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October 31, 2003

Office of the Comptroller of the Currency
250 E Street, S.W.
Public Information Room, Mailstop 1-5
Washington, D.C. 20219

Attention: Docket No. 03-14

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Attention: Ms. Jennifer J. Johnson, Secretary
Reference: Docket No. R-1154

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Attention: Robert E. Feldman, Executive Secretary
Reference: Comments

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, D.C. 20552

Attention: No. 2003-27

RE: Advance Notice of Proposed Rulemaking
Risk-Based Capital Guidelines; Implementation of New Basel Capital Accord

Dear Sir or Madam:

Mellon Financial Corporation, the parent of Mellon Bank, N.A., Pittsburgh, Pennsylvania, appreciates the opportunity to comment to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "Agencies") on the Advance Notice of Proposed Rulemaking (the "ANPR").

Mellon Financial Corporation (Mellon) has a number of concerns with the Basel II Accord, and with the proposed U.S. rules and standards laid out in the ANPR. The most significant concerns for Mellon continue to focus on an explicit Pillar I capital charge for

operational risk, its inapplicability to many of our competitors and the limited recognition of mitigants other than capital for operational risk.

The provisions of Basel II and the rules and guidelines considered by the ANPR, are unnecessarily complex. This degree of complexity will lead to a number of problems; inconsistency in the definition and enforcement of international regulatory standards, difficulties for banks in interpretation of regulations, and the risk of non-comparable (and potentially misleading) information being provided to third parties under Basel disclosures. The Accord and the ANPR attempt to imply a level of precision in determining capital that, in reality, does not exist.

The provisions of Basel II, and the rules and guidelines considered by the ANPR, are too prescriptive in nature. Institutions and regulators have limited opportunities for the exercise of reasoned business judgment in such a rule-based approach. The ANPR should allow institutions to make distinctions relating to the degree of risk and materiality in credit portfolios and operational processes. With such an approach, an institution and its regulators would have the flexibility to engage in cost effective risk management. The ANPR rules do not fully allow differentiation of high quality or low dollar size credit risk portfolios. Similarly, a Pillar II approach to operational risk should allow the needed flexibility.

We support the intent of the Agencies to ensure that boards of directors and senior management take responsibility for appropriate risk management. However, the involvement and responsibility of the board must be balanced with the fact that bank directors have numerous responsibilities, including those increasingly related to ensuring appropriate corporate governance safeguards are in place and working. The ability of directors to set policy and to ensure that management adheres to it is undermined if directors must at each meeting review lengthy and detailed mandated reports. Buried in detail that is best delegated to management, boards can become unable to spot key emerging risks and address them. The board or a designated committee should approve and periodically review the bank's operational risk management framework; the design, implementation, operation and monitoring of a risk management system should be within management's duties. The board of directors should be kept informed of material issues as they arise, with periodic reports as appropriate.

The Agencies refer to the capital requirements currently in place in the United States under Prompt Corrective Action legislation, specifically the leverage requirement. We believe the U.S. banking regulators should consider the elimination of the leverage capital ratio in conjunction with the adoption of Basel II. The leverage ratio is fundamentally incompatible with an advanced, risk-based capital regime. The primary purpose of adopting Basel II is to introduce a broader menu of risk weightings for different asset categories. This is in response to the single largest criticism of Basel I, that there were too few risk categories and that loans to triple-A rated corporations carried the same risk weighting as sub-prime consumer loans.

The leverage approach, where all assets are risk weighted identically, is an additional step backward even from Basel I. Further, there is no provision in the leverage approach for capitalizing off-balance sheet risks. It appears that the leverage ratio, like the Pillar 1 ORBC requirement, exists solely to impose a "floor" on the amount of equity capital that Banks and FSHC's are required to maintain. If that is indeed the case, it makes no sense to require institutions to spend tens of millions of dollars for advanced measurement systems and then to have the results of those measurements essentially thrown out by having the leverage ratio become the minimum capital standard.

The Agencies have indicated that U.S. banks adopting Basel II capital standards, may only adopt the Advanced Internal Ratings Based (A-IRB) approach to credit risk, and the Advanced Measurement Approach (AMA) to operational risk. This limitation has implications for overall bank capital, the soundness of the banking system, and the ability of regulators in the field to appropriately assess minimum capital standards. Limiting U.S. banking institutions to these two approaches will lead to international inequality, as non-U.S. institutions may pick from three credit approaches, and three operational risk approaches.

Operational Risk Capital

Due to the numerous problems inherent in the Accord, which we outline below, a Pillar II approach (which contemplates regulators working with institutions to best understand and dimension operational risks) provides a much more workable solution to the determination of required capital.

- Basel II will result in an incremental capital charge for operational risk, which in the case of specialized trust and processing banks, will not be offset by a reduction in required capital for credit risk.

- Since many of the competitors of specialized trust and processing banks will not be subject to the Accord, such a capital charge imposes an unfair competitive burden.

- The Accord introduces arbitrary constraints on risk mitigants.

  - Insurance, which is an appropriate mitigant to unexpected losses in all areas of commerce, is inappropriately limited to 20%. Further, the one-year time limits imposed on insurance recoveries is problematic as well.

    - The one-year time limitation fails to consider the timetable of commercial litigation. Frequently the determination of loss amount, and insurance recovery, is not determinable until a date well into the future.

    - Institutions should be allowed to model loss data taking into account their insurance coverages and recovery histories, bound by neither an arbitrary percentage limit, or time of recovery limitation. Taking these

factors into account provides a realistic approach to the degree of risk that exists in any loss situation. Modeling of losses and recoveries should of course be subject to review and signoff by the institution's banking regulators.

- Stable, recurring fee based earnings for businesses that do not also contain credit or market risk should be considered as a mitigant for unexpected losses in other businesses.

- Most U.S. institutions can benefit from significant tax savings associated with operational losses, via charges in the current year, as well as loss carry back and carry forward. Failure to consider loss data on an after tax basis overstates the impact of modeled losses.

- Operational risk capital is required for expected and unexpected losses; it should only be required for unexpected events. At Mellon, expected operational losses are incorporated into the business planning cycle.

- There is limited evidence that operational risk can be modeled accurately and with any predictive power. This is further exacerbated by the requirement of modeling operational risk capital at the 99.9% confidence level. A confidence level of 99% is more appropriate. This confidence level is typically used in Value at Risk calculations for modeling market and interest rate risk.

- Imposing a requirement that models be run quarterly is unduly burdensome. The frequency of analysis should be in the discretion of the institution in consultation with its principal regulator.

Operational risk data for external events is not a reliable or even relevant indicator of the future and also does not contain critical root cause or scalar information. Most institutions lack significant internal data – due in large part to their success in running effective operational units. External loss data only reflects the largest losses. This overstates the severity of loss distributions. When only large losses are modeled, this calls for a higher level of capital due to the severity of the presumed distribution.

Balance Sheet Issues

The ANPR seeks to impose risk based capital rules on institutions whose balance sheets vary greatly in terms of size, quality and liquidity. Where the asset type considered is either small in comparison to the overall capital structure of the institution, is of high quality, and/or is extremely liquid, such assets should not be subject to the burden of new control and system requirements.

- For instance, very liquid assets such as investment grade securities, intrabank deposits, money market investments, etc., with low credit risk, should require controls commensurate with their risk.

- Such assets, including bank investment securities portfolios should not fall subject to requirements for additional systems and controls, which are not sensitive to the degree of risk posed by an asset type.

- Within the credit portfolio, where loan assets or commitments are publicly rated, the systems and controls should be commensurate with the level of risk in the portfolio.

Credit Risk Capital

Mellon has examined the credit risk components of Basel II and the ANPR. The size and quality of our credit portfolio do not merit exhaustive modeling and review of the proposed rules. Nonetheless, there are numerous elements of the ANPR that require our response.

- The A-IRB approach to credit risk is not an appropriate solution for institutions where credit risk exposure is not a large risk. Investment in such models should not be necessary for institutions whose primary focus is in the trust and processing businesses. On the other hand, merely reverting to a Basel I approach is hardly an enhancement in risk management. Mellon thus proposes below several ways to address this problem.

- The A-IRB approach also has a number of shortcomings that will make the jobs of regulators and field examiners more difficult.

  - As the determination of the appropriate capital amount is left to each institution and its regulator, it is possible for two institutions holding exactly the same asset to hold differing capital amounts against that asset. With many institutions holding the same assets, in a shared national credit environment, this result is not appropriate.

  - This result reveals the likelihood that many banks will be motivated to understate their capital needs, through the use of complex models.

  - Due to the difficulties in adopting an A-IRB approach (at the individual bank, and system wide level) we believe that over time, the U.S. will (as examiners in charge compare credit allocations for the same loans at their various institutions) move to an approach similar to the Foundation Internal Ratings Based Approach (F-IRB). (Here regulators will establish the inputs for loss given default, exposure at default, and remaining maturity, with banks determining probability of default for their individual loans and portfolios.) If definition of the reasonable range for these variables is inevitable, why shouldn't the F-IRB be an option from the onset?

- In the case of Shared National Credits, the probability of default should be determined at the agent bank for all institutions in the bank group.

- In light of these issues, we believe U.S. institutions should be able to choose the Standardized, F-IRB or A-IRB approach to credit risk.

- Were the Agencies to proceed with the adoption of the Basel Capital Accord, we believe that the mandated use of the A-IRB approach in conjunction with the AMA for operational risk poses a significant cost burden and disincentive for trust and processing banks. With this in mind, we believe the Agencies should consider a more appropriate structure for non-credit intensive banks, as shown in the two modified approaches to credit risk capital below:

  Option 1: Permit Selection of Either Basel I, Standardized or Foundation IRB for Credit with AMA for Operational Risk.

  - Benefits

    - Provides a simplified approach for banks that have a constant to improving credit risk profile with portfolios or that have stable to declining exposure levels.
    - More cost effective for Banks.
    - Maintains a level playing field for asset management focused banks.
    - Permits institutions to properly allocate resources to the areas of greatest risk.

  Option 2: For Credit IRB, at the Portfolio Level and Applied to Exposure, Use a Materiality Threshold of 100% of Total Capital (subject to rolling five year average credit losses in those portfolios being less than 1% of net operating income before tax).

  - Benefits

    - Balances the Accord principle of requiring increasing sophistication in risk management tools and technology for larger credit portfolios with material exposure levels at risk.
    - More cost effective for Banks.
    - Maintains a level playing field for asset management focused banks.
    - Permits a phase in period for growth portfolios.
    - Permits institutions to properly allocate scarce resources to the areas of greatest risk.

Within the ANPR, the Agencies posed numerous questions regarding the A-IRB approach to credit risk and credit capital allocation. Notwithstanding our strong

objections described above, we have examined a number of these points, and our responses are contained in Attachment 1. We have not commented on a number of issues for which we do not have material exposure, such as securitizations.

Market Discipline

The Agencies provide a discussion of Pillar III disclosure issues in the ANPR. This appears to be cursory in nature, and we would anticipate more detail in the proposed rules at a later time. We remain concerned that such mandatory disclosure is dangerous to the banking industry.

- Although we feel it is appropriate to openly share risk information with our regulatory agencies, and have and will continue to do so, the requirement for mandatory disclosure of detailed risk capital elements is not appropriate.
  - Although providing this information might foster a greater level of transparency, it is questionable how individuals and other entities would comprehend or use that information. Banking institutions in the United States already provide substantial disclosures of financial information, and it is our perception that additional mandatory disclosure is not warranted.
  - Wide scale disclosure as contemplated will lead to confusion among users of that information. Although banks would disclose their loan portfolio composition in gross terms, the underlying portfolios themselves may be radically different – especially in the higher risk and unrated categories.
  - This problem is further compounded by the high likelihood of an uneven playing field for many banks. Non-bank competitors, not subject to this level of disclosure may well be advantaged in terms of the public's perception. At a minimum, their cost structure for reporting compliance would be significantly less.
- Public access to risk/loss information can have a number of consequences, including inappropriate use of the information for competitive purposes and used against banks by class action lawyers. Raw data is prone to misinterpretation. Some losses, which may have reasonable explanations or which resulted from problems that have been remedied, might require the organization to defend its data in numerous forums, including responding to RFPs and securities analysts. Such open dialogues might jeopardize confidence in the banking system in general, if not in specific institutions, by artificially heightening concern and focusing the debate on matters that might otherwise not be of concern to experienced regulators. Also, disclosure of such information might provide a roadmap for litigators, particularly the class action bar, thus exposing the banking industry to unwarranted litigation with its attendant expense and reputation risks. This information would establish a floor for negotiations and always result in increased cost for the bank.

- As a result of the options presented to institutions under Basel II, data will rarely be comparable from institution to institution. This results because of a diversity of models that will be utilized among different institutions. Diverse models, using varying assumptions, will yield a broad distribution of results. Data from those models is not comparable, and will be misleading to those who try to compare it.

- Mandatory disclosures such as those set forth in the ANPR should be eliminated. Principles for disclosure in lieu of prescriptive rules would be less burdensome, and more appropriate to banks and third party users of that information.

We thank you for the opportunity to comment on ANPR. If you should have any questions about our comments or would like to discuss them further, please call Michael Bleier, General Counsel, at 412-234-1537.

Sincerely,

Steven G. Elliott
Senior Vice Chairman
Mellon Financial Corporation

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Page(s)	**Issue**	**Specific Question(s)**	**Comment(s)**
22 FR45904	I. Executive Summary C. Overview of U.S. Implementation Other Considerations	With regard to the boundary between the trading book and the banking book, for institutions subject to the market risk rules, positions currently subject to those rules include all positions held in the trading account consistent with GAAP. The New Accord proposed additional criteria for positions includable in the trading book for purposes of market risk capital requirements. The Agencies encourage comment on these additional criteria and whether the Agencies should consider adopting such criteria (in addition to the GAAP criteria) in defining the trading book under the Agencies' market risk capital rules. The Agencies are seeking comment on the proposed treatment of the boundaries between credit, operational, and market risk.	*Agree with the general rule on credit/operational boundary proposal as long as the application remains consistent with GAAP.* *The criteria for inclusion in the trading book should be consistent with GAAP. Introducing parallel monitoring of a trading book defined by additional and different criteria adds undue burden. For example, the New Accord's trading book criteria would permit a hedge that "materially" offsets the risks of another trading book position or portfolio. We conclude that the location of the hedged materially offset position/portfolio (trading book vs. banking book) has little bearing on the capital required to support the market risk of the hedge itself – certainly not enough bearing to warrant a distinct accounting system in addition to and concurrent with GAAP.*
28-29 FR45906	I. Executive Summary D. Competitive Considerations	The Agencies are interested in commenters' views on alternatives to the advanced approaches that could achieve this balance, and in particular on alternatives that could do so without a bifurcated approach. The Agencies are committed to investigate the full scope of possible competitive impact and welcome all comments in this regard. Some questions are suggested below that may serve to focus commenters' general reactions. More specific questions also are suggested throughout the ANPR. These questions should not be viewed as limiting the Agencies' areas of interest or commenters' submissions on the proposals. The Agencies encourage commenters to provide supporting data and analysis, if available.	*Basel II will have a negative impact on competitiveness in a number of ways. First, from a bank to bank perspective, it is a given that only the largest institutions will be able to afford the implementation and on-going maintenance costs of the advanced methods of Basel II and thus obtain favorable capital treatment. Furthermore, from a reputation perspective, banks that are able to adopt A-IRB/AMA will be viewed as more sophisticated in terms of risk management. This will be used as a competitive marketing advantage. Second, from a global perspective, certain regions/countries have voiced significant concerns with the implementation of Basel II. If this continues, US banks will be at a disadvantage in that they will have devoted significant resources to Basel II implementation and be forced to compete with international institutions that have not, and furthermore may not be constrained by the Basel capital requirements. Third, institutions that are outside the scope of regulation are and will continue to be in an advantageous competitive and supervisory positions. Last, since the accord may be capital neutral for the large money center banks, they will be competitively advantaged against the processing center banks for which the Accord is not capital neutral.*

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Page(s)	**Issue**	**Specific Question(s)**	**Comment(s)**
28-29 cont'd. FR45906	I. Executive Summary D. Competitive Considerations	What are commenters' views on the relative pros and cons of a bifurcated regulatory framework versus a single regulatory framework? Would a bifurcated approach lead to an increase in industry consolidation? Why or why not? What are the competitive implications for community and mid-size regional banks? Would institutions outside of the core group be compelled for competitive reasons to opt-in to the advanced approaches? Under what circumstances might this occur and what are the implications? What are the competitive implications of continuing to operate under a regulatory capital framework that is not risk sensitive? If regulatory minimum capital requirements declined under the advanced approaches, would the dollar amount of capital these banking organizations hold also be expected to decline? To the extent that advanced approach institutions have lower capital charges on certain assets, how probable and significant are concerns that those institutions would realize competitive benefits in terms of pricing credit, enhanced returns on equity, and potentially higher risk-based capital ratios? To what extent do similar effects already exist under the current general risk-based capital rules (e.g., through securitization or other techniques that lower relative capital charges on particular assets for only some institutions)? If they do exist now, what is the evidence of competitive harm? Apart from the approaches described in this ANPR, are there other regulatory capital approaches that are capable of ameliorating	*While certain to increase regulatory expenses, a bifurcated approach at the outset seems necessary especially given the enormous complexity of the advanced approaches in Pillar I. The costs of Basel II and the competitive disadvantages will increase industry consolidation. If indeed the rating agencies and the regulators wish to see all institutions adopt advanced approaches over time, the cost of such adoption would compel industry consolidation among the community, mid sized regional banks and specialized institutions. Furthermore, specialized institutions would be compelled for competitive reasons to opt-in, as customers in the market are likely to expect providers to have the advanced risk management systems.* *The intent of Basel II is not to see capital levels decline and it is clear that regulators and rating agencies do not want to see decreases. Given this narrow band of acceptable capital levels, the costs seem to outweigh the benefits. Additionally there are less costly ways to improve capital allocation from Basel I which should be reconsidered.* *It is highly probable, if not certain, that advanced approach institutions would realize those competitive benefits outlined in the ANPR question. It is the increased range of alternatives to adjust pricing, enhance ROE, and perhaps higher capital ratios that give the competitive advantage under the new Accord. Basel II can have the effect of turbo charging the competitive advantages already held by the very large international financial institutions.* *Yes, increase flexibility by permitting specialized institutions that proactively adopt the AMA for Operating Risk, but that do not have either the size, scope, or risk of a proportionately large credit exposure (as measured against capital), the ability to adopt a modified approach to credit that matches the appropriate level of sophisticated quantitative analysis to the size and risk in their portfolios. One modification would be to require all institutions to adopt the Standardized approach for credit risk and phase in more advanced concepts over time or at a late date. Another modification would permit a materiality threshold for assets including loans, securitization tranches, etc. in conjunction with the ability to use IRB or Standardized approaches.*

		competitive concerns while at the same time achieving the goal of better matching regulatory capital to economic risks? Are there specific modifications to the proposed approaches or to the general risk-based capital rules that the Agencies should consider?	

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31 FR45906	II. Application of the Advanced Approaches in the United States A. Threshold Criteria for Mandatory Advanced Approach Organizations Application of Advanced Approaches at Individual Bank/Thrift Levels	However, recognizing that separate bank and thrift charters may, to a large extent, be independently managed and have different systems and portfolios, the Agencies are interested in comment on the efficacy and burden of a framework that requires the advanced approaches to be implemented by (or pushed down to) each of the separate subsidiary banks and thrifts that make up the consolidated group.	*There will certainly be a burden if the framework must be implemented by each separate subsidiary that makes up the consolidated group. Subsidiaries that would have been exempt prior to acquisition by a larger organization should continue to be exempt. As a result of the acquisition, risks have largely decreased yet Basel II would require more advanced and costly controls than would have otherwise been required by the subsidiaries' regulatory bodies.*
31-32 FR45907	II. Application of the Advanced Approaches in the United States A. Threshold Criteria for Mandatory Advanced Approach Organizations U.S. Banking Subsidiaries of Foreign Banking Organizations	The Agencies are interested in comment on the extent to which alternative approaches to regulatory capital are implemented across national boundaries might create burdensome implementation costs for the U.S. subsidiaries of foreign banks.	*No comment.*
34 FR45907	II. Application of the Advanced Approaches in the United States C. Other Considerations General Banks	The Agencies seek comment on whether changes should be made to the existing general risk-based capital rules to enhance the risk-sensitivity or to reflect changes in the business lines or activities of banking organizations without imposing undue regulatory burden or complication. In particular, the Agencies seek comment on whether any changes to the general risk-based capital rules are necessary or warranted to address any competitive equity concerns associated with the bifurcated framework.	*In this context, clearly changes should be made to the existing rule so as to recognize different business formulas. As mentioned earlier, specialized financial institutions believe they must adopt the advanced method for operating risk both for risk management and competitive reasons. In so doing the most recent guidance is that these institutions must adopt the comparable advanced approach to credit even when the level of risk does not warrant the cost and burden of building the infrastructure that is required. Under the current proposal, specialized institutions are penalized for their mix of operational/credit risk, not just for their loan mix.*

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35 FR45908	II. Application of the Advanced Approaches in the United States C. Other Considerations Majority-Owned or Controlled Subsidiaries	The Federal Reserve specifically seeks comment on the appropriate regulatory capital treatment for investments by bank holding companies in insurance underwriting subsidiaries as well as other nonbank subsidiaries that are subject to minimum regulatory capital requirements.	*No comment.*
37 FR45908	II. Application of the Advanced Approaches in the United States C. Other Considerations Transitional Arrangements	Given the general principle that the advanced approaches are expected to be implemented at the same time across all material portfolios, business lines, and geographic regions, to what degree should the Agencies be concerned that, for example, data may not be available for key portfolios, business lines, or regions? Is there a need for further transitional arrangements? Please be specific, including suggested durations for such transitions. Do the projected dates provide an adequate timeframe for core banks to be ready to implement the advanced approaches? What other options should the Agencies consider? The Agencies seek comment on appropriate thresholds for determining whether a portfolio, business line, or geographic exposure would be material. Considerations should include relative asset size, percentages of capital, and associated levels of risk for a given portfolio, business line, or geographic region.	*We agree that there is need for additional time. So as to avoid competitive disadvantages it is recommended that the actual implementation date be pushed out versus extending transitional arrangements. Extend the implementation date to12/31/2008. During that period of time, portfolios could be appropriately mapped to Basel categories and key data could be gathered as well. As an alternative, require the use of the Standardized Approach by 12/31/2006 and work with the industry to recalibrate the dates for further phase in of the advanced approaches.* *Given that Mellon is compelled to implement AMA for operational risk and this in turn requires Mellon to adopt an IRB approach, we consider the times inadequate.* *Given that the Accord already proposes a materiality level of 10% of T1 and T2 capital for equity exposures, we recommend a materiality threshold of 100% of Tier One and Two capital at the portfolio level and applied to exposure for exclusion from facility level requirements when coupled with a credit loss experience for a rolling five year period of less than 1% of net operating income before tax for loan portfolios in question.*

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Page(s)	**Issue**	**Specific Question(s)**	**Comment(s)**
45 FR45911	III. Advanced Internal Ratings-Based Approach (AIRB) A. Conceptual Overview Expected Losses versus Unexpected Losses	The Agencies seek comment on the conceptual basis of the AIRB approach, including all of the aspects just described. What are the advantages and disadvantages of the AIRB approach relative to alternatives, including those that would allow greater flexibility to use internal models and those that would be more cautious in incorporating statistical techniques (such as greater use of credit ratings by external rating agencies)? The Agencies also encourage comment on the extent to which the model's necessary conditions of the conceptual justification for the AIRB approach are reasonably met, and if not, what adjustments or alternative approach would be warranted. Should the AIRB capital regime be based on a framework that allocates capital to EL plus UL, or to UL only? Which approach would more closely align the regulatory framework to the internal capital allocation techniques currently used by large institutions? If the framework were recalibrated solely to UL, modifications to the rest of the AIRB framework would be required. The Agencies seek commenters' views on issues that would arise as a result of such recalibration.	*The Accord equates ever-increasing levels of complexity with increasing risk management credibility and capability. We argue that the continuing geometric increase in complexity simply increases the cost so the benefits can never meet, let alone exceed, that threshold. Again if the intent is to see neither a decrease or increase in capital the question is whether the cost is worth the benefit. An example of this is the number of different processes that are unique for each portfolio type and the complexity of each e.g. real estate, mixed collateral levels for loans to high net worth individuals, etc.* *Recommend allocation only to UL as EL should be addressed in the product gross margin (or FMI).*
51 FR45912	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Wholesale Exposures: Definitions and Inputs	The Agencies seek comment on the proposed definition of wholesale exposures and on the proposed inputs to the wholesale AIRB capital formulas. What are views on the proposed definitions of default, PD, LGD, EAD, and M? Are there specific issues with the standards for the quantification of PD, LGD, EAD, or M on which the Agencies should focus?	*The proposal for CRE and HVCRE is far too complex. We recommend that the RW simply be set at 100%, as in the Standardized approach.* *With regard to the standards we suggest that the time required may be too long especially if the institution is in the midst of strategic business changes. This is especially the case with real estate. These standards should be left to the discretion of the regulators in a Pillar II approach.*

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57 FR45914	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Wholesale Exposures: Formulas	If the Agencies include a SME adjustment, are the $50 million threshold and the proposed approach to measurement of borrower size appropriate? What standards should be applied to the borrower size measurement (for example, frequency of measurement, use of size buckets rather than precise measurements)? Does the proposed borrower size adjustment add a meaningful element of risk sensitivity sufficient to balance the costs associated with its computation? The Agencies are interested in comments on whether it is necessary to include an SME adjustment in the AIRB approach. Data supporting views is encouraged.	*Using an adjustment based upon revenue size is inappropriate. An alternative is to use $5MM of exposure which is more indicative of risk level and would not require system enhancements. This will avoid considerable reclassification issues and needless costs.* *No, the costs outweigh the risk sensitivity. Use $5MM in exposure.*
59 FR45915	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Wholesale Exposures: Other Considerations	The Agencies invite comment on ways to deal with cyclicality in LGDs. How can risk sensitivity be achieved without creating undue burden?	*We recommend using a rolling ten year average to capture cyclicality in LGDs. An alternative would be to utilize rating agency data.*
60 FR45915	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Wholesale Exposures: Other Considerations	The Agencies invite comment on the merits of the SSC approach in the United States. The Agencies also invite comment on the specific slotting criteria and associated risk weights that should be used by organizations to map their internal risk rating grades to supervisory rating grades if the SSC approach were to be adopted in the United States.	*SSCs are duplicative of credit ratings and their use will present only a further level of complexity and costs and in our opinion will ultimately prove unworkable. These will also be subject to arbitrariness and potentially endless debate. Rather add the Standardized approach for the SL portfolios.*

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62 FR45916	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Wholesale Exposures: Other Considerations	The Agencies invite the submission of empirical evidence regarding the (relative or absolute) asset correlations characterizing portfolios of land ADC loans, as well as comments regarding the circumstances under which such loans would appropriately be categorized as HVCRE.	*ADC loans at our institution are largely made to high net worth individuals using long standing market knowledge and extensive underwriting and we have little statistical basis for their classification as "high risk" and should not be categorized as HVCRE. Rather, as with CRE, apply 100% RW.*
		The Agencies also invite comment on the appropriateness of exempting from the high asset correlation category ADC loans with substantial equity or that are pre-sold or sufficiently pre-leased. The Agencies invite comment on what standard should be used in determining whether a property is sufficiently pre-leased when prevailing occupancy rates are unusually low.	*Using a standard 100% application avoids this increasing level of definition and complexity with increasing costs absent benefit, an on-going fundamental problem with the Accord.*
		The Agencies invite comment on whether high asset correlation treatment for one- to four-family residential construction loans is appropriate, or whether they should be included in the low asset correlation category. In cases where loans finance the construction of a subdivision or other group of houses, some of which are pre-sold while others are not, the Agencies invite comment regarding how the "pre-sold" exception should be interpreted.	*No comment.*
		The Agencies invite comment on the competitive impact of treating defined classes of CRE differently. What are commenters' views on an alternative approach where there is only one risk weight function for all CRE? If a single asset correlation treatment were considered, what would be the appropriate asset correlations to employ within a single risk-weight function applied to all CRE exposures?	*The current Accord permits the use of 100% RW under the Standardized approach and this could even be reduced to 50% for tranches that have a LTV of less than or equal to 50%. As this is a cost effective approach, we agree that this should applied for all CRE.*

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63 FR45916	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Wholesale Exposures: Other Considerations	The Agencies are seeking comment on the wholesale AIRB capital formulas and the resulting capital requirements. Would this approach provide a meaningful and appropriate increase in risk sensitivity in the sense that the results are consistent with alternative assessments of the credit risks associated with such exposures or the capital needed to support them? If not, where are there material inconsistencies? Does the proposed AIRB maturity adjustment appropriately address the risk differences between loans with differing maturities?	*No. The proposed A-IRB maturity adjustment assigns a higher weight to a longer maturity loan. However, the Credit Derivative market data, reflecting the credit worthiness of the underlying loan, shows that maturity is not necessarily indicative.*
65 FR45916	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Retail Exposures: Definitions and Inputs	The Agencies are interested in comment on whether the proposed $1 million threshold provides the appropriate dividing line between those SME exposures that banking organizations should be allowed to treat on a pooled basis under the retail AIRB framework and those SME exposures that should be rated individually and treated under the wholesale AIRB framework.	*We disagree that business loans even under $1MM be treated in the same pooled fashion as retail. There remains a distinct difference between business loan and individual loan risks. Furthermore, permitting this treatment would give unfair advantage from a capital perspective to large banks that adopt A-IRB. Further, loans to high net worth individuals, where pools can be created without regard to size, are required to utilize a complex level of treatment where loss performance does not justify the cost of facility by facility analysis. This is despite the fact that these loans may be in excess of the proposed $1MM threshold.*
70 FR45918	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Retail Exposures: Definitions and Inputs	The Agencies are interested in comments and specific proposals concerning methods for incorporating undrawn credit card lines that are consistent with the risk characteristics and loss and default histories of this line of business. The Agencies are interested in further information on market practices in this regard, in particular the extent to which banking organizations remain exposed to risks associated with such accounts. More broadly, the Agencies recognize that undrawn credit	*No comment.*

		card lines are significant in both of the contexts discussed above, and are particularly interested in views on the appropriate retail IRB treatment of such exposures.	

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71-72 FR45918	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Retail Exposures: Definitions and Inputs	For the QRE sub-category of retail exposures only, the Agencies are seeking comment on whether or not to allow banking organizations to offset a portion of the AIRB capital requirement relating to expected losses by demonstrating that their anticipated FMI for this sub-category is likely to more than sufficiently cover expected losses over the next year. The Agencies are seeking comment on the proposed definitions of the retail AIRB exposure category and sub-categories. Do the proposed categories provide a reasonable balance between the need for differential treatment to achieve risk-sensitivity and the desire to avoid excessive complexity in the retail AIRB framework? What are views on the proposed approach to inclusion of small-business exposures in the other retail category? The Agencies are also seeking views on the proposed approach to defining the risk inputs for the retail AIRB framework. Is the proposed degree of flexibility in their calculation, including the application of specific floors, appropriate? What are views on the issues associated with undrawn retail lines of credit described here and on the proposed incorporation of FMI in the QRE capital determination process? The Agencies are seeking comment on the minimum time requirements for data history and experience with segmentation and risk management systems: Are these time requirements appropriate during the transition period? Describe any reasons for not being able	*We agree with this approach but would add that this should be applied across the board and not only to the QRE category* *Retail A-IRB includes the ability to include exposures greater than $1MM, whereas the Standardized approach caps this at $1MM. We do not agree with this cap. We reiterate that the complexity and associated costs of the IRB outweighs the benefits.* *We disagree with including small business exposures in the retail category given the different level of risk. These should be pooled separately and be given a higher limit of $5MM.* *Again, establishing floors while promoting an exceedingly costly analytical system works against being able to realize the benefit to offset the cost.* *This is a key reason for our support for a Pillar II approach. Business strategies and portfolio composition change uniquely for institutions. Standard minimum time requirements do not take such changes into account.*

		to meet the time requirements.	

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75 FR45919	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Retail Exposures: Formulas	The Agencies also seek comment on the competitive implications of allowing PMI recognition for banking organizations using the AIRB approach but not allowing such recognition for general banks. In addition, the Agencies are interested in data on the relationship between PMI and LGD to help assess whether it may be appropriate to exclude residential mortgages covered by PMI from the proposed 10 percent LGD floor. The Agencies request comment on whether or the extent to which it might be appropriate to recognize PMI in LGD estimates.	*This is another example of the continuing spiral of complexity and cost when industry and product specific treatment is incorporated into the Accord. Beyond that, providing specific benefit only exacerbates the fundamentally unfair playing field of the Accord.*
		More broadly, the Agencies are interested in information regarding the risks of each major type of residential mortgage exposure, including prime first mortgages, sub-prime mortgages, home equity term loans, and home equity lines of credit. The Agencies are aware of various views on the resulting capital requirements for several of these product areas, and wish to ensure that all appropriate evidence and views are considered in evaluating the AIRB treatment of these important exposures.	*While ideally this breakdown would be beneficial, it would require arbitrary definition i.e. what is sub prime? how much sub prime in a portfolio makes a portfolio sub prime? what if performance is adequate? Again having to respond to specific issues adds to the complexity and cost of the Accord.*
		The risk-based capital requirements for credit risk of prime mortgages could well be less than one percent of their face value under this proposal. The Agencies are interested in evidence on the capital required by private market participants to hold mortgages outside of the federally insured institution and GSE environment. The Agencies also are interested in views on whether the reductions in mortgage capital requirements contemplated here would unduly extend the federal safety net and risk	*No comment.*

		contributing to a credit-induced bubble in housing prices. In addition, the Agencies are also interested in views on whether there has been any shortage of mortgage credit under general risk-based capital rules that would be alleviated by the proposed changes.	

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77-78 FR45920	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Retail Exposures: Formulas	The Agencies are interested in views on whether partial recognition of FMI should be permitted in cases where the amount of eligible FMI fails to meet the required minimum. The Agencies are also interested in views on the level of portfolio segmentation at which it would be appropriate to perform the FMI calculation. Would a requirement that FMI eligibility calculations be performed separately for each portfolio segment effectively allow FMI to offset EL capital requirements for QRE exposures?	*Yes. We agree that partial recognition of FMI should be permitted. To reduce complexity, do not place limits on coverage.*
80-81 FR45921	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Retail Exposures: Formulas	The Agencies are seeking comment on the retail AIRB capital formulas and the resulting capital requirements, including the specific issues mentioned. Are there particular retail product lines or retail activities for which the resulting AIRB capital requirements would not be appropriate, either because of a misalignment with underlying risks or because of other potential consequences?	*No comment.*
82 FR45921	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations AIRB: Other Considerations	The Agencies recognize the existence of various issues in regard to the proposed treatment of ALLL amounts in excess of the 1.25 percent limit and are interested in views on these subjects, as well as related issues concerning the incorporation of expected losses in the AIRB framework and the treatment of the ALLL generally. Specifically, the Agencies invite comment on the domestic competitive impact of the potential difference in the treatment of reserves described.	*No comment.*

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82 FR45921	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations AIRB: Other Considerations	The Agencies seek views on this issue, including whether the proposed U.S. treatment has significant competitive implications. Feedback also is sought on whether there is an inconsistency in the treatment of general specific provisions (all of which may be used as an offset against the EL portion of the AIRB capital requirement) in comparison to the treatment of the ALLL (for which only those amounts of general reserves exceeding the 1.25 percent limit may be used to offset the EL capital charge).	*Should other countries permit an offset to EL of "general specific" provision and this not be permitted for U.S. institutions, this would result in a competitive advantage to institutions in other countries.*
87 FR45923	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Purchased Receivables	The Agencies seek comment on the proposed methods for calculating credit risk capital charges for purchased exposures. Are the proposals reasonable and practicable? For committed revolving purchase facilities, is the assumption of a fixed 75 percent conversion factor for undrawn advances reasonable? Do banks have the ability (including relevant data) to develop their own estimate of EADs for such facilities? Should banks be permitted to employ their own estimated EADs, subject to supervisory approval?	*No comment.*
89 FR45923	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Purchased Receivables	The Agencies seek comment on the proposed methods for calculating dilution risk capital requirements. Does this methodology produce capital charges for dilution risk that seem reasonable in light of available historical evidence? Is the corporate AIRB capital formula appropriate for computing capital charges for dilution risk? In particular, is it reasonable to attribute the same asset correlations to dilution risk as are used in quantifying the credit risks of corporate exposures within the AIRB framework? Are	*No comment.*

		there alternative method(s) for determining capital charges for dilution risk that would be superior to that set forth above?	

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89-90 FR45923	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Purchased Receivables	The Agencies seek comment on the appropriate eligibility requirements for using the top-down method. Are the proposed eligibility requirements, including the $1 million limit for any single obligor, reasonable and sufficient? The Agencies seek comment on the appropriate requirements for estimating expected dilution losses. Is the guidance set forth in the New Accord reasonable and sufficient?	*No comment.*
96 FR45925	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Credit Risk Mitigation Techniques	The Agencies seek comments on the methods set forth above for determining EAD, as well as on the proposed back testing regime and possible alternatives banking organizations might find more consistent with their internal risk management processes for these transactions. The Agencies also request comment on whether banking organizations should be permitted to use the standard supervisory haircuts or own estimates haircuts methodologies that are proposed in the New Accord.	*The proposed back testing regime requires comparing the previous day's VaR with the change in the current exposure of the previous day's portfolio. We suggest comparing the exposure change between a current day's portfolio and previous day's portfolio. This will eliminate the need to keep the previous day's portfolio and price with current market price just for back testing purpose.* *Banking organizations should be permitted to use either the VaR approach or the standard supervisory haircuts or own estimates of haircut methodologies that are consistent with their internal risk management tools.*

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98 FR45925- FR45926	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Credit Risk Mitigation Techniques	Industry comment is sought on whether a more uniform method of adjusting PD or LGD estimates should be adopted for various types of guarantees to minimize inconsistencies in treatment across institutions and, if so, views on what methods would best reflect industry practices. In this regard, the Agencies would be particularly interested in information on how banking organizations are currently treating various forms of guarantees within their economic capital allocation systems and the methods used to adjust PD, LGD, EAD, and any combination thereof.	*Various forms of guarantees have different risk ratings. It is through these risk ratings that capital is allocated. Given that the Accord does not differentiate between the type of protection, we agree that more uniform methods should be adopted.*
98 FR45925- FR45926	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Credit Risk Mitigation Techniques	The Agencies are seeking comment on the proposed nonrecognition of double default effects. The Agencies also are interested in obtaining commenters' views on alternative methods for giving recognition to double default effects in a manner that is operationally feasible and consistent with safety and soundness. With regard to the latter, commenters are requested to bear in mind the concerns outlined in the double default white paper, particularly in connection with concentrations, wrong-way risk (especially in stress periods), and the potential for regulatory capital arbitrage. In this regard, information is solicited on how banking organizations consider double default effects on credit protection arrangements in their economic capital calculations and for which types of credit protection arrangements they consider these effects.	*We believe the Accord does not adequately address the reduction in credit risk associated with guarantees. Specifically, it should incorporate the impact of double default (and recovery) in the calculation of risk weight. At the same time, should the Accord be revised to permit this recognition, we would urge the committee to avoid creating a complex solution that would dilute the benefit by adding data and calculation costs, a process that is evident in other parts of the Accord.*

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101 FR45926	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Credit Risk Mitigation Techniques	The Agencies invite comment on this issue, as well as consideration of an alternative approach whereby the notional amount of a credit derivative that does not include restructuring as a credit event would be discounted. Comment is sought on the appropriate level of discount and whether the level of discount should vary on the basis of, for example, whether the underlying obligor has publicly outstanding rated debt or whether the underlying is an entity whose obligations have a relatively high likelihood of restructuring relative to default (for example, a sovereign or PSE). Another alternative that commenters may wish to discuss is elimination of the restructuring requirement for credit derivatives with a maturity that is considerably longer – for example, two years – than that of the hedged obligation	*We disagree with the approach of discounting the notional amount of the credit derivative that does not include restructuring language. A restructuring event may not lead to non-payment or a loss and the credit derivative protection is still in place to deal with the most likely loss event.* *We agree with eliminating the restructuring requirement for credit derivatives that have a maturity that is longer than the underlying obligation. This could lead "protected" lenders to be incented not to restructure but to create a payment event under the CDSW.*
101 FR45926	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Credit Risk Mitigation Techniques	Comment is sought on this matter, as well as on the possible alternative treatment of recognizing the hedge in these two cases for regulatory capital purposes but requiring that mark-to-market gains on the credit derivative that have been taken into income be deducted from Tier 1 capital.	*We agree with the alternative treatment as these swaps are used to unilaterally inflate T1.*
103 FR45927	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Credit Risk Mitigation Techniques	The Agencies have concerns that the proposed formulation does not appropriately reflect distinctions between bullet and amortizing underlying obligations. Comment is sought on the best way of making such a distinction, as well as more generally on alternative methods for dealing with the reduced credit risk coverage that results from a maturity mismatch.	*We believe no modification is necessary as CDSW are written on facilities with bullet maturities. Again, this is viewed as an unnecessary level of complexity and could be addressed in further refinements if required.*

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104 FR45927	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Credit Risk Mitigation Techniques	The Agencies are seeking industry views on the PFE add-ons proposed above and their applicability. Comment is also sought on whether different add-ons should apply for different remaining maturity buckets for credit derivatives and, if so, views on the appropriate percentage amounts for the add-ons in each bucket	*The treatment of counterparty risk in credit derivatives and in other over-the-counter derivatives should be as consistent as possible including the netting of counterparty replacement values. Consistent treatment should extend to the use of PFE add-on maturity buckets for credit derivatives provided that, as for other OTC derivatives, capital requirements are not compounded by specific risk add-ons that again consider term to maturity and the nature of the underlying instruments.*
107 FR45928	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Equity Exposures	The Agencies encourage comment on whether the definition of an equity exposure is sufficiently clear to allow banking organizations to make an appropriate determination as to the characterization of their assets.	*No comment.*
108 FR45928	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Equity Exposures	Comment is sought on whether other types of equity investments in PSEs should be exempted from the capital charge on equity exposures, and if so, the appropriate criteria for determining which PSEs would be exempted.	*No comment.*
109 FR45928-FR45929	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Equity Exposures	The Agencies seek comment on what conditions might be appropriate for this partial exclusion from the AIRB equity capital charge. Such conditions could include limitations on the size and types of businesses in which the banking organization invests, geographical limitations, or maximum limitations on the size of individual investments.	*No comment.*

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109-110 FR45929	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Equity Exposures	The Agencies seek comment on whether any conditions relating to the exclusion of CEDE investments from the AIRB equity capital charge would be appropriate. These conditions could serve to limit the exclusion to investments in CEDEs that meet specific public welfare goals or to limit the amount of CEDE investments that would qualify for the exclusion from the AIRB equity capital charge. The Agencies also seek comment on whether any other classes of legislated program equity exposures should be excluded from the AIRB equity capital charge.	*No comment.*
114 FR45930	III. Advanced Internal Ratings-Based Approach (AIRB) B. AIRB Capital Calculations Equity Exposures	Comment is specifically sought on whether the measure of an equity exposure under AFS accounting continues to be appropriate or whether a different rule for the inclusion of revaluation gains should be adopted.	*No comment.*

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120-121 FR45932	III. Advanced Internal Ratings-Based Approach (AIRB) C. Supervisory Assessment of AIRB Framework U.S. Supervisory Review	The Agencies seek comment on the extent to which an appropriate balance has been struck between flexibility and comparability for the AIRB requirements. If this balance is not appropriate, what are the specific areas of imbalance, and what is the potential impact of the identified imbalance? Are there alternatives that would provide greater flexibility, while meeting the overall objective of producing accurate and consistent ratings? The Agencies also seek comment on the supervisory standards contained in the draft guidance. Do the standards cover all of the key elements of an AIRB framework? Are there specific practices that appear to meet the objectives of accurate and consistent ratings but that would be ruled out by the supervisory standards related to controls and oversight? Are there particular elements from the corporate guidance that should be modified or reconsidered as the Agencies draft guidance for other types of credit? In addition, the Agencies seek comment on the extent to which these proposed requirements are consistent with the ongoing improvements banking organizations are making in credit-risk management processes.	*See cover letter.*
123 FR45932	IV. Securitization A. General Framework Operational Criteria	The Agencies seek comment on the proposed operational requirements for securitizations. Are the proposed criteria for risk transference and clean-up calls consistent with existing market practices?	*No comment.*

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127 FR45933	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures	Comments are invited on the circumstances under which the retention of the treatment in the general risk-based capital rules for residual interests for banking organizations using the AIRB approach to securitization would be appropriate. Should the Agencies require originators to hold dollar-for-dollar capital against all retained securitization exposures, even if this treatment would result in an aggregate amount of capital required of the originator that exceeded KIRB plus any applicable deductions? Please provide the underlying rationale.	*No comment.*
130-131 FR45934	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures	The Agencies seek comment on the proposed treatment of securitization exposures held by originators. In particular, the Agencies seek comment on whether originating banking organizations should be permitted to calculate AIRB capital charges for securitizations exposures below the KIRB threshold based on an external or inferred rating, when available.	*No comment.*
131 FR45934	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures	The Agencies seek comment on whether deduction should be required for all non-rated positions above KIRB. What are the advantages and disadvantages of the SFA approach versus the deduction approach?	*No comment.*

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135 FR45936	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures Capital Calculation Approaches	The Agencies seek comment on the proposed treatment of securitization exposures under the RBA. For rated securitization exposures, is it appropriate to differentiate risk weights based on tranche thickness and pool granularity? For non-retail securitizations, will investors generally have sufficient information to calculate the effective number of underlying exposures (N)? What are views on the thresholds, based on N and Q, for determining when the different risk weights apply in the RBA? Are there concerns regarding the reliability of external ratings and their use in determining regulatory capital? How might the Agencies address any such potential concerns? Unlike the AIRB framework for wholesale exposures, there is no maturity adjustment within the proposed RBA. Is this reasonable in light of the criteria to assign external ratings?	*No comment.*
142 FR45938	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures Capital Calculation Approaches	The Agencies seek comment on the proposed SFA. How might it be simplified without sacrificing significant risk sensitivity? How useful are the alternative simplified computation methodologies for N and LGD?	*No Comment*

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143-144 FR45938	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures Capital Calculation Approaches	The Agencies seek comment on the proposed treatment of eligible liquidity facilities, including the qualifying criteria for such facilities. Does the proposed Look-Through Approach -- to be available as a temporary measure -- satisfactorily address concerns that, in some cases, it may be impractical for providers of liquidity facilities to apply either the "bottom-up" or "top-down" approach for calculating KIRB? It would be helpful to understand the degree to which any potential obstacles are likely to persist. Feedback also is sought on whether liquidity providers should be permitted to calculate AIRB capital charges based on their internal risk ratings for such facilities in combination with the appropriate RBA risk weight. What are the advantages and disadvantages of such an approach, and how might the Agencies address concerns that the supervisory validation of such internal ratings would be difficult and burdensome? Under such an approach, would the lack of any maturity adjustment with the RBA be problematic for assigning reasonable risk weights to liquidity facilities backed by relatively short-term receivables, such as trade credit?	*No comment.*
144 FR45939	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures	Should the AIRB capital treatment for securitization exposures that do not have a specific AIRB treatment be the same for investors and originators? If so, which treatment should be applied – that used for investors (the RBA) or originators (the Alternative RBA)? The rationale for the response would be helpful.	*No comment.*

	Other Considerations		

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148 FR45940	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures Other Considerations	The Agencies seek comment on the proposed treatment of securitization of revolving credit facilities containing early amortization mechanisms. Does the proposal satisfactorily address the potential risks such transactions pose to originators? Comments are invited on the interplay between the AIRB capital charge for securitization structures containing early amortization features and that for undrawn lines that have not been securitized. Are there common elements that the Agencies should consider? Specific examples would be helpful. Are proposed differences in CCFs for controlled and non-controlled amortization mechanisms appropriate? Are there other factors that the Agencies should consider?	*No comment.*
150 FR45940	IV. Securitization B. Determining Capital Requirements Steps for Determining AIRB Capital Requirements for Securitization Exposures Other Considerations	When providing servicer cash advances, are banking organizations obligated to advance funds up to a specified recoverable amount? If so, does the practice differ by asset type? Please provide a rationale for the response given.	*No comment.*
152 FR45941	V. AMA Framework for Operational Risk	The Agencies are proposing the AMA to address operational risk for regulatory capital purposes. The Agencies are interested, however, in possible alternatives. Are there alternative concepts or approaches that might be equally or more effective in addressing operational risk? If so, please provide some discussion on possible alternatives.	*See cover letter.*

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153 FR45941	V. AMA Framework for Operational Risk A. AMA Capital Calculation	Does the broad structure that the Agencies have outlined incorporate all the key elements that should be factored into the operational risk framework for regulatory capital? If not, what other issues should be addressed? Are any elements included not directly relevant for operational risk measurement or management? The Agencies have not included indirect losses (for example, opportunity costs) in the definition of operational risk against which institutions would have to hold capital; because such losses can be substantial, should they be included in the definition of operational risk?	*Operational Risk capital should be calculated using UL only. EL should be excluded from the calculation as it is incorporated into the business planning cycle (pricing of product or service) and covered by earnings.* *The external loss data available is significantly skewed to extreme large dollar losses which overstates the severity of the distributions developed using this data. Additionally, the quality of the related data (causal, scalars, etc.) available is extremely poor, exacerbating the modeling process. Much of this lack of quality data and small number of events could be attributed, in part, to lack of data sharing due to lawsuit/disclosure issues. If the Agencies could sponsor or build an industry-wide event database that included a statutory safe-harbor capability, it might work to eliminate this problem.* *The after tax impact of losses should be incorporated. Most US institutions can benefit from significant tax savings associated with operational losses, via charges in the current year, as well as loss carry back and carry forward. Failure to consider loss data on an after tax basis overstates the impact of modeled losses.* *The Agencies were correct in excluding indirect losses such as opportunity costs. These costs may or may not be associated with the risk event, and would add significant complexity and subjectivity to an already complex process.*

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154 FR45941	V. AMA Framework for Operational Risk A. AMA Capital Calculation Overview of the Supervisory Criteria	The Agencies seek comment on the extent to which an appropriate balance has been struck between flexibility and comparability for the operational risk requirement. If this balance is not appropriate, what are the specific areas of imbalance and what is the potential impact of the identified imbalance? The Agencies are considering additional measures to facilitate consistency in both the supervisory assessment of AMA frameworks and the enforcement of AMA standards across institutions. Specifically, the Agencies are considering enhancements to existing interagency operational and managerial standards to directly address operational risk and to articulate supervisory expectations for AMA frameworks. The Agencies seek comment on the need for and effectiveness of these additional measures. The Agencies also seek comment on the supervisory standards. Do the standards cover the key elements of an operational risk framework?	*Credit risk givebacks competitively advantage money center banks over processing center banks.* *The EU banks may see this as a means of subsidizing their re-entry into the processing businesses as at least initially they will be competitively advantaged by the likely lower amount of operational risk capital they will be required to hold (compared to US banks) and may be able to price their services accordingly.* *A large number of processing center banks competitors are outside the jurisdiction of these regulations and will be competitively advantaged.* *Yes. However, see cover letter for comments on board of directors and senior management responsibilities.*
156-157 FR45942	V. AMA Framework for Operational Risk A. AMA Capital Calculation Overview of the Supervisory Criteria	The Agencies are introducing the concept of an operational risk management function, while emphasizing the importance of the roles played by the board, management, lines of business, and audit. Are the responsibilities delineated for each of these functions sufficiently clear and would they result in a satisfactory process for managing the operational risk framework?	*The concept of requiring all assessments to be performed quarterly may not be practical. The frequency of the different types of analysis performed by the operational risk group should be at the discretion of the institution in consultation with its primary regulator.*

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160 FR45943	V. AMA Framework for Operational Risk B. Elements of an AMA Framework	The Agencies seek comment on the reasonableness of the criteria for recognition of risk mitigants in reducing an institution's operational risk exposure. In particular, do the criteria allow for recognition of common insurance policies? If not, what criteria are most binding against current insurance products? Other than insurance, are there additional risk mitigation products that should be considered for operational risk?	*As stated above, Operational Risk capital should be calculated using UL only. EL should be excluded from the calculation as it is incorporated into the business planning cycle (pricing of product or service) and covered by earnings.* *The 20 percent cap on insurance benefit should be eliminated. Banks should be able to realize the full benefit of the insurance coverage purchased. Additionally, as it often can take more than one year to reach settlement of an operational risk event, the criteria limiting insurance benefit to a one year payout is not practical and should be extended.* *Additionally, beside insurance, stable, recurring fee based businesses which do not contain credit or market risk should be considered as a capital replacement or mitigant for unexpected losses in other business.*

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169 FR45945	VI. Disclosure B. Disclosure Requirements	The Agencies seek comment on the feasibility of such an approach to the disclosure of pertinent information and also whether commenters have any other suggestions regarding how best to present the required disclosures. Comments are requested on whether the Agencies' description of the required formal disclosure policy is adequate, or whether additional guidance would be useful. Comments are requested regarding whether any of the information sought by the Agencies to be disclosed raises any particular concerns regarding the disclosure of proprietary or confidential information. If a commenter believes certain of the required information would be proprietary or confidential, the Agencies seek comment on why that is so and alternatives that would meet the objectives of the required disclosure. The Agencies also seek comment regarding the most efficient means for institutions to meet the disclosure requirements. Specifically, the Agencies are interested in comments about the feasibility of requiring institutions to provide all requested information in one location and also whether commenters have other suggestions on how to ensure that the requested information is readily available to market participants.	*See cover letter.*