October 27, 2008

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

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

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

RE: Risk-Based Capital Guidelines; Capital Adequacy Guidelines: Standardized Framework; Proposed Rule and Notice

Dear Sir or Madam:

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to submit a comment in response to your joint notice of proposed rulemaking on a new risk-based capital framework based on the standardized approach of Basel II.

We do not believe this is the appropriate time to implement a new capital framework. The proposed Standardized Approach and the adopted Advanced Approach will fundamentally change the way capital adequacy is calculated at a time when most of our assumptions regarding quantifying risk and the impact of complex financial instruments are being challenged by global market events.

CSBS has consistently expressed our concerns about adopting the Basel II capital framework in the United States. The arguments for its adoption have centered on international competitiveness and the need to more accurately quantify risk. While we agree that international competitiveness is important, we do not believe U.S. institutions have had difficulty competing. U.S. financial institutions are among the most successful and competitive in the world. CSBS believes maintenance of high capital standards is a substantial contributing factor to the historical success enjoyed by U.S. institutions. While several institutions have recently experienced problems, strong capital standards provided the necessary protection for most to manage through their challenges. In terms of quantifying risk, we are witnessing how quickly risk profiles of assets can change. While the modeling framework captures historical quantifiable factors, the models do not capture the qualitative factors of originating credit and managing financial assets. We have seen no evidence that the increasing level of risk would have been identified earlier or capital levels would have been higher heading into this financial crisis under Basel II.

We supported the development of the Basel II Standardized Approach for adoption in the United States. Following the adoption of the Advanced Approach for core banks, we believed the Standardized Approach was necessary to provide a competitive balance for regional and community banks. These institutions compete in the same domestic markets and for the same exposures as the core banks.

Given the relative complexity of the Standardized Approach, there is likely a small universe of banks which would opt-in to a final rule. The additional required data elements and significant operational risk charge would likely outweigh any benefit to most community and regional banks.

Current economic stress has provided a reality check on the real purpose of capital. As risk begins to generate actual losses, actual capital erodes very quickly. As economic conditions deteriorated and confidence in our financial system eroded, we experienced the difficulty in attracting capital to the banking system. We need an approach to capital which encourages building capital during periods of strength and ensures a strong capital base as the economic cycle changes. In light of our current economic condition, CSBS believes implementation of a new risk-based capital framework, including the advanced approaches of Basel II, should be suspended. Regulators and the industry need time to work through significant regulatory issues and evaluate the lessons learned from this crisis. This will permit the creation of a capital framework which is appropriately risk sensitive, ensures strong levels of capital, and provides transparency.

Best personal regards,

Neil Milner

Neil Milner
President and CEO