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Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Docket No. R-1154 (Risk-Based Capital Guidelines-Implementation of New Basel Accord)

Dear Ms. Johnson:

Comerica Bank hereby offers comments on the Advanced Notice of Proposed Rulemaking ("ANPR") and related Supervisory Guidances the Board published August 4 in the Federal Register concerning risk-based capital guidelines and implementation of a new Basel Capital Accord.

Comerica Bank is a Detroit, Michigan-based state-chartered member bank holding total assets, as of September 30, of $54.8 billion operating branch offices in Michigan, California, Texas, and Florida. As such, it is among the twenty largest commercial banking organizations in the United States. Comerica appreciates the opportunity to comment on this very important matter.

Comerica is broadly supportive of the New Basel Capital Accord, recognizing that the framework has made significant strides forward in aligning regulatory and economic capital. We applaud the effort of the U.S. regulatory agencies in creating an intelligent industry dialogue around the implementation of the Basel Accord within the U.S. As a potential A-IRB institution, Comerica feels it important to express its internal perspective on the proposed regulatory framework. We have comments regarding the following areas from the ANPR and Draft Supervisory Guidance:

- Supervisory Considerations
- Expected Losses versus Unexpected Losses
- SME Treatment
- CRE Treatment
- Credit Risk Mitigation Techniques
- Equity Exposures
- Ratings Philosophy
- Calibration and Validation in the Absence of Default Data
- Use of Internal Ratings that do not Satisfy A-IRB Requirements
- Operational Risk
- Disclosure
- Consistency with the New Basel Capital Accord

Comerica has had the privilege to participate in comment letters prepared by various other organizations, such as the Robert Morris Associates and the Financial Service Roundtable, where relevant to its business. However, the following represent additional thoughts we have had on matters either not covered by those letters or where our views may supplement views expressed in those letters.

EXECUTIVE SUMMARY

Supervisory Considerations

The ANPR states that advanced approaches would have to be used across all material business lines, portfolios, and geographic areas, but, with supervisory approval, "non-significant business units" may be exempted. Definition of "non-significant business units" would be helpful particularly if specific measures could be provided, perhaps based on volume and dollar size of transactions and level of risk within an organization.

ADVANCED INTERNAL RATINGS-BASED APPROACH (A-IRB)

Expected Losses versus Unexpected Losses

The ANPR expressly invites comment on whether the A-IRB capital regime should be based on a framework that allocates capital to Expected Losses (EL) plus Unexpected Losses (UL), or to UL only. EL is covered by loan loss reserves. We believe that UL alone should be the true and only measure of capital that should be required. The ANPR asks which approach (EL + UL or only UL) would more closely align the regulatory framework to internal capital allocation techniques currently used by large institutions. Banks currently manage EL and UL as separate items. Our preference would be, again, that regulatory capital only cover UL.

If the regulators disagree and feel compelled for reasons of international comity to provide that regulatory capital must cover EL and UL, we believe that all of a bank's Allowance for Loan and Lease Losses should be eligible as capital, not just an arbitrarily selected portion of it.

We understand that the Basel Committee, at its meeting in Madrid in early October, has decided that separation of EL and UL within the A-IRB approach will lead to a superior and more consistent framework. Under its modified approach, the A-IRB capital requirement would be based solely on UL. We support the modification to which the Basel Committee recently agreed.

We understand, however, that the Basel Committee proposes to treat loan loss provisions differently in "shortfall" situations than in "excess" situations, affecting Tier 1 capital in the former case, but not in the latter. We oppose such inconsistent treatment and believe that both "shortfalls" and "excesses" in provision should only affect Tier 2 capital. The proposal appears to be arbitrary in this regard and also seems inconsistent with treating Allowance for Loan and Lease Losses as part of Tier 2 capital.

SME Treatment

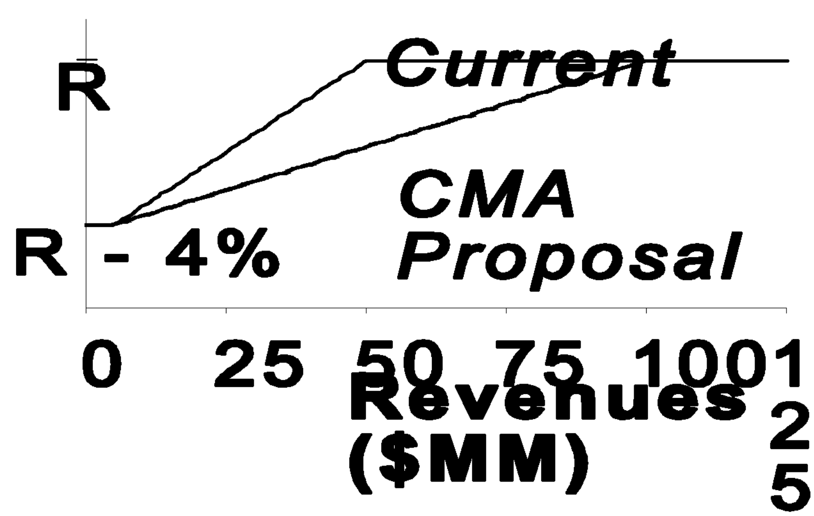
Comerica agrees with the Agencies' proposal to include a size adjustment in the correlation assumption for the SME counterparties with <$50MM in revenues.

The ANPR proposes that banking organizations using the A-IRB approach generally should apply the same capital formula to all wholesale exposures, but may use a reduced asset correlation parameter when applying the formula to small- and medium-sized businesses (SMEs) based on the total sales of the borrower. The ANPR defines SMEs as those with annual sales of less than $50 million. Our loan portfolio focuses heavily on SMEs, and we agree that small business enterprises tend to reflect less systematic risk and more idiosyncratic risk than larger corporate entities. However, the downward adjustment on the asset correlation parameter vanishes as revenues approach $50MM, implying that companies with more than $50 million in revenues are more influenced by systematic risks and are not particularly by idiosyncratic risks. Our experience is that business borrowers with sales up to $100 million tend to focus on a single market with relatively high product concentration. These companies have proven to be distinctly influenced by idiosyncratic risks. Limiting the capital adjustment to loans to SMEs with sales only up to $50 million disregards the benefit of diversification that exists from such credits relative to larger counterparties.

We would urge that the SME definition be raised from $50 million in revenues to $100 million in revenues.

The asset correlation formula would thus be

This treatment would have the largest impact on those companies with between $25MM and $80MMin revenues (see diagram below).



CRE Treatment

The ANPR provides that all commercial real estate (CRE) acquisition, development, and construction (ADC) loans would be treated as riskier High Volatility Commercial Real Estate loans (HVCRE) unless the borrower has "substantial" equity at risk or the property is pre-sold or "sufficiently" pre-leased. The ANPR expressly invites comment on the appropriateness of exempting from the high asset correlation category ADC loans that are pre-sold or "sufficiently" pre-leased.

We agree that pre-sold and pre-leased ADC loans should be exempted from the HVCRE category.

The industry needs guidance as to what constitutes pre-sold and what constitutes "sufficiently" pre-leased.

We believe that, to be "sufficiently" pre-leased, loans should be self-sustaining based on current debt servicing levels.

Under this definition of pre-leased, a property must have a Net Operating Income (NOI) generated from leasing activities that equals or exceeds the current debt service costs. We believe that pre-leased loans should be identified as such whenever a risk rating is performed. This practice should keep classifications current, as any significant change in leasing income would require a new risk rating.

For a property to be classified as pre-sold, the buyer must sign an unconditional purchase agreement.

Some CRE loans will have both pre-sold and speculative components. We presume that, in such cases, the HVCRE capital requirement and the lesser capital requirement would be blended based on the percentage of each component. Thus, for example, a construction revolver for 10 equally priced homes costing the same amounts to construct, allowing for the construction of one model and two (2) unsold homes, with the balance pre-sold, would be treated as thirty percent (30%) HVCRE, and seventy percent (70%) low-asset-correlation CRE.

Credit Risk Mitigation Techniques

The ANPR treats guarantees and credit derivatives in the same discussion as if they were equivalent means of credit risk mitigation. This is not the case, and equating the two techniques is overly conservative and lacks the flexibility required for the wide spectrum of guarantees.

By applying to guarantees concepts that may be appropriate to credit derivatives, the regulators will force banks to maintain two sets of credit ratings, their own internal ratings and regulatory credit ratings, the former giving greater weight to guarantees than the regulators appear to do. The administrative burden of having to maintain two (2) sets of ratings is unjustified, particularly when a goal of the Basel Accord approach is to base capital requirements on the internal ratings work being done by large banks. We would urge that there be separate treatment of credit derivatives, letters of credit, and personal and parental guarantees.

In a white paper published by the Board last June 10, "Treatment of Double-Default and Double-Recovery Effects for Hedged Exposures under Pillar I of the Proposed New Basel Capital Accord", it is stated that, "Regulators have suggested that providing capital relief for credits hedged by guarantees might be imprudent because of (1) risk concentrations among guarantors, (2) limited experience in evaluating the risk-mitigating effects of guarantees, and (3) practical constraints on regulators' ability to monitor banks extensively using guarantees."

Our lending experience is heavily based on transactions with small business and middle market borrowers. We normally accept guarantees from owners, parent companies, and sister companies, as well as letters of credit from third-party banks. We rarely rely on credit derivatives. The concerns expressed in the Federal Reserve white paper mentioned above may be appropriate in the case of credit derivatives, but they are not valid in the case of guarantees that support small business and middle market lending. In evaluating third party providers of credit protection, there should be a clear distinction between credit derivatives and letters of credit. There is a much larger universe of companies that offer letters of credit, resulting in lower risk concentrations. Among owners and parent companies, there is virtually no concentration risk. In response to the second point from the above-referenced white paper, Comerica has more than four (4) decades of experience working with these types of guarantees. If there is any concern on the third worry, i.e., regulator ability to monitor, any bank claiming capital credit for guarantees as credit risk mitigation should be willing to engage in open communication with the regulators as to its methodology and policies. We certainly are willing to do so.

The ANPR proposes that banks not be permitted to take into account "double default" effects, i.e. the joint probability of a default by both the borrower and guarantor and further proposes, therefore, that the adjusted risk weight for the guaranteed debt may not be less than the risk weight associated with direct exposure to the guarantor. This substitution approach is founded upon two key assumptions:

The default correlation between the guarantor and obligor is 100% (no "double-default" benefit)
The LGD of the poorer quality counterparty is 100% (no "double-recovery" benefit)

As an alternative to the substitution approach, we would be in favor of the ASFR Capital Model presented within the Fed white paper, provided that the correlation parameters are sufficiently differentiated for credit derivatives, letters of credit, and personal and parental guarantees.

This model effectively addresses our two main concerns with respect to the substitution approach: lack of flexibility and over-conservatism. In particular, the ASFR model more accurately reflects economic reality through consideration of double-default and double-recovery effects.

Double-recovery

In prohibiting "double-recovery" effects, the Agencies' substitution approach does not reflect a realistic recovery assumption.

Most of the guarantees on which we rely do not require us to cede collateral or collections to guarantors in the event of borrower default, and, therefore, the rating should be based on the collateral pledged by both the borrower and the guarantor. It is just inaccurate to treat collateral as supporting only the lower risk-weighted obligation and thus to disregard the existence of collateral.

Double Default

While there may or may not be a high default correlation among related parties, such as owners, parent companies, and sister companies, dependent on the diversification of their holdings, that is not the case with guarantees from third parties, such as letters of credit from unrelated financial institutions, and the two should not be equated.

Thus, a 100% default correlation is not appropriate in the case of unrelated third-party guarantees.

Adjustments

The draft Guidance on A-IRB discusses the recognition of the risk mitigation benefits of guarantees. It provides that banks reflecting the risk-mitigating effect of guarantees must do so by either adjusting Probabilities of Default or Loss Given Default, but not both.

We believe that adjustments to both Probability of Default and Loss Given Default should be allowed so long as the adjustments are consistently applied and do not result in double-counting (i.e. a single guarantee impacting both PD of LGD).

Where an owner, parent company, or sister company guarantees all debt of an obligor, we believe that would affect Probability of Default as related entities have a vested interest in the obligor's performance and may even contribute resources to prevent default of the obligor. Letters of credit can be viewed as a form of collateral, and thus impact Loss Given Default. In the interest of avoiding differentiated borrower grades for a single obligor, a guarantee of an individual facility affects Loss Given Default.

Non-legally Binding Support

While we understand and respect the regulators' concern that risk mitigation be legally binding to deserve recognition, we would suggest that realistically parent-subsidiary relationships are significant drivers of risk, independent of whether there are formal legally binding guarantees in place.

Internal ratings should be allowed to take this into consideration. The risk of lending to a stand-alone company is greater than lending to an equally credit-worthy subsidiary of a strong multinational corporation. We have had considerable experience with subsidiaries of multi-national corporations that have had parental support in the absence of legally binding guarantees. Conversely, weaker parent companies are considered negative factors in a subsidiary's credit rating.

Equity Exposures

The current capital charges on most equity investments, including public welfare investments, often low-income housing tax credit investments, are relatively low. That capital treatment is justified by the difference in risk between these investments and other investments, public welfare investments having a demonstrably lower default rate and less volatility of return than private equity investments.

The ANPR, however, would substantially increase (double on publicly-traded investments and treble on non-publicly-traded investments) the capital charge on other investments if such public welfare investments, when combined with other investments by the organization, exceed ten percent (10%) of the organization's Tier 1 plus Tier 2 capital, a materiality test. This has the indirect effect of disincenting banks from making public welfare investments.

We are based in Detroit, Michigan, a community in need of investment. Historically such investments, according to a respected study by Ernst & Young last year, are substantially less risky than other investments. According to the E&Y study, over the fifteen (15) year time period 1986 to 2001, the foreclosure rate associated with low-income housing tax credit investments amounted to 14 basis points, less than one hundredth of one percent annually. Disincenting large U.S. banks from making these non-risky investments by indirectly increasing the cost of such investments is an unintended consequence of this proposal. Including public welfare investments in the materiality calculation can be expected to adversely affect the development of affordable housing in the United States and reduce the housing options available for low- and moderate-income residents in our urban areas.

Public welfare investments should be excluded from the ten percent (10%) materiality test.

Ratings Philosophy

The proposed Guidance on A-IRB provides that banks must adopt a rating philosophy and that policy guidelines should describe, inter alia, how quickly ratings are expected to migrate in response to economic cycles. We believe that this implies that banks will have a certain amount of flexibility to choose an appropriate credit risk philosophy, and, if that implication is correct, we strongly support that flexibility.

Because many banks do not have the breadth of data needed to build statistical risk rating models internally, they need to purchase such models. However, the range of third-party credit risk models available in the market is limited. They essentially offer two (2) options: point-in-time (financial models and Merton models) or through-the-cycle (agency ratings). Because financial models, such as Moody's RiskCalc, rely heavily on recent obligor financial information that fluctuates with the business cycle, these models tend to lead to a point-in-time credit risk assessment. Point-in-time models are available for both private and public companies, but through-the-cycle models are only available for public companies. Thus, the market encourages a point-in-time approach to risk rating, rather than a through-the-cycle approach. That encouragement is furthered by the regulators' altogether proper insistence on consistent objective data.

However, conservative banks that use a point-in-time ratings philosophy should still be permitted to target a through-the-cycle level of capital to avoid large swings in capital and the attendant risk of a capital shortfall prior to a recession. Such a capital management policy should also permit discretionary adjustments based on the perceived point within the economic cycle.

With regard to capital management philosophy, we believe that the regulators have espoused a conservative approach to the calculation of capital, requiring that banks use stress-case LGDs. This approach could be applied to PDs as well. However, while this would ensure that banks are adequately capitalized in recessions, it would cause them to be over-capitalized during expansionary periods. To avoid this, we believe that bank management, having observed ratings throughout the cycle, should expressly be given discretion in setting conservative long-run average PDs marginally higher than actual long-run averages for purposes of setting internal capital levels.

Calibration and Validation in the Absence of Default Data

In an effort to adhere to best practice industry standards, many banks are moving away from a one-size-fits-all approach to risk rating. Commercial lending incorporates a diverse set of clients, which requires segmentation of portfolios. As such, Comerica recognizes a fundamental problem with the Agencies' proposed calibration and validation processes. The proposed standards demand large samples of default data, representing a full economic cycle. In order to obtain a larger sample of data, banks may pool data from several portfolios, although this may degrade predictive power for portfolios whose data was absorbed into the pool.

Commercial Real Estate portfolios, for example, have had very few defaults over the past decade. Even if defaults were available, ten (10) years of data would not capture the last substantial real estate downturn, and thus would not fulfill the A-IRB requirements. Compounding this issue is the fact that due to the unique nature of CRE lending, there is a clear need for a separate CRE rating tool. This problem extends to a large number of Comerica portfolios, where there are either few defaults, or the portfolios are simply too small.

Guidance is needed on calibration and validation in such cases, although we feel flexibility should also be given to permit the consideration of a variety of inputs, such as benchmark data, market information, and internal estimates, in the calibration and validation process. In paragraphs 21 through 27 of the proposed A-IRB Guidance, the regulators have recognized the worth of judgment-based models and concluded that a model that depends on expert judgment, when there is not enough data to support statistical model building, can be called "model-based". However, guidance on regulators' expectation as to calibrating results in these cases would be most helpful, although, again, ultimately, we believe management, in consultation with local regulatory authorities, should be accorded discretion in choosing the appropriate calibration from available data.

Use of Internal Ratings that do not Satisfy A-IRB Requirements

We commend the Agencies' attempt to create a consistent, broadly applicable minimum capital calculation methodology. However, the current framework is overly prescriptive in some areas, requiring banks to maintain both regulatory and internal ratings. Ideally, the regulatory framework would create no such distinction.

Given the current regulation, Comerica supports the Agencies' decision to allow separate ratings for internal calculations.

This flexibility is essential due to the conservative nature of many of the regulatory guidelines, which may distort pricing and economic capital estimates. Internal ratings that differ from A-IRB compliant ratings may be required for treatment of guarantees and cases where regulatory guidelines establish artificial floors, such as the floor of ten percent (10%) on residential mortgage Loss Given Default.

OPERATIONAL RISK

Corporate Governance

Board and Management Oversight

The ANPR provides that both an institution's board of directors and management would have to have responsibilities in establishing and overseeing the institution's operational risk framework. t further provides that board and management would have to ensure that appropriate resources are allocated to support the framework. However, the ANPR gives no further guidance as to what would be expected of the board and management. It would be helpful if the regulators could provide more specific guidance as to what expectations they have of board and management in this area. How much information needs to be provided to the board to ensure it can make informed decisions in this area? How often will the board be expected to review such information? Will review by the full board be expected or might a committee of the board suffice? It should be sufficient for senior executive management to review and approve the operational risk management framework to assure its scope and approach is appropriate, and that it is well implemented and properly audited. Then periodic updates to the board can give the board the opportunity to give overall guidance and support.

Operational Risk Management Elements

Operational Risk Policies and Procedures

The ANPR requires that a bank have policies and procedures clearly describing the major elements of its operational risk framework. However, we did not see a requirement that a bank maintain a comprehensive set of policies and procedures related to operational risk. It would be helpful if the regulators could clarify whether there will be an expectation on their part that such a database be created and maintained.

Identification and Measurement of Operational Risk

The ANPR does not address the propriety of using "near miss loss events" as aids to measuring and controlling operational risk exposure. A "near miss loss event" is an event that had the real potential of creating an operational loss, but which did not actually do so. We believe that banks can learn a considerable amount about minimizing operational risk by studying "near miss loss events", and we believe that banks that systematically do so should receive appropriate mitigation credit.

It would be helpful for the regulators to clarify whether analysis of "near miss loss events" would be required if a bank wishes to use the Advanced Management Approach ("AMA").

Also, there has been some debate about whether operational components (e.g. failure to record properly (causing a failure to perfect) a security agreement) of credit loss events give rise to credit risk or operational risk. It appears that regulators have concluded that such components should be deemed credit risk. It would be helpful for the regulators to clarify, if such were the case, that such operational events need not also be treated as increasing operational risk.

The ANPR also requires banks to notify regulators "well in advance" of their intention to use AMA. It would be helpful if the regulators would clarify that term and specify precisely how much time in advance such notification should be given.

Elements of an AMA Framework

Internal Operational Risk Loss Event Data

The ANPR provides that banks would be expected to have at least five (5) years of internal operational risk loss data captured across all "material" business lines, events, product types, and geographic locations. Paragraph 38 in the proposed Operational Risk Guidance suggests that data is to be captured across all "material" business lines, product types, event types, and from all "significant" geographic locations. Paragraph 40 of that Guidance provides that the regulators may allow flexibility in the area of data collection if thresholds established by a bank, inter alia, capture a "significant proportion" of the bank's operational risk losses. To encourage consistency among banks, it would be most helpful if the quoted terms could be defined or more specificity offered.

External Data

Integrating external data into any given bank's AMA model in a manner that is useful will be most difficult. Product lines, controls, and scale of activity will vary from bank to bank, and no external data will be probative of future experience at any individual bank. Use of external data is highly experimental and unproven. We believe that it would be foolhardy to mandate that external data be a component of a bank's AMA model. There has been too much work to refine the Basel risk measurement concepts to jeopardize the accuracy of the entire model by affecting the calculations with a concept of such uncertain application.

If the regulators disregard this suggestion and retain a requirement that external data be included in an AMA model, they should provide guidance as to what external data is relevant in what situations. We would respectfully suggest that external data from a bank of similar size is not necessarily relevant and that similarity of business lines should be a prerequisite to relevancy here.

We would also suggest that responsibility for review of external data should not be limited to the operational risk management function, but should rest with a combination of that function and relevant business line management.

Business Environment and Internal Control Factor Assessments

The ANPR provides that a bank shall incorporate assessments of the business environment and internal control factors into its AMA capital assessment and periodically compare that assessment with actual operational loss experience. We believe it would be helpful if the regulators could be more specific as to the frequency of these assessments and comparisons. We would suggest that internal control factor assessments be annual, but that Key Risk Indicators be reviewed more frequently, either quarterly or semi-annually.

Risk Mitigation

The ANPR limits its reduction of operational risk exposure to twenty percent (20%) to reflect the impact of risk mitigants, such as insurance. We believe that a twenty percent (20%) ceiling is, by definition, arbitrary and without any basis in fact or logic in this circumstance. If a bank theoretically has mitigated one hundred percent (100%) of its operational risk exposure, a meaningful capital regime would recognize that reality and not limit its reduction to any arbitrarily selected percentage.

We also believe that the standards proposed by the ANPR in order for mitigation to be recognized are considerably more restrictive than necessary to ensure the validity and effectiveness of the mitigation. For example, the proposed Guidance, in paragraph 68, suggests that there would be no credit for mitigation unless an insurance policy has clear cancellation and non-renewal notice periods. If a policy is non-cancellable, the bank would have mitigated the risk despite the absence of a clear cancellation notice period. Similarly, if a policy has no notice period for non-renewal, the bank is still protected for the balance of the policy term. Paragraph 69 in the proposed Operational Risk Guidance requires that banks demonstrate that insurance policies have a history of timely payouts. That would protect incumbent insurers because a bank purchasing a new policy will not be able to demonstrate that a new policy has a history of timely payouts. The twenty percent (20%) cap appears particularly restrictive when one considers all of the different standards that must be met to get credit for it.

Of course, limiting the credit for risk mitigation to an arbitrary twenty percent (20%) also will have the negative effect of disincenting banks from arranging for risk mitigation insurance beyond twenty percent (20%).

The twenty percent (20%) cap should be eliminated. Instead, the industry and regulators should work to increase the availability and effectiveness of risk mitigation tools.

DISCLOSURE

Generally

The disclosure requirements contemplated by the ANPR are complex and extensive. We are concerned that the public will be unable to interpret such complex extensive disclosures accurately. No standard format has been proposed, and that will interfere with comparisons of banking organizations. To be sure, market participants will compare quantitative disclosures such as distributions of ratings. However, in that each bank may use its own distinct rating scale, comparisons will be inconsistent and lead to incomplete understanding. To remedy this, it would be helpful were the regulators to propose a roll-up mechanism to display ratings in a standardized format.

We recognize the value of providing risk management disclosures to the public, but the proposed disclosures may well cause the public to over-react. The public does not adequately understand the information to be disclosed; indeed, regulators' assessments of bank risk management practices are not today made public. Yet, it is proposed that banks be subjected to market discipline by market participants unlikely to understand fully the comprehensive complex data to be disclosed. Under the new standards, model development will be an evolutionary process, with model parameters changing in response to actual loss experience. This fact will further contribute to public confusion. From the disclosing bank's perspective, losses would serve to improve model performance; yet investors may lose confidence in the bank's risk rating system, leading to panic, a sell-off of shares and an attendant inability to raise capital, and even further industry consolidation.

The ANPR would require that quantitative disclosures pertaining to historical results include estimates against actual outcomes over a longer period. Nothing assures comparability of such estimates. The ANPR explains that this would include information on estimates of losses against actual losses in each portfolio "over a period sufficient to allow a meaningful assessment of the performance of the internal rating processes". Since that period is undefined, it can be expected to vary from bank to bank. Similarly, in footnote 56 to the ANPR, it is required that banking organizations provide decomposition information "where there are material differences between PD, LGD, and EAD estimates ... compared to actual outcomes over the long run". Again, since "material" is undefined, it can be expected to vary from bank to bank and may well depend on the type of rating system a bank employs. In the cases of organizations using a point- in-time philosophy, under which there will be a tendency for ratings to lag behind present economic conditions, the materiality of differences will not be consistent with the materiality of differences at organizations using a through-the-cycle philosophy. Further, some banks will use stress-case PDs and LGDs which will tend to over-state actual loss experience. Direct comparisons of estimates and actual experience, in the absence of clearly articulated explanations of philosophy employed and its differences with other philosophies that other banks may employ, will not enable a reader to understand the effectiveness of rating systems among institutions.

Competitive Concerns

We are also concerned that forced disclosure of our distribution of Probability of Default grades and default-weighted Loss Given Default per Probability of Default grade would provide our competitors valuable insight into our competitive posture and provide them advantages that they do not have today. To the extent that they are not A-IRB banks, we would receive no reciprocal benefit. Under normal circumstances, this type of information would be deemed highly proprietary and confidential.

We further believe that breadth and detail of the disclosure requirements could represent a competitive disadvantage for regional banks relative to larger, internationally active banks. When a bank's presence is limited to a particular geography or market, portfolio disclosures could lead to identification of clients.

Market Risk

The ANPR requires disclosures for market risk, including a description of models, stress testing, and back testing, along with quantitative disclosures of aggregate Value at Risk (VaR), high, mean, and low VaR values over a reporting period, and a comparison of VaR estimates with actual outcomes. We believe that, unless a bank's trading portfolio exceeds ten percent (10%) of its total assets, such market risk disclosures should be required no more frequently than annually. Otherwise, these types of disclosures are likely to create a significant compliance burden with little practical value to anyone. This problem is not limited to market risk disclosures. Costs of unnecessary compliance could be reduced if all of the disclosures would be subjected to a materiality test.

Separate Risk Areas

The ANPR contemplates that, as part of the disclosure requirements, "for each separate risk area", a banking organization would describe its risk management objectives and policies. Again, clarification would be helpful. How broad is a "risk area"? Is the distinction broad enough that a bank is a separate risk area from a securities firm or is the intent that a banking organization treat small business lending as a different risk area from middle market lending, private lending from private banking, treasury management from community banking? Is there a geographic component to "risk area"? Are our California branches a different risk area than our Michigan branches?

Effective Date

The effective date of the new disclosure requirements is 2008. However, before that, the ANPR indicates, disclosure will be "encouraged". It would be helpful if the regulators could clarify whether there will be an expectation that certain organizations disclose before 2008. If so, to what extent? Would there be any consequences if an organization waits until 2008 to commence the disclosures?

Significant Events

The ANPR requires that disclosures be made quarterly, but that, when "significant events" occur, banking organizations would be required to publish material information "as soon as practicable". Again, clarification would be helpful here. What is a "significant event"? Will it be the same as an event triggering the requirement to file a Form 8-K Current Report with the Securities and Exchange Commission? How soon is "as soon as practicable"? The same time period for filing a Form 8-K, which depends upon the nature of the event? Would the requirement only apply to individual events or would an aggregation of events (e.g. an accumulation of operational losses with a similar cause) trigger a disclosure requirement?

CONSISTENCY WITH THE NEW BASEL CAPITAL ACCORD

Before closing, there are a couple of additional comments we would like to make based on our comparison of the ANPR with the Basel Committee's Consultative Paper 3 (CP3).

Multiple Borrower Grades for Single Borrower

First, the ANPR prohibits multiple borrower grades for a single obligor. However, CP3, in paragraph 359, allows two (2) exceptions to such a prohibition: (1) in the case of country transfer risk, where a bank may assign different borrower grades depending on whether the facility is denominated in local or foreign currency, and (2) when the treatment of associated guarantees to a facility may be reflected in an adjusted borrower grade. We believe that both exceptions are desirable and would urge that U.S. regulators conform to CP3 in this regard.

Transition and Data

Second, the ANPR does not describe transitional arrangements with respect to data. It would be helpful to receive confirmation that, as proposed in paragraph 233 of CP3, data requirements pertaining to PD, LGD, and EAD estimates will be relaxed during a transition period. We believe that the data requirements should be relaxed for a minimum of three (3) years following implementation of the new Accord.

CONCLUSION

Thank you very much for the opportunity to comment. If you have any questions, we would be delighted to try to answer them.

Best wishes,

Julius L. Loeser

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