STATE STREET

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Public Information Room
Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington DC, 20219
Docket Number 05-08

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket Number OP-1227

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

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No. 2005-14

Dear Sir or Madam:

State Street Corporation is pleased to have the opportunity to comment on the Interagency Proposal on the Classification of Commercial Credit Exposures (the proposed framework) published by the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS) (the Agencies) on March 28, 2005. We appreciate your efforts to increase consistency among the Agencies in assessing credit risk in institutions' commercial loan portfolios.

State Street Corporation specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With $9.5 trillion in assets under custody and $1.4 trillion in assets under management, State Street operates in 25 countries and more than 100 markets worldwide. State Street expects to be designated a "core bank" under the U.S. implementation of the Basel II Capital Accord, and therefore required to use the Advanced Internal Ratings Based (A-IRB) approach to credit risk when Basel II becomes effective.

State Street supports the concept of a two-dimensional framework for the classification of credit exposures, and believes such a framework can result in a more risk-sensitive system. We believe, however, that the proposed framework should be modified, in both substance and timing, to better achieve this goal.

The conceptual approach proposed by the Agencies is similar, albeit less sophisticated, to the A-IRB approach for measuring credit risk for these exposures under Basel II. Basel II banks are making considerable investments in the sophisticated risk measurement systems required under the A-IRB. Basel II banks should be encouraged to leverage these highly risk-sensitive A-IRB systems in meeting the requirements of any required two-dimensional classification system.

The proposed framework would require the development of a classification system using factors that are similar, but not identical, to those used under the A-IRB. For example, the definition of default used in the proposed framework is not as broad as the definition contained in Basel II. Similarly, the "estimated loss severity" proposed for a facility rating is similar, but not identical, to the concept of "loss given default" (LGD) used in the A-IRB under Basel II. Such inconsistencies could create a high potential for unnecessary regulatory duplication.

In effect, the proposed framework would require a Basel II bank to maintain two separate two-dimensional ratings systems: one for the regulatory capital requirements under Basel II, and a second, less advanced system for the commercial credit exposure classification system. We believe such regulatory duplication will create unnecessary burdens for Basel II banks.

As a result, State Street suggests that the Agencies revise the proposed framework to allow Basel II banks the ability to use A-IRB systems as the basis for any new two-dimensional classification system for commercial credit exposures. In addition, due to the ongoing uncertainty related to the pending Basel II proposal and the current regulatory burden of preparing to comply with Basel II, we urge the Agencies to delay the development and implementation of any new system to follow after the implementation of Basel II.

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Thank you for the opportunity to submit comments on the classification of commercial credit exposures. We would be pleased to answer any questions you may have.

Sincerely,

Nancy Loucks
Executive Vice President
Enterprise Risk Management