

To: Basel II NPR Public File

From: Mark Van Der Weide and Allison Breault

Date: August 11, 2006

Re: Meeting with Citigroup, Inc., J.P. Morgan Chase & Co., Wachovia Corporation, and Washington Mutual, Inc.

On August 2, 2006, Governors Bies and Kroszner and Federal Reserve staff met with representatives of Citigroup, J.P. Morgan Chase, Wachovia, and Washington Mutual to discuss the interagency notice of proposed rulemaking to implement the Basel II capital accord ("Basel II NPR"). The bankers emphasized that their primary objective is to encourage the U.S. banking agencies to implement an appropriately risk-sensitive form of the Basel II advanced approaches (that is, the internal ratings-based approach for credit risk and the advanced measurement approaches for operational risk) in the United States. The bankers reiterated their concern that the draft Basel II NPR sets forth a capital framework that is overly conservative and inadequately risk sensitive as compared to the Basel II advanced approaches set forth in the Basel Committee's revised framework published in July 2004 ("Mid-year Text"). The bankers indicated that they support adoption in the United States of the Basel II advanced approaches as set forth in the Mid-year Text.

The bankers also requested that the banking agencies provide alternatives to the Basel II advanced approaches, such as the Basel II standardized approach outlined in the Mid-year Text. The bankers specifically requested that the agencies seek comment on possible alternatives to the Basel II advanced approaches. In the bankers' view, the Basel II standardized approach would be reasonably risk sensitive and would be substantially less burdensome for banks to implement than the advanced approaches set forth in the draft Basel II NPR.¹ In addition, the bankers believed that making the Basel II standardized approach available to all U.S. banking organizations would better align the U.S. implementation of Basel II with the implementation of Basel II in other jurisdictions.

The bankers also restated their concern, based in part on statements in the preamble to the draft Basel II NPR, that the agencies would not permit any non-trivial reduction in a bank's overall capital requirements under the U.S. Basel II advanced approaches. In addition, the bankers reiterated their belief that the draft Basel II NPR would potentially place U.S. banks at a competitive disadvantage compared to U.S. investment banks and foreign banks, and would impose significant implementation costs relative to the possible benefits. Finally, the bankers again urged the Board to phase out

¹ Several of the bankers also brought up during the discussion the question of whether banks should be allowed to combine Basel II standardized with (i) Basel II's advanced measurement approaches to operational risk and (ii) the approaches to counterparty credit risk set forth in the July 2005 Basel Committee/IOSCO paper.

or change the leverage ratio capital requirement in the wake of Basel II. The banks viewed the leverage ratio as a competitive disadvantage for U.S. banks, emphasizing that its lack of risk sensitivity is at odds with the goals of Basel II.

Board staff urged the banks to submit detailed written comments on the proposal and noted that the results of the Basel Committee's 5th Quantitative Impact Study on Basel II indicated that none of the 50 largest non-U.S. G-10 banks plan to adopt the Basel II standardized approach.

The list of attendees included:

Federal Reserve:

Governor Susan Bies
 Governor Randall Kroszner
 Steve Roberts
 Norah Barger
 Mark Van Der Weide
 David Jones
 Robin Lumsdaine
 Lance Auer
 Arthur Angulo
 Richard Westerkamp
 Laricke Blanchard
 Dave Skidmore
 Anna Lee Hewko
 Allison Breault
 Laurie Priest

James Garnett
 Jimmy Ryan
 Greg Norwood
 Russ Playford
 Gary Wilhite
 Adam Gilbert
 Naomi Camper
 Alison Watson
 Raymond Natter
 Jim Sivon

Citigroup
 Citigroup
 Wachovia
 Wachovia
 Wachovia
 JP Morgan Chase
 JP Morgan Chase
 Washington Mutual
 Barnett Sivon & Natter
 Barnett Sivon & Natter