January 26, 2014

Office of the Comptroller of the Currency ("OCC")
Legislative and Regulatory Activities Division
400 7th Street SW, Suite 3E-218
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Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring

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I received the OCC Docket (Docket ID OCC-2013-0016) requesting input on the proposed Liquidity Coverage Ratio ("LCR"), consistent with the standards published by the Basel Committee on Banking Supervision ("BCBS"). Today (01/26/2014), I am providing my written submissions for the record. My views and opinions are the result of my experience attained when I served in the following capacities: Wells Fargo Bank, N.A. – Vice President; MGM MIRAGE – Senior Vice President and Treasurer; and Walmart Stores, Inc. – Vice President Finance, Capital Markets & Assistant Treasurer.

Prior to my specific comments, I have the following general observations:

1. Although the proposed rule focuses exclusively on the LCR, I am interested to understand the impacts of the Net Stable Funding Ratio ("NSFR"), as proposed by the BCBS, on those institutions affected by the LCR upon future enactment. There are components of the LCR (deposits: both retail and wholesale, as an example) that are categorized as outflows in the denominator of the LCR ratio yet reflected as a stable source of funding in the numerator of the NSFR. I believe that additional system complexities may be introduced by implementing the LCR ratio, one that focuses exclusively on the short-term (<30 days or <21 days), without also addressing the benefits of long-term funding stability afforded by the NSFR. Globally, companies have been impacted by bank changes in lending patterns as a result of the financial crisis, with term lending duration shortened and access to capital often reduced or eliminated altogether. With access to capital and long-term, stable lending an important component in the rating agency analysis, I believe that there is benefit in incorporating certain aspects specific to long-term funding in the implementation of the LCR, which can serve to mitigate the risk of managing to a short-term ratio at the expense of long-term stability. I believe that there is also a correlating benefit of the inclusion of this long-term stability focus to not only the U.S. sovereign rating, as a function of the role of systemically important financial institutions in the sovereign rating analysis, but to the global economy given the absolute size of U.S. financial markets and the importance of stability in said markets for purposes of global liquidity and access to capital.
2. Specific to deposits and the different treatment between the LCR and NSFR whereby the LCR denominator increases as deposits increase; yet, in the NSFR, the numerator increases as deposits increase, I believe that it is important to be mindful of the fact that many stable and highly rated companies often carry significant excess cash deposit balances[1], often for extended periods of time. These deposits (post haircut) can negatively impact the respective depository bank's LCR ratio unless the bank has corresponding HQLA on hand to offset said deposits. By implementing the LCR in isolation, banks may alter their strategic

[1] US non-financial corporate cash holdings rose to $1.24 trillion at the end of 2011: Moody's Global Credit Research 03/14/2012

position in regards to their HQLA or other LCR denominator elements, which may ultimately negate the benefits of this long-term funding source. With developing nations and their respective financial markets continuing to evolve, coupled with the low interest rate environment, I believe that, subject to appropriate monitoring, there is benefit in affording banks flexibility in innovatively developing a framework for deposits and other core, long-term stable sources of funding in the NSFR that mitigate the risk of pushing these important bank funding sources into non-bank financial institutions and shadow banking in the short-term as a function of the LCR, which, in turn, can lead to long-term instability.

3. Although I can appreciate the comments specific to monitoring and compliance, I am interested to understand if consideration has been given to allowing banks a form of LCR "waiver", subject to satisfactory compliance with other core metrics (leverage ratio, Stress Tests, NSFR). This waiver could be granted on a monthly or quarterly basis with failure by bank to renew its respective waiver resulting in a requirement for bank to achieve compliance with the ratio within a specified period of time. Additional measures specific to this waiver could include requisite internal bank monitoring via the incorporation of waiver specific internal controls in a bank's risk management and/or Sarbanes Oxley policies and corresponding regulatory reporting specific to internal control deficiencies, as examples. I believe that this waiver can mitigate the risk of applying a "one-size-fits-all" LCR metric to banks, often with distinct and varied long-term funding sources, that can lead to banks significantly altering their balance sheet composition for compliance with a short-term ratio only and corresponding market disruption. With the Federal Reserve focused on tapering and its exit strategy, which includes excess reserves (a component of the LCR) and the interest being paid on said reserves[2], transparency into the markets and overall interest rate functioning is critical. In addition, I believe that a waiver can provide banks with important strategic growth flexibility that allows them to focus on long-term global funding sources that can be put to long-term global funding use, which, in turn, can serve to strengthen and grow the global economy given the importance and benefit of long-term, stable funding.
4. Specific to your explicit exclusion of regulated financial company[3] and public sector entities as eligible HQLA, I am interested to understand if this exclusion would apply in those instances specific to securities of public/private partnerships and alliances that include said entities. I believe that there is significant benefit to the economy from public/private partnerships and alliances that consist of regulated financial company and public sector entities from both an economic and operational perspective and that the exclusion of these entities and their corresponding securities in the LCR equation can negatively impact demand for said securities, raising respective rates and impacting the long-term formation, supply and the development of deep and liquid markets respective to these securities. Multilateral development banks have certain similarities to public/private partnerships and alliances, with variability often a function of the respective development bank's operational and/or long-term involvement beyond the granting of initial capital. The current LCR classification of multilateral development banks in the same segment of sovereigns illustrates the importance of said banks' activities to sovereigns given that both bank and sovereign are categorized as level 1 HQLA. Given the parallel importance and benefits of public/private partnerships to the growth and expansion of a sovereign, I believe that the inclusion and classification of these securities as HQLA in the LCR equation can serve to foster growth and development of these entities, affording benefits to both the public and private sectors and ultimately the global economy. Finally, I believe that there is an added benefit to the sovereign as a function of private, financial sector involvement beyond reducing claims on the sovereign, which is the incorporation of financial institution knowledge and expertise in opening up new

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[2] 25 basis point IOER; $2.522 trillion excess reserve balance (01/22/14: Board of Governors of the Federal Reserve System)
[3] Including non-regulated fund, pension fund, investment adviser, identified company or any consolidated subsidiary of such entities

channels of demand and capital access on a global basis, which can, in turn, serve to propel the growth of public/private partnerships and alliances exponentially and afford even greater benefits to society.

5. Although Dodd-Frank excludes reliance on credit ratings, I believe that credit ratings are a core element of the financial system. Ratings, as a function of respective rating methodologies, serve to delineate issuer differences across investment grade, high yield and distressed via specific proscribed quantitative and qualitative attributes. This categorization allows for appropriate issuer segmentation and distinction in the global financial markets, providing for a necessary degree of efficiency in global liquidity flows and increased granular insights into the many layers of the markets. Furthermore, short-term issuer ratings (P-1, P-2) are a primary component of short-term markets and are highly correlated to short-term rates (Fed Fund, Libor). The U.S. short-term markets are the largest in the world, and are a critical source of short-term funding for many of the world's most stable and highly rated companies. Accordingly, I believe that it is important to maintain reliance on existing credit ratings while, at the same time, incorporating additional rating alternatives, including banks' internal ratings, as an example. I believe that allowing for and placing greater reliance on banks' internal ratings via defined objective, independent standards can also serve to foster and develop an appropriate peer review specific to ratings between and among global banks that, at the same time, underscores the importance to a bank of maintaining a well developed internal rating framework methodology.
6. Specific to your use of 12 CFR part 1, I believe that the use of a U.S. specific regulation in defining investment grade can introduce additional layers of complexity into the global financial markets and introduce subjectivity and that, instead, the use of existing ratings or global banks' internal ratings can better capture a global definition of investment grade. Furthermore, given the continued growth of non-U.S. financial markets, coupled with the developed understanding of and precedent for use of existing credit rating definitions and segmentation globally, I believe that maintaining consistency in regards to issuer classification definitions on a global scale is important. Capital and liquidity moves quickly between and among U.S. and non-U.S. financial markets with liquidity flows expected to increase in the future. Maintaining a common platform specific to definitions and segmentation eliminates ambiguity and need for reconciliation and reclassification, which, in turn, can provide greater transparency into global liquidity flows. This transparency can be helpful in gaining greater insights and understanding into liquidity movement between and among markets and segments, including corresponding global interest rates and credit spreads.
7. Specific to your points on monitoring and calculation, I believe that all entities impacted by the LCR should develop robust, daily internal compliance reports and expand Sarbanes Oxley and internal audit functions as necessary so as to ensure said monitoring. Cash inflows and outflows can often vary from the overall average by multiple degrees of deviation from day to day, depending upon the nature of the sources and uses, which can have significant positive or negative impact on the LCR ratio. Over time, however, the outliers of given days typically revert to an average. I believe that this average, whether monthly or quarterly, can serve as an appropriate LCR basis and is a better reflection of the entity's general net flows as opposed to a peak net day, which can artificially increase the denominator and require unnecessary increases in HQLA as a result. This, in turn, can have negative implications to the overall cost of capital and build inefficiencies into the system, as well. Accordingly, I believe that daily notification requirements to Federal supervisors for non-compliance with the LCR detracts from critical operating duties and functions specific to the management of these variable inflows and outflows and that the benefits of daily LCR reporting in relation to the costs and labor required are not the most efficient use of limited firm resources. Alternatively, I believe that including some form of affirmative and negative covenant, much like those often

included in debt security transactions[4] and the use of an average, as opposed to a peak net day, would place responsibility on entity to comply with the covenants, with the corresponding benefit that of compliance with the ratio.

8. I am interested to understand how you will monitor and assess LCR compliance between and among financial institutions as a function of respective credit ratings. Both long-term and short-term credit ratings impact said entities' business models via the cost of and access to capital with rating downgrades increasing the cost of and access to this capital. Financial institution ratings are also often monitored and incorporated into non-financial companies' internal policies and procedures, including cash and cash equivalent bank counterparty exposure reports, risk management and derivative policies, and short-term investment strategies and guidelines, as examples. Said policies and procedures typically delineate financial institution rating downgrade actions, whether requiring an increase in collateral from the respective institutional derivative counterparty or reducing cash balances held at the downgraded depository institution. Given the link between these company actions to the corresponding elements in the LCR ratio, coupled with the correlation of financial institution strength and stability to sovereign ratings, I believe that it would be helpful to incorporate additional measures specific to financial institution rating downgrades in relation to LCR compliance. I believe that this can serve to highlight the importance of an institution's rating in regards to not only LCR compliance but to its customers and the broader economy.

Specific comments:

HQLA

Although I can appreciate the need to distinguish between non-financial companies and sovereigns, I believe that there is benefit to either reducing the level 2A 15% haircut or expanding the 40% combined level 2 limitation when an institution's level 2 assets consist of the most highly rated (>AA) non-financial companies. Many of these highly rated, level 2 non-financial companies are able to issue securities at tenors (30 year) and rates that are typically devoted to sovereigns, which are categorized as level 1 HQLA and not subject to limitation. In addition, these companies also have broad access to non-U.S. financial markets, markets which continue to expand and grow, serving as an important source of diversification to these companies' capital structures. I believe that increasing the HQLA percentage allowance specific to the most highly rated companies affords beneficial HQLA diversification for financial institutions that, at the same time, can open up new channels of demand for highly rated securities, expand the benefits of diversification to non-financial companies and recognize the importance of highly rated securities to the continued stability and growth of the increasingly interconnected global financial markets

HQLA: exclusion of assets issued by financial sector entities

The financial sector is a critical component of the global economy, playing a direct role in global GDP growth via the extension of credit to global companies and individuals, the Federal Reserve's domestic open market operations and via the coordination and structuring of financing transactions for states and municipalities, as examples. Whether syndicating credit facilities or serving as a lead bookrunner in debt transactions, financial institutions are a central element in issuer financing working to generate demand and lower issuer pricing. Financial institutions are also an important element in a country's sovereign rating with the sovereign rating impacted by its collective financial institutional strength and stability that, in turn, affects the sovereign's ability to access capital and corresponding

[4] Debt security covenants across investment grade and high yield typically allow for quarterly reporting, completed in arrears, and the use of rolling monthly actual figures for quarterly compliance certificates (if applicable). Even for those companies in distressed situations, daily reporting is often viewed from a rolling 13-week perspective, albeit in advance.

interest rate. With that said, I believe that the exclusion of financial sector securities from the definition of HQLA increases the risk of negatively impacting the demand for and corresponding pricing of financial sector securities – a sector, which as reflected above, is critical in coordinating and opening up new channels of demand for both issuers and sovereigns. Accordingly, I believe that there needs to be a balance and inclusion of financial sector securities as HQLA and that said inclusion serves to recognize the importance of demand and long-term stable funding to the economy. I believe that this segment should be reflected separately from both non-financial and sovereign securities so as to capture more granular insights into the distinct segments, which, in turn, can allow for more detailed monitoring and analysis of these highly correlated segments.

Level 1 Liquid Assets: Reserve Bank balances

Both the exponential increase in absolute excess reserve balances as well as the decision to start paying interest on excess reserves (IOER) for the first time in history at the time of the financial crisis is unusual and unique on a global basis. Many of the banks with the largest excess reserve holdings are systemically important financial institutions to the U.S., institutions, which collectively, are also an element of the U.S. sovereign rating. In addition, the interest rate on excess reserves, the Federal Fund rate and LIBOR are all highly correlated, with the Federal Fund rate one of the core monetary policy levers used by the Federal Reserve that is widely followed and monitored globally. Accordingly, I believe that it would be helpful to first gain greater insights into the role, if any, of the IOER in the Federal Reserve's tapering and exit strategy. Presuming that the Federal Reserve does not start raising the Federal Funds rate from its current 0-0.25% until 2015 or beyond as they have communicated, the proposed transition period of this rule will occur in the midst of these policy changes. Given the many first-time monetary policy measures instituted by the Federal Reserve since the onset of the financial crisis (IOER, QE. Operation Twist) and, thus corresponding lack of historical interest rate data, I believe that it is important to minimize the layers of complexity that will be required in forecasting future short and long-term rates once the Federal Reserve starts to increase the Federal Funds rate. Excess reserves have increased from an average $15.7 billion[5] since the time of the Lehman crisis to the current $2.5 trillion[6], both the exponential growth and corresponding absolute level of excess reserve balance unique to the U.S. Many of the U.S. institutions subject to this proposed rule currently hold significant portions of the excess reserve balance. These institutions are also critical suppliers of capital to the global economy, which, in turn, directly impacts global GDP growth. Given the differences in regards to both the implementation timeframe and calculation of LCR globally, I believe that it is important to gain further insights prior to finalizing this proposed rule given the importance of this capital to the global economy. I believe that this detailed analysis and collaboration can be helpful in the development and formation of both the final LCR rule and the Federal Reserve's tapering and exit strategy given the significant interconnectivities between and among these multiple elements. I also believe that this can aid in better understanding and monitoring U.S. monetary policy, including the corresponding interest rate impacts and yield curve movement, and the global implications of U.S. monetary policy in relation to fiscal policy and the global economy.

Level 1 Liquid Assets: alternative factors

I believe that additional liquidity characteristics specific to level 1 should be extended to include parent level secondary trading levels over an extended period of time, including times of market decline and economic downturn. In addition, I also believe that the absolute size of parent issuer holdings, credit rating and average credit spreads in relation to comparable peers as well as parental support specific to subsidiary and related joint venture securities are

[5] 01/04/1984 – 09/10/2008 (Board of Governors of the Federal Reserve System)
[6] 01/22/2014 (Board of Governors of the Federal Reserve System)

important factors in ascertaining liquidity and readily-marketable aspects of security issuances. Beyond level 1 liquid asset factors, I believe that it important to be mindful of the U.S. Treasury's ongoing Global LEI Initiative and to include this indicator in the LCR security reporting requirements so as to gain greater granular insights into LCR sources and uses in relation to the broader market.

Calculation of Adjusted Excess HQLA Amount: GAAP

Fair value determination is an important aspect in calculating the HQLA amount, which is defined differently under GAAP and IFRS. Given that HQLA is a core component of the LCR coupled with the fact that many countries require IFRS, as opposed to GAAP, I am interested to understand if consideration has been given to incorporating IFRS and the inclusion of an additional step requiring a reconciliation of HQLA as calculated under GAAP to IFRS, and vice versa, so as to eliminate differences due to accounting and better assess the HQLA of financial institutions across a level foundation.

Other Retail Deposits: foreign deposit insurance

Financial institutions are able to classify sovereign marketable securities as a level 1 HQLA in the LCR numerator. The marketable securities issued by said sovereign are reflective of a myriad of elements in the sovereign rating, which include the stability and strength of its financial institutions. An underlying component of this overall stability and strength include deposits. Accordingly, I believe that it is important to maintain consistency in regards to the classification of deposits, whether insured by FDIC or foreign insurance, and to treat the numerator and denominator of the LCR equally in regards to sovereigns, being mindful of the link between and among a sovereign's securities, its financial institutions and corresponding deposits. With that being said, I am interested to understand if consideration has been given to ascribing any limits in regards to total sovereign holdings as a percentage of the overall HQLA or requiring a minimum sovereign rating classification so as to mitigate the risks of lower-rated sovereign securities and concentrated, interconnected holdings between a financial institution and its country of domicile.

Commitment Outflow Amounts

I believe that assigning a flat 10% outflow rate to undrawn, committed credit facilities, regardless of rating, increases risk of both higher credit facility pricing and reduced access to capital for the economy. Some of the largest commitments held by banks are made to the most highly rated companies in the world. These commitments, often collectively held in global syndicated facilities, primarily serve as commercial paper backstop for said companies. Even at the height of the financial crisis, the commercial paper market remained open for these companies, and said commitments never needed to be drawn upon, as they maintained continued access to this market for their liquidity needs. Both the duration of the commitment and committed status are important factors in a company's rating analysis, which, in turn, impacts said company's access to commercial paper funding, given the nature of and rating classifications specific to this market. With that said, I believe that imposing a 10% outflow rate on these facilities can have an exponential, negative impact on a bank's LCR given the underlying size of these commitments in relation to a bank's total commitments that can increase a bank's requirement to deploy capital to offset future, hypothetical outflows for the safest of credits.

In addition, I believe that it is important to note that many internationally active banking organizations, as a result of their long-term global leadership in regards to global credit and liquidity facility coordination and syndication, have well-developed internal credit review practices and a comprehensive understanding of the role that covenants can play in affording appropriate protections. This knowledge and understanding becomes even more important in granting credit to non-investment grade companies and small to medium enterprises (SME's), which are important components in driving global economic growth in both the most advanced and least developed nations. With that said, I believe that is important to balance the need for banks to withstand a short-term crisis with the long-term needs of the global economy, which includes long-term, stable access to capital. I also believe that the U.S. ruling in regards to this measure will have far-reaching impacts and that implementing blanket LCR outflow rates on credit and liquidity facilities can lead to more costly and reduced levels of global capital – capital, which cannot be readily replaced by non-U.S. banks. As opposed to applying blanket outflow rates, I believe that banks should be provided credit relief, upon approval and subject to compliance with certain defined standards, that includes a tiered outflow rate which is respective of rating differentials and begins at 0% for the most highly rated companies (>AA-, P-1 or corresponding equivalents). Ultimately, I believe that this can mitigate risk of unnecessary deployment of bank capital for LCR purposes, an increase in bank pricing and a reduction in facility commitments in the global economy.

Unsecured Wholesale Funding Outflow Amount

Cash and investments, as reflected on a company's balance sheet, are typically managed at a concentrated level on a daily basis as opposed to an account by account basis. Furthermore, operational accounts often are established at the onset as zero balance accounts whereby any balance in said account is automatically swept into a linked, concentration account. Concentration accounts can serve both operating and non-operating purposes depending upon the structure and complexity of the company and are often held at a single financial institution for efficiency, pricing or other daily operation purposes. These accounts often have significant cash balances, held as short-term investments in non-operating accounts or in concentrated, operating accounts due to favorable earnings credit rate (ECR) that serves to offset account fees. In addition, a company with multinational operations may also choose to transfer excess cash deposited into operating accounts at a local level in a non-U.S. bank to a non-operating account in an internationally active U.S. bank given product or other account related limitations at the local banking level. Finally, cash and cash equivalents, as recorded on a company's balance sheet, are often critical components in credit facility and debt security covenant calculations and are typically collectively defined and not segmented between operating and non-operating accounts. Given these myriad operational and reporting aspects specific to a company's cash and investments, I believe that the proposed rule's segregation of deposits by account type is counter to this concentrated, cash management structure, which can lead to unnecessary confusion and increase the risk of pushing excess depository balances into shadow banking as a result. Given that shadow banking and the opaqueness inherent in shadow banking are widely considered one of the risks in the financial system that contributed to the financial crisis, I believe that is important to be mindful of the divergence between the LCR and NSFR in regards to deposits and to structure the short-term LCR in such a manner that mitigates this risk, one which can lead to long-term instability.

Thank you for the opportunity to present my comments.

Regards,

Cathy Santoro