

**To:** Basel II NPR Public File

**From:** Mark Van Der Weide and Allison Breault

**Date:** August 17, 2006

**Re:** Meeting with the Conference of State Bank Supervisors

On August 16, 2006, Governor Bies and Board staff met with members of the Conference of State Bank Supervisors (“CSBS”) to discuss the interagency notice of proposed rulemaking (“NPR”) to implement the Basel II capital accord.

CSBS highlighted that the current risk-based capital framework is inadequate for the U.S. banking system and encouraged the Federal banking agencies to update the current framework. In particular, they acknowledged that the framework needs to be more risk sensitive and that the process of developing a more risk-sensitive framework in the Basel II NPR has been productive. They also emphasized that doing nothing (that is, preserving the current framework) would be the least desirable outcome. CSBS specifically asked that the Federal banking agencies include a question in the Basel II NPR requesting comment on whether the agencies should make available to U.S. banks a form of the Basel II standardized approach set forth in the Basel Committee’s revised framework published in July 2004. CSBS suggested that the agencies should consider incorporating a Basel II standardized approach to expand the regulatory capital options available to U.S. banks, noting that such an approach could be a transitional point on the way to full implementation of the advanced approaches. CSBS expressed concern that the models banks will be using under the advanced approaches have not been adequately stress tested and suggested that offering a standardized approach would allow the agencies more time to evaluate the effectiveness of the advanced approaches. In addition, the CSBS suggested that offering a standardized approach may help assuage concerns that the Basel II NPR would place small and mid-size U.S. banks at a competitive disadvantage in relation to large U.S. banks that adopt the advanced approaches. They noted, however, that there was a lack of consensus among their members as to how severe the competitive issues would be since market forces play a significant role in establishing capital levels beyond regulatory minima. CSBS also asserted that offering a form of the standardized approach would ease competitive concerns by ensuring that U.S. banks have the same regulatory capital options available to foreign banks.

CSBS also requested that state and federal supervisors adopt a memorandum of understanding to enable the exchange of the Basel II-related nonpublic information that Federal banking agencies propose to collect.

Governor Bies urged CSBS to submit detailed written comments on the proposal.

The list of participants included:

Federal Reserve:

Governor Susan Bies  
Barbara Bouchard  
Mark Van Der Weide  
Robin Lumsdaine  
Laricke Blanchard  
Anna Lee Hewko  
Allison Breault  
Deborah Lagomarsino

CSBS:

Catherine Woody  
Michael Stevens  
Katherine Wyatt  
Joseph Smith, Jr.  
David Z. Harris  
Leslie Woolley  
Neil Milner  
Gail Griffin  
Nick Griffin  
Trabo Reed