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53

Attn: No. 2003-27

Risk-Based Capital Guidelines; Implementation of New Basel Capital Accord

Following are my personal comments about this document:

p.5. The text states that, "The BSC will accept industry comment on the New Accord through July 31, 2003." Since this paper was published on 8/4/03, does this need revising?

p. 6 Core banks are discussed in Section C. These banks are defined as having international and national accounts. Are there any U.S. based banks without international accounts that would qualify for a core bank designation?

p. 21 The A-IRB framework has a probability density function (PDF) of possible losses over a one-year time horizon. Is the one-year timeframe sufficient to account for regional or national disasters? Will banks with diverse portfolios be required to calculate a PDF for each of their portfolio categories?

p. 24 Are the nation's interest rate fluctuations adequately covered in the calculations mentioned on this page? Student loan defaults, for example, have a high default correlation with the nation's interest rates.

p. 25 The top text line states that, "there must be only a single systematic risk factor." In today's global economy, is this still an optimum assumption? Wouldn't the systematic risks be considered multi-faceted?

p. 28 Under **Maturity**, the text states that "M would be set no great than five years and, with few exceptions, M would be set no lower than one year." What effect will this limit have on banks that deal with 20 and 30-year mortgages or other long-term debts such as student loans?

The footnote on p.28 states that, "The estimated PFE would be equal to the notional amount of the derivative multiplied by a supervisor-provided add-on factor that takes into account the type of instrument and its maturity." Is this add-on factor pre-determined? Will it be applied uniformly? Is this factor able to be replicated so that supervisor assignments will not impact this factor?

p. 29 Under **Asset Correlation**, the text states that "the higher PD borrowers are proportionately less influenced by systematic (sector-wide or economy-wide) factors common to all borrowers." Have you sufficiently considered banking clients such as student loan lenders or guarantors?

p. 57 Under **Guarantees and Credit Derivatives** the text states: “the organization would be required to monitor regularly the guarantor’s condition and ability and willingness to honor its obligation.” How often is regular? (Will this coincide with the quarterly timeframe discussed on p.98?) What template or format will be used for this assessment?

p. 60 Under the Agencies comment underlined section, the text notes a maturity of two years. What happens to guarantors that have long-term maturities such as title companies and student loans?

p. 69 C. The text states “today’s Federal Register”. Does that mean 8/4/03?

Under **Overview of Supervisory Framework**, the text states that “internal risk rating systems would need to be subject to review by independent control units.” Will these guidelines specify which organization(s) will be the “independent control units”? Or is this to be determined?

Under **Rating System Design**, the text discusses a “two-dimensional rating system that separately assesses the risk of borrower default.” Will this risk include outside borrower factors such as the national unemployment and interest rates?

p. 70 Under the **Risk Rating System Operations**, the text states that rating policy deviations “must be clearly documented and monitored.” Are you proposing specific ways to do this documentation and to monitor these deviations?

Also, the last line of this page states that “banking organizations would have to collect, retain, and disclose data on aspects of their internal ratings as described under the disclosure section of this proposal.” This proposal is nearly 100 pages. It would help to give a specific page or range of pages in the final version.

p. 71 The opening text line talks about “sound stress testing processes.” Will the Agency issue additional guidance about this? When will this be a requirement? Who will determine soundness? What will be used to measure these requirements?

The last line of the first paragraph states that methods must be “meaningful and reasonably conservative”. Who determines “meaningful” and “reasonably conservative”? Would an all-day disaster exercise be considered reasonably conservative?

Under **Corporate Governance and Oversight**, the text talks about management reports. How often will these reports be given to management? (Will this be the quarterly items on p.98?) What format will be required?

p. 95 Under **Operational Risk Management Elements**, how often will the periodic reports be required?

p. 107 The paragraph before the list of acronyms mentions “today’s Federal Register”. Does this need to be changed?

p. 107-108, **List of Acronyms**: Should the following entries be included?

- A. ABSs from the footnote on page 85
- B. FAS from p.75
- C. GSE from p.73
- D. EO (Executive Order) from p. 104
- E. "T" and "L" from p. 77
- F. "N" and "Q" from p. 80
- G. "h", "c", "v", "f", "g", "a", "b" and "d" from the formula on p. 83
- H. OCC, OTS, OMB and OIRA from p. 104

Please feel free to contact me at (702) 804-8469. These are my personal views. Thanks!

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