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August 4, 2016

BY ELECTRONIC SUBMISSION

Office of the Comptroller of the Currency
400 7th Street SW Suite 3E-218
Washington, D.C. 20219
RE: **Docket ID OCC-2014-0029 RIN 1557-AD97**

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
RE: **Docket No. R-1537 RIN 7100-AE51**

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429
RE: **RIN 3064-AE44**

Re: Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements

The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency (ECA) of the United States. Since 1945, Ex-Im Bank has provided direct loans and guarantees. In the 1960s, support was expanded to include a trade credit insurance program. In 2009, Ex-Im Bank extended its longstanding loan guarantee program to cover financing raised in the international bond market in support of export transactions approved by Ex-Im Bank's Board of Directors.

Since October 1, 2009, there have been 163 Ex-Im Bank-guaranteed bond issuances totaling over \$25 billion. Approximately \$19 billion in exposure was outstanding as of the end of June 2016. This security is a relatively new offering in the international capital market, but has been well-received and customer demand for this product is strong. Ex-Im Bank appreciates the opportunity to comment on the proposal for implementing the Net Stable Funding Ratio (NSFR).

Ex-Im Bank-guaranteed medium and long-term loans and bonds are riskless, as they carry the unconditional full faith and credit guarantee of the U.S. Government. These assets are often held to maturity, but even during times of stress, entities liquidating Ex-Im Bank-guaranteed assets on the secondary market have experienced favorable pricing, in that fluctuations in interest rates alone appear to have determined the pricing. Additionally, Ex-Im Bank-guaranteed assets can be pledged at the Federal Reserve Bank's (Fed) discount window, allowing banks to easily

monetize them, if needed. Ex-Im Bank-guaranteed bonds are also traded in an active secondary market that attracts a wide range of investors.

Ex-Im Bank has received inquiries about U.S. Government regulators' determination regarding the inclusion of Ex-Im Bank-guaranteed bonds as High Quality Liquid Assets (HQLA) in the calculation of Basel III liquidity ratios, but has been unable to provide an answer. Accordingly, Ex-Im Bank would like to offer some comments on questions that the U.S. bank regulatory authorities have posed in their proposed rules for implementing the NSFR and on the need to use multiple indicators for evaluating assets for HQLA status. Our purpose in providing this response is to share information showing that Ex-Im Bank-guaranteed bonds are both highly creditworthy and liquid and to encourage regulatory guidance or other measures that will make U.S. regulators' views clearer as to whether Ex-Im Bank-guaranteed bonds can be included in financial institutions' HQLA calculations and, if so, at which Level.

EX-IM BANK'S COMMENT ON QUESTION 6:

Question 6 states:

...For example, should the definition of "liquid and readily-marketable" be amended, including any of its criteria, to provide more clarity or to ease operational burden, given its implication on the determination of HQLA and HQLA treatment under the proposed NSFR requirement, and if so, why? Commenters are invited to provide suggested language to amend any definitions.

Ex-Im Bank believes that the current definition of "liquid and readily marketable" is sufficiently vague that it raises uncertainty for regulated institutions regarding how to categorize Ex-Im Bank-guaranteed bonds. Ex-Im Bank-guaranteed bonds are a relatively new type of security and the size of its market presence is yet small in the overall bond market. On the other hand, the bond's debut on the international capital market has been very well received and very successful. The last seven years have demonstrated that a broad range of investors are very interested in acquiring these assets guaranteed by the U.S. sovereign.

The existing definition does not quantify what is meant by a large number of market participants and high trading volumes. With regard to Ex-Im Bank-guaranteed assets, there are abundant committed market participants ready, willing, and able to absorb exposure, which would allow existing holders to exit their positions quickly and at relatively low cost. Additionally, despite some entities' preference to hold Ex-Im Bank-guaranteed assets to maturity, there is active secondary market trading. Some portion of the majority of Ex-Im Bank-guaranteed bond issuances has traded on the secondary market.

EX-IM BANK'S COMMENTS ON QUESTION 20:

Question 20 states:

... Are the characteristics described ... appropriate indicators of the liquidity of a covered company's assets, derivative exposures, and commitments for purposes of the proposed rule? Why or why not? What other characteristics should the proposed rule take into account for purposes of assigning RSF factors? Please provide data and analysis to support your conclusions.

Credit quality and market characteristics are the two characteristics identified by regulators that are relevant considerations for assessing the liquidity of Ex-Im Bank-guaranteed bonds. With regard to credit quality, regulators note that:

Credit quality is a factor in an asset's liquidity because market participants tend to be more willing to purchase higher credit quality assets across a range of market and economic conditions, but especially in a stressed environment (sometimes called "flight to quality"). The demand for higher credit quality assets, therefore, is more likely to persist and such assets are more likely to have resilient values, allowing a covered company to monetize them more readily. Assets of lower credit quality, in contrast, are more likely to become delinquent, and that increased credit risk makes these assets less likely to hold their value, particularly in times of market stress. As a result, the proposed rule would generally require assets of lower credit quality to be supported by more stable funding, to reduce the risk that a covered company may have to monetize the lower credit quality asset at a discount.

Ex-Im Bank-guaranteed bonds carry the unconditional guarantee of the U.S. sovereign, making their credit quality equivalent to Treasury bonds and certain other sovereign obligations of the United States. Ex-Im Bank-guaranteed bonds offer investors a high credit quality asset that retains its value across the full range of market and economic conditions. During periods of market stress over the past seven years, investor interest in Ex-Im Bank-guaranteed bonds remained strong, indicating that these assets benefit from a "flight to quality".

On market characteristics, regulators note that:

Assets that are traded in transparent, standardized markets with large numbers of participants and dedicated intermediaries tend to exhibit a higher degree of reliable liquidity. The proposed rule would, therefore, require less stable funding to support such assets than those traded in markets characterized by information asymmetry and relatively few participants.

Ex-Im Bank-guaranteed bonds are traded on an active secondary market, and there is an upward trend in volume of trades. Over 80% of Ex-Im Bank-guaranteed fixed rate bond issuances have had secondary trades reported in TRACE. Ex-Im Bank-guaranteed floating rate bonds comprise approximately one-fifth of the issuances to date. According to one primary arranger, the floating rate bonds were largely bought by a mix of commercial banks and Federal Home Loan Banks. Many of these financial institutions acquired these assets for their "held-to-maturity" portfolio. Ex-Im Bank-guaranteed bonds are considered to be "enhanced Treasury bonds" because of the higher interest earned and equivalent creditworthiness, and the product is not easily replaceable. Although the preference has generally been to hold Ex-Im Bank-guaranteed floating rate bonds to maturity, some trading has occurred.

Many bond trades are subject to mandatory public reporting to the Financial Industry Regulatory Authority (FINRA) and appear on Bloomberg. The convention for Trade Reporting and Compliance Engine (TRACE) to report rounded amounts for some transactions complicates accurate assessment of Ex-Im Bank-guaranteed bonds' actual trading volume. When Ex-Im Bank first began to research trading data, one arranger and book runner of Ex-Im Bank-guaranteed bonds informed us that its own records showed results significantly different than those reported in TRACE. From July 1, 2012 through May 25, 2014, TRACE reported trade volume of slightly below \$400 million on 617

trades. During the same period, this one arranger and book runner alone had traded approximately \$684 million of Ex-Im Bank-guaranteed bonds in the secondary markets in less than 35% of the number of trades.

Over the past year, since July 2015, TRACE reported 623 secondary market trades with an estimated volume of \$427 million. That amount is lower than the actual amount because many trades are reported in TRACE as "\$1 million +", and the final tally does not capture the amounts over \$1 million. Bloomberg Estimated Volume metrics derives an estimate that is approximately three times greater. Additionally, FINRA reporting through TRACE does not capture all trades, as some transactions are not subject to a reporting obligation.¹

Given the difficulty in accurately determining trade volume for Ex-Im Bank-guaranteed bonds because some trades are not captured and others are undervalued, it would be helpful for U.S. regulators to assist banks by providing a formal designation. The Export-Import Bank of the United States is not a Government Sponsored Entity (GSE); rather Ex-Im Bank is among the small group of U.S. Government agencies that have the authority to directly commit an unconditional sovereign guarantee. Having a formal determination from U.S. Government regulators confirming that all such U.S. Government agencies are treated equally for HQLA purposes or explaining the rationale for variations in determinations would reduce uncertainty.

EX-IM BANK'S ADDITIONAL COMMENTS:

In their discussion of market characteristics, U.S. regulators note that:

While no single metric is likely to provide for a complete assessment of market liquidity, multiple indicators taken together provide relevant information about the extent to which a liquid market exists for a particular asset class.

Ex-Im Bank agrees that it may be necessary to consider multiple indicators to determine whether a liquid market exists for a particular asset class. In the case of somewhat unique assets, such as Ex-Im Bank-guaranteed bonds, their liquidity may not be apparent using traditional metrics generally applied to assessing the liquidity of large, long-standing issuances. Various qualitative and quantitative indicators, however, provide evidence that Ex-Im Bank-guaranteed assets are highly liquid.

¹There can be legal organizational difference affecting broker/dealers. For example, Ex-Im Bank understands that in the case of agency based trading desks where the trading desk is based out of a bank (as opposed to a bank holding company), the secondary market trades go through such bank's balance sheet and avoids the FINRA/TRACE reporting obligation.

PRIMARY ARRANGERS OF EX-IM BANK-GUARANTEED BONDS

US Dollar and Euro Denominated

1. JP Morgan Chase
2. Banque Nationale de Paris
3. Credit Agricole
4. Goldman Sachs
5. Citibank
6. KGS Alpha
7. HSBC
8. Deutsche Bank
9. Toronto Dominion
10. Credit Suisse
11. Bank of America
12. Bank of Tokyo Mitsubishi
13. Natixis
14. Banco Santander

Japanese Yen Denominated

1. Mizuho
2. Development Bank of Japan

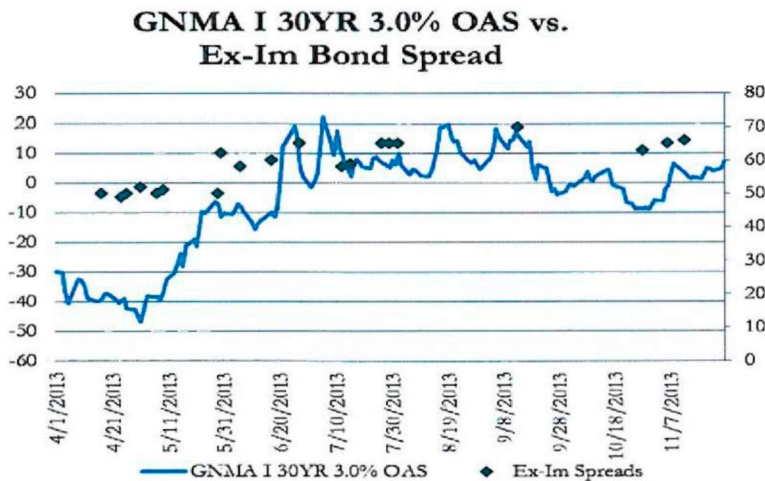
It is significant that large trading houses are familiar with these assets. The primary arrangers as well as other broker/dealers have traders knowledgeable about this asset class. This growing familiarity may have contributed to the increase in the trading volume of Ex-Im Bank-guaranteed bonds. The diversity in the types of investors interested in acquiring Ex-Im Bank-guaranteed bonds, including commercial banks, asset managers, insurance companies, pension funds, sovereign wealth funds, credit unions, specialized financial institutions, Federal Home Loan Banks, and other types of investors, is a positive development. It creates a favorable environment for secondary market sales. If commercial banks should decide to liquidate their Ex-Im Bank-guaranteed bond assets, other investors may not be affected by the same circumstance and remain ready to acquire this asset class.

Demand for Ex-Im Bank-guaranteed bonds has been strong across a broad range of investors. One underwriter reported that, in the aggregate, its primary issuances were 2.4 times oversubscribed during the last 5 months of 2012 and 1.8 times oversubscribed in 2013. Another underwriter reported that during 2012 there were three separate Ex-Im Bank-guaranteed bond issuances for PEMEX (Mexico's national oil company) that were oversubscribed between 2.65 to 3.35 times.

Strong market demand is also reflected in tight spreads on the Ex-Im Bank-guaranteed bonds when new issuances come to market. Since July 1, 2015, eight Ex-Im Bank-guaranteed bonds aggregating nearly \$1.6 billion were placed in the capital markets. All were fixed rate obligations priced at interpolated U.S. dollar swaps plus between 55 and 75 basis points. The most recent floating rate bond was issued in May 2015. This \$200+ million 9-year issuance was sold at par with a coupon rate of 3-month LIBOR + 43 basis points.

Another alternative measure to consider in assessing the likely liquidity of Ex-Im Bank-guaranteed bonds is that they perform well even during times of market stress. In mid-2013, following the indication given by then-Federal Reserve Chairman Ben Bernanke on May 21, 2013 that the Fed would start "tapering" its purchases of U.S Treasury securities and mortgage backed securities, markets generally reacted negatively. There was greater credit volatility and rates widened with the mid-swaps rate increasing approximately 30 basis points. Notwithstanding this market volatility, an Ex-Im Bank-guaranteed bond issuance for a foreign helicopter leasing company was successfully priced on May 22, 2013. The interpolated swap rate plus 51 basis points was only a 1 basis point increase in the margin over the Ex-Im Bank-guaranteed bond issuance sold on May 20, 2013 (pre-tapering) to finance a foreign airline at the interpolated mid-swap rate plus 50 basis points. On June 10, 2013, there was yet another successful Ex-Im Bank-guaranteed bond that priced at the interpolated mid-swap rate plus 50 basis points, and on June 18, 2013, another Ex-Im Bank-

guaranteed bond issuance priced at the interpolated mid-swap rate plus 58 basis points. Subsequently, on June 19, 2013 Chairman Bernanke reaffirmed the Fed’s intent to taper. Market volatility increased and 7-year swap rates increased another 30 to 40 basis points. The next week, however, there were two other Ex-Im Bank-guaranteed bond issuances done at interpolated swap rates plus 60 bps. Despite the significant market volatility during this period from May 20 through June 27, 2013, there were ten successful Ex-Im Bank-guaranteed bond issuances, all of which were oversubscribed and the margin over interpolated mid-swaps on the fixed rate bonds only increased by an aggregate of 10 basis points during this period.



Spreads on Ex-Im Bank-guaranteed bonds in the secondary market remained relatively stable during the mid-2013 period of market stress. As illustrated in the accompanying chart, Ex-Im Bank-guaranteed bond spreads exhibited less volatility during this period (varying by less than 25 bps) than spreads on 30-year Ginnie Mae bonds (varying by almost 70 bps and designated as HQLA Level 1 assets).²

During this period of general market volatility, Ex-Im Bank-guaranteed bonds also compare favorably in terms of volatility to “off-the-run” Treasury bonds that have a similar (~ 6 year) weighted average life (WAL) to a typical new issue Ex-Im Bank-guaranteed bond. Since “off-the-run” Treasury bonds are generally seasoned issues, which have been replaced by more recent “on-the-run” Treasury bonds, they are less actively traded and less influenced by trading and financing activities. As such, they more resemble investments.

²The above comparison was shared with Ex-Im Bank by one of the primary arrangers of Ex-Im Bank-guaranteed bonds during a series of meeting that Ex-Im Bank arranged in 2014 to discuss arrangers’ views and experience. A Ginnie Mae 30 Yr. 3.00% was used to compare with Ex-Im Bank-guaranteed bonds because it was the bond tied to the equivalent mortgage rate at the start of the period (4/1/2013) or the “Current Coupon Bond”. The mortgages originating at that time were in the ~3.50% area, translating to a bond coupon of 3.00% rate for investors.

The following chart compares Ex-Im Bank-guaranteed bonds to a 3 3/8 (3.375%) “off-the-run” Treasury bond that matures on 11/15/19. This comparison similarly shows less volatility in Ex-Im Bank-guaranteed bond spreads. The same analysis was run on three different series of “off-the-run” Treasuries.³ All showed similar results.

T 3.38 11/15/19 vs. Ex-Im Bond Spreads to Mid-Swaps



Conclusion

These assets are riskless because they carry the unconditional full faith and credit guarantee of the U.S. Government. They are readily marketable, are actively traded, and involve participants that are growing in both number and in diversity. Many investors prefer to “buy and hold”. Preference to hold an Ex-Im Bank-guaranteed asset is not an indication that the asset is illiquid, but rather of the fact that it provides a better return than U.S. Government Treasury bonds, and there are few, if any, comparable securities. Strong demand for Ex-Im Bank-guaranteed assets is especially evident in the fact that primary issuances of Ex-Im Bank-guaranteed bonds are often oversubscribed and performed well during periods of market stress. The system for tracking secondary trades of Ex-Im Bank-guaranteed assets is imperfect, but the data that is publically available regarding market pricing indicates a significant volume of efficient trading activity.

Respectfully submitted,

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DEPUTY GENERAL COUNSEL

FOR Angela M. Freyre
Senior Vice President and General Counsel

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³This analysis and three additional comparisons were run at Ex-Im Bank’s request by experts in the international bond market to support views financial institutions expressed during discussions with Ex-Im Bank regarding their favorable liquidity assessment of Ex-Im Bank-guaranteed bonds. The Treasury bonds used in the comparison were all picked at random from a group that had a similar tenor to new issue Ex-Im Bonds for the period of the analysis. The other comparisons used an 8 1/8 (8.125%) Treasury bond maturing on 8/15/19 that was issued during a time of higher rates, a 3 5/8 (3.625%) coupon bond maturing on 8/15/19, and a 7/8 (0.875%) coupon bond maturing on 7/31/19.