January 31, 2014

Mr. Robert de V. Frierson
Secretary
Board of Governors of the
Federal Reserve
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the
Currency
250 E Street, SW
Washington, DC 20219

Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and Monitoring; Proposed Rule; Docket OCC 2013-0016, RIN 1557 AD 74, 12 CFR Part 50; Regulation WW, Docket No. R-1466, RIN 7100 AE-03, 12 CFR Part 249; RIN 3064-AE04, 12 CFR Part 329

Dear Messrs. deV. Frierson, Feldman, and To Whom It May Concern:

The undersigned organizations, institutions, and nonprofits are interested in fostering entrepreneurship and represent hundreds of thousands of businesses, small and large, and their professionals, from all sectors of the economy employing tens of millions of Americans. We believe that the proposed ***Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards and Monitoring*** ("proposed liquidity coverage ratio rules") may have negative consequences that will impede our ability to raise capital and manage risk. Accordingly, we respectfully request that the impacts of the proposed liquidity ratio rules upon non-financial companies be considered and that a roundtable of all participants be held to better understand these concerns and avoid the real-life adverse consequences as was recently witnessed by the impact of the Volcker Rule upon trust preferred bonds and collateralized loan obligations.

On October 24, 2013, the Board of Governors of the Federal Reserve ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC") and Office of the Comptroller of the Currency ("OCC") (also collectively "the regulators") issued the proposed liquidity coverage ratio rules. The proposed liquidity coverage ratio

rules were published in the *Federal Register* on November 29, 2013 and the comment period is scheduled to close on January 31, 2014.

Let us state at the outset that we support strong capital requirements and liquidity ratios to insure the stability of financial institutions. Appropriate and balanced capital requirements and liquidity ratios are necessary to avoid over-leveraging and allow suitable levels of risk-taking needed to fuel economic growth and job creation.

The proposed liquidity coverage ratio rules of course flow from and will implement parts of the Basel III capital agreements (Basel III). The Bank for International Settlements ("BIS") currently has a project underway, *The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability* ("Basel III simplification study"), to reduce the complexity and opaqueness of Basel III. Accordingly, we would respectfully request that the regulators work with BIS on the Basel III simplification study and incorporate its recommendations where appropriate. This will help to simplify the composition of assets needed to compose the liquidity coverage ratio and provide better clarity and understanding for market participants.

Similarly, as a part of an international system of capital and liquidity rules, it seems as if the proposed liquidity coverage ratios go well beyond what was envisioned in Basel III. We believe that there should be consistency in the rule development and application of liquidity coverage ratios for Basel III participants.

As with Basel III, we are concerned that the proposed liquidity coverage ratio rules will create significant disincentives for financial institutions to offer certain products and restrain the amount and type of capital available to businesses. These policy outcomes will harm capital formation and hamper the ability of businesses to grow and create jobs, undermining the goal of the proposed liquidity coverage ratio rules to facilitate stable financial institutions.

We are concerned that the treatment of credit facilities for structured products will hamper the ability of businesses to access securitized products as a capital formation device. As securitizations compose a large portion of debt financing for

non-financial businesses the ramifications will harm the ability of treasurers to meet short term financing needs, as well as fueling the long-term growth of businesses.

Similarly, the treatment of loans to finance commercial real estate, including construction loans and committed credit facilities (CCFs), is inconsistent with accepted and efficient credit practices in the commercial real estate sector. These loans often include contractually specific conditions that must be met over an extended period in order to execute additional draws on the facility. The outflow methodology of the Proposed Rule does not take account of the conditional nature of these credit products, nor the typical time horizons of commercial real estate projects.

Other concerns exist as well. Many companies use derivatives, not as a means of financial speculation, but rather as a form of mitigation to hedge risk and acquire materials at a stable price. Accordingly, we believe that the calculation of collateral outflows relating to derivative transactions should take into account potential collateral inflows that may offset collateral outflows. This will allow for a better reflection of transactions and their impact upon the stability of a financial institution. Along the same lines, foreign exchange ("FX") transactions that are considered derivatives under the proposed liquidity ratio rules that offset or are part of the same swap arrangement should be treated as a single transaction with offsetting cash flows.

We also have concerns regarding the scope of the proposed liquidity coverage ratio rules. The proposed liquidity coverage ratio rules will sweep in non-bank financial companies that own banks to help facilitate customer transactions. This will create a mismatch of regulation and apply banking regulations in a manner that will hamper the ability of such businesses to operate.

A roundtable will help the regulators better understand the use of some of these and other transactions as a means by businesses to raise capital and mitigate risk. Preventing normal business transactions from occurring or making those transactions inefficient can have a harmful impact upon the business, their financial institutions, the economy, and society as a whole. As Zion's application of the Volcker Rule showed, one firm's response to a regulation can cost the economies hundreds of millions of dollars.

We respectfully request that you take these concerns under consideration in the development of the proposed liquidity coverage ratio rule and are willing to discuss them with you in greater detail.

Sincerely,

Competitive Enterprise Institute
National Association of Corporate Treasurers
National Association of Real Estate Investment Trusts
Real Estate Roundtable
U.S. Chamber of Commerce