CSBS SINCE 1902
CONFERENCE OF STATE BANK SUPERVISORS

January 30, 2014

Robert E. Feldmen, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064–AE04

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219
Docket ID OCC-2013-0016

Robert deV. Frierson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC, 20551
Docket No. R–1466

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency's (OCC) (collectively, "the Agencies") joint Notice of Proposed Rulemaking (NPR, proposal, or proposed rule) to implement a quantitative liquidity requirement, entitled *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring*.

State regulators support the Agencies' efforts to ensure that financial institutions, especially those that pose a systemic risk to the U.S. and global financial systems, have adequate liquidity to meet their contractual obligations during times of significant market stress. This is a fundamental component of protecting taxpayers from costly "bailouts" and public support. The proposed liquidity coverage ratio (LCR) is the first rule to establish a quantitative liquidity standard, and as such represents a significant milestone in the regulatory framework. Given the proposal's importance, state supervisors appreciate that the Agencies scaled the applicability of the rule to a firm's size and risk profile from the outset. State supervisors also believe this important rulemaking cannot be viewed in isolation, but should be considered within the larger body of Dodd-Frank Act and Basel III reforms.

State supervisors commend the Agencies for the tailored approach they employed in drafting the proposed LCR. State supervisors strongly advocate "right-sized regulations," a regulatory framework in which financial institutions are supervised according to the degree of risk posed by their size, complexity, activities, and interconnectedness. The proposal employs an appropriate methodology: the largest internationally active financial institutions have the strictest liquidity standards, large regional institutions are subject to less stringent liquidity requirements, and community banking organizations are fully exempt from the proposal. While community banks are exempt from the proposal, there is still the danger that they will face the effects of this rule during the supervisory process. CSBS urges the Agencies to make every effort to ensure that examiners do not apply the HQLA (high quality liquid assets) standards to community banks' assets during the examination process.

The Agencies estimate that financial institutions covered by the NPR currently fall $200 billion short of the $2 trillion total HQLA required under the rulemaking. Some covered institutions will likely have to substantially restructure their balance sheets to make up for this shortfall in HQLA, and must do so on an accelerated timeline under the Agencies' proposal. Furthermore, the Agencies' proposal has a significantly stricter definition of HQLA compared to the Basel Committee's LCR proposal. CSBS cautions that the designation of certain assets as HQLA and the narrowness of the HQLA definition could lead to distortions in the market, such as dramatically increasing demand for limited supplies of asset classes and hoarding of HQLA on the part of financial institutions. Another potential danger stems from excluding readily marketable municipal securities from the HQLA definition. Municipal securities are a vital source of credit for local communities, and discouraging financial institutions from holding them via the HQLA designations potentially limits the market for a longstanding, predictable source of funding for local economies.

Given the magnitude of the proposed LCR, the potential issues stemming from the Agencies' HQLA definitions and additional regulatory reform efforts, the Agencies must recognize that market distortions could easily result as these various, complex rulemakings interact and play out. CSBS believes the Agencies must be especially vigilant in monitoring for such distortions and should be ready and committed to respond if and when they arise.

CSBS appreciates the opportunity to comment on this important initiative and looks forward to further engaging the Agencies on the issue of financial institution liquidity.

Sincerely,

John W. Ryan
President & CEO

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