**Via Electronic Submission**

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**Re: Notice of Proposed Rulemaking - Liquidity Risk Measurement, Standards and Monitoring; Comment Request**

Ladies and Gentlemen:

SunTrust Banks Inc. ("SunTrust") welcomes the opportunity to provide the Board of Governors of the Federal Reserve System (the "Board" or "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC") and the Office of the Comptroller of the Currency (together, the "Agencies") with comments on the proposal to implement the liquidity coverage ratio ("LCR" or "the ratio") approved for publication by the Board on October 24, 2013, and referred to herein as the Notice of Proposed Rulemaking ("NPR" or "U.S. NPR").

SunTrust recognizes the importance of robust balance sheet liquidity to ongoing stakeholder confidence in individual banks and the entire financial system. Therefore, we support the objective of implementing an industry standard that stakeholders of all kinds can utilize to evaluate liquidity across the banking and financial services industry. However, we believe the LCR, as proposed, falls short of a standard that could achieve this objective. In particular, we respectfully request further review and revision of the LCR's inherent design, certain material assumptions, and calibration of material rates and components. We outline specific opportunities for improvement within this letter and urge the Agencies to reconsider and modify these aspects of the ratio before publishing a final rule.

While we recognize and appreciate the objective of implementing industry-wide standards for liquidity measurement, we also believe that the diversity of banking models and operating practices among the large number of U.S. banks makes the task of achieving that objective with one ratio and appropriate fairness daunting at best. Faced with such a task, the Agencies have invested a commendable amount of time and effort in developing the LCR to fit the U.S. financial system. It appears, however, that the Agencies developed the proposed rules primarily in consideration of the operating models and business practices of the Global Systemically Important Banks ("G-SIBs"). Although we recognize that the Agencies have attempted to tailor the ratio's rules by modifying them in certain limited respects for banks that do not follow the G-SIB banking model (we refer to this herein as the "Modified LCR"), we do not believe these modifications go far enough to address important business realities for regional banks. In short, we do not support the decision to require critical liquidity regulation for all banks with assets greater than $50 billion based on the operating models of the largest few. By incorporating the modifications and comments described in this letter, however, we believe the LCR could better recognize the variety of operating models utilized by regional and smaller banks and thereby encourage greater balance sheet diversification—an important prerequisite for effective liquidity risk mitigation.

The international liquidity coverage ratio framework developed by the Basel Committee on Banking Supervision ("BCBS") recognized that financial markets can vary significantly by country. In order to set a standard but provide flexibility for the discrete needs of each country, the BCBS framework leaves discretionary powers over certain aspects of the ratio to local regulators. The Agencies have exercised this prerogative in previous U.S. regulation where they have diverged from BCBS standards in order to accommodate requirements that are specific to the U.S. regulatory structure and banking system. As we outline in this letter, the U.S. NPR has not only diverged from BCBS standards in numerous important areas (e.g., the treatment of high quality liquid assets ("HQLA") and an accelerated implementation timeline), but it has also diverged from the provisions and/or intent of certain other U.S. laws and regulatory standards (e.g., section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), Federal Reserve Supervisory Letter 10-6 ("SR 10-6") and Federal Reserve Regulation D). If these divergences are unintentional, then we respectfully request that the Agencies clarify and modify the proposed rules to avoid ambiguity and conflicting objectives. If these divergences are intentional, however, then we believe the process of implementing the LCR should be delayed until the Agencies reconsider and modify existing regulatory standards through the customary process of public proposal and comment or pursue a change of law with the U.S. Congress, as appropriate.

We also note that the U.S. banking industry has commented on all previous international and domestic proposed rulemaking on the LCR dating back to 2010 when the BCBS first proposed the ratio as an international standard. As part of those comments, SunTrust and other industry participants provided extensive amounts of data to show the behavior of asset and liability accounts during a time of extreme economic and financial distress—the severe recession and financial market crisis of 2007-09. We reiterate here that certain assumptions and cash outflow rates in the proposed LCR are not consistent with the actual behavior of those accounts under adverse circumstances and request that the

Agencies take all of this previously provided information into consideration. However, we are more concerned that the NPR does not provide empirical support for certain contentions used to justify the divergence of the U.S. standard from the Basel standard; we cite examples of such in this letter. If the Agencies have data to support these contentions, the industry would benefit greatly from their publication so that we can not only better understand the Agencies' views, but also better calibrate our risk models. If historical data do not support these contentions, however, then we respectfully ask the Agencies to reconsider certain important LCR rates and assumptions and recalibrate them or adopt instead the relevant international standard as proposed by the BCBS.

We also want to recognize the work that various industry groups have summarized in their comment letters, particularly a group of regional peer banks, the American Bankers Association ("ABA"), the Financial Services Roundtable ("FSR") and the Securities Industry and Financial Markets Association ("SIFMA"), collectively the "letters". While we concur in general with all of the points of those letters, we are submitting our own comment letter to emphasize our support of certain key points and augment the discussion with other observations and requested modifications to the proposed rule. We outline these points in detail below. In summary, our comments fall into three general categories: 1) overarching concerns, 2) unintended consequences, and 3) operational impediments.

## Section One: Overarching Concerns

### *A.* Accelerated Implementation

By the January 2015 compliance date, G-SIBs will have had four years to upgrade data and systems in order to be in a position to comply with both the BCBS and U.S. LCR requirements. When the Agencies published the LCR, they justified the accelerated implementation (relative to the timeline proposed by the BCBS) by stating that the majority of covered banks were already compliant. This comment could only have applied to the G-SIB banks that have been participating in the BCBS observation period since January 2011. Since participation below the G-SIB level in any form of liquidity exercise based on the new rulemaking has been limited, the accelerated implementation would compress the full cost and burden of compliance for these banks into an extremely brief period—significantly less than one year from the ultimate publication date of the final rules.

In addition, we believe the Agencies have severely underestimated the effort required to achieve full compliance with the proposed rule. The NPR makes only one reference to hours of effort, an estimate of 200 hours for ongoing reporting. The Office of the Comptroller of the Currency separately estimated that it will take 2,760 hours (approximately 368 full-time equivalent work days) during the first year the rule will be in effect, which we believe materially underestimates the burden required to implement the rules as proposed.

Consequently, the LCR is not only unduly burdensome for smaller regional banks to comply with on the proposed timeline, but it also implicitly grants a competitive advantage to G-SIBs that have benefited from a longer preparation time. We therefore request the Agencies consider the more practical and less burdensome approach of monthly measurement and reporting for regional banks, which would be more consistent with our simpler risk profiles, other existing liquidity reporting requirements, and the BCBS standard.

SunTrust and other regional banks have been reporting liquidity information in a formal monthly report to the Federal Reserve and other Agencies for several years. However, the proposed LCR approach for daily measurement will require large scale modifications in data systems, processes, reporting and governance. Daily measurement and reporting under normal operating conditions not only conflicts with the Basel LCR framework, but also with the Federal Reserve's recently published FR 2052(b) report. This new reporting requirement indicates that monthly measurement and reporting provides an adequate framework for the banks that would be eligible for the Modified LCR. A compressed implementation timeline, in conjunction with a daily and more detailed reporting process, dramatically increases the potential for measurement or reporting errors. Since a bank's liquidity depends primarily on the confidence of its clients and other key stakeholders, a material measurement or reporting error could conceivably cause significant and potentially irreparable damage to a bank's liquidity. The Agencies could greatly reduce this risk by employing a less compressed implementation timeline with daily reporting only under adverse circumstances at the discretion of the bank's primary safety and soundness regulator.

In order to reduce the financial and operational burden of implementing the proposed rule under an accelerated timeline, which requires extensive enhancements to data, systems and governance, we respectfully request the Agencies retain for banks reporting the Modified LCR a monthly measurement and reporting period and the compliance schedule outlined by the BCBS: a 0.6 ratio by January 1, 2015, increasing by 0.1 points per annum to a ratio of 1.0 by January 1, 2019. This implementation schedule would allow banks to undertake the extensive data and systems upgrades in a manner that would maintain the highest public confidence in the U.S. financial system and individual banks. While an accelerated implementation schedule may be appropriate for G-SIBs because of their more complex business models and larger liquidity exposures, the burden on regional and smaller banks that do not have comparable resources to deploy on data and systems development would be disproportionately larger than the prospective benefit derived.

*B.* Operational Aspects

We commend the Agencies for recognizing in certain areas of the NPR that different approaches may be necessary to address the diversity of bank operations and liquidity needs. The inclusion of the Modified LCR approach conforms to the existing process the Agencies have employed when recognizing the differences in capital requirements between the larger, more complex institutions that tend to operate in markets completely outside of traditional commercial banking.

However, we believe the LCR should further this distinction by better aligning the Modified LCR with the specific needs of regional banks, which differ greatly from the G-SIBs. As such, we respectfully request the Agencies consider the following recommendations and observations regarding operational aspects of the Modified LCR:

1. *Monthly vs daily measurement requirements.* We currently measure and report our liquidity position to the Federal Reserve and other regulatory authorities on a monthly basis via various forms and reports. The recent publication of the new FR 2052(b) report continues the precedent of monthly reporting for smaller, less complex banks like SunTrust. We believe this frequency of reporting is appropriate for a bank of SunTrust's size and complexity because unlike G-SIBs, smaller regional banks employ a much simpler business model focused on traditional loans to consumer and commercial clients funded predominantly with client deposits and without any material reliance on short-term unsecured funding. Consequently, our cash flows tend to be relatively predictable over the short term and our daily transaction volume is considerably smaller as compared to G-SIBs. Therefore, we do not believe daily LCR measurement and reporting will enhance regulatory oversight of regional banks, nor will the proposed daily reporting provide meaningful information regarding regional bank liquidity risk.

   While we don't advocate daily LCR measurement and reporting for regional banks, we nevertheless manage our liquidity position on an intra-day and daily basis using a thorough measurement, monitoring, governance and reporting process. We have developed and continually enhance our liquidity measurement and management practices in keeping with regulatory guidance and industry best practices. In addition, independent third parties regularly review our liquidity measurement and management practices for safety and soundness. These practices include a variety of metrics designed to identify increasing or decreasing levels of liquidity stress under a wide range of economic and financial conditions. We believe our practices and processes have proven adequate for measuring and managing liquidity under that wide range of economic and financial market conditions and that the costs of rapid implementation of daily reporting for Modified LCR reporters greatly exceed any prospective benefits. SunTrust and other banks already monitor liquidity on a daily and intra-day basis using a variety of other metrics; if these metrics or other liquidity stress testing results warrant more prudential regulatory oversight, the Agencies can require daily LCR measurement at that time. Such an approach would be consistent with the Basel framework.

   A daily measurement requirement causes fundamental operational challenges that would be very difficult to overcome, particularly on an accelerated implementation timeline. For example, the calculation of insured and uninsured deposits is computationally intensive due to the need for deposit aggregation by household. This calculation takes on heightened importance in the proposed rule, which assumes that a depositor with balances even one dollar over the FDIC insured deposit limit would behave as if the entire deposit were uninsured. We are not aware of any historical data that support this contention and would appreciate public disclosure of such information.

2. *21-day vs 30-day measurement period.* The NPR outlines both a standard LCR for banks with assets greater than $250 billion and a Modified LCR calculation for banks with assets greater than $50 billion and less than $250 billion. The primary differences between the standard and Modified LCR calculations relate to the length of the measurement period (21 or 30 days), the use of a cumulative or a peak liquidity need and the magnitude of the projected cash outflow rates (70 percent or 100 percent).

   We appreciate that the Agencies likely intend for the 21-day measurement period to provide some relief for Modified LCR banks. However, since the 21-day measurement period is a deviation from other similar liquidity standards proposed by the BCBS and the Dodd-Frank Act, which would require a 30-day measurement period, the Modified LCR approach would create additional measurement and reporting burdens and inconsistencies. Moreover, since most banks that would report the Modified LCR do not generally rely on large amounts of short-term funding, the benefits of a 21-day measurement period would typically be small and the differences in the calculated liquidity immaterially different from a 30-day period. For both of these reasons, we respectfully request the Agencies give banks reporting the Modified LCR the option to utilize a 30-day measurement period.

   We also respectfully request, however, the Agencies retain both the cumulative cash flow aggregation method and the 70 percent factor (30 percent haircut) for projected non-maturity cash outflow rates in the Modified LCR method. The choice of a 21-day measurement period and 70 percent outflow rates was apparently arbitrary; the NPR provides no empirical support for such. Therefore, the LCR would not be compromised in any way by allowing Modified LCR banks to use a 30-day measurement period while retaining cash outflows rates at 70 percent of the standard LCR outflow rates.

*C.* Cash Outflow Rates and Data Availability

Within the NPR, the Agencies have made certain statements one would normally expect to be supported by citations of specific information or empirical data listed in the public record. The NPR clearly cites existing regulation and/or definitions contained in pre-existing regulation or guidance in many areas. However, some discussions, such as those establishing cash outflow rates, contain no such substantiation or citation of any data entered in the public record. Rather, the Agencies state in the NPR that certain key LCR components or assumptions were based on unspecified "supervisory observations."

The NPR contains two notable instances of such unsubstantiated assumptions in areas that have a material impact on the LCR's presumed cash outflows for deposits. The first of these occurs on page 44, wherein the NPR states, "Supervisory data from stressed or failed institutions indicates that retail depositors withdrew term deposits at a similar rate to deposits without a contractual term." Consequently, the proposed rules make no distinction between indeterminate maturity and term maturity deposits with respect to their presumed outflow rates. This treatment differs markedly from the Basel framework, which excludes from the LCR calculation term deposits with substantial early withdrawal penalties.

The second instance of an important unsupported assumption occurs on page 46, wherein the NPR states, "During the recent financial crisis, to the extent that retail depositors whose deposits partially exceeded the FDIC's insurance limit withdrew deposits from a banking organization, they tended to withdraw not only the uninsured portion of the deposit, but the entire deposit." As a consequence, if a deposit balance exceeds the FDIC insurance limit by even one dollar, the proposed rules would treat the entire deposit as uninsured and assign it a higher outflow rate. This treatment is inconsistent with not only the Basel LCR framework, which presumes outflow only for the uninsured portion of a deposit, but also our actual experience. We can only presume the Agencies based this treatment on the observed behavior of certain "hot money" balances at G-SIBs, but it is directionally inconsistent with the observed behavior of deposits at regional banks during the severe economic recession and financial market crisis of 2007-09.

Given the importance of these assumptions to the value of a bank's LCR, we respectfully request that the Agencies provide data to support these claims as we believe that certain important components of the LCR run contrary to the industry's experience from historical periods of acute liquidity stress and data previously provided by various industry members or groups. If such data were in the public record, liquidity risk managers at all banks would benefit from a richer and more informative data set that could aid in better calibration of liquidity risk models. In the absence of such data, however, we urge the Agencies to adopt the Basel framework's distinctions between insured and uninsured deposits and deposits with a specified maturity date.

*D.* <u>Treatment of HQLA</u>

Under the proposed rule, the Agencies have prescribed a limited number of assets that qualify as HQLA eligible for inclusion in the LCR numerator. In evaluating the HQLA standards, we recognize the need to strike a proper balance between harmonizing broader prudential liquidity requirements across different regions and jurisdictions and the need to address the specific characteristics of the U.S. financial markets. In reviewing the standards in the proposed rule, we believe the Agencies have not provided a sufficiently wide range of highly liquid assets that qualify as HQLA. We cite below two specific instances regarding the overly-restrictive nature of the HQLA definition.

First, the LCR definition of HQLA, both in the Basel framework and the U.S. NPR, is fundamentally flawed due to its reliance on capital risk weights as an indicator of liquidity. Basel capital risk weights are intended to provide an approximate rank ordering of a security's relative credit risk (repayment risk), not its relative liquidity. A security is liquid if its owner can readily convert it to cash in an arms-length transaction with a willing counterparty without recognizing a significant loss relative to its current value. The LCR attempts to equate credit risk with liquidity risk, despite the fact that the linkage between these two concepts is often tenuous at best for many financial instruments. By relying on Basel capital risk weights as a liquidity qualification, the proposed definition ignores financial market realities and creates a set of distorted incentives that will increase bank risk exposures by concentrating investment positions in a very limited universe of securities, many of which are inherently less liquid than many banks' current liquidity portfolio investments.

Second, by encouraging concentrated investment portfolio positions, the proposed LCR runs contrary to the most fundamental tenet of financial risk management—the principle that one can mitigate risk through diversification. In particular, by adopting a definition of HQLA that is more restrictive than the one in the Basel framework or U.S. law, the U.S. NPR definition of HQLA heavily or completely discounts the liquidity value of several security types and borrowing facilities that have proven robust sources of liquidity for U.S. banks in a diverse array of past liquidity stress periods. For example, section 165 of the Dodd-Frank Act puts forth certain liquidity requirements for banks, including a requirement very similar to the LCR. The section 165 definition of "Highly liquid assets" includes securities issued by the U.S. housing government sponsored enterprises ("GSEs"), as well as those a covered company can demonstrate as having the following features and characteristics:

i. Easy and immediate conversion to cash with little or no loss of value;

ii. Low credit risk (default risk) and low market risk (price volatility);

iii. Active secondary market with two-way trading and observable market prices, committed market makers, a large number of market participants and a high trading volume;

iv. Historically purchased in periods of financial market distress when liquidity is impaired (flight to quality).

In addition, footnote 71 of the Dodd-Frank Act states, "A U.S. government-sponsored entity is defined in the proposed rule as an entity originally established or chartered by the U.S. government to serve public purposes specified by the

U.S. Congress, but whose obligations are not explicitly guaranteed by the full faith and credit of the U.S. Government." Based on this definition, both GSE debt securities and mortgage-backed securities ("MBS") would be treated as "Highly liquid assets."

We request that the LCR definition of HQLA incorporate these provisions from section 165 of the DFA to expand the definition of and provide greater clarity to HQLA. Not only would these criteria provide greater definition to the NPR's currently undefined terms of "liquid and readily marketable," but by providing a more specific and objective set of criteria for defining liquidity, the U.S. NPR would provide a process for assessing and potentially including additional securities and financial instruments in the future. Such a process would be critical to providing essential diversity in the pool of HQLA.

We urge the Agencies to reconsider the proposed definition of HQLA to include the following security types and borrowing facilities due to their strong liquidity characteristics:

1. *Treatment of cash and reserves*. The U.S. NPR deviates from the Basel framework in its treatment of certain cash reserves. Specifically, the Basel framework would allow banks to count all cash reserves at the central bank as Level 1 HQLA, while the U.S. NPR entirely excludes required reserves from the definition of HQLA. We believe the U.S. NPR treatment is inconsistent with the central purpose of central bank reserves and creates some unintended consequences for the practice of reserve management.

   In Regulation D, the Federal Reserve requires U.S. banks to hold cash reserves as a percentage of certain outstanding deposit balances. While Regulation D states that required reserves are for the conduct of monetary policy, in practice the Federal Reserve hasn't utilized the reserve requirement as an active monetary policy tool in decades. Banks maintain cash reserves with their central bank primarily as a prudent business practice to ensure sufficient liquidity for unexpected deposit withdrawals or other liquidity needs. As such, bank reserves protect against the very risk the LCR intends to measure. Therefore, we urge the Agencies to include all cash reserves as Level 1 HQLA.

   The combination of daily LCR measurement and the exclusion of required reserves from HQLA effectively circumvents or supplants one of the central tenets of Regulation D, which allows banks to manage reserves over a 14-day maintenance period. By requiring banks to measure, report and comply with the LCR daily and exclude required reserves from their stock of HQLA, the U.S. NPR would effectively create a daily reserve requirement and significantly restrict banks' cash management flexibility, which plays an important role in the payments system. While this may seem irrelevant to G-SIBs, which due to their business model typically hold large excess cash reserves, or in the current environment in which many banks hold large surplus deposits, it is an important consideration for regional banks and other lenders for which the LCR will be a constraining factor in the extension of credit when stronger loan demand returns or depositors decide to hold less cash. We urge the Agencies to allow banks utilizing the Modified LCR to report on a monthly rather than a daily basis in order to avoid adverse and inadvertent conflicts with existing rules and practices.

2. *Treatment of GSE securities.* GSE or "agency" securities (Freddie and Fannie MBS and debt and Federal Home Loan Bank ("FHLB") debt) have historically exhibited high liquidity and behaved as safe haven assets during times of crisis. Many previous comment letters on the topic of the LCR, including our own, have articulated in detail the high degree of liquidity of agency debt securities and MBS, so we will not, in the interest of brevity, reiterate those data or all of those arguments here. Nonetheless, we highlight here the primary liquidity features of this important asset class.

   GSE securities match the liquidity criteria in section 165 of the DFA, which requires the asset to be traded in an active, secondary, two-way market with observable market prices, committed market makers, a large number of market participants and a high trading volume. There are currently over $4 trillion of GSE MBS[1] and over $1.1 trillion of GSE debt securities outstanding with an average MBS trading volume of almost $230 billion per day and a high correlation to Treasuries.[2] On page 23, the U.S. NPR itself acknowledges the liquidity of these securities by stating, "…some securities issued and guaranteed by the U.S. GSEs consistently trade in very large volumes and generally have been highly liquid, including during times of stress." That same passage goes on to justify the Level 2A classification of GSE securities solely by virtue of the fact that they carry a 20 percent risk weight in the capital rules and are not explicitly guaranteed by the full faith and credit of the United States. We reiterate the fallacy of equating credit risk with liquidity risk.

   GSE MBS occupy a uniquely important place in the world's financial markets by virtue of their combined high credit quality and nearly unmatched market depth (liquidity). In fact, the liquidity of GSE MBS far exceeds Ginnie Mae MBS, which are afforded Level 1 treatment under the NPR apparently only because Ginnie Mae MBS feature a full faith and credit guarantee by the U.S. government. As we note above, credit quality and liquidity are not synonymous, and GSE MBS proved more liquid than Ginnie Mae MBS throughout the severe economic recession and financial market crisis of 2007-

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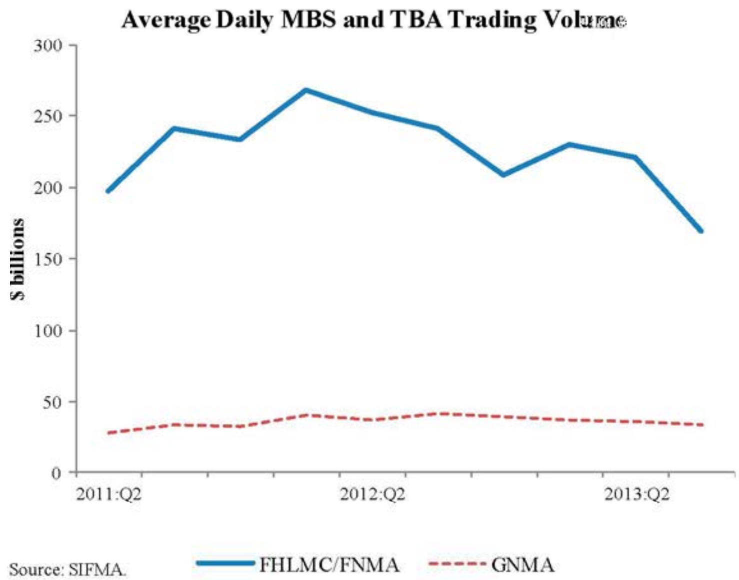
[1] Source: Board of Governors of the Federal Reserve System, "Mortgage Debt Outstanding", (http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm).

[2] Source: SIFMA, "US Bond Market Trading Volume" statistics, (http://www.sifma.org/research/statistics.aspx).

09. The chart below depicts historical trading volume for GSE (Freddie Mac and Fannie Mae) and Ginnie Mae MBS, demonstrating that liquidity in the former (GSE MBS) far surpasses liquidity in the latter (Ginnie Mae MBS).



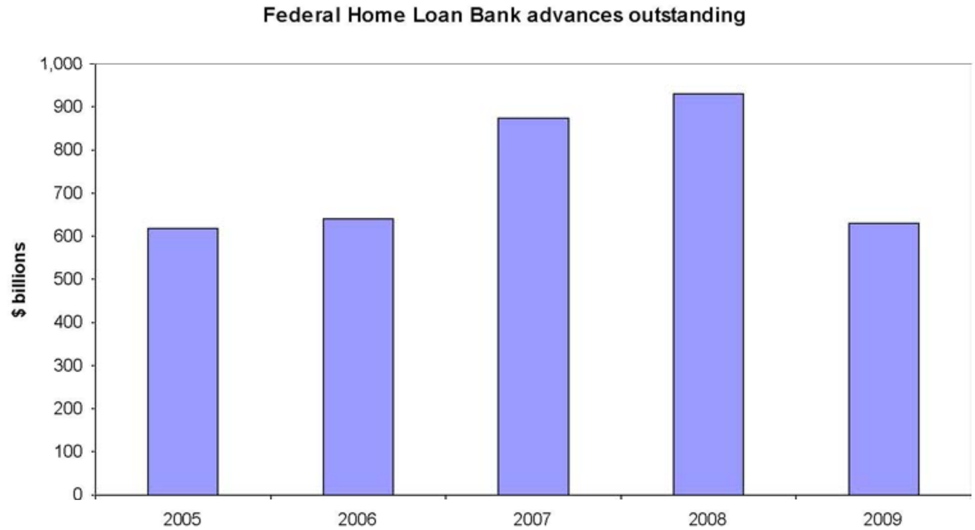

Due to their clear compliance with the characteristics of highly liquid assets, we urge the Agencies to treat GSE debt securities and MBS as Level 1 HQLA. If the Agencies decide this is not possible, presumably because of the absence of a full faith and credit U.S. government guarantee, the next best alternative treatment for these securities would be as Level 2A HQLA with a cap higher than the proposed 40 percent. The 40 percent cap is especially punitive for small regional banks, which have historically held a super-majority share of their investment portfolios in agency MBS and, to a lesser extent, agency debt. By raising the cap, the Agencies could remain consistent with the Level 2A treatment of these securities in the Basel LCR framework, while still acknowledging the important and unique role of these securities in U.S. and global financial markets. A material increase in the cap would also prevent the presumably unintended consequence of creating an incentive for U.S. banks to reduce their holdings of these highly liquid securities, thereby restricting the provision of essential credit to the U.S. housing market and increasing bank portfolio risk exposures by further concentrating their investment holdings into a more limited and less liquid range of securities.

In regard to FHLB debt securities, financial market participants and fixed income investors widely consider the FHLB's consolidated debt obligations as safe and highly liquid investments. Historical data show that FHLB debt securities have behaved similarly to U.S. Treasuries during periods of high stress in the financial markets. In addition, FHLB debt securities are highly liquid and readily marketable given their global investor base, large dealer underwriting group (approximately 70 active dealers) and credit ratings identical to U.S. Treasury securities. Consequently, we request the LCR consider FHLB debt obligations Level 1 HQLA.

In summary, we urge the Agencies to be consistent with the Dodd-Frank Act and afford GSE debt and mortgage-backed securities Level 1 HQLA treatment. These securities meet all of the qualifying liquidity criteria itemized in the NPR and hold a unique place in the U.S. and global financial markets. Moreover, U.S. banking regulators already recognize the high liquidity and credit quality of these securities in their own regulations and actions; the FDIC's liquidity calculation for determining deposit insurance assessments considers GSE securities high quality assets and the Federal Reserve's own securities portfolio contains more than $1.5 trillion of agency MBS and debt securities. U.S. regulatory authorities have on numerous occasions diverged from the Basel accords to customize U.S. regulation to fit the unique characteristics of our financial markets. To not do so here would create a stark credibility gap for the LCR by ranking much less liquid debt issued by foreign supranational entities (e.g., Kreditanstalt für Wiederaufbau and the Asian Development Bank) ahead of United States GSE securities.

3. *Federal Home Loan Bank borrowing capacity*. As a government sponsored enterprise, the FHLB System is subject to substantial regulatory oversight by the Federal Housing Finance Agency and provides access to borrowing ("advances") by its member banks so long as those banks pledge sufficient acceptable collateral. Throughout the 2007-09 financial market crisis, the FHLB provided large amounts of liquidity to member banks (see chart below) and did so without incurring losses on those advances or requiring taxpayer or government assistance. The FHLB fared well through the crisis because of its full collateralization of all advances, conservative underwriting standards and strong credit monitoring policies. Moreover, in 2011, the FHLB System adopted the "System Capital Initiative", which calls for each Federal Home Loan Bank to reserve 20 percent of its earnings in a restricted retained earnings account, thus providing an even larger capital cushion than what it utilized during the 2007-09 economic recession and financial market crisis.

   Given our banking footprint, we are members of the FHLB-Atlanta, which experienced more bank failures within its district during the 2007-09 economic recession than any other FHLB. Nevertheless, the FHLB-Atlanta continued to lend to its member banks throughout the crisis so long as the member bank had adequate collateral and capital to support the advance. This track record of uninterrupted lending during the crisis, proven risk management of the advance process, addition of loss-absorbing capital and the joint and several nature of FHLB debt securities makes a strong case for the contingency liquidity value of a member bank's capacity to borrow from the FHLB.




As proposed, the LCR would provide no HQLA credit for a bank's untapped borrowing capacity with the FHLB System. The LCR would instead create an incentive for banks to draw on this capacity by borrowing advances and either retaining the proceeds as cash or purchasing Level 1 securities (U.S. Treasuries or Ginnie Mae MBS), because only then would the LCR recognize the liquidity value of that capacity. Such an exercise would be a very costly and inefficient use of a bank's balance sheet. Borrowing capacity at the FHLB has proved reliable in times of liquidity stress as the Federal Home Loan Banks retained access to the debt capital markets throughout the severe 2007-09 economic recession and financial market crisis.

In addition to the reasons stated above, the FHLB System retains good access to the debt capital markets in adverse environments due in part to its ownership structure. The FHLB System is a cooperative whereby member banks—primarily private commercial banks and credit unions—own each of the twelve regional Federal Home Loan Banks. Therefore, the FHLB System exists for the sole purpose of providing ready access to liquidity for its member banks, especially in adverse economic or financial market environments during which those member banks would otherwise experience a very high cost of funds and/or limited access to the debt capital markets.

In summary, we urge the Agencies to grant Level 1 HQLA credit for a bank's available borrowing capacity with the FHLB System. We understand the Agencies may find it difficult to grant full Level 1 credit for this liquid resource since the Basel LCR framework does not acknowledge the Federal Home Loan Bank System due to the lack of an equivalent international institution. Nevertheless, to completely discount this valuable and robust pool of secured funding would create another stark credibility gap for the LCR. We respectfully request the Agencies avoid that undesirable outcome by finding some room for compromise.

4. *Municipal securities*. The U.S. NPR does not consider any municipal securities eligible for the stock of HQLA, which is inconsistent with the Basel framework. This treatment relegates U.S. states and municipal governments, regardless of credit quality and their power to tax, subordinate to all foreign sovereigns in the LCR. The rationale and purpose for this subordination is unclear. The exclusion of municipal securities from the stock of HQLA, along with the proposed treatment of municipal deposits (see below), collectively relegates the credit of Main Street America to something less than sovereign debt, regardless of the relative creditworthiness or liquidity of the foreign borrower. According to the proposed rules, sovereign countries with a junk bond rating (e.g., Greece with a B- credit rating) would qualify as Level 1 HQLA, presumably because they have the power to tax and qualify for a zero percent Basel capital risk weighting, while obligations of U.S. state and municipal governments would receive no HQLA value, despite the fact that many of their issuers carry AAA credit ratings and wield the power to tax.

   Incongruous results like these stem from the LCR's fallacious reliance on capital risk weights as the arbiter of liquidity value. To at least partially avoid outcomes of the type cited here, we request the U.S. NPR adopt the Basel framework's approach, which assigns Level 2B HQLA status to U.S. municipal securities with a sufficiently high credit rating.

*E.* <u>Operational Deposits</u>

We agree with the Agencies' recognition that a "one size fits all approach" to operational deposit definitions would not work, thereby allowing banks the opportunity to develop their own methodologies which recognize their unique knowledge of their products and clients. However, since the NPR implicitly requires each bank to develop its own methodology, we note the LCR will not be uniform across the industry and, hence, not strictly comparable from one bank to another. As a result, the objective of an industry standard that stakeholders of all kinds can utilize to evaluate liquidity across the banking and financial services industry is much more difficult to achieve.

We urge the Agencies to consider the following points in the LCR's operational deposit framework.

*1. Legally Binding Agreements*. Under the proposed rule, operational deposits must be held pursuant to a legally binding agreement, the termination of which is subject to a minimum 30-calendar day notice period or the imposition of significant termination costs borne by the client. These requirements imply that operating deposits are subject to flight without the constraint of a legally binding contractual agreement. We note, however, that operational deposits, by their very nature, support a corporate client's banking relationship and therefore do not behave like retail transaction accounts, which can move with less inherent friction or constraint. Corporate operational deposits generally represent essential working capital funds or monies used to pay for banking services, so such clients would experience significant expense and burden in changing their banking relationships. This barrier to moving a banking relationship is not significantly changed by the existence of a formal 30-day notice period.

Banks do not, as a matter of practice and business convention, restrict client deposit movement. The written agreements that are present in the industry are generally for the purpose of substantiating the services provided and their relative pricing, not as a contractual obligation to keep the client tied to the bank. For this reason, we believe the NPR places an undue responsibility or burden on legal documentation that is not only unprecedented in the industry, but more importantly would not be viewed positively by clients. Therefore, instead of relying on legal restrictions, we request the U.S. NPR adopt the language used by the BCBS in paragraph 94 of the Basel framework which states that, "The customer is reliant on and has a substantive dependence on the [BANK] to perform the operational services and the deposit is required for the services."

2. *Operational services.* We recommend that the definition of operational services include normal and customary banking services provided to the client. Because these traditional banking services evolve over time, we further suggest that any change in definition not limit the services to those that are known today, but merely use currently known services as an example of what normal and customary could mean. The following is a list of services that are illustrative of normal and customary services that are performed as part of a bank's cash management, clearing, custody, or trustee services: (1) payment remittance; (2) payroll administration and control over the disbursement of funds; (3) transmission, reconciliation, and confirmation of payment orders; (4) overdraft management; (5) determination of intra-day and final settlement positions; (6) settlement of securities transactions and foreign exchange transactions; (7) transfer of recurring contractual payments; (8) client subscriptions and redemptions; (9) scheduled distribution of client funds; (10) escrow, funds transfer, stock transfer, and agency services, including payment and settlement services, payment of fees, taxes, and other expenses; (11) collection and aggregation of funds; (12) administration of investment assets; and (13) collateral management services.

   The NPR proposes eight criteria which define an operating account. We respectfully request changes to the following criteria, as outlined below:

   a. The second criterion states that there must not be significant volatility in the average balance of the deposit. The focus of this criterion appears to be on the segregation of "hot money" from excess balances that, by their very nature, can provide a high level of volatility when large amounts move in and out of a bank quickly (so called "surge balances"). However, the Agencies have not provided any criteria to identify the volatile portion of excess balances nor their proposed treatment of such, if in fact it is possible to isolate these balances. We request that the Agencies provide more information on how a bank would comply with this criterion.

In addition, we note that the daily measurement period, even with a 30-day window, is too short to account for seasonal business fluctuations, quarterly tax obligations and other infrequent fluctuations caused by a client's major business changes. By not considering these normal client activities in calculating the LCR, a high level of volatility will appear to be present that could not only disqualify the operational deposit, but also inappropriately place the bank in a state of non-compliance with the LCR. Since the consequences of non-compliance are relatively severe, we strongly recommend the Agencies consider a much longer time horizon for calculating operational deposit volatility.

b. The fifth criterion states that an operational deposit account must not be designed to create an economic incentive for the client to maintain excess funds through increased revenue, a reduction in fees, or other offered economic incentives. This proposed definition of economic incentives is too broad. All operational deposit product types feature an "economic incentive" to maintain funds with the bank. These incentives take the form of interest payments, earning credit allowances and waived fees. Strict adherence to this definition would exclude all corporate demand deposit accounts from being defined as "operational," which is clearly inconsistent with prudent liquidity management. Therefore, we request the Agencies rework this aspect of the operational deposit definition.

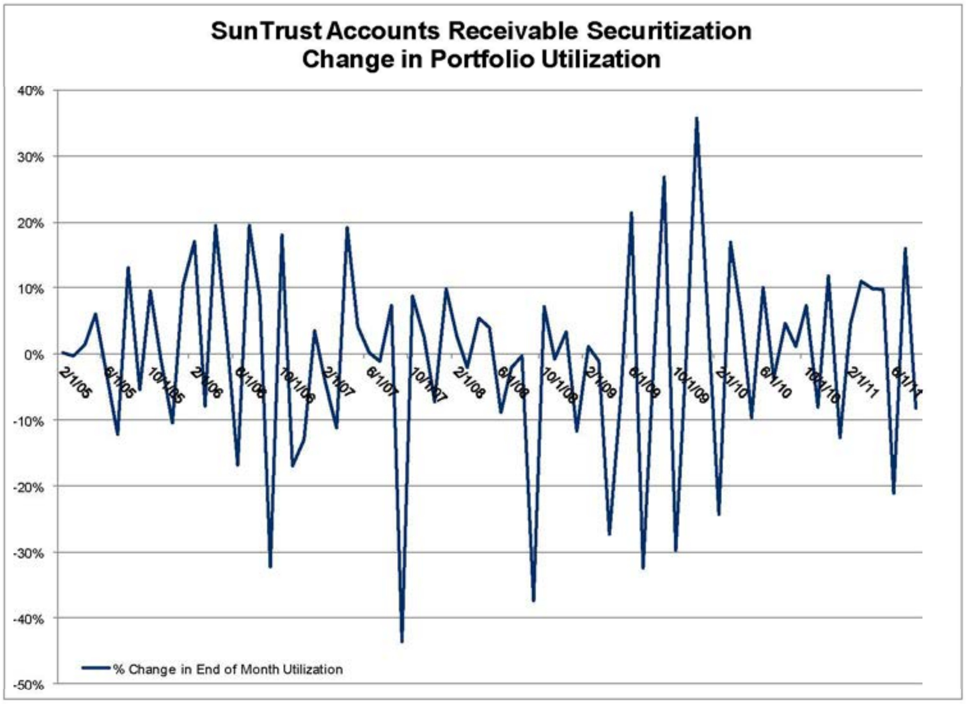
c. Criterion eight states that operational deposits exclude correspondent banking arrangements under which a covered company holds deposits owned by another depository institution that temporarily places excess funds in an overnight deposit with the covered company. Correspondent banking relationships constitute a stable source of funds. Therefore, we believe this provision is too broad and would incorrectly exclude from the definition of operational deposits certain correspondent banking balances used to pay for services and other operational considerations. We respectfully request the Agencies reassess this provision to allow banks to include the operational portion of their correspondent banking balances as operational deposits. Without such a change, it is likely that banks will either discourage or significantly increase charges for correspondent banking services, such as custody and clearing.

3. *Prime brokerage*. The NPR definition for prime brokerage accounts addresses a broad range of entities defined as "an investment company, non-regulated fund, or investment adviser." However, this definition excludes an inappropriately broad scope of deposits related to these entities that are clearly operational in nature, including employee compensation payroll services for a mutual fund complex, for example. We request the Agencies change the exclusionary language from "operational services" to "prime brokerage

services." This change would also eliminate a divergence with the BCBS liquidity framework.

4. *Special purpose entities ("SPEs") that function as credit facilities.* We support the comment letter from the Structured Finance Industry Group ("SFIG") and SIFMA. In particular, we request the Agencies reconsider the treatment of undrawn credit facilities extended to SPEs for working capital lines secured by accounts receivable assets, as described in section I.1 of their letter. Such undrawn credit facilities are functionally the same as credit commitments receiving a 10 percent outflow factor in the LCR. By using SPEs, banks can provide needed working capital financing of accounts receivable assets to either lower credit quality clients or clients who need to reduce their financing costs. The use of a bankruptcy remote SPE isolates the accounts receivable assets from the credit risk of the corporate entity and the credit facility is structured with substantial overcollateralization through the use of concentration limits and eligibility criteria, thereby improving the credit profile of the transaction.

   These undrawn credit facilities are effectively working capital lines and behaved accordingly through both the severe economic recession and financial market crisis of 2007-09 and the current environment. The graph below depicts the changes in utilization relative to the prior month's availability associated with these lines in SunTrust's asset securitization group. During the peak of the crisis period (January 2008 through March 2009), the maximum monthly draw down on this population was 10 percent. While the current volatility has increased, with monthly changes in utilization as high as 35 percent due to idiosyncratic reasons of a few clients, the volatility is not consistent with levels associated with those SPEs about which the Agencies are concerned. (Note: SunTrust eliminated its Asset Backed Commercial Paper Conduit in 2012, so SunTrust currently lends directly to such SPEs.)




Section __.32(e)(vi) of the proposed rule would require a 100 percent outflow of the undrawn amount of such transactions. Instead, we request the LCR treat accounts receivable securitizations (defined below) as either credit or liquidity facilities, depending on their use, without differentiation for the structure of the transaction; in other words, the LCR should look through to the underlying borrower and purpose of the facility when considering an SPE.

To define accounts receivable SPE transactions, we suggest the Agencies use the following criteria to differentiate these from other SPE transactions:

a. The SPE is sponsored by a non-financial client, i.e., such transactions would not be for financial assets, like loans, or for use by financial services firms;

b. Funding of such transactions comes directly from the bank or one of its sponsored ABCP conduits, which are addressed elsewhere in the proposal; this treatment would not be available for other types of SPEs;

c. The transaction is negotiated directly by one or more banks or ABCP conduits, or an agent on their behalf;

d. The bank client, as servicer for or administrator of the SPE, determines the utilization of the facility by making draw requests;

e. The transaction is secured by accounts receivable assets and structured in line with standard securitization methodology for such transactions.

We believe the European Union has already set a precedent for this treatment by adopting a similar approach in respect of such securitization facilities.[3] We also believe this treatment is consistent with the intent of the LCR and allows banks to continue to provide this critical working capital financing at reasonable costs to clients while mitigating credit risk through the transaction structure.

5. *Borrowing base vs commitment amount.* We also request that the cash outflow amounts attributed to bank securitization and other borrowing base facilities be limited to the amounts available under such borrowing bases, rather than the commitment amount as currently proposed. Such lines of credit include asset based lending, dealer floor plan, and similar arrangements where availability is contractually limited based on a certified borrowing base that is subject to regular audit and validation. It is typical in these arrangements that the legal commitment exceeds the likely borrowing base as re-documentation of the commitment can be expensive and time consuming. Our experience demonstrates that collateral does not suddenly become available in the LCR's 30-day measurement period, which is the only way a bank would be required to fund the entirety of the commitment if the borrowing base availability was materially below the commitment amount on the measurement date.

**<u>Section Two: Unintended Consequences</u>**

*A.* <u>HQLA Status</u>

Due to their elimination or diminished value as qualifying HQLA under the U.S. NPR, the demand for the following instruments and securities from the financial industry may decline significantly over time.

1. *Private label MBS.* The U.S. NPR provides no HQLA value to private label MBS while the Basel framework considers such assets Level 2B HQLA. Although the Basel framework significantly and appropriately limited the HQLA value of this asset class, the U.S. LCR treatment assigns no value to these instruments for the purpose of satisfying a bank's liquidity needs. This message seems at odds with efforts by the U.S. Congress and DFA directives to reduce financial market participants' reliance on agency MBS since private label MBS constitute a key

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[3] "The committed amount of a liquidity facility that has been provided to an SSPE for the purpose of enabling such an SSPE to purchase assets other than securities from clients that are not financial customers shall be multiplied by 10 % to the extent that it exceeds the amount of assets currently purchased from clients and where the maximum amount that can be drawn is contractually limited to the amount of assets currently purchased.", Part Six Liquidity, Title I Definitions and Liquidity Coverage Requirements, Article 424, Outflows from credit and liquidity facilities, section 4.

alternative to those securities. In addition, total exclusion of all private label MBS as HQLA will, *ceteris paribus*, raise mortgage rates and, hence, the cost of home ownership. However, if it is the Agencies' objective to identify assets that can be liquidated in times of acute liquidity stress, the Agencies should adopt the HQLA treatment for private label MBS outlined in the Basel framework.

2. *Agency MBS*. As proposed, the LCR creates incentives for financial institutions to sell agency MBS (Level 2A) and purchase GNMA securities (Level 1), thereby significantly reducing a large portion of the secondary market liquidity for agency MBS—currently one of the world's most liquid asset classes. As noted above for private label MBS, this treatment, *ceteris paribus*, would likely raise U.S. mortgage rates and reduce homeownership levels. By curtailing the amount of MBS that covered companies can absorb, the LCR would also limit the risk transfer process from the GSEs to private market investors.

3. *Municipal securities*. The elimination of state and local government securities as HQLA and the proposed treatment of secured borrowings effectively subordinates the value of these instruments to lower-rated sovereign debt. The LCR thereby creates an incentive for banks to hold lower rated sovereign date in place of local state and local government obligations that may in effect be no more risky and, in many instances, more liquid. As banks reposition securities portfolios away from municipal securities, the borrowing costs for these entities will rise, which may ultimately lead to higher taxes at the state and local levels.

*B.* Deposits

1. The proposed LCR, through regulation, would likely establish a new relative value among various types of deposits by assigning cash outflow rates that may not accurately reflect market behavior. The unintended consequence is that covered companies will price various deposits in order to attract LCR-advantageous deposits and deter LCR-disadvantageous deposits, potentially creating misalignment between the economic value and regulatory value of client relationships.

2. Public funds deposits from state and municipal governments typically require overcollateralization with high quality securities (typically, those classified as Level 1 or Level 2A in the LCR). In almost all instances, this overcollateralization is required by law. Despite this risk protection, the U.S. NPR would assess high cash outflow rates to these deposits in the denominator of the LCR. In addition, the LCR's "adjusted" HQLA calculation would provide effectively no or negative cash value to the deposit in the LCR numerator.

The LCR's proposed treatment of public funds deposits, as if they were repurchase transactions, is unduly punitive and will have a significant negative impact on state and municipal governments. These governments will find it more difficult and costly to maintain their banking relationships as banks charge for the cost of holding excessive HQLA against their deposits. We therefore request that public funds deposits be exempt from the "adjusted" HQLA calculation applied to other sources of secured funding.

*C.* Secondary Market Liquidity for Bank Debt

*1.* The proposed LCR would seemingly discourage covered companies from providing secondary market liquidity for their own or peer bank debt securities by assigning higher cash outflow rates to securities for which they are the "primary market maker." Given the limited number of active market makers in bank debt, banks that own broker-dealers often account for a significant share of the secondary market trading in their parent company's debt. The LCR's provision for higher cash outflow rates for primary market makers would seem to discourage banks from supporting their own or other banks' debt securities, which could impair their capital markets access over time. Although we presume this is an unintended consequence, we ask the Agencies to clarify the definition and intentions of this LCR provision.

**Section Three: Operational Impediments**

*A.* Lack of Clarity in Key Definitions

1. *Primary market maker*. The NPR uses this provision to assess the "debt security outflow amounts" for a bank's own debt securities (Sec 32(i)). However, the NPR does not define the term and we request that the Agencies provide a more detailed definition, perhaps with examples, that might clarify how banks should interpret and comply with this provision. Please see our discussion in Section Two (C)(1) of this letter.

2. *Liquid and readily marketable*. The context provided for this term in the NPR contains several undefined terms, such as "*large* number of non-market maker participants," "*timely and observable* market prices" and "*high* trading volume," to name a few. We request the Agencies consider defining the term "liquid and readily marketable" by listing specific securities or asset classes that would qualify under this definition. We have provided one asset class reference in Section One (D)(3) where we discuss FHLB securities and borrowing capacity. In the event the Agencies prefer to offer a definition, we recommend the Agencies define "liquid and readily marketable" by using instrument characteristics, or more specifically the requirements listed in DFA section 165 that we cited in Section One (D) in this letter.

*B.* Procedural Clarity

1. *Segregation of assets.* Without further clarification from the Agencies, the process of segregating assets is fraught with uncertainty since the NPR does not provide specific guidance for certain key operational elements. Prominent questions include:

   *a)* Do the assets need to be held in separate accounts, sub-portfolios of existing portfolios, or other? Can a bank demonstrate segregation by the use of an electronic flag or marker in its portfolio accounting systems?

   *b)* The NPR would require those utilizing the Modified LCR to report one ratio on a consolidated basis. If a bank holds HQLA in a subsidiary, would those assets be considered segregated? Do the Agencies have an expectation that banks hold "segregated" assets in the same portfolio irrespective of legal entity ownership?

   Reporting companies will need more explicit guidance in order to meet the Agencies' expectations in this area.

2. *Management control.* What are the Agencies' expectations for a bank to demonstrate control of its assets? In order to streamline management responsibilities, banks typically employ a hierarchy of delegated authority. Under this structure, an individual or group has primary oversight responsibilities administered through policies, procedures and oversight functions that are also integrated into internal governance processes. How does delegation of authority fit into the Agencies' expectations of management control of liquidity assets? The issue becomes more complicated when considering the role of subsidiaries and their formal legal structures for separate boards and management. We request the Agencies provide and clarify their expectations on how a bank would be required to demonstrate management control.

3. *Monetizing assets.* The NPR states that a bank must have the ability and a process to monetize its stock of HQLA and periodically demonstrate its ability to do so. We believe this requirement is in conflict with other regulatory guidance, specifically SR 10-6 ("Interagency Policy Statement on Funding and Liquidity Management"), which states that, "For certain components of the Contingency Funding Plan, affirmative testing may be impractical (e.g., liquidation of assets)." Is it the Agencies' intent to diverge from this guidance? If so, we recommend the Agencies delay implementation of the LCR until they conduct a thorough review of its consistency with existing regulatory guidance and revise, as appropriate, such guidance through the customary public proposal and comment process.

   Taking other regulatory pronouncements such as SR 10-6 into consideration, do the Agencies believe that being able to demonstrate the capability to select a sample of assets and have a procedure in place to monetize them suffices for compliance with this provision of the LCR? Or would the LCR require an actual asset sale to occur? If the latter, what should banks use as performance criteria, such as the frequency with which such practice must occur, and what constitutes a representative sample of assets? We respectfully request more guidance on how to comply with this provision of the LCR.

4. *Aggregation and consolidation*. The NPR contains a lack of operational provisions or guidance for banks reporting the Modified LCR. Specifically, the Modified LCR requires such banks to measure the LCR at the bank holding company ("BHC") level, but also requires clear segregation and control of HQLA, which may reside at various subsidiaries of the bank or BHC. We request more guidance on how banks should or may aggregate HQLA in its various subsidiaries to report consolidated HQLA at the BHC level. We presume a bank reporting the Modified LCR would aggregate its various stores of HQLA using accounting and legal processes similar the current process on how capital instruments are consolidated from the various subsidiaries to the BHC, but we request the Agencies confirm this or provide other guidance.

5. *Cash outflow rates for other obligations*. The NPR does not address the determination of projected cash outflow rates for certain contingency funding obligations such as variable rate demand notes ("VRDNs"), stable value funds and other similarly structured products. The Basel LCR framework provided for national discretion when determining these rates; however, the U.S. NPR leaves many such bank products unaddressed. We respectfully request the Agencies provide uniform guidance on how banks should treat these and other related products with respect to their presumed cash outflows.

C. Divergence from Current Market Practice

1. *Derivatives collateral change*. In current market practice for the valuation of derivatives, counterparties generally value these derivatives on a daily mark-to-market process and require counterparties to post additional margin as necessary. In practice, most counterparties have evolved toward the use of very low or zero collateral posting thresholds so that margins reflect the full impact of those daily valuation changes.

   The NPR would require a covered company to use a two-year look-back approach to calculate potential outflows associated with market valuation changes. Specifically, the derivative collateral amount would be the absolute value of the largest consecutive 30-calendar day cumulative net mark-to-market collateral outflow or inflow realized during the preceding 24 months. The current conventions around derivatives margin requirements described above greatly reduce a bank's exposure to derivatives valuation changes, making the NPR's proposed methodology an onerous data exercise without an obvious benefit. The proposed methodology would also create operational challenges as there has been no prior need to retain the requisite data. We ask the Agencies to allow banks to utilize their own calculations for the estimated additional margin required under a material adverse change in financial condition.

**Conclusion**

In conclusion, we reiterate our support for a uniform metric that all stakeholders could use to evaluate the liquidity of both individual banks and the U.S. financial system. However, for the specific reasons outlined in this letter, we believe the proposed LCR falls short of that objective. In particular, we believe our comments demonstrate that the proposed LCR does not adequately account for the diversity of bank business and operating models, would increase investment concentration risk in the banking system, and creates operational complexities and ambiguities that will prevent it from being a uniform standard. Moreover, as we outline in this letter, the proposed LCR will likely create a number of unintended consequences with material negative implications for both the U.S. banking system and the economy. Finally, and perhaps most importantly, we believe the Agencies have severely underestimated the effort and expense banks will incur to implement this new standard; an accurate accounting would reveal that the costs, and the risks entailed with such a brief implementation timeline, far outweigh the prospective benefits.

We thank the Agencies for the opportunity to comment. If you have any questions, please contact me.

Sincerely,

Paul E. Burdiss
Corporate Treasurer
SunTrust Banks, Inc.