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January 7, 2004

Office of the Comptroller of the Currency
250 E Street SW
Public Information Room, Mailstop 1-5
Washington, DC 20219
Attn: Docket No. 03-15

Ms. Jennifer J. Johnson
Secretary, Board of Governors
of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No. 2003-28

Robert E. Feldman
Executive Secretary
Attention: Comments,
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: "Proposed Treatment of Expected and Unexpected Losses Under the New Basel Capital Accord" dated October 30, 2003

Ladies and Gentlemen:

The proposed modification to the Basel II capital calculation removes expected loss from the definition of regulatory capital creating greater consistency with the industry's approach to economic capital. Bank One agrees with this modification, as it acknowledges the fundamental difference between capital and expected loss. Expected loss is a cost of doing business representing a long-term average expense for each asset, typically covered by spread income or other fees. Capital protects an institution's debt holders during periods of higher than expected losses, and is accumulated or replenished when losses are lower than expected. Over the long term, capital is preserved while expected losses are not.

In principal, removing expected loss from the definition of capital requirements eliminates the need for recognition of future margin income (FMI). However, the proposal establishes a reserve adequacy test that reintroduces the need for some form of FMI recognition. While we understand the relevance of adjusting capital (up or down) for the difference between expected loss and reserves, expanding the definition of capital to include reserve adequacy necessitates a view on the profitability of the underlying assets. Specifically, the risk of being under reserved on an asset with a margin (net of losses) of five percent is lower than another

with a margin of two percent – illustrating the significance of FMI in the evaluation of reserve adequacy. Moreover, if the reserve adequacy test is included in the final version of the advanced-IRB capital calculation, a similar test should be incorporated into the capital calculation for non-advanced banks to maintain comparability.

We presume expected loss will be removed from the current risk weight functions by subtracting the one-year PD times LGD from K, or 12.5 times that amount from risk weighted assets. Assuming capital was correct prior to the change in the treatment of expected loss, we do not agree with the Supervisors' intention to recalibrate the risk weight functions. It is better to correct shortcomings of the framework, rather than to "dial up" or "dial down" the outcome to meet some expectation of system wide capital. As we have stated in earlier comment letters, Pillar I should represent a minimum capital standard while Pillars II and III ensure firms operate at appropriate levels of solvency.

Sincerely,

/s/ Randy A. White
Randy A. White
Senior Vice President and
Treasurer