January 18, 2006

Office of the Comptroller of the Currency
250 E Street, S.W.
Mail Stop 1-5
Washington, DC 20219
Docket Number 05-16

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Docket Number R-1238

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552
Attention: No. 2005-40

Dear Sir or Madam:

Mellon Financial Corporation, Pittsburgh, Pennsylvania ("Mellon"), is pleased to comment on the banking agencies' joint Advanced Notice of Proposed Rulemaking published on October 20, 2005 (70 Federal Register 61068). The purpose of this proposal is to develop a risk-based capital regime that will be applicable to banking organizations that will not be subject to the Basel II capital standards ("Basel IA"). As you know, because of the focus of Mellon's businesses on asset management, asset servicing, payments processing and other fee-based activities, we have been involved in the Basel process for a number of years. Because of the nature of Mellon's limited credit portfolios and its specialized advisory and processing businesses, Mellon's focus has been

on Operational Risk. We appreciate the efforts of the banking agencies (particularly the Federal Reserve Board and the Office of the Comptroller of the Currency) to be attentive to our views and concerns. At the same time, we welcome their recognition that capital does have competitive consequences.

With the above as background, we would like to emphasize the following points:

First, Mellon believes it is appropriate that the Basel IA framework not include a capital charge for operational risk and would hope that one is not added in the process as this proposal is finalized. Mellon's consistent position has been that the approach to dealing with Operational Risk is through the supervisory process under Pillar II and not as a hard-wired mechanistic capital charge that creates a perverse incentive against effective operational risk management.

Second, we note that Basel 1A does not require the very detailed and complex data-gathering, maintenance and modeling (that can exceed 70 data characteristics per credit) that is required by Basel II for credit exposures. This is an important issue for Mellon because of the specialized nature of our operations and the decreased significance to us of credit exposures and the very focused nature of our credit portfolios. We generally do not assume credit risk as a core line of business, making the costs associated with complex credit-risk modeling unnecessary and inappropriate.

Third, Mellon opposes continuation of the leverage and prompt corrective action ("PCA") ratios under Basel IA, just as we have opposed them under Basel II. These ratios undermine the purpose of a risk-based capital regime, raise serious competitiveness problems and are unnecessary because of broad supervisory authority to raise capital requirements for individual institutions. At the very least, the leverage and PCA requirements should not apply at parent holding companies.

Finally, as a member of the Financial Guardian Group ("FGG"), we support and incorporate the comments that are being submitted on behalf of the FGG.

Once again, we appreciate the opportunity for submitting our comments and are available to provide any additional information that may be helpful to the banking agencies in working on this important matter. Please feel free to contact me or my associates at Mellon if you feel that would be helpful ((412) 234-1537).

Yours sincerely,

Michael E. Bleier

cc: J. Abdelnour
L. Cunningham
R. Cole