FNBB
First National Bankers Bank

7813 Office Park Boulevard · P. O. Drawer 80579 · Baton Rouge, LA 70898 · www.BANKERS-BANK.com

OFFICE (225) 924-8015 TOLL-FREE 1-800-421-6182 FAX (225) 952-0899

January 31, 2014

VIA EMAIL: regs.comments@federalreserve.gov
Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Docket No. R-1466

First National Bankers Bank (FNBB)[1], Baton Rouge, Louisiana, appreciates the opportunity to comment on the Agencies' proposed rule regarding *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring* (U. S. LCR proposal) which was published on October 30, 2013. FNBB is committed to supporting the Agencies efforts to ensure strong liquidity risk management practices at U. S. financial institutions of all sizes.

FNBB acknowledges that the U. S. LCR proposal is intended for the largest internationally active banks and would not apply to our bank given that we do meet the asset thresholds prescribed therein. However, we are concerned that certain definitions and elements of the final U. S. LCR rule could be used as a basis for other future regulatory rulings and that these definitions or elements are inconsistent with the Basel LCR and/or with existing domestic banking practices. Specifically, there are certain components of the U. S. LCR proposal describing our primary business of correspondent banking which are inconsistent with the Basel LCR. We are concerned that should the final U. S. LCR rule and its established outflow rates ever be utilized by the Agencies as "best practice" guidance for smaller financial institutions, any inconsistencies related to correspondent banking which have not properly been addressed could become especially punitive for bankers' banks and the smaller community financial institutions we serve.

Our primary concern is that the U. S. LCR proposal's treatment of operational deposits narrows the Basel LCR's approach in important respects and, as a consequence, fails to fully and adequately recognize the scope of operational deposits generated by clearing, custody and cash management and trustee activities. We strongly believe the Agencies should make the modifications described below to more closely align their approach in implementing the final U.S. LCR rule with the Basel Committee's standard.

Specifically, we recommend that the following change be made to Section 4(b)'s requirements for operational deposits.

[1] First National Bankers Bank provides correspondent banking services exclusively to community financial institutions throughout the southeastern United States.

<u>Paragraph (b)(8) – correspondent banking</u>. We understand that the Agencies intend to exclude deposits arising out of correspondent banking from what is considered "operational deposits". We believe this potentially casts an excessively broad net and deviates from Basel III. Paragraph (b)(8), by referring to deposits where "the respondent temporarily places excess funds in an overnight deposit with" the bank, is a broader exclusion than the Basel LCR's exclusion. The Basel LCR defines correspondent banking (and related deposits that are not operational) as "arrangements under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services in order to settle foreign currency transactions."[2] The U. S. LCR proposal does not expressly limit correspondent banking services to foreign currency settlement and would cover a much broader range of deposits that are truly operational in nature. **We therefore ask the Agencies to clarify that section 4(b)(8) applies only to deposits provided in connection with correspondent banking services where the bank provides payment and other services <u>to settle foreign currency transactions</u>**, consistent with Basel III. If the Agencies exclude from operational deposit status a broader scope of correspondent banking deposits, the expenses for banks in taking on those deposits (resulting from the liquidity costs associated with the higher applicable outflow rate) has the potential to severely limit core cross-border and domestic clearing services that enable safe and efficient routing of payments, especially for smaller community banks which bankers' banks exclusively serve. Such treatment could result in significant limitations on services available to individuals trying to send money across borders and higher costs for such services.

As the Agencies are aware, correspondent banking is a critical service that banks provide to other, usually smaller, financial institutions, and is not limited to settling foreign currency transactions. In the correspondent-respondent relationship, a respondent bank relies on the expertise and efficiency of a correspondent bank to provide essential services, such as operational functions, lending, capital and liquidity management, IT, and international payments.[3] The respondent bank clients of a correspondent bank often do not have sufficient resources to engage in a particular service or product without the support of a correspondent bank. Accordingly, respondent banks have a critical dependency on the correspondent bank for correspondent services, and that critical dependency is what makes the deposits stable and warrants their inclusion in operational deposits to the extent they meet Section 4's other criteria for operational deposit status. FNBB's experiences during this most recent national

---

[2] Basel LCR ¶ 99 note 42.

[3] In particular, these services involve the following activities and supervisory metrics: **operational functions** such as electronic item processing, image cash letter check clearing, safekeeping, wires, ACH, ATM networking lockbox, and credit cards; **capital** through bank holding company financing; **lending** through the facilitation of participation loans, bank holding company loans, and letters of credit; **liquidity** through the provision of federal fund lines of credit used to facilitate payments in the form of checks, DTC, securities transactions, and government remittances; **risk management and technology** through community bank system redundancy, backup facilities, hot sites, cold sites, imaging, and access to state-of-the-art technology; **international operations and payments**, including foreign item clearing, supplying foreign currency, foreign exchange, and international letters of credit.

economic downturn have only reaffirmed that deposits associated with community bank correspondent relationships are stable and historically predictable. The lack of any notable reductions in volume of respondent bank deposit balances at FNBB upon the expiration of the FDIC's Transaction Account Guarantee Program further reinforces the existence this stability. This also supports the position that uninsured and/or unsecured respondent bank deposits held with a correspondent bank should not receive a different outflow rate than any uninsured portion of the deposit.

We appreciate the opportunity to respond to the Agencies' LCR proposal and thank you for your consideration of our comments. Should you have any questions or require clarification, I can be reached at 800-421-6182 or jfquinlan@bankers-bank.com.

Sincerely,

Joseph F. Quinlan, III
President and Chief Executive Officer