

**From:** Girton, Tani  
**Sent:** Wednesday, September 02, 2009 8:14 PM  
**To:** Comments  
**Subject:** Proposed Interagency Guidance - Funding and Liquidity Risk Management

Mr. Robert E. Feldman, Executive Secretary  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, D.C. 20429  
Attn: Comments

Re: Proposed Interagency Guidance – Funding and Liquidity Risk Management

Dear Mr. Feldman:

We appreciate this opportunity to comment on the draft Proposed Interagency Guidance on Funding and Liquidity Risk (the “Guidance”). We generally believe that the Guidance will be a useful tool in overall risk management for financial institutions in the United States. However, we have a concern that certain elements incorporated from the Basel Committee on Banking Supervision’s “Principles for Sound Liquidity Risk Management and Supervision” (the “Basel Liquidity Principles”) are more appropriate for large, internationally active financial institutions and may prove inappropriate for domestic, community-oriented financial institutions.

We are concerned that the proposed Guidance incorporates Principle 12 from the Basel Liquidity Principles without sufficient consideration being given to what is appropriate given a domestic financial institution’s complexity, risk profile and scope of operations. Specifically, Principle 12 requires a bank to maintain a cushion of unencumbered, high quality liquid assets to be held as insurance against a range of liquidity stress scenarios. Additional commentary regarding Principle 12 in the Basel Liquidity Principles would tend to support the view that the rationale for requiring large banks to hold a cushion of liquid assets is to meet their daily payment and settlement obligations on a timely basis during the duration of any liquidity stress.

This concern regarding the functioning of the payment and settlement systems is most properly addressed to the largest financial institutions which have the capacity to cause disruptions to the payment and settlement systems – the target of the Basel Liquidity Principles. These large financial institutions would be the types identified in the Administration’s proposed legislation identifying Tier 1 Financial Holding Companies.

Subjecting domestic, community-oriented financial institutions to guidance designed to protect the payment and settlement systems from disruptions caused by large multi-national banks is not appropriate, yet that is what has occurred in the proposed Guidance. Starting in Paragraph 2 and continuing in subsequent Paragraphs (in particular Paragraphs 29 and 30), the proposed Guidance would appear to require all domestic financial institutions to maintain a cushion of highly-liquid, unencumbered assets.

We believe that many different tools may appropriately be used to manage liquidity risk at a financial institution, one of which would be highly-liquid, unencumbered assets. We also believe that each financial institution should be afforded the opportunity to devise a Contingency Funding Plan that is appropriate for the institution's complexity, risk profile and scope of operations. Requiring every domestic financial institution to maintain a cushion of liquid assets does not permit an individual institution to make the best choice from among all available liquidity tools.

Maintaining adequate liquidity has a significant cost to any financial institution. An institution should be permitted to pursue the lowest cost sources of liquidity consistent with the reliability of the institution's sources of liquidity and the institution's overall liquidity risk profile. Forcing an institution to adopt an asset-based liquidity strategy (e.g., the cushion of unencumbered, high-quality assets), as opposed to a potentially more appropriate and less costly liability-based liquidity strategy is also inconsistent with guidance previously provided by the FDIC (see Financial Institution Letter 84-2008, *Liquidity Risk Management* (August 2008)). We would request that the final Guidance provide clarification that liquid assets are an important liquidity tool, but not a mandatory one.

We would also like to take this opportunity to note that the proposed Guidance is somewhat inconsistent and/or vague with regard to what is meant by a cushion of unencumbered, highly liquid asset. In Paragraphs 29 and 30, which discuss the concept under the subhead of *Cushion of Liquid Assets*, the discussion is couched in terms of liquid **assets**. Yet, Paragraphs 6 and 8 speak of "highly liquid **marketable securities**" and "unencumbered **marketable securities**," respectively (emphasis added). The final Guidance should provide clarification that liquid assets include more types of assets than just marketable securities. The final Guidance should also provide clarification or definitions for certain terms used in the Guidance such as *unencumbered* (beyond simply "without legal, regulatory or operational impediments") and *payment systems and clearing houses*.

In closing, we would like to thank you for this opportunity to provide our comments with regard to the proposed Guidance and hope that you give serious consideration to the impact of the Guidance on all domestic financial institutions, not merely large internationally active financial institutions.

Respectfully submitted,

Tani Girton  
Senior Vice President, Treasurer  
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