

## MEMORANDUM

**TO:** Rulemaking File  
**FROM:** Karen Osterloh, Special Counsel  
**DATE:** August 9, 2007  
**RE:** Meeting Summary – American Bankers' Association  
Basel II NPR and Basel IA NPR

### Attendees

On August 9, 2007, the following individuals representing the American Bankers' Association and OTS met to discuss the implementation of the Basel II Accord in the United States:

<u>ABA</u>	Wayne A. Abernathy	<u>OTS</u>	Michael Solomon
	Mark J. Tenhundfeld		David Riley
	James Chessen		Eric Hirschhorn
			Karen Osterloh

ABA discussed the following topics: (1) Implementation of the Basel II Accord's standardized approach to credit risk; (2) The possible incorporation of certain aspects of the Basel IA NPR in the U.S. standardized approach and in the existing general risk-based capital rules; (3) Implementation of the Basel II NPR in light of the July 20 agreement of the agency Principals; and (4) The need for continuing communication with the industry on the Basel II rules. A summary of the topics discussed in the meeting is attached.

## Notes for Aug. 9, 2007, Meeting with OTS Director of Capital Policy Michael Solomon

### Basel IA

- Some of the useful aspects – particularly capital credit for good quality home mortgages – should be incorporated into Basel I as options, and also into the Standardized Approach.

### Standardized Approach

- The Agencies should not “Americanize” the Advanced Approaches.
- Timing is very tight if bankers are to be able to implement this system at the beginning of 2009.
- Will an operational risk component be included? If so, we should have all the Basel II options.
  - Smaller institutions that go on the Standardized Approach, the ones that would have used Basel IA, should not be required to do the operational risk part.

### Advanced Approach

- **The quality of input from bankers warrants discussion on all of the consistencies. The collaborative process used successfully so far should not stop now.**
  - The Agencies said they would make the final rule “technically consistent in most respects with international approaches.” Bankers are anxious to see how the Agencies succeed.
  - The July 20 agreement did not address the major industry concerns.
    - Will institutions have to report at the bank level?
    - Will banks have to pass a leverage test at both the bank and holding company levels?
    - Could an insignificant portion of the portfolio be on the Standardized Approach?
    - Bankers say there are much bigger issues in the AMA.
    - Bankers are anxious to see the reporting requirements.
- **The Agencies need to communicate the timeline for implementation.**
  - How can a bank get the final rules in September (or later?), then get board approval on an implementation plan, and start a parallel run at the beginning of January?
  - **Bankers would rather that the Agencies get it right, instead of quickly.**
  - The last official statement from the regulators was September 30, 2005.
  - Some core banks have been told not to plan to start its parallel run at the start of next year.
  - **Bankers want to know:**
    - Realistically, when do the regulators expect core banking firms to start their parallel runs?
    - What is the minimum a banking firm needs to start its parallel run? In other words, if a bank is going to start its parallel run on Jan. 1, how flexible are supervisors going to be?
    - What happens if a core banking firm’s systems do not qualify at the beginning of the parallel run period? Can it go ahead with an approved fix-up plan?
- **The Agencies should communicate with core banks (and others) through their supervisors so that the banks can better understand the hesitance to give authoritative guidance on their Advanced Approaches systems.**
- **Bankers seek direction on the qualification criteria to move through the transition periods.**