BBVA COMPASS BANCSHARES, INC.

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January 31, 2014

Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: Robert de V. Frierson, Secretary
regs.comments@federalreserve.gov
Docket No. R-1466
RIN 7100-AE03

Federal Deposit Insurance Corporation
Attention: Robert E. Feldman, Executive Secretary
Comments/Legal ESS
550 17th Street, N.W.
Washington, D.C. 20429
comments@fdic.gov
RIN 3064-AE04

Office of the Comptroller of the Currency
400 7th Street, S.W., Suite 3E-218
Mail Stop 9W-11
Washington, D.C. 20219
Attention: Legislative and Regulatory Activities Division
Docket ID OCC-2013-0016
RIN 1557 AD 74

Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring

Ladies and Gentlemen:

We are writing to comment on the notice of proposed rulemaking by the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC"), and the Office of the Comptroller of the Currency (the "OCC", the OCC, Federal Reserve and FDIC are collectively referred to as the "Agencies"), entitled *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring* (the

"Proposed Rule").[1] In accordance with the international liquidity standards ("Basel LCR") published by the Basel Committee on Banking Supervision ("Basel Committee"),[2] the Proposed Rule would implement the liquidity coverage ratio ("LCR") for large, internationally active banking organizations, nonbank financial companies designated by the Financial Stability Oversight Council for supervision by the Federal Reserve that do not have substantial insurance activities, and their respective consolidated subsidiary depository institutions with total assets greater than $10 billion and the Federal Reserve is also proposing a modified liquidity coverage ratio standard (the "Modified LCR") as an enhanced prudential standard for bank holding companies and savings and loan holding companies without significant insurance or commercial operations that, in each case, have $50 billion or more in total consolidated assets (collectively, "Covered Banks").

Introduction

Compass Bank is a wholly owned subsidiary of BBVA Compass Bancshares, Inc. ("BBVA Compass"). Compass Bank is an insured depository institution operating primarily in the Sunbelt region with approximately $70 billion in assets and nearly 700 branches in Alabama, Arizona, California, Colorado, Florida, New Mexico and Texas. Compass Bank ranks among the top 25 largest U.S. commercial banks based on deposit market share and ranks among the largest banks in Alabama (2nd), Texas (4th) and Arizona (5th).

BBVA Compass is a wholly-owned subsidiary of BBVA (NYSE: BBVA) (MAD: BBVA). BBVA is a financial services group with more than $820 billion in total assets, 50 million clients, nearly 7,700 branches and approximately 113,000 employees in 31 countries. BBVA is a customer-centric global financial services group founded in 1857 that has a solid position in Spain, is the largest financial institution in Mexico, and has leading franchises in South America.

As a regional banking organization operating in the U.S., we joined with other regional banking organizations to submit a letter on the Proposed Rule dated January 31 (the "Regional Bank Letter") and are in full support of the comments and concerns included therein. In addition, as a member of the Financial Services Roundtable and the American Bankers Association, we support the LCR comments filed jointly by The Clearing House Association L.L.C., the American Bankers Association, the Securities Industry & Financial Markets Association, the Financial Services Roundtable, the Institute of International Bankers, the Institute of International Finance, the Mortgage Bankers Association and the Structured Finance Industry Group on or about January 31 (the "Joint Trades Letter").

While we support both the Regional Bank Letter and the Joint Trades Letter, we feel that we have a unique perspective on certain aspects of the Proposed Rule and therefore are submitting this separate comment to highlight our concerns.

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1 78 Fed. Reg. 71818 (Nov. 29, 2013).

2 The Basel Committee published the international liquidity standards in December 2010 (*Basel III: International framework for liquidity risk measurement, standards and monitoring* (December 2010)) ("Proposed Basel LCR") and revised the standards in January 2013 (*Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (January 2013)).

I. Requirement for Daily Calculation

The Proposed Rule would require a Covered Bank to calculate its liquidity coverage ratio daily. Such a requirement is unnecessary and generally inconsistent with other reporting requirements the Agencies have proposed. For example, the Federal Reserve has proposed Information Collection Activities – FR 2052a and FR 2052b to gather certain information from financial institutions. The largest and most complex entities would be required to collect information and report using the FR 2052a on a daily basis. Others, such as BBVA Compass with total assets greater than $50 billion, would report monthly. Moreover, we are not internationally active and are not of a size and complexity to have been subject to fourth generation daily liquidity reporting.

Relative to larger and more complex organizations, BBVA Compass has a simple structure and balance sheet. BBVA Compass focuses on providing traditional retail and commercial banking products and services and has only limited trading and capital markets operations. Compass Bank comprises more than 98% of the assets of BBVA Compass. Our balance sheet is largely comprised of loans to our customers that are funded with customer deposits. Because of this structure, we do not rely on volatile short-term wholesale funding. Our sources of liquidity are very stable, and have proven to be so even through times of crisis. Historically, including through the last financial crisis, our balance sheet has been relatively stable, and does not change significantly from month-to-month. Therefore we believe that a daily calculation is unnecessary and any marginal benefit the Agencies might derive from subjecting BBVA Compass to a daily calculation would be vastly disproportionate to the cost of implementing a daily calculation.

With a parent company in Spain, we have contributed to submissions made by BBVA in accordance with the Bank of Spain's monthly liquidity reporting (inclusive of LCR data). We have experienced firsthand the challenges of building such reporting. We have had an ongoing automation project to source the information required for the reporting templates. Much of the information required for such reporting is not readily available in a bank's core systems due to the unique definitions in the Basel LCR and the Proposed Rule, so logic must be written for each individual field. The expertise required to build such reporting would involve resources from across our organization who understand the regulatory requirements, the products that Compass Bank offers, the sources and logic to build data sets, and a team of programmers to write the code. This is a CCAR-level project at BBVA Compass, and would represent a tremendous challenge for any bank.

We recommend the Agencies change the Proposed Rule to synchronize reporting requirements. Specifically, we recommend that regional banking organizations, such as BBVA Compass, be required to calculate the LCR monthly and to report the information on a delayed basis. For example, for a monthly reporting requirement, our organization should not be required to submit such a report until, at the earliest, the 20th day of the calendar month following the calculation date. For such monthly reporting, we believe that the required reporting should begin at least one year after publication of the final rule. If however the daily reporting requirement remains, we recommend that the required reporting begin in 2017, which would be consistent with statements from the Basel Committee's January 2014 liquidity coverage ratio disclosure standards and to give banking organizations sufficient time to deal with the material challenges associated with implementation.

II. Correspondent Banking Impact

Based on our experience with our correspondent banking customers, we believe the Agencies should reconsider the approach taken in the Proposed Rule with respect to correspondent banking deposits. In the Proposed Rule, deposits owned by another depository institution that are in excess of the correspondent banking client's operational balances receive a 100% outflow rate, as opposed to the 40% outflow assignment for non-operational (corporate) deposits. In our experience, these excess deposits that are held in a client's transaction account do not experience high outflow rates during stressed liquidity events and are in fact quite stable.

In the preamble of the Proposed Rule, the Agencies note that the criteria for a deposit to qualify as operational are intended to be restrictive because the Agencies expect these deposits "to be truly operational in nature, meaning they are used for the enumerated operational services related to clearing, custody, and cash management and have contractual terms that make it unlikely that a counterparty would significantly shift this activity to other organizations within 30 days". We believe that the excess correspondent deposits held in transaction accounts exhibit similar characteristics to those that the Agencies speak to in the preamble.

In a correspondent banking relationship, a correspondent banking customer relies on the expertise and efficiency of the correspondent bank to provide essential services, such as operational functions, lending, capital and liquidity management, IT, and international payments. Often clients of a correspondent bank do not have sufficient resources to engage in a particular service or product without the support of a correspondent bank. Accordingly, correspondent banking customers have a "critical dependency" on the correspondent bank for correspondent services.

We have been in the correspondent banking business for many years, and our diverse customer base consists of 500 community banks in fourteen states, located across the South, Texas, mid-Atlantic and mid-Western regions. Our correspondent banking deposits are from community banks (each with less than $10 billion in total assets) that rely on Compass Bank for a broad menu of operational services: wire transfer, cash management, online balance reporting and disaster recovery function, liquidity lines, international payment services, investment services, credit cards services, merchants services, ACH, check processing, commercial loan services, safekeeping bond accounting, and asset/liability services. These deposits are part of long-standing relationships and should be recognized as operational in nature.

Our experience has been that these correspondent relationships and balances are a very stable and reliable source of funding, even through times of crisis (both a U.S. and European debt crisis). These clients and their deposits have demonstrated stability through time. Further, we have not seen volatility associated with balances in excess of those required to meet operational service charges. While excess funds from correspondent customers swept from DDA accounts to other investments (such as fed funds) have moved as our community bank clients have reduced their excess cash balances, the underlying transactional accounts have been very stable.

Additionally, regulatory guidance on correspondent concentrations has led clients to closely monitor their exposure to providers of such services. Our clients have established and maintain written board approved policies and procedures to prevent excessive exposure to any one correspondent in accordance with Regulation F: Limitations on Interbank Liabilities. Each client specifies its own internal parameters relative to what information, ratios or trends will be reviewed for each correspondent on an ongoing basis. These policies and procedures ensure ongoing, timely reviews of correspondent relationships. Under these regulatory requirements, correspondent banking customers must closely monitor their exposures to correspondent banks such as Compass Bank. Correspondent banking customers can no longer maintain excessive, concentrated positions with a single correspondent bank. This has ultimately led to more sound risk management of correspondent banking relationships and a more stable client relationship over time.

We ask that the Agencies reconsider the outflow assumptions for correspondent banking transactional account balances (not sweep balances) that are in excess of the required operational amount. These transactional account balances have shown to be tied to the operational nature of the relationship and have proven to be stable through time. We ask that these excess balances receive the same outflow assumption of 40% as non-operational wholesale deposits.

III. Preferred Deposits Impact

Under the Proposed Rule, public funds deposits ("Preferred Deposits") are not treated as deposits, but as "secured funding." We do not believe that deposits of U.S. states, counties and municipalities that, under applicable state law, must be collateralized with liquid assets by the relevant depository institution should be treated as secured funding because such deposits are fundamentally different in nature than typical secured funding transactions normally entered into by banks and they pose very little risk of manipulation for purposes of the LCR and the pool of high quality liquid assets ("HQLA").

Treating Preferred Deposits as secured funding will have a significant and negative impact on our ability to provide services to local units of government. This is particularly evident when the deposits are backed by GSE securities, which the proposed LCR considers to be level 2 assets.

The impact arises from the Proposed Rule's requirement to unwind secured funding transactions for purposes of establishing a Covered Bank's level of HQLA. The proposal requires that transactions under which HQLA is exchanged be unwound, or reversed back to its original position. This provision is intended to prevent banks from using short-term transactions to manipulate their HQLA. However, applying the unwind to Preferred Deposits secured with level 2 assets means that a Covered Bank must, for purposes of complying with the LCR, exchange a level 1 asset (e.g., cash) for a level 2 asset (e.g., GSE securities), thus decreasing their level of HQLA.

While unwinding certain transactions, such as repurchase agreements, to avoid manipulation of an institution's stock of HQLA and to ensure a Covered Bank has a viable portfolio of HQLA to use in times of stress makes sense, it is not appropriate for Preferred Deposits which are long-term relationships that are generally established through formal bidding processes and backed by collateral owned by the depository institution.

BBVA Compass has been in the public funds business for many years, and has built a very significant client base across our seven state footprint. Our public funds balances continued to grow through the financial crises (U.S. financial crisis and European Debt crisis). Many of these clients are under deposit contracts, that typically range from two to five years, for which we have agreed to provide certain treasury management services (ACH, payroll processing, fraud protection, check processing, lock box services) for agreed upon fees or deposit balances held to earn an earnings credit rate (ECR). The majority of our clients hold large balances to earn the ECR in lieu of paying service charges on the various treasury management services that we provide. Our experience shows that the majority of these customers continuously renew their contracts, thereby reflecting the long-lasting nature of the relationship.

Further, these depositors have investment policies which restrict the types of collateral they can accept. While it is true a depositor could change its investment policy to further restrict its accepted collateral to level 1 assets, these changes must go through a formal review and board approval process, and it is unlikely this could be accomplished within thirty days in response to a liquidity event. BBVA Compass received no requests to replace level 2 assets with level 1 assets from Preferred Depositors during the financial crisis.

Further, we agree with Regional Bank Letter position that the outflow rate for Preferred Deposits backed by Federal Home Loan Bank ("FHLB") letters of credit should be no greater than the 15% outflow factor for GSE obligations. Significant amounts of our Preferred Deposits are collateralized by FHLB letters of credit, and we have experienced no discernible difference in the behavior of these deposits over time.

We believe this treatment of Preferred Deposits to be consistent with treatment given in other contexts and we encourage uniformity of treatment for U.S. financial institutions. Specifically, on February 7, 2011, the FDIC adopted a final rule modifying the risk-based assessment system for insured depository institutions. Under this rule Preferred Deposits are not considered secured funding by the FDIC. We believe the unique nature of these deposits in the U.S. and the behaviors they exhibit warrant this treatment.

IV. Brokered Deposits

The Proposed Rule states that brokered deposits that are neither reciprocal deposits nor part of a brokered sweep arrangement would receive an outflow rate of 10% if they mature later than 30 calendar days from the calculation date and 100% if they mature 30 days or less from the calculation date. Institutional brokered deposits do not provide for early withdrawal under any circumstances. These deposits should receive an outflow rate of 0% if they mature later than 30 calendar days from the calculation date. Effectively, these deposits act like unsecured debt in which the holder has no option to put the debt to the issuer, nor are there any acceleration clauses where the issuer would have the obligation to return the funds prior to the stated maturity date.

Retail brokered deposits only allow for early withdrawal under extremely limited circumstances. For example, brokered deposits that allow for early withdrawal only if the depositor is declared dead or adjudicated mentally incompetent should receive an extremely low outflow rate that approaches 0%. Early withdrawal under these circumstances is neither related to systemic liquidity risk in the banking system nor to the idiosyncratic risk of an individual institution. Publicly available information on U.S. mortality rates does not support the Proposed Rule's outflow rate of 10%. Annual mortality rates are much lower than 10% and by extension, 30 day rates would be significantly lower. Moreover, BBVA Compass' own experience bears out the stability of these deposits. Since January 31, 2012, BBVA Compass has had brokered deposits with a maturity date of greater than 30 days withdrawn early in only five instances which represent .08% of deposits based on customer count and .03% of deposits based on balances.

V. Commitment Outflow Amount

The Proposed Rule states that commitments would include the undrawn portion of committed credit and liquidity facilities provided by a covered company to its customers and counterparties that can be drawn down within 30 days of the calculation date. We are seeking to have the final rule clarify that the unused portion of commitments to extend credit for the specific purpose of financing land development or the on-site construction of industrial, commercial, residential, multifamily or farm buildings, are specifically excluded from the commitment outflow amounts. These types of commitments have performance requirements (e.g., a certain stage of construction must be completed before funds are disbursed) that are not impacted by either a systemic liquidity crisis or an idiosyncratic liquidity event.

VI. Small Business Definition

The Proposed Rule states that a small business would qualify as a retail customer or counterparty if its transactions have liquidity risks similar to those of individuals and are managed by a covered company in the same way as comparable transactions with individuals. In addition, to qualify as a small business under the Proposed Rule, the total aggregate funding raised from the small business must be less than $1.5 million. We believe that the $1.5 million aggregate deposit cap is too low. We acknowledge that $1.5 million threshold may be an attempt to be consistent with the €1 million cap found in paragraph 90 of the Basel LCR but we think further consideration needs to be given to this threshold.

Of our small business deposits, approximately 20% are the above the $1.5 million threshold and are reported as higher outflow funding. These customer relationships are held within our Retail and Wealth Management line of business and are managed in the same way as comparable transactions with individuals as prescribed in the Proposed Rule. The average deposit amount for those deposits between $1.5 million and $5 million is only $2.4 million. We respectfully challenge the notion that these deposits are different than those below the $1.5 million threshold.

We encourage the final rule to be consistent with treatment by other U.S. government entities. Specifically, the U.S. Small Business Administration under its 7(a) Loan Program provides loan amounts up to $5 million.[3] Additionally, the cap should be indexed in some manner.

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We thank you for considering the comments and recommendations in this letter. If you have any questions, please contact either of the undersigned or Josh Denney in our Washington office (202-730-0952).

Very Truly Yours,

Michael P. Carlson
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[3] See http://www.sba.gov/content/7a-loan-amounts-fees-interest-rates