

Corporate Trust CONNECTION

summer 2011

Complying with New Basel III Guidelines

In response to the widespread (and fortunately, since stabilized) financial crisis that began in late 2007, the Bank for International Settlements (BIS)* began an initiative to promote a more robust banking system worldwide. The proposals, known as Basel III, were approved by the Basel Committee on Banking Supervision; standards were published in December 2010.

“Basel III follows on the heels of earlier BIS initiatives – Basel I and Basel II – and consists of guidelines for the international banking community using lessons learned from past financial crises,” says Terry McRoberts, Executive Vice President, U.S. Bank Corporate Trust Services. “However, it is more specific and demanding than the previous Basel proposals.”

A Look at the Guidelines

Basel III focuses on creating a global standard for two major financial services factors: capital adequacy and liquidity. “The Basel accords are high-level guidelines,” says Marcia Ryder, Liquidity Risk Manager, U.S. Bank. “Each member country’s financial regulatory bodies are tasked with putting the guidelines into practice.”

Domestically, regulatory bodies – including the Federal Reserve, the Office

of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) – are responsible for reviewing and implementing the standards. Their rulemaking is subject to comments and changes until 2015, when the Basel III standards go into effect worldwide.

“In the meantime, we have been working for months reviewing and analyzing our capital and liquidity positions in anticipation of the final rules,” Ryder says. “One of the interesting things about Basel III is that it is the first time that a prescribed, formulaic approach to liquidity has been proposed. Historically, other countries have required minimum liquidity ratios, but not the United States. Basel III will require banks to hold enough liquid assets, such as U.S. Government Treasury securities, on their balance sheets to cope with a hypothetical run on deposits and draws on committed facilities for 30 days. In the past, American banks could generally hold their liquidity off balance sheet because they are able to borrow from the Fed discount window and the Federal Home Loan Banks. Although banks will still be able to borrow from the Fed discount window and the Federal Home Loan Banks, banks will receive no credit for this capacity under the prescribed ratio.

continued on page 2

Did You Know?

The U.S. Bancorp Foundation is donating \$100,000 to the American Red Cross to assist with disaster relief efforts in Japan. The funds will help provide food, water, medical supplies and other services to victims of the horrific earthquake and tsunami. U.S. Bancorp is encouraging all employees to make personal contributions in addition to the company’s commitment. The U.S. Bancorp Employee Matching Gift program will match the next \$100,000 contributed by U.S. Bancorp employees.

U.S. Bank is continually evolving its own business practices to become more energy-efficient as part of its Environmental Sustainability Policy and was designated by the Environmental Protection Agency as an ENERGY STAR® Partner. Not only that, U.S. Bank was recently recognized as one of America’s Greenest Banks by *Bank Technology News*.

U.S. Bank Corporate Trust Services is ranked as the No. 1 municipal trustee in the first quarter of 2011 in Alaska, Connecticut, District of Columbia, Florida, Georgia, Hawaii, Maine, Michigan, New Hampshire, New Jersey, North Carolina, Rhode Island, Tennessee and Virginia.*

* Source: Thomson Financial, April 18, 2011.

inside

2 Preparing for the Unexpected 3 Introducing Jacqui Kirk, Manager of the London Office 4 Spotlight on the Indianapolis Office

usbank

Business Continuity Planning Preparing for the Unexpected


As evidenced by the earthquake, tsunami and nuclear crisis in Japan, disasters can strike at any time. U.S. Bancorp experienced milder versions of Mother Nature's wrath across the country this year with blizzards that closed offices and floods that threatened Saint Paul. But no matter the situation, we are prepared to keep operations going under adverse conditions.

U.S. Bancorp's Business Continuity Planning and Discovery Program evaluates potential events, such as natural disasters, and designs ways to ensure that U.S. Bancorp can recover mission-critical functions. The program works to:

- Develop employee safety strategies and communications.
- Ensure telecommunications systems remain accessible.
- Find alternate physical site locations.
- Notify staff and customers of emergencies.
- Maintain backups of all systems.

The disaster recovery plans are regularly updated and tested. The evaluations include plan activation simulation, business continuity processes, call-tree exercises and critical infrastructure disaster recovery. The goal is for data to be recovered in 48 hours or less, mirrored to a U.S. Bank disaster recovery site. Server backups are stored off-site in a secured, climate-controlled environment.

No one can predict a disaster, but by evaluating likely scenarios and creating redundant systems and back-up plans, our continuity planning is designed to help ensure that we meet our commitments to our customers and our fiduciary responsibilities to our stakeholders as well as comply with regulatory requirements. At U.S. Bancorp, we take business continuity planning seriously.



Our disaster recovery plans are regularly updated and tested. At U.S. Bancorp, we take business continuity planning seriously.

Complying with New Basel III Guidelines *continued from front*

How Basel III May Affect Our Customers

"Basel III is a positive step toward protecting the global financial industry from undue stress," McRoberts says. "But like most regulations, there will be costs involved. At U.S. Bank, we have been proactive about analyzing the rules to uncover any unintended consequences."

McRoberts is heading up a subcommittee of the American Bankers Association (ABA) Corporate Trust Committee, and they used an outside law firm to help draft a letter to Basel and U.S. and foreign regulators under ABA auspices. This letter includes an analysis of the Basel liquidity guidelines and how they may affect U.S. Bank Corporate Trust Services and our customers.

For example, under the Basel guidelines, financial institutions would be required to

hold high-quality liquid assets equal to 100 percent of total net cash outflow over 30 days.

"This requirement equates to the stability of the deposit," McRoberts says. "The requirement to hold liquid assets is proportionate to the stability of the deposit. The higher the runoff assumption, the more on-balance-sheet liquidity is needed. This will then reduce the yield we can offer on our deposits.

"We are explaining to the policy makers that our municipal bond, structured finance, escrow and paying agent services are built around long-term relationships with our customers. Those relationships are governed by complex administrative agreements, therefore increasing the stability of the deposits," McRoberts adds. "In fact, the paper we have drafted with the ABA would actually take the liquidity

requirements down to as low as zero for corporate trust."

Working to Protect Our Customers across Business Lines

Along with Corporate Trust Services, U.S. Bank Corporate Treasury is actively advocating with other groups to state its position on the proposed rules. "We are very involved in advocacy on a number of fronts to reflect historical experience to mitigate the impact of these standards on the costs of banking services," Ryder says. "Ultimately, we want to help ensure that proposals to foster good banking practices worldwide do not have unintended negative consequences."

* The Bank for International Settlements, headquartered in Basel, Switzerland, fosters international monetary and financial cooperation and serves as a bank for central banks. Members are the central banks or monetary authorities of more than 50 countries worldwide.

Introducing Jacqui Kirk, Manager of the London Office

Jacqui Kirk, Europe Executive, manages the London office of Global Securities Solutions, which was acquired at the end of last year by U.S. Bank National Association. The office expects to complete integration of its business onto the U.S. Bank Corporate Trust Services platforms in the third quarter of this year.

“We’ve been told by our new colleagues in the U.S. that their client base is increasingly looking for services for international transactions, and we’re prepared to offer that capability,” Kirk comments. The London office has 80 employees, and there are an additional 37 corporate trust professionals in an office in Carrick-on-Shannon, Ireland, which will soon be relocating to Dublin. The European offices will conduct business as U.S. Bank Global Corporate Trust Services and will operate through Elavon, Inc., a wholly owned subsidiary of U.S. Bancorp located in Dublin.

Kirk notes that the requirements and expectations of a trustee are a bit more onerous in England than in the U.S. “The trustee is expected to act more often on its own discretion without direction from bondholders. However, similar protections – such as indemnification – are a feature in Europe just as in the U.S.,” she says.

Providing Access to Foreign Markets

Kirk explains the importance to U.S. customers of U.S. Bank Global Corporate Trust Services having a physical presence in Europe: “To service international transactions, you must be able to handle non-U.S. currencies, have an operational presence, banking license and legal understanding in the relevant jurisdiction. Plus, it’s vital to have people who understand the culture and speak the language. This office has been operating across numerous jurisdictions in Europe for many years now.”

The London office hasn’t previously had a sales team. “Our portfolio of business is not as mature as that of our counterpart offices in the U.S.,” Kirk says. “This office opened in 2000 and grew most significantly from 2005 to 2007, when the structured finance market was booming. As a result, our current portfolio is split about equally between collateralized



The acquisition of the London and Ireland corporate trust offices marks the first introduction of the U.S. Bank brand in Europe.

debt obligations (CDOs) and commercial mortgage-backed securities (CMBs). But now, with the acquisition by U.S. Bank, there’s a commitment to grow the business and diversify both our client base and the types of issuances we service. Going forward, we’re looking to expand our services into other products, primarily into non-structured debt such as bond issuances, covered bonds, medium-term notes and commercial paper.”

The European team includes many long-standing and experienced professionals, and Kirk has already begun to build a sales team, including recruiting a well-regarded sales professional from the corporate trust industry in London.

Introducing U.S. Bank to Europe

The acquisition of the London and Ireland corporate trust offices marks the first introduction of the U.S. Bank brand in Europe. “We think it’s a really exciting opportunity to be launching the U.S. Bank brand in Europe,” Kirk says. “We expect it will be favorably received. As the market recovers, participants will be looking for providers who can distinguish themselves from the same old crew of trustees. U.S. Bank Global Corporate Trust Services will be uniquely positioned to meet that need. And the fact that U.S. Bank has acquired our European-based securitization trust administration business shows real commitment to corporate trust. This is a very positive and bold move for U.S. Bank.”

Spotlight on the Indianapolis Office

This year marks the 100th anniversary of the Indianapolis 500 in a city that lives and breathes racing and competitive sports. To celebrate 100 years of racing, the U.S. Postal Service released a special Forever Stamp depicting Ray Harroun, the winner of the inaugural Indy 500, driving his Marmon Wasp.

The U.S. Bank Corporate Trust Services office in Indianapolis is putting its own stamp on the corporate trustee market by building strong partnerships with Indiana firms and municipalities, and racing to expand the U.S. Bank brand in Indiana.

Competitive Edge

With five full-time professionals and 74 combined years of experience, the Indianapolis office runs a streamlined operation and prides itself on working closely with clients. “Our team is 100 percent client-facing and focused on maintaining relationships and serving customers in the Indiana market,” explains Ann Forey, Vice President and Manager of the Indianapolis office.

Some of the office’s long-standing client relationships go back 25 to 30 years. Clients range from school districts, higher



L to R: Lois Moore, Pam Cole, Jean Landy, Scott Fesler and Ann Forey with the #1 Dean Van Lines Special car driven by Mario Andretti in the 1967 Indianapolis 500.

education and other local government entities to health care providers of all sizes and Fortune 500 companies.

The Indianapolis office is a full-service operation supporting municipal debt, corporate debt and escrow services. “The origins of the office are in municipal debt, but the expansion in the corporate debt market has been significant, and that is where we are increasingly partnering with our corporate and commercial banking colleagues,” Forey says.

Racing Ahead

The U.S. Bank retail banking presence is smaller in Indiana than in most neighboring states, but the U.S. Bank team is building its reputation by making connections in the industry and growing its institutional relationships.

The goals of the Indianapolis office include growing our escrow business, capturing market share in the municipal business and continuing to expand our corporate debt business. “We have strong relationships with several key law firms in Indianapolis, and we are making our presence known through our rapid response to any corporate escrow needs,” says Scott Graham, Vice President and Business Development Officer.

If you are coming to town for the 2012 Super Bowl or any other local attraction, be sure to also stop by the U.S. Bank Corporate Trust Services office. It is located in the center of the city, one block west of Monument Circle. Remember that Indianapolis is one of America’s most walkable cities – so be sure to bring your sneakers!

INVESTMENT PRODUCTS ARE:		
NOT A DEPOSIT	NOT FDIC INSURED	NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
MAY LOSE VALUE		NOT GUARANTEED BY THE BANK

The articles and information included in this newsletter are for your information and are not intended as legal, accounting or tax advice. U.S. Bank and its representatives do not provide legal, accounting and/or tax advice. Clients are encouraged to contact their legal, accounting and/or tax advisor regarding their particular situation. While the information is intended to be accurate, neither U.S. Bank Corporate Trust Services nor the publisher accepts responsibility for relying on the information provided. Images may be from one or more of these sources: ©Thinkstock, ©iStock, ©Fotolia. ©2011 U.S. Bank Corporate Trust Services. Member FDIC.

Comments and suggestions for the newsletter are welcome and should be forwarded to Daika Ismail, *Corporate Trust Connection*, U.S. Bank Corporate Trust Services, (651) 495-4143 (phone) or marketing.corporatetrust@usbank.com (email). For more information, visit our website at usbank.com/corporatetrust.



60 Livingston Avenue
 EP-MN-WS3W
 St. Paul, MN 55107

