BB&T

BB&T Corporation

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150 S. Stratford Road, 5th Floor
Winston-Salem, NC 27104

Via Electronic Mail

Robert de V. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov
Docket No. R-1466

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
comments@FDIC.gov
RIN 3064-AE04

Re: Notice of Proposed Rulemaking - Liquidity Coverage Ratio: Liquidity Risk Management, Standards, and Monitoring

Dear Mr. Frierson and Mr. Feldman:

BB&T Corporation and its affiliated bank Branch Banking and Trust Company and subsidiaries (collectively, "BB&T") appreciate the opportunity to comment on the Liquidity Coverage Ratio: Liquidity Risk Management, Standards, and Monitoring notice of proposed rulemaking ("the LCR proposal" or "the rule"). The LCR proposal implements the provisions of the Basel framework for short-term liquidity risk management for U.S. financial institutions and requires banks to hold a significant stock of High Quality Liquid Assets ("HQLA").

BB&T (NYSE: BBT) is one of the largest financial services holding companies in the U.S. with $182.3 billion in assets and market capitalization of $26.4 billion, as of December 31, 2013. Based in Winston-Salem, N.C., the company operates approximately 1,825 financial centers in 12 states and Washington, D.C., and offers a full range of consumer and commercial banking, securities brokerage, asset management, mortgage and insurance products and services. A *Fortune 500* company, BB&T is consistently recognized for outstanding client satisfaction by J.D. Power and Associates, the U.S. Small Business Administration, Greenwich Associates and others. More information about BB&T and its full line of products and services is available at www.BBT.com.

BB&T supports the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation ("the Agencies") goal of strengthening liquidity risk management for U.S. banks. However, BB&T believes several components of the LCR proposal would benefit from modification to help avoid unintended consequences. As such, BB&T respectfully submits comments for your review and consideration.

BB&T will comment on the following aspects of the rule:

- Public Funds
- Operational Deposits
- Cap on Level II Securities
- Market Based Characteristics Requirement of Level I (and Level IIA) Securities
- Requirement for the Modified LCR
- Daily Calculation

Public Funds: The LCR proposal would have a significant negative impact for a bank holding public funds. BB&T believes if the rule is implemented as proposed, it will virtually eliminate the willingness of banks to be depositories for public funds. The holding of public funds (municipal deposits) is an important social benefit provided by banking organizations. Many states require by law, their public deposits to be secured by assets, typically government agency-backed securities. This requirement is to protect the interests of the taxpayers whose money is being put on deposit. The rule as written actually results in negative liquidity from taking on a public funds deposit, unless it is secured by Level I HQLA.

The negative liquidity is due to the current unwind feature required for the calculation of adjusted HQLA, which is designed to prevent the manipulation of HQLA. As noted above, public fund deposits represent the funds used by municipalities to support their ongoing operations. The characteristics of the funds are the same as those of a standard deposit product and not like those of short-term secured funding transactions which could be used to effect a collateral swap that would turn a Level II asset into Level I HQLA. We believe it is this potential for a collateral swap that the unwind feature was designed to eliminate. The current liquidity coverage ratio ("LCR") unwind feature could result with a bank holding significant public funds balances to actually have a negative LCR by applying the rule as currently written.

Due to the very different nature of a public fund deposit, both in terms of stability of the client and deployment of the funds by the bank into productive assets, we suggest the treatment of public funds be differentiated. BB&T believes that at worst, public fund deposits should be neutral to the LCR. However, given the secured nature of these deposits, it is unlikely that these deposits will be highly volatile during any 30 day period forecasted by the LCR. For this reason, BB&T requests the Agencies evaluate the treatment of public funds in the LCR taking into account the value of these deposits to the banking system, local governments, and taxpayers.

Operational Deposits: The proposal provides a broad definition of operational deposits by giving a general description of attributes, including those listed below:

- Subject to a minimum 30 calendar-day notice period or significant termination costs
- There must not be significant volatility in the average balance of the deposit
- The deposit must be held in an account designated as an operational account

- The customer must hold the deposit at the bank for the primary purpose of obtaining the operational services provided by the bank
- The deposit account must not be designed to create an economic incentive for the customer to maintain excess funds therein through increased revenue, reduction in fees, or other offered economic incentives
- The bank must demonstrate the deposit is empirically linked to the operational services and it has a methodology for identifying any excess amount, which must be excluded from the operational deposit amount

Operational deposits are generally thought of as demand deposits held at banks by commercial customers. As such, the descriptions should include the basic nature of a demand deposit account. Some of the descriptions referenced above are significantly opaque and problematic and will eliminate all or almost all deposits from being classified as operational:

- Subject to a minimum 30 calendar-day notice period or significant termination costs.
  - While operational deposit accounts by definition are not (and should not be) subject to a 30 calendar-day notice period nor significant explicit termination costs, there normally are substantial costs for a company to move an operational relationship to another financial institution. This criterion by itself could disqualify every operational account in a bank.
- There must not be significant volatility in the average balance of the deposit.
  - It seems contradictory to deem a deposit "operational" and also to deem it "lacking in significant volatility" since by definition it should experience variability as funds are used for operational purposes such as payroll. This criterion by itself could disqualify every operational account in a bank.
- The deposit account must not be designed to create an economic incentive for the customer to maintain excess funds therein through increased revenue, reduction in fees, or other offered economic incentives.
  - This is a problematic statement as most operational deposits are subject to an earnings credit rate ("ECR") that allows the client to offset the service charge expense. It seems the presence of an ECR disqualifies a deposit from being operational. Deposits subject to ECR are the epitome of an operational deposit, but the ECR could incent the customer to keep a higher balance if they prefer to have a higher balance in lieu of paying service charges. This criterion by itself could disqualify every operational account in a bank.
- The bank must demonstrate that the deposit is empirically linked to the operational services and that it has a methodology for identifying any excess amount, which must be excluded from the operational deposit amount.
  - Guidance on how to quantify excess amounts would be helpful. This requirement could lead to a protracted negotiation with local supervisors and result in severe inconsistency throughout the industry.

BB&T suggests the Agencies greatly simplify the definition of operational deposits to one that can be implemented consistently across the industry, is easy to calculate, and is consistent with the nature of the funds in these accounts. It would be preferable to have a slightly higher runoff factor in exchange for straightforward simplicity in determining this measure.

Cap on Level II Securities: The goal of the LCR is to ensure banks hold a significant reserve of HQLA. The proposal does not appropriately recognize the high credit quality and liquidity value of the unique U.S. market for agency securities. These securities enjoy one of the most active, deep and liquid markets in the world. Additionally, these securities enjoy implied government backing while Freddie Mac and Fannie Mae are in conservatorship. BB&T suggests two alternative treatments for agency securities that fall into category IIA under the proposal:

- While Freddie Mac and Fannie Mae are in conservatorship, permit these securities to receive a 10% risk weighting and permit them to count as Level I HQLA
- Alternatively, allow these securities to be subject to a graduated cap

Agency securities issued by Freddie Mac and Fannie Mae are not counted as Level I assets under the rule due to the 20% risk weight applied to them by U.S. banking regulators, which disqualifies them under the rules contained in the Basel protocol. While Freddie Mac and Fannie Mae are in conservatorship they enjoy implied U.S. government support. We believe the Agencies could apply a 10% risk weight to these agency securities while Freddie Mac and Fannie Mae are in conservatorship. If these agency securities were afforded a 10% risk weight, we believe these securities could appropriately be qualified as Level I.

Alternatively, if the risk weight of agency securities remains at 20%, the Agencies could consider a graduated cap. The quality of the collateral and its consistent performance under a wide range of market conditions speaks to the quality of agency securities. Having a hard cap on Level IIA securities does not give proper credit to the quality of securities defined by the proposal as Level IIA HQLA. A wide range of securities qualify for inclusion in the Level II category, but Level IIA is reserved for U.S. agency securities and sovereign entity securities that receive a 20% risk weight. The need to limit Level II collateral so that the LCR cannot be entirely made up of Level II assets is not a point of contention. However, receiving zero value for the next dollar of a Level IIA agency security once the 40% cap is reached seems inconsistent with the high quality of this collateral and also seems contradictory with giving HQLA credit to these securities up to the cap. BB&T suggests a graduated cap and presents a recommended graduated approach below.

BB&T's recommended graduated approach would retain the current Level IIA treatment of the agency securities but would modify the current cap structure. The treatment of agency securities up to the 40% cap would remain unchanged with the 15% haircut. The approach would provide for the inclusion of agency securities beyond the 40% cap but at an ever increasing haircut. The modified cap structure would still prohibit a bank from using Level IIA agency securities to completely satisfy their HQLA requirement and would ensure the HQLA asset pool is diversified. The following table illustrates how the modified cap could work.

If Level IIA % of HQLA is (then additional haircut for the amount over 40% would be):

	Haircut	Cumulative Haircut
– Greater than 40% but less than 50%	5%	20%
– Greater than or equal to 50% but less than 60%	25%	40%
– Greater than or equal to 60% but less than 70%	45%	60%
– Greater than or equal to 70% but less than 80%	65%	80%
– Greater than or equal to 80%	85%	100%

This approach would give credence to the value of agency securities and still limit the ability of banks to meet LCR requirements with Level II or Level IIA securities.

Market Based Characteristics Requirement of Level I (and Level IIA) Securities: The rule does not provide any safe harbor provisions. The rule describes "market based characteristics" which are applied to certain types of securities. The preamble indicates the institution is required to justify certain securities to be included in HQLA by exhibiting market based characteristics. It states:

- HQLA assets . . .
  - Participate in active outright sale or repurchase markets at all times with significant diversity in market participants
  - Exhibit low bid ask spreads, high trading volumes, and a large and diverse number of market participants and other factors
- Next, HQLA assets generally tend to . . .
  - Have prices that do not incur sharp price declines, even during times of stress
  - Increase in value and experience a flight to quality during such times
- And finally . . .
  - Assets with more standardized, homogenous, and simple structures tend to be more fungible, thereby promoting liquidity
- However, the rule requires only a "liquid and readily-marketable standard" for Level I securities, other than those issued by the U.S. Department of the Treasury ("U.S. Treasury"), and Level IIA and states the security . . .
  - Is traded in an active secondary market with more than two committed market makers
  - Exhibits a large number of non-market maker participants on both the buying and selling sides of the transactions
  - Has timely and observable market prices
  - Has a high trading volume

The liquid and readily-marketable standard has no reference to price decline, or more standardized, homogenous and simple structures. It would seem non U.S. Treasury Level I, as well as Level IIA securities issued by U.S. government sponsored enterprises, would automatically meet the liquid and readily-marketable standard given the depth of those markets. However, the rule does not provide any safe harbor provisions. The Agencies do not provide guidance on how to document that HQLA meets the market based characteristics or the liquid and readily-marketable standard.

It is also currently unclear what is intended concerning the duration of assets. For instance, would a long duration security fail to meet the requirement to "generally tend to have prices that do not incur sharp price declines, even during times of stress," if rates normally decline and prices are therefore driven up in times of stress, while if rates rose or spreads widened the price would fall? However, neither of these outcomes measures the liquidity of the security, just the value. Would, for example, a FNMA 30 year pass-through fail to qualify because a rate rise could cause a decline in value, or is it excluded from the price decline test since it is only subject to the liquid and readily-marketable standard? Our interpretation is that the FNMA 30 year pass-through would qualify as HQLA as long as it trades in a liquid market, but without clear guidelines industry interpretations may vary. The rule also states any security issued by the U.S. Treasury counts as HQLA and is not subject to any of the market based or liquidity tests. We believe this would indicate a U.S. Treasury security would qualify as Level I regardless of duration or structure, and that there is no need to conduct the market based tests, but again the lack of clear guidelines could result in inconsistencies in practice.

The language in the preamble to the rule that states HQLA tends to have "more standardized, homogenous, and simple structures," creates a very ambiguous standard. BB&T believes clarity is needed as to how much structure would be questioned by bank supervisors. For example, would a PAC or floater be acceptable?

Consistent with the treatment of U.S. Treasury securities, BB&T requests the Agencies consider removing the liquid and readily-marketable standard for all Level I as well as Level IIA securities. In the absence of a repeal of this section of the rule, BB&T suggests the Agencies provide a safe harbor list of securities and structures to provide more clarity to this part of the rule. This will also ensure more consistent implementation and significantly decrease the burden of implementing the rule. These attributes seem to describe the markets and attributes of Level I and Level IIA securities, so having every bank conduct the work to justify the treatment seems to be an unnecessary burden on financial institutions.

Requirement for the Modified LCR: The Modified LCR, while intended to simplify, actually makes the LCR calculation and management more challenging. Most bank customers and cash flows operate on a monthly cycle or multiple times in a monthly cycle (e.g. twice a month payrolls). To illustrate the complexity of a 21 day calculation, if a client makes a loan payment once a month, there will be one week out of the 30 day cycle that the payment will not reflect in the 21 day Modified LCR. Also, if payments are grouped, such as loan payments made on the first day of the month, the Modified LCR creates a peak that is not evident during one week out of a month of LCR calculations. If it is known that a loan type, such as residential mortgage loans, makes a monthly payment, then there is less need for concern regarding which day the payment occurs if the LCR is based on a monthly cycle. If the LCR is based on a 21 day cycle, the programming to capture the LCR cash flows for the calculation become much more challenging since it has to be determined if they occur in the next 21 days.

BB&T suggests that instead of calculating the Modified LCR on a 21 day forecast, Modified LCR banks be allowed to calculate the Full LCR and take 70% of the resulting outflows (70% is equal to 21/30 days). We believe this better reflects the monthly nature of the vast majority of banking cash flow patterns. This change would lower the complexity of the 21 day calculation and make the base calculation more comparable for bank supervisors among Modified LCR and Full LCR firms.

Consistent with the discussion above, BB&T suggests the Agencies reconsider the peak outflow under the Full LCR as it creates the same implementation complexities as the 21 day requirement. Having to accumulate the daily cash flows and determine when in the month the peak cash outflow occurs is operationally complex.

Making the base calculation the same would also eliminate the need for a Modified LCR bank to reprogram the system used to calculate the LCR when it crosses from Modified to Full LCR status. We also suggest the LCR be based on a monthly cycle so that 31 day, 30 day, and 28 day months are all treated as a cycle for LCR. This approach avoids some of the day count issues and resulting anomalies in cash flow that would result from always only looking at 30 days or 21 days.

Lastly, many of the calibrations in the rule such as the treatment of the operational deposits, municipal deposits, and Level IIA securities overstate the liquidity risk of the institutions covered by the Modified LCR. BB&T requests the Agencies consider a lower compliance threshold such as 50% to better align with the more stable funding profile of banks covered by the Modified LCR rule.

Daily Calculation: The need for the daily requirement is understood given the Basel requirement that the LCR be calculated more often, potentially daily, in times of stress. However it does not seem necessary to maintain daily reporting requirements during non-stress periods. BB&T suggests banks calculate the LCR daily but only report on a monthly basis unless the Agencies increase the frequency if and when conditions warrant.

The requirements to report the LCR at a predetermined time each day, to notify your bank supervisor in the event the LCR falls below the target on any given day, and to provide a written remediation plan if the LCR is below target for three consecutive days will discourage the use of

HQLA in times of stress. This requirement will be pro-cyclical as banks slow lending and invest in HQLA to maintain the ratio. Banks will be hesitant to fall below the target given the high level of scrutiny the ratio will receive based upon the proposed rule. This will be exacerbated if the LCR is required to be made public.

BB&T requests the Agencies reconsider the negative connotation of falling below the target ratio and the requirement to provide a written remediation plan. If this part of the rule remains as proposed, the LCR will become a bright line requirement to be met each day and it will not provide the cushion for stressful times that was the intention of the Basel framework. In fact, in a January 6, 2013 press release the Group of Governors and Heads of Supervision ("GHOS"), the oversight body of the Basel Committee on Banking Supervision, stated, "[t]he GHOS agreed that, during periods of stress it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum. Moreover, it is the responsibility of bank supervisors to give guidance on usability according to circumstances." The structure of the U.S. notice of proposed rulemaking discourages the use of HQLA and fails to provide any guidance to banks on the standard for "usability according to circumstances" on letting the stock of HQLA be used in times of stress. Banks need to know what the standard will be to allow for effective contingency funding plans to be developed with realistic assumptions concerning the ability to utilize HQLA in times of stress.

Lastly, the Agencies are asked to give banks a sufficient timeframe to comply with the rule. The daily calculation will be extremely difficult to generate without an automated IT solution that will require access to every cash flow occurring in the bank. This technology will take time to program and implement. The programming cannot be developed until a final rule is published. BB&T requests the Agencies give institutions a minimum of 12 months to implement the reporting of the LCR after the final rule is published.

Concluding Remarks: Calculating and reporting the LCR daily, determining the peak outflows for Full LCR banks, and implementing a 21 day calculation for Modified LCR banks creates significant operational complexity to implementing the LCR proposal. The determination of operational deposits, daily cash flows forecasted forward for 21 or 30 days (as opposed to a monthly view based upon calendar months), and determining the peak outflows requires the bank to obtain individual customer account level data from each system and project cash flows based upon known or projected transactions. It is not clear that this additional operational complexity adds significant value to the overall precision or value of the LCR calculation.

The notice of proposed rulemaking estimates the start-up hours per institution to be 2,400 or approximately one man year for systems changes. This estimate is significantly understated given the scope and complexity of the rule. BB&T requests the Agencies review the implementation requirements and consider the cost versus benefit of the granular and complex nature of the proposed LCR calculation.

Thank you for the opportunity to comment on this important proposal and for your consideration of BB&T's comments. If you have any questions, please contact me 336-733-2871.

Sincerely,

Hal S. Johnson
Treasurer
BB&T Corporation