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*Chairman
Steering Committee on
Regulatory Capital*

Mr. William Harrison, Jr.
*Co-Chairman
Special Committee on
Effective Regulation*

March 2, 2007

The Honorable John M. Reich
Director
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

Dear Director Reich:

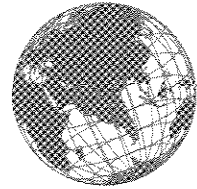
The internationally active financial institutions that constitute the membership of the Institute of International Finance (IIF) are highly concerned about the proposed course of Basel II implementation in the U.S. We are writing to you, as well as to the heads of the other Federal banking agencies, to share these concerns and encourage implementation of Basel II in the U.S. in line with the global Accord.

We would like to stress that the IIF supports the new international regulatory capital framework produced by the Basel Committee and believes it is essential to move toward a consistent, global regulatory capital regime based on a risk-sensitive approach. The U.S. agencies made fundamental contributions to the development of the framework published by the Basel Committee, but there appears to be significant risk that divergent implementation approaches, in particular, as proposed in the U.S., could undermine essential global consistency and risk sensitivity.

Our central concerns with the proposed approach to implementation set out in the Basel II Notice of Proposal Rulemaking (NPR) relate to the provisions that would establish artificial limits on aggregate capital reductions, additional and higher capital floors for the initial implementation years, and prescriptive additional requirements for the calculation of risk parameters. In each of these areas, the approach proposed deviates from the consensus reached in the global discussions that led to Basel II. We believe these features are unnecessary and incompatible with the risk-sensitive character of the international Basel II Accord.

We understand the concerns behind these additional measures, but we do not share the view that these measures are necessary, given that there are ample protections built into the international Accord. IIF member banks have a tremendous stake in the international financial system, and place the highest priority on assuring its safety and soundness as well as that of our respective institutions. The NPR's divergence from the international approach and distancing regulatory capital further from economic capital raise serious issues for the effectiveness and efficiency

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of cross-border regulation, without in our view adding material benefits in safety and soundness.

The Institute will be submitting shortly, detailed recommendations aimed at preserving the global consistency of the Basel II Accord and its risk-sensitive nature. We wanted to take this opportunity, however, to express the collective concerns at the senior level of the IIF's membership separately from the detailed comments and to ask that you take them into account as you finalize the U.S. approach to this important issue. As always, the IIF stands ready to assist in any way you would deem useful in advancing this process.

Yours sincerely,



Josef Ackermann
Chairman
Board of Directors



Stephen Green
Chairman
Steering Committee on
Regulatory Capital



William Harrison, Jr.
Co-Chairman
Special Committee on
Effective Regulation

Cc.:

The Honorable Sheila Bair, Chairman, Federal Deposit Insurance Corporation
The Honorable Ben Bernanke, Chairman, Board of Governors of the Federal Reserve System
The Honorable John Dugan, Comptroller of the Currency

Enc.: IIF Board of Directors

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January 2007

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