applying the LCR in the manner proposed also would be consistent with section 165 of the Dodd-Frank Act, which provides for any enhanced prudential standards to be tailored based on a firm’s riskiness, complexity, size, and financial activities, as well as other relevant risk-related factors.<sup>7</sup> Importantly, regional banking organizations that no longer would be subject to the “full” LCR would continue to be subject to the same quantitative liquidity risk management requirements that apply to other regional banking organizations, the Federal Reserve’s enhanced liquidity standards established under section 165 of the Dodd-Frank Act, and the Agencies’ liquidity risk management expectations set forth in the Interagency Policy Statement on Funding and Liquidity Risk Management.

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<sup>4</sup> In addition to the differences in reporting frequency between the FR 2052a (daily for G-SIBs) and the FR 2052b (monthly for bank holding companies with \$50 billion or more in total consolidated assets that are not G-SIBs), the FR 2052b report also would require more limited and streamlined information than the FR 2052a.

<sup>5</sup> 12 C.F.R. §§ 243.3(a)(1)(iii) and 381.3(a)(1)(iii).

<sup>6</sup> The Basel frameworks, including the Basel LCR Framework, provide national authorities responsibility for identifying those organizations that should be considered “internationally active.”

<sup>7</sup> 12 U.S.C. § 5365(a)(2).

Applying the Modified LCR to U.S. Bank is consistent with safety and soundness considerations, the Basel LCR Framework, and the direction provided by Congress in Section 165 of the Dodd-Frank Act. Accordingly, U.S. Bank recommends that the agencies exclude U.S. Bank and its peer regional banks from the unnecessarily onerous requirements of the “full” LCR.

### **Operational and Excess Operational Deposit Methodology**

U.S. Bank supports the Proposal’s objective of strengthening banks’ liquidity risk profiles by reducing their reliance on deposits that would leave a bank in the event of a liquidity crisis. U.S. Bank appreciates both Basel’s and the Agencies’ recognition of Operational Deposits as more stable sources of funding versus non-Operational Deposits. U.S. Bank also understands the importance of establishing criteria to qualify a deposit as operational and acknowledges the similarities between Basel’s criteria and those of the Proposal.

Nevertheless, U.S. Bank has concerns regarding the requirement to adopt a methodology which would segregate balances within a single account into those meeting the Operational Deposit criteria and those which are Excess Operational balances. U.S. Bank believes this provision of the Proposal introduces unnecessary complexity not found elsewhere in the LCR. Outflow categories can be determined for every other deposit category by utilizing a logical organization of binary decision points. Based on the Proposal, it appears that the distinction between Operational and Excess Operational Deposits can only be achieved via a combination of statistical and behavioral modeling.

U.S. Bank recommends that the Agencies abandon any language that would lead to a models-based approach for segregating Operational and Excess Operational Deposit balances. Instead, the Agencies should provide clearly determinable criteria consistent with the logic applied to every other deposit category.

Requiring a models-based approach would force banks to develop, test, validate, and implement models, over a period of less than twelve months, which are to segregate Operational Deposits from Excess Operational Deposits. The banks would be developing these models from a standing start, as there is no precedent for statistically-based models that can empirically determine the balances that a customer requires to conduct its banking activities from within a single account. The time frame provided to create and implement useful models satisfying these objectives is too short. Agencies have required banks to develop operational capital models and credit models over a far longer time frame before allowing these to come on line.

Even if there were more time allowed for model development, the other conditions will be very difficult to meet. The criteria proposed to determine Operational Deposit levels are not consistent with the design or role of operating accounts as employed by banking customers. Account

agreements on customer operating accounts do not commit customers to maintain minimum balances and requiring such would interfere with the operational activity the agreement is intended to support. Balances in a customer's accounts will fluctuate materially as a result of normal business activities such as debt issuance or repayment, acquisitions, or periodic tax payments. These changes are driven solely by customer needs and are independent of the financial condition of the customer's bank.

In addition, the ability of customers to efficiently manage their cash by readily transferring funds between short term investments, sweep accounts, and interest-bearing accounts on a daily, or even intraday basis, means that a practicable definition of an operating account could realistically encompass all of a customer's account balances, whether they reside in an account specified as an operating account or not.

For example, an operational relationship will routinely utilize at least two accounts: the operational account where all activity takes place and a sweep account which automatically, or manually, receives the end-of-day balance from the operational account. The pairing with the sweep account allows the customer to receive a market rate of interest on their balances while keeping the deposit available to satisfy the daily needs of the operational account. In these cases, the operational account would show all the operational activity (debits and credits) but nearly no average or ending balance. The operational balance for the customer could only be realized by observing their suite of accounts.

Banks are confused by the lack of clarity in the Proposal regarding the requirements of the Excess Operational Deposit Methodology. This lack of direction has led to the conception of a variety of modelling approaches to distinguish between Operational Deposits and Excess Operational Deposits. These inconsistent approaches will result in divergent outcomes, and provide no basis for comparing the liquidity profile of different banks because of the inconsistency in each bank's process for determining its Operational and Excess Operational Deposits.

Furthermore, U.S. Bank believes that the bifurcation of balances within an account structure is simply unnecessary. Strictly enforcing the prohibition against offering an economic incentive for maintaining excess balances will naturally encourage customers to maintain those excess balances in separate investment accounts. This provision will more effectively identify Operational Deposits than statistical or behavioral modeling.

Despite the absence of any economic incentive, there will always be customers who will leave what would appear to be excess balances in their operational accounts. In these cases the bank should assume that the customers view those balances as necessary for their operational needs. There is no way for the bank to determine, for each customer, the level of sophistication, staffing resources, or internal policies which would motivate a customer to maintain excess balances to provide against future unmonitored, or unexpected activity.



U.S. Bank recommends that the Agencies abandon any language that would lead to a models-based approach for segregating Operational and Excess Operational Deposit balances. Instead, the Agencies should provide clearly determinable criteria consistent with the logic applied to every other deposit category. U.S. Bank recommends that the criteria for Operational Deposits arising from cash management services should be as follows:

- 1) the deposit is generated from cash management services provided to the customer; and,
- 2) balances are held in one or more accounts that are integral with the customer's cash management activities; and,
- 3) these accounts must not provide the customer with an economic incentive to maintain excess funds through above-market pricing.

U.S. Bank believes that adopting an approach such as the one outlined above to determine Operational Deposits eliminates one of the most problematic and complex elements of the LCR and provides the banks with guidance that will lead to comparability and consistency in the determination of Operational Deposits.

### **Deposits Arising from Corporate Trust Services**

U.S. Bank believes that all bank deposits arising from corporate trust services should be included in the final rule's definition of an Operational Deposit. Under the Proposal, to qualify as an Operational Deposit, a deposit must be generated from certain operational services and must meet other operating requirements. However, some elements of the criteria for Operational Deposits are not relevant to deposits generated from trust services. Specifically, U.S. Bank is concerned with the application of an Excess Operational Deposit methodology to corporate trust deposits. U.S. Bank seeks to ensure that deposits generated from corporate trust services are properly classified as Operational Deposits under the Proposal and receive a flat 25 percent runoff factor. In addition, U.S. Bank believes that collateralized corporate trust deposits should be excluded from the Unwind Methodology applicable to secured funding transactions as discussed in the next section.

Funds in corporate trust deposit accounts are extremely stable and are not generally impacted by short-term severe economic distress for the following reasons:

- the specialized nature of indenture trustee and agency engagements carried out in accordance with carefully drafted, complex documents. The withdrawal, payment, disbursement, and investment of funds in such accounts are strictly limited. Therefore, any

temporary outflows may be made only in accordance with the governing documents and, thus, are extremely limited;

- the complex operational requirements of such accounts generally lead to retention of deposits in the corporate trust bank; and,
- the longevity of corporate trust engagements, which are often linked to other customer relationships within the bank, mitigates the withdrawal of funds from corporate trust accounts.

Withdrawals from corporate trust accounts for outright payment or disbursement are permitted only in accordance with the terms and applicable requirements of the governing agreement. Accordingly, outright withdrawals by the account customer or account beneficiary on a discretionary basis are not permitted.

In the case of indenture trustee engagements for bonds, notes, and other debt securities, outright disbursements generally are made in accordance with the terms of the governing indenture or trust agreement only as follows:

- on scheduled payment dates for the payment of principal and interest on the bonds or other debt securities when due and payable;
- at final maturity;
- upon redemption, in the case of securities subject to redemption prior to maturity;
- in the event of acceleration of payments upon the occurrence of an event of default; or,
- from reserve funds and other accounts held under indentures or trust agreements.

Likewise, in the case of escrow or other agency accounts, outright disbursement is permitted only when and as permitted or required by the applicable terms of the governing escrow or agency agreement. These are not accounts from which outright withdrawals can be made by the account customer or account beneficiary on a discretionary basis. Accordingly, funds in these accounts are not subject to run-off. These funds may be disbursed, paid out, or otherwise applied only by the trustee or agent (as applicable) in accordance with legally binding terms set forth in the governing document and may not be withdrawn without modifying the trust agreements.

In this regard, it is useful to understand the qualities and dynamics that drive corporate trust customer relationships. Because of applicable cost structures, corporate trust engagements are



typically large transactions involving multi-million dollar, or sometimes multi-billion dollar, financings. The administrative and operational requirements of the corporate trustee's performance, including administration of associated trust and agency accounts, are often detailed and complex, requiring compliance with strict timeframes, and sometimes including responsibility for detailed investor reporting and data analytics. Investment selection by these customers is conservative and works within a range of very limited investment options, and is confined by associated operational needs and concerns.

Corporate trust relationships can be complex, requiring highly developed systems in order to calculate and provide for payments to scores, or in some instances thousands or tens of thousands, of payees, on a timely and accurate basis. For these reasons, issuers and other entities who select trustees select them very carefully, using a hierarchy of selection factors that rely very little, if at all, on the rates or structure of funding products and rely very much on experience, past relationships, historical performance, accuracy, quality of service, and ability to handle large complex transactions. In effect, the corporate trust customer base tends not to be highly yield or external-event sensitive; rather, because of the size, scope, and risk of the underlying transaction, their concerns are more appropriately focused on, and sensitive to, quality and stability of service, over a long-term period.

Thus, a stress scenario should not materially change the calculus of a corporate trust account unless a bank's servicing capability also declines. In our experience, it is doubtful that any of the factors that would be considered in an acute stress scenario would change the behavior of corporate trust customers and promote run-off.

The Proposal requires banks to develop methodologies to ensure that Operational Deposits include only those funds needed to facilitate customers' operational service needs. Amounts in excess of such needs must be considered non-operational. As stated above, corporate trust deposit accounts are based on relationships and technical and operational capabilities. As such, they do not offer incentives to customers to maintain excess funds. Rather, clients deposit only those funds that are necessary or required pursuant to the governing agreements for the operational services being provided.

Accordingly, U.S. Bank strongly recommends that balances arising from corporate trust services be exempt from the Excess Operational methodology. As demonstrated above, corporate trust accounts are limited by the operative documents as to what funds such accounts can hold, and excess amounts are sometimes expressly prohibited from being deposited in such accounts. Also, because the typical permitted or eligible investment language does not allow for high returns on the amounts in such accounts, customers have no incentive to keep excess funds in such accounts. Therefore, we believe it is clear that corporate trust deposits should qualify for a flat Operational Deposit runoff factor of 25 percent.

### **Collateralized Deposits – Unwind Methodology**

In the calculation of adjusted liquid asset amounts (§.21(f)), the Proposal captures a wide range of products under the assumed Unwind Methodology for secured funding transactions which mature within the 30 day stress period. While we agree that the Unwind Methodology is necessary to assure that banks do not artificially inflate their HQLA amounts via certain repurchase and reverse repurchase transactions, we are concerned that a number of legitimate customer deposits will be unjustly captured in this adjustment.

The Proposal requires that the caps on Level 2 liquid assets (i.e., 40% of total HQLA for Level 2 and 15% for Level 2B) are calculated both before and after accounting for the assumed unwind of any HQLA-for-HQLA transactions (e.g., repurchase agreements or collateral swap transactions) which could mature within the stress period. The lowest amount of eligible HQLA resulting from each of the calculations is the amount employed in the numerator for purposes of calculating the LCR. (See Appendix 2 for sample calculation.)

The Agencies explain in the Proposal that the adjusted excess HQLA requirement would prevent a banking organization from manipulating its HQLA portfolio by engaging in transactions, such as repurchase or reverse repurchase transactions, because the HQLA amount, including the caps and haircuts, would be calculated both before and after unwinding those transactions.

U.S. Bank believes that the adjusted HQLA methodology erroneously instructs banks to assume the full unwind of collateralized deposits in this calculation. Take the following example: a bank has excess HQLA securities after reaching its cap. A customer's unsecured deposit receiving the 25% runoff rate for Operational Deposits asks the bank to pledge level 2B collateral against their deposit. Doing so should, in theory, reduce the chance that the depositor will withdraw their money due to the increased security afforded by the collateral. All else being equal, the denominator should decrease as the deposit becomes less likely to be withdrawn.

However, the math presented in the Proposal results in a much more detrimental outcome. Because it has a secured deposit, the bank must now assume that the deposit unwinds (the cash goes out and the collateral is returned). The bank's level 1 HQLA decreases as the result of the withdrawal of the cash; the 2B collateral pledged is returned but offers no liquidity value because the bank was already at its cap. Furthermore, because level 1 HQLA fell with the withdrawal of the deposit the cap level is reduced which compounds the negative effect on the numerator. In addition, the deposit, now secured with level 2B collateral receives a 50% runoff factor rather than the original 25% which increases the denominator. The simple addition of security, which should have improved the bank's liquidity profile, has resulted in a counterintuitive reduction in the bank's LCR ratio.

Collateralized deposits, typically having no predefined maturity, are always considered to mature during the 30 day event horizon forcing a bank to always consider their HQLA before and after the sudden withdrawal of the collateralized funds. Collateralized deposits are no more likely to be withdrawn during a period of liquidity stress than a comparable unsecured deposit. In fact, they would be *less* likely to leave given the security afforded by the collateral. For example, the aggregate peak 90-day outflow rate of public fund deposits observed at National City Bank, Washington Mutual Bank, and Wachovia Bank, institutions that experienced extreme stress prior to being acquired, during the recent crisis was approximately 15.9%<sup>8</sup>.

The Proposal assigns higher runoff factors as the quality of collateral decreases. This has the effect of increasing the runoff rates, in some cases to 100%, merely due to the addition of the collateral. For instance, the Proposal doesn't specifically address deposits collateralized by a Federal Home Loan Bank Letter of Credit; however, if one interprets the Proposal literally, an Operational Deposit collateralized in this fashion would be subject to a 100% runoff factor. The same would be true for deposits collateralized with certain securities satisfying the 12 CFR 9.10(b) requirements but which do not qualify as HQLA. Provisions in the Proposal that cause the runoff factor of a collateralized deposit to be higher than the same, but unsecured deposit, should be corrected in the final rule.

The Agencies appear to recognize the problematic application of these runoff factors as they relate to public sector deposits in question 54 of the Proposal. This issue affects several types of collateralized customer deposits. These distinct categories of deposits are not used as a vehicle to provide short-term funding of securities on a bank's balance sheet and should be exempted from the Unwind Methodology.

a. Collateralized Public Sector Deposits

Deposits received from certain municipal and other public sector entities are generally required to be "secured or collateralized" by law. These deposits are generally associated with a government's operating accounts and are deeply related to the daily needs of public sector clients. The business is generated through long-term relationships with state and municipal governments and often via an extensive request for proposal process. Client behavior and governing law support the contention that public sector deposits are very stable in any circumstances.

b. Collateralized Corporate Trust Deposits

U.S. Bank operates one of the country's largest Corporate Trust businesses. Regulations that apply to national banks exercising trust powers provide that "A national bank may deposit funds of a fiduciary account that are awaiting investment or distribution in the

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<sup>8</sup> SNL Financial - Call Report (data between March 31, 2007 through June 30, 2008)

commercial, savings, or another department of the bank, unless prohibited by applicable law. To the extent that the funds are not insured by the Federal Deposit Insurance Corporation, the bank shall set aside collateral as security, under the control of appropriate fiduciary officers and employees, in accordance with paragraph (b)(2) of this section. The market value of the collateral set aside must at all times equal or exceed the amount of the uninsured fiduciary funds.<sup>9</sup>”

Collateral provided to Corporate Trust deposits comes in the form of a pledge of securities held by the bank. The clients do not take physical possession of the collateral. As such, it is clear then that these transactions are not in the category of bank short term funding transactions and therefore U.S. Bank believes that the Unwind Methodology should not apply.

U.S. Bank recognizes that the Proposal seeks to eliminate the effect of all numerator-enhancing repo and reverse repo transactions which could allow a bank to inflate the pool of HQLA available to it during a liquidity crisis. However, U.S. Bank believes that a bright line distinction can be drawn between the features of repo transactions and those of core deposits collateralized by HQLA or other securities.

For instance, a repurchase agreement is exactly what its name indicates: an agreement to repurchase a security sold. In effect, this allows for collateralized borrowing and lending between parties, but in actuality, the transaction transfers legal title to the security and generally involves taking physical possession and receiving re-hypothecation rights. A collateralized deposit, on the other hand, merely pledges rights to the security in the event of default.

U.S. Bank recommends that secured deposits fitting into the categories described above should be excluded from the Unwind Methodology of §\_21(f). U.S. Bank also recommends that a distinct set of runoff assumptions be developed to reflect the inherent stability of secured deposits. These runoff assumptions would, intuitively, be lower than the comparable runoff rate for unsecured deposits and in no case should exceed the comparable unsecured runoff rate.

## **Calculation Requirement**

### **a. Daily Calculation Requirement**

U.S. Bank recommends that the Agencies eliminate the requirement that regional banking organizations such as U.S. Bank calculate their LCR daily. U.S. Bank and other regional

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<sup>9</sup> 12 CFR 9.10 - Fiduciary funds awaiting investment or distribution (b) Self-deposits

banking organizations do not present the same funding complexity and liquidity risks as larger, more complex banking organizations, such as G-SIBs. As a result of U.S. Bank's simpler funding profile, we do not rely on more volatile, short-term sources of wholesale funding. This results in liquidity inflows and outflows that are more stable and predictable than those of larger and more complex organizations. Accordingly, U.S. Bank's liquidity risks are easier for management and supervisors to monitor and measure through traditional means. We believe that these attributes of U.S. Bank's liquidity risk profile make a daily calculation requirement unnecessary.

The difference in liquidity risk profiles between U.S. Bank and other regional banking organizations and that of the G-SIBs is already recognized by the Federal Reserve in its current and proposed liquidity reporting framework. Specifically, we understand that the Federal Reserve requires that only G-SIBs—but not other banking organizations—provide detailed daily liquidity reporting under the Federal Reserve's 4G liquidity reporting program and the proposed FR 2052 reporting framework. U.S. Bank, on the other hand, is only subject to monthly liquidity reporting on the FR 2052b.

Calculating the ratio on a daily basis will require significant enhancements to our existing systems. The burden and expense associated with the development and testing of the systems required to calculate and retain the daily supporting data far outweighs any possible benefit that either management or supervisors would gain from imposing this unnecessary requirement.

Should the Agencies nonetheless decide to maintain the daily calculation requirement, U.S. Bank respectfully requests, at a minimum, a two-year period in which to develop effective and useful systems, processes, and controls to satisfy the reporting requirements.

**b. “Worst Day” Calculation Requirement**

Under the Proposal, banks are to calculate net cash flows for each of the ensuing 30 calendar days, and use the “worst day”, the day with the highest funding deficit, to calculate the LCR. This concept was not contemplated in the Basel LCR Framework. U.S. Bank believes that this element, for all of the complexity that it adds to the calculation, does not contribute to measuring the highest point of liquidity risk in a 30 day time period. This is because the fundamental premise of the LCR calculation, that all of the undated cash outflows occur in the first day of the period and that all of the undated inflows occur on the last day of the period, conceals any useful information the bank may generate related to the actual timing of cash flows within the 30-day period.

As a result, the “worst day” estimate is not truly indicative of liquidity risk but is yet another conservative deduction to compensate for the lack of certainty surrounding cash flow timing. For these reasons, U.S. Bank recommends that this requirement be eliminated.

U. S. Bank supports the efforts of the Agencies to strengthen the level of liquidity and the quality of liquidity risk management in the banking sector. U.S. Bank thanks the Agencies for the opportunity to comment on the Proposal and respectfully ask for their consideration of the recommendations in this letter.

Should you have any questions regarding these comments, please contact me at 612-303-4171 or Marcia Ryder at 612-303-0743.

Sincerely,



John C. Stern  
Executive Vice President and Treasurer

Cc: Richard K. Davis  
Andrew Cecere  
Martin F. Cooney





### Appendix 1: Balance Sheet and Funding Profile Data

This data demonstrates that U.S. Bank is more similar in terms of business model, funding complexity and risk profile to other organizations which are subject to the Modified LCR.<sup>10,11,12,13</sup>

Balance Sheet Composition					
Banking Organizations	Net Loans & Leases / Total Assets	Total Trading Assets / Total Assets	Total Trading Liabilities / Total Liabilities (%)	4(k) Broker-Dealer Assets/Total Assets %	Derivative Contracts (Notional) / Total Assets %
U.S. G-SIB - Average	25%	16%	7%	19%	2549%
U. S. Bank	62%	<1%	<1%	<1%	28%
All Modified LCR Banks - Average	63%	<1%	<1%	2%	38%

Funding Profile						
Banking Organizations	Reliance on Wholesale Funding (%)	Core Deposits / Total Assets (%)	Loans / Deposits (%)	Reverse Repurchases Agreements / Total Assets (%)	Sec. Sold/Repo / Total Liabilities (%)	Net Short-term Liabilities / Assets (%)
U.S. G-SIB - Average	46%	29%	61%	15%	11%	-21%
U. S. Bank	18%	62%	89%	<1%	<1%	1%
All Modified LCR Banks - Average	24%	62%	96%	3%	<1%	-8%

International Activity		
Banking Organizations	Total Foreign Deposits / Total Deposits (%)	Avg Foreign Loans / Avg Total Loans (%)
U.S. G-SIB - Average	28%	18%
U. S. Bank	11%	<1%
All Modified LCR Banks - Average	1%	<1%

<sup>10</sup> Average data is for (i) U.S. G-SIBs; (ii) U.S. Bank, and (iii) all bank holding companies and savings and loan holding companies that we estimate would be subject to the Modified LCR.

<sup>11</sup> The source of all information is SNL – FR Y-9C (data as of September 30, 2013). Data reported as ‘N/A’ was treated as a zero for purposes of these calculations.

<sup>12</sup> Broker-dealer asset data are included only for broker-dealer subsidiaries of financial holding companies that engage in underwriting or dealing pursuant to section 4(k)(4)(E) of the Bank Holding Company Act, *see* line item 20.a. of Schedule HC-M to the FR Y-9C.

<sup>13</sup> Reliance on Wholesale Funding ratio is used by the OCC as part of its Canary supervisory system and derived using publicly available FR Y-9C/Call Report data.

**Appendix 2: Sample Unwind Methodology Calculation**  
**Effective Runoff Caused by Unwind of Collateralized Deposits**

An institution with \$100 of public fund deposits secured by \$100 of Level 2A assets. Assume 25% LCR runoff for all deposits.

<u>Balance Sheet</u>			
Investment Portfolio		Public Fund Deposits	100
Level 1 Securities Unencumbered	200	Other Deposits	1,000
Level 2A Securities Unencumbered	100	Total Liabilities	1,100
Level 2A Securities Encumbered	100	Total Equity	300
Total Investment Portfolio	400	<b>Total Liabilities and Equity</b>	<b>1,400</b>
Loans	1,000		
<b>Total Assets</b>	<b>1,400</b>		

	<u>LCR</u> <u>without</u> <u>Unwind</u>	<u>LCR with</u> <u>Unwind</u>	<u>Impact</u>
A Total Level 1 Assets	200	200	0
B Unencumbered Level 2A Securities (Notional)	100	100	0
C Total Level 2A Assets after 15% haircut	85	85	0
D High Quality Liquid Assets - Prior to the Cap	285	285	0
E Excess Level 2 - Before Unwind	48	48	0
F Excess Level 2 - Unwind: Reduction in L1	0	(67)	(67)
G Excess Level 2 - Unwind: Return of L2	0	(85)	(85)
H Total Excess	0	(103)	(103)
I High Quality Liquid Assets (A+C+H)	285	182	(103)
J Total Cash Outflow	275	275	0
K <b>LCR</b>	<b>103.64%</b>	<b>66.06%</b>	<b>-37.58%</b>

**Effective Runoff Percentage**

$$\frac{\text{Decrease in HQLA Due to Unwind}}{\text{Public Fund Deposit Balance}} = \frac{(152)}{100} = -152\%$$