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SUNTRUST

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Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Avenue, NW
Washington, D.C. 20551
Docket No. R-1154

Attached please find the comments to the Advance Notice of Proposed Rulemaking (ANPR) of SunTrust Banks, Inc. We sincerely appreciate the hard work by the many participants in the process that resulted in the ANPR, and are pleased to have the chance to comment.

SunTrust strongly supports the goal of increasing the risk sensitivity of the calculation of regulatory capital, and we feel that the past several years of work resulted in substantial progress toward this goal. However, there are several provisions in the ANPR that we believe would result in substantial improvement if changed. In particular, primarily in the Advanced Internal Ratings Based (A-IRB) approach to credit risk, we are concerned that the approach is too prescriptive. This is problematic in the short run and potentially much worse as the field develops. With respect to operational risk, we are concerned that the inability of banks to use the Basic Indicator or Standardized Approach could put the American banking industry at a significant disadvantage.

In the document that follows, please refer questions regarding our comments in Section I to Ken Ferrara (ken.ferrara@suntrust.com), Section II to John Jay (john.r.jay@suntrust.com), Section III to James Stoker (james.stoker@suntrust.com), and Section IV to Deborah Barnhart (deborah.barnhart@suntrust.com).

Sincerely,

Theodore J. Hoepner

Section I

EXPECTED LOSSES (EL)

This section, when treated collectively with other sections of the ANPR, has the potential to require excess regulatory capital to support risk-taking activities. Other sections of the proposal support a conservative treatment to be applied around model errors, stress testing and data management. Therefore, SunTrust expresses its concern over the treatment of the expected losses component for required regulatory capital. The draft rules appear to be an attempt to preserve remnants of the 1988 Accord at the expense of implementing capital in line with accepted best industry practices. Expected losses are built into the pricing and provisioning processes, with capital for unexpected losses. Our viewpoint is that expected losses are derived from the mean calculation, with volatility at a prescribed confidence interval that defines the required capital. The proposed regulatory capital rules lack sensitivity when different national standards and accounting treatments are prescribed to provisioning and charge offs. Banking institutions in the United States would be placed in a position of competitive disadvantage where other national standards and accounting treatments offer more favorable approaches to calculating regulatory capital.

DEFAULT

In extensions of credit to certain sectors, business practices are such that repayment in the normal course of business, i.e., the acceptable trade cycle practice, is made beyond the stipulated terms of trade of 90 days. Typically banks engage in business activities where it is normal practice to provide terms of repayment extensions to 90 days. This practice is accepted as the cost of doing business in these sectors, is considered the norm for trade cycle extension of credit and is offered only to investment grade customers. The customer base extended such terms should be assessed by credit personnel as creditworthy. The elements described as indications of unlikeliness to pay do not apply to these transactions, nor do we view the amounts in question as material in nature.

DIVERSIFICATION

We believe that encouragement of active diversification strategies and corollary tactical actions should receive more attention in the proposed capital rules, with less emphasis on prescriptive rules and formulas. The overriding importance of diversification in examining an institution's prudent management of risk and capital cannot be emphasized enough. Lack of proper diversification is the most dangerous risk an institution faces. While the combination of Internal Ratings Based (IRB) models, supervisory oversight and market discipline can partially mitigate concentration risk, proactive portfolio management is the arch stone connecting models, supervisory oversight and market discipline. Extensive and significant investments have been and are being made within the banking industry to strengthen diversification management and to meet compliance with Basel II directives and standards.

RISK SENSITIVITY

Our analysis indicates that the risk sensitivity is appropriate overall and, when EL is included in the calculation, is roughly consistent with our internal estimates of capital requirements for large corporate and medium-sized commercial credits evaluated together. However, since the A-IRB formulas do not explicitly account for concentrations by obligor or industry, we believe the A-IRB capital amounts understate capital requirements for portfolios with large exposures concentrated in a few industries and overstate capital requirements for commercial portfolios with smaller and more diversified portfolios. We believe this could have significant repercussions if capital is allocated to sub-portfolios based on the Basel requirements instead of a bank's internally generated estimates.

PRIVATE MORTGAGE INSURANCE (PMI)

We believe that a floor of 10% Loss Given Default (LGD) for facilities secured by residential mortgages overstates the LGD, even during adverse economic conditions. However, allowing the recognition of PMI to lower LGD would mitigate the effect of overstating LGD. Therefore we believe recognition of PMI is critical to ensuring that institutions are not penalized because they require residential mortgage facilities to be insured.

If the agencies believe that recognizing PMI on the LGD side of residential mortgage facilities would have negative implications for competition, the standardized approach could be adjusted to accurately reflect the existence of PMI for banks adopting the standardized approach. It would not be acceptable to require banks that adopt the A-IRB approach to be penalized for having risk-mitigating insurance in an effort to maintain a competitive balance between A-IRB banks and non-A-IRB banks.

RETAIL A-IRB FORMULAS

Overall the capital requirements for retail adequately differentiate among probabilities of default for the various retail products. However, the required asset correlations are inappropriate and do not adequately reflect the position of high quality retail exposures. In particular, the capital requirements for residential mortgages are too high, due to both the large asset correlation and the minimum 10% LGD requirement. Our empirical evidence does not support these findings. As noted earlier, we believe the 10% LGD parameter should be adjusted.

COMMERCIAL REAL ESTATE (CRE) LGDs AND CYCLICALITY

Dealing with cyclicality for LGD on CRE loans is challenging. We suggest considering use of loan-to-values (LTVs) updated on a regular basis for a new market value, which should in turn represent changes in economic conditions. Risk sensitivity could be achieved by stressing the LTVs for the portfolio as a whole, to represent economic impact on the value of the properties instead of a more cumbersome process on an individual loan basis.

SUPERVISORY SLOTTING CRITERIA (SSC)

The utilization of the A-IRB approach by some banks and the utilization of the SSC approach by others could result in a significant pricing disadvantage depending on the slotting criteria selected. In addition, a competitive disadvantage would be created when competing with foreign banks where the foreign banks are not held to the same capital charge.

CRE RISK WEIGHTS

As currently proposed, the risk weights are punitive between Wholesale and 'Acquisition, Development, & Construction' (ADC) loans. We believe it would be more appropriate for risk weights to be more comparable unless there is empirical evidence that ADC is performing worse than Wholesale and warrants the increased capital charge. In SunTrust's opinion, the proposed differentials are inappropriate.

EXEMPTION OF ADC LOANS

We support utilizing substantial equity or sufficient pre-sales and pre-leasing to exempt ADC loans from the high-volatility commercial real estate (HVCRE) category.

Equity should be considered "substantial" if more than 25% cash equity exists.

Pre-sale/pre-leasing requirements should be considered "substantial" if:

- 40% or more office and industrial space are pre-leased
- 50% or more units for residential condo property are pre-sold
- 50% or more residential lots are pre-sold in residential acquisition and development loans
- Minimum 0.80x DSC should be provided from pre-leasing on retail property.

ONE – TO FOUR – FAMILY

One - to four - family residential construction loans should be included in the low asset correlation category since the correlation may vary based on size, price point et al. In addition, residential mortgages are not considered high-asset correlation, and it would be expected that they would perform similarly.

We strongly believe that pre-sold construction loans be considered low asset correlation due to the relatively low risk of default and likelihood that they will perform like owner-occupied residential property.

COMPETITIVE IMPACT

As long as all banks are held to the same capital charge for the CRE classes, the competitive impact is minimal. However, the impact could be substantial if banks in general move away from ADC borrowers, and increase exposure in regular commercial loans, which could inadvertently substantially reduce or eliminate availability of funding in the ADC market.

In the likelihood that some Banks will use the A-IRB method and others use the SSC method, the increased capital charge for banks using SSC would be so significant that they could not compete with the A-IRBs, resulting in a significant reduction in competition.

In addition, banks often compete with non-regulated financial institutions such as conduits, life insurance companies, et al. Therefore, regulated financial institutions would be at a significant disadvantage with either approach, since non-regulated financial institutions would not have increased capital charges for ADC loans.

GUARANTIES AND CREDIT DERIVATIVES

A more uniform method of adjusting probability of default (PD) or LGD for guaranties and/or credit derivatives is desirable. However, such a methodology should be sophisticated enough to capture the significant differences in the types of hedges/guaranties/derivatives, and the lingering residual risks that may not be covered by the hedging instrument (risks such as basis risk, maturity mismatches, cheapest to deliver options, timely interest but ultimate principal guaranties by monoline insurers, etc.). These are frequently difficult risks to model within an economic capital framework. For example, a model which allocates the hedges to the trading book without reducing the exposure in the lending, probably overstates required capital, in that the trading book is allocated a specific risk charge, a counterparty risk charge, and a market risk charge, while the lending book does not net the hedge in any way.

DOUBLE DEFAULT EFFECTS

The proposed non-recognition of double default effects on guaranteed/hedged exposures will result in higher than necessary capital charges in most circumstances, because there will be a very small probability of the double default of both the guaranteed entity and the guarantor. Some capital relief, given this small probability, should be considered. We acknowledge that there is increasing concentration of financial guarantees in a few entities (the bond insurers and the largest domestic and international banks), and there is the potential for stressful markets to cause increased PDs of one of the guarantors. System constraints often make it difficult to consider double default effects in capital calculations.

RESTRUCTURING IN CREDIT DEFAULT SWAPS

It is clearly desirable to have restructuring included as a Credit Event in credit derivatives used as hedges, and it seems appropriate to discount such hedges to a certain extent if restructuring is not included. Such a discount should increase with the maturity of the obligation being hedged; in our opinion, a 3 year credit default swap (CDS) might have a 20% discount and a 5 year CDS a 30% discount, for example. If, however, the CDS has maturity significantly longer than the hedged obligation, two years for example, the hedge should not be discounted even if the hedge does not incorporate restructuring language. However, it is also sensible to consider the nature of the obligation being hedged and whether that entity is likely to have a restructuring. Entities with no public debt, and sovereign/government entities are more likely to restructure, and CDS involving those entities should be discounted more than for corporations with public debt outstanding.

ONE SIDE MARK TO MARKET (MTM)

It makes sense to address potential inconsistencies in capital arising from inconsistent accounting treatments between assets and the hedges, e.g. where a hedge is marked to market but the underlying credit is not. Credit either should not be given to the hedge if the underlying is not marked down but the gains are included in capital, or the hedge should be recognized if the gains are not included (i.e., if losses on the underlying are not marked as well). The latter approach is generally preferred, as the hedge would receive relatively steady capital benefits, since it is more isolated from mark to market volatility.

CDS/MATURITY MISMATCH

It would be preferable for the "T" (if less than 5) in the proposed formula to represent the average remaining life of the transaction, rather than the remaining maturity, to account for the many-hedged transactions with amortization schedules. In general the proposal is a good compromise for dealing with maturity mismatches, especially given the CDS market's significantly greater liquidity in 5-year maturities than in other maturities.

COUNTERPARTY RISK FOR CREDIT DERIVATIVE CONTRACTS

There should be a counterparty risk add-on, regardless of which book they are in. It also makes sense to have a higher factor for Non-qualifying Reference Obligations. However, the actual numbers proposed seem to be somewhat arbitrary. Additionally, the numbers seem high for a protection seller which is assuming relatively little risk of the counterparty (aside from "premium" payments streams), versus the protection buyer, which could be exposed for a full notional payment. Additionally, we believe it would be preferable to have the numbers adjusted for maturity of the obligation, especially for protection buyers, where the greatest counterparty risk is assumed.

DEFINITION OF EQUITY EXPOSURE

This is generally clear, but a few questions remain, namely the treatment of Trust Preferred securities issued by bank holding companies (presumably should be considered equity, since they qualify as Tier I capital, to a limited extent). Additionally, subordinated tranches of structured finance transactions (Asset Backed Secruities (ABS)/Collateralized Debt Obligations (CDOs)/ leveraged leases/et al) and senior holdings in a fund that includes a certain amount of what would otherwise be defined as equity holdings also need to be addressed.

EQUITY HOLDINGS IN GOVERNMENT SPONSORED ENTITIES (GSEs)

Equity holdings in all GSEs should be exempted from the capital charge on equity exposures, and, at worst, should be risk weighted, as they would be under the general risk-based capital rules. This would govern investments in the equities of entities such as Freddie Mac and Sallie Mae.

Section II

GENERAL RISK- BASED CAPITAL RULES AND COMPETITION

The current bifurcated framework may create competitive disadvantages, particularly in the area of retail exposures, for institutions under the general approach. In its extreme, it creates incentives for core and opt-in banks to gravitate towards retail credit, and for general banks to focus on more risky credit, where arguably there is less diversification or managerial systems to monitor such risks. In QIS3, there were noted considerable differences in the current regime and the capital required under A-IRB approach. The possible capital benefit for affected institutions was 53% for mortgages and 25% for non-mortgages with revolving higher by 14%. [Basel's Third Quantitative Impact Study: The Results]

As we have seen with securitization and other capital markets activities, assets eventually gravitate to the most capital-efficient ownership. While some of the A-IRB institutions operate under economic capital frameworks, regulatory capital arbitrage is, and remains, a factor in the securitizations. Many of the credit activities falling under the retail framework require or gain from certain economies of scale in their origination and collection. Institutions under the A-IRB framework already have such economies of scale and may gain further competitive advantage in providing these services vis-à-vis the substantial capital benefit compared to the general banks. While many of these banks may be smaller than the likely A-IRB banks, they are still large by historical standards.

Similarly, general banks will have an opportunity for arbitrage within the banking sector by holding the riskier syndicated corporate credits where general risk capital is insufficient to cover the risk. A-IRB institutions would be advantaged to hold the less risky credits. Carried to its extreme, the riskier corporate credits in the banking system may gravitate to the smaller, potentially less diversified institutions, while the larger, more diversified institutions hold the better credits. This issue may be compounded with any material changes to approach for Commercial Real Estate in A-IRB.

One possible solution is to adjust the current framework in retail exposures to approximate the general risks observed in QIS3, with appropriate adjustments for differences in underwriting, collection and operational risk. Additionally, syndicated and Shared National Credit (SNC) credits could be rated by their lead banks, using agreed external ratings, who would provide the appropriate risk weights to their downstream purchasers. This process could be reviewed in the regular SNC exams. Both favorable and unfavorable capital charges would be available to general banks on these credits.

These competitive issues may provide additional impetus for continued consolidation in the industry. SunTrust is concerned with the potential implication of these competitive issues to drive the remaining general banks away from retail exposures and toward higher risk corporate lending, including commercial real estate, in their pursuit of maintaining profitability.

INSURANCE/NON – BANK INVESTMENTS

While the proposed treatment for insurance underwriting subsidiaries is both fair and appropriate, there are a number of other non-bank businesses that require minimum capital for their licenses. The inclusion of such entities in this treatment may be duplicative to operational or credit risk parameters captured under the A-IRB approach. In some instances, these entities are difficult to entirely separate in the operational risk assessment of the institution at the holding company level. Moreover, the non-bank regulatory capital requirement may be insufficient to cover such operational risk on a standalone basis. It is not clear that the market (lenders and customers) views these other non-banking entities in a manner that excludes the holding company from responsibility, as this treatment implies.

SunTrust asks for further clarification on the other types of non-bank subsidiaries of concern, as the wording is broad. Alternatively, the treatment could be applied to such business activities at the regulators' discretion, upon review of the operational and credit framework, so as to minimize double counting and maintain some degree of simplicity.

SECURITIZATION

While correct conceptually, the differentiation in the higher credit grades (AAA and AA) is not meaningful. It is not until the exposures become A or worse that the resulting risk weights are meaningful.

Currently, many investors do not have the information required to calculate underlying exposures, as they are not readily available in the servicing reports. Since N is relatively easy to calculate, with access to the information, it should be simple enough for servicers to provide the calculation in most deals. Vendor analytics programs can supply the necessary information to calculate information internally for most, but not all, deals.

The securitizations have performed well in the risk ratings purchased by SunTrust. We feel comfortable that rating agencies know how to structure the securitizations appropriately. Recent events, however, have sensitized the market to the general issues of operational and servicer risk associated with these transactions; these risks are difficult to separate from the performance of the structure and the underlying collateral, as they are so often entwined. Defined as Credit Risk in the ANPR, the inherent risks associated with the credit of the servicers (fraud, solvency, collections) are not always reflected in the rating in a timely fashion as the servicer deteriorates financially.

Section III

OPERATIONAL RISK: COMPETITIVE EQUITY

The implementing bodies in the United States should allow banks with a well-developed implementation plan for the Advanced Measurement Approach (AMA) for measuring operational risk capital to use the Advanced Internal Ratings Based approach to measure credit risk capital until completion of this plan.

A significant difference between the American implementation of the new Basel Capital Accord (New Accord) and that of other nations as outlined in the ANPR is the elimination of two potential approaches to measure minimum levels of operational risk capital, the basic indicator approach (BIA) and the standardized approach (see section 1C of Attachment 1). This difference is important due to the broad approach of the A-IRB. Under the A-IRB, minimum regulatory capital is derived solely from the credit risk of the underlying exposures, with no "gross-up" for operational risk (as exists under the current framework). As a result, for a bank to use the A-IRB, it is necessary that it also have a mechanism for calculating minimum levels of operational risk capital. The New Accord approaches this problem by giving banks a menu of possible approaches to calculating operational risk capital, from the exceedingly simple (the BIA) to the complex (the AMA). In the ANPR, American banks are restricted to using the AMA. Though we understand the rationale for this choice, we strongly disagree with it, and would like to offer an alternative proposal.

SunTrust's concern lies ultimately on the varying levels of development of quantitative, capital-based risk management methodologies in the areas of credit and operational risk. Quantitative credit risk management is a well-developed field, with widely agreed upon methodologies and the general opinion that, even if not immediately available to all institutions, adequate data is obtainable to accurately parameterize the models used to estimate the tail events that drive capital levels. By 2007, a bank that started developing a modern credit risk ratings system following the initial Consultative Paper of the New Accord should have adequate systems, models, and data to allow for the implementation of the A-IRB.

A similar level of development does not exist in the area of Operational Risk Management (ORM). ORM is a new field, and the basic questions as to the best approaches for issues such as capital measurement have not been agreed upon. For example, the relative value of internal data vs. external data vs. "scenario analysis", and methodologies for converting external data into something usable internally, are undecided.

This disparity in development places institutions, and regulators, in an awkward position. Banks are concerned that their investments in measuring credit risk will not fully pay off, as they will be denied A-IRB status because they have not yet achieved AMA status. Regulators are forced to emphasize development of an untested operational risk methodology. We believe the following proposal largely eliminates these problems without giving up the benefits that are associated with implementing the AMA.

Regulators should allow banks to use the A-IRB approach to estimate credit risk capital and use the BIA or the standardized approach to calculate operational risk regulatory capital as long as the following conditions are met:

a) The bank is in compliance with all areas under the titles “Corporate Governance” and “Operational Risk Management Elements”, as specified by the Supervisory Guidance on Operational Risk/Advanced Measurement Approaches for Regulatory Capital
b) The bank has an implementation plan for the AMA that has well-developed and transparent milestones
c) The bank is capturing internal operational risk data, and effectively using internal data, external data, business environment and internal control factor assessments, and scenario analysis in the management of operational risk throughout the bank

By meeting these conditions, the bank shows that it has a well-developed approach to measuring and managing operational risk, which should be the primary goal of the regulation. It is reasonable on the part of the bank to expect to be recognized for these efforts by the regulatory bodies by gaining access to the new regulatory regime, and by recognizing such efforts the regulators create a system of incentives that would lead to a reduction in operational risk system-wide.

We understand that the BIA and standardized approaches are not accurate measures of operational risk, and used continuously could lead to very poor sets of incentives. This is why we support only temporary use of these measures. For a period of a few years, with a clear end point, the benefits that arise from using the A-IRB far outweigh the negatives associated with the BIA and standardized approach.

Our proposal bears consideration for the following reasons:

Competitiveness of the American banking industry: We strongly support the basic philosophy behind the New Accord: capital should be aligned to risk, and the models actually used by the banks best measure this risk. We believe that the New Accord will improve the efficiency and competitiveness of banks that can use the advanced approaches to measuring risk, by incenting them to take on economical risks, and rewarding (or punishing) them for the actual risk associated with their decisions. In our opinion, banks that are permitted to use, in particular, the A-IRB approach will be at a genuine competitive advantage to those that will not, and a banking system consisting of said institutions will be both more profitable and more stable.

The current state of regulatory capital measurement leads to an inevitable split between economic and regulatory capital management. This results in a conflict between the regulators and the shareholders, and banks perform a wide variety of convolutions to balance the demands of the two, resulting in decreased profitability and increased instability of the system. The A-IRB approach to measuring regulatory capital will go a long way towards alleviating this problem. Banks using the approach will achieve consistency between their economic and regulatory capital measures. The benefits are significant. By aligning the interests of shareholders and regulators, there will no longer be a conflict between maximizing profits and maximizing stability.

By eliminating the option of all non-AMA approaches to measuring operational risks, American regulators run the risk of holding the A-IRB, and its widespread benefits, hostage to a poorly understood approach to measuring operational risk capital. This would create a system that disadvantages American banks by continuing the split between internal and external measures of risk, resulting in a banking system that is both less profitable and less stable then those in other nations. We do not think this is a desirable goal.

Feasibility and State of the Art: As is well known, a significant irony in the New Accord is that banks are offered much less discretion in a well understood area, credit risk, than in a poorly understood area, operational risk. Until ORM is better understood, setting ironclad rules would restrict development in the field when it is needed most. However, this increases the difficulty facing banks. Banks are not only required to put in place a system that is internally agreed upon as a reasonable approach, but also have to be concerned with meeting hurdles that, at present, are unknown. A survey of software vendors or consultants in this arena reveals that there are widely varying opinions as to what will be required to meet the AMA, and accordingly, differences in data structure within existing solutions varies with significant magnitude. This raises the question of feasibility. For the most advanced of possible approaches, the infrastructure and data identification and capturing demands are extremely costly and time-consuming, and could easily result, even for the most enthusiastic institutions, in missing the 2007 deadline.

By choosing not to follow one of these approaches, for sound business reasons, a bank may find itself blocked from AMA if the more advanced, and difficult, methodologies are settled on as best practice by the regulators. This highlights a second area of concern—the rapidly changing nature of the state of the art in operational risk capital measurement. The marketplace for vendor solutions is very limited and the underlying statistical concepts loosely applied within the available software. There is little agreement in the marketplace regarding the application of operational risk measurement. That makes it extremely difficult for a bank to effectively plan to meet the AMA. Giving banks a fallback, were their initial attempt to prove satisfactory for AMA purposes fail, seems reasonable.

OPERATIONAL RISK: ALTERNATIVE

We suggest that the agencies consider an alternative approach to estimating operational risk capital if, it is determined that current approaches to estimating capital for operational risk are not sufficiently developed to give the agencies confidence that they accurately reflect the risk of an institution.

Operational Risk Management is a newly developed field, and as it currently stands there is not an established "best practice" in the area of capital measurement. This raises the possibility that, in the early years of implementation of BIS-II, measures of operational risk capital will be driven more by methodological choices than by actual risk. Based on the goals of capital measurement requirements this presents an unacceptable situation.

Instead of changing the A-IRB approach to credit risk capital, or forcing banks to use the Basic Indicator or Standardized Approach, we recommend that the agencies increase the role of "Pillar Two"-like judgment in operational risk. The agencies should use an approach such as the Standardized Approach to give a baseline measure for operational risk economic capital for a given institution. This capital level should then be adjusted, with pre-determined limits to the possible degree of adjustment, based on an agency review of the institution's operational risk management function.

The possible approaches to this are many. For example, the agency could rate each institution from 1-5 in the area of operational risk management, with the rating based on the issues discussed in the BIS operational risk working papers such as independence, data quality, use of external data, et al. A rating of "1" would give the institution a 10% decrease in operational risk regulatory capital, "2" a 5%

decrease, “3” no change, etc.

SunTrust believes that such an approach would create an incentive for banks to manage operational risk rather than just provide a measure, which is the ultimate goal. If the industry is not ready to accurately measure the true operational risk that a bank faces, this would provide a feasible alternative to reverting to the overly simplistic BIA or Standardized Approach.

OPERATIONAL RISK: SUNTRUST PHILOSOPHY

The early stages of development of operational risk capital measurement make achieving balance between flexibility and comparability by the agencies an extremely difficult goal. We believe that a good balance has currently been struck, but warn the agencies that, barring future development, there is great risk that it could be lost.

The agencies have indicated the importance of meeting the delicate balance between flexibility and comparability in the area of operational risk capital measurement. We strongly support the high level of flexibility in the current proposals. Without a doubt, the worst possible outcome would be for the agencies to mandate an approach that is not best practice, or fails to develop with best practice. Given the early stages of growth and understanding in the area of operational risk capital measurement, there is no industry best practice at the moment, but it is certain that great deal is to be learned in the area.

We strongly caution the agencies not to mandate specific approaches toward operational risk capital measurement in the near future due to the level of development in the industry. However, we recognize that this can lead to an alternate bad result—the measured levels of operational risk capital at varying institutions can ultimately be decided more by the methodological choices made then by the actual risk of the institutions. If, by the time the Accord is implemented, no one approach or collection of approaches has proven acceptable to the industry at large, our proposal outlined above is a possible solution, which would be vastly superior to simply choosing one approach. Mandating a specific approach would stifle development in a field where it is desperately needed and would be counterproductive to the goals of the agencies.

The question then becomes: when has a specific approach or collection of approaches reached a point of development in which the agencies can have confidence that they accurately reflect the risk of the institutions using them? We believe this is an important area of study, and the agencies should encourage/organize it. Without having specific institutions trying varying approaches, it is hard to believe that the agencies will have sufficient confidence in any of them. Possibly, the agencies, alone or with the help of industry groups, can work towards this type of test.

The agencies should not be the ones to determine when a specific approach or collection of approaches is adequate; only the industry can make that determination. However, the agencies can encourage the work that must be done to get to that point. By helping specific institutions or industry groups, the agencies could assist in doing the research that is needed to ensure a continuing balance between flexibility and comparability.

Section IV

FINANCIAL DISCLOSURE

SunTrust is concerned with the quantitative disclosure in two respects. The first is that enhanced disclosure does not translate into improved transparency; due to the complexity of the underlying theory and the Accord itself, these disclosures have the potential to be read by few and understood by even less.

The second deals with the matter of proprietary information regarding the nature of specific portfolios and the potential to provide competitors with more meaningful information than our investors and creditors. As competitors, we follow each other's loan pricing closely. With sufficient granularity of portfolios in the reports and the necessary quantitative metrics, we understand each others' businesses well enough that it would be possible to reverse engineer the assumptions underlying the pricing models, in particular, the perspective of credit risk for particular asset class.

To assuage these concerns, we would propose that a working group be formed, comprised equally of core bank representatives, unaffiliated analysts, rating agencies, and regulators to create a standard reporting format. The objective would be to provide meaningful statistical information that can be used by readers to understand the capital levels, as well as their changes from period to period. The information should be sufficient to meet their needs, while not compromising proprietary pricing strategies and practices. The latter two of the working group - regulators and rating agencies - could potentially receive a more detailed schedule of the public summary.

Use of the Advanced Internal Ratings-Based approach for credit risk will increase the current time required preparing the Call Report and the FRY9-C. The new disclosure requirements conflict with the initiative to shorten the filing deadlines for these reports.

While it seems that the Annual Report would be a good vehicle for required disclosures, the volume of additional disclosures would add multiple pages to bank's reports that are already in excess of 100 pages and do not serve as easily interpretable shareholder information. We do not think creating a separate document is the answer either. Preferable would be a new page added to the FRY-9C that would disclose sections (a) and (b) from Table 6 from the Basel Third Pillar. This would verify whether the bank's regulatory supervisors had approved the ratings approach and would briefly describe the ratings system. We believe the remainder of table 6 detailing the internal rating system would not add value to the market participant's decisions. For the details we believe the market participants can rely on the supervisory validation.

We feel the SEC's rules for Management Discussion and Analysis would require SunTrust to discuss the bank's approach to assessing the adequacy of capital to support current and future activities, including SunTrust's approach under Basel to assess and manage risk. If the regulators believe the SEC's rules regarding MD&A would not satisfy the disclosures as prescribed by Basel, then additional guidance would be needed.

The requirement to describe the entities comprising a company's consolidated banking group does not give enough guidance. This list for all large banks would be extensive and overwhelming. We suggest limiting the list by using only those entities that meet a designated percentage of total assets or income.