From: Robert Meyerson [mailto:robm@frontiernet.net]
Sent: Wednesday, July 25, 2012 6:09 PM
To: Comments
Cc: 'Joe Groshens'
Subject: FDIC RIN 3064-D97

Re: newly proposed Basel III Proposal to Enhance Regulatory Capital Requirements
FDIC RIM 3064-D97

I would ask that you reconsider (eliminate) the proposal to have unrealized gains and losses on all available-for-sale securities flow through to CET1 capital.

Small banks such as ours (respectively $77 and $44 million in total assets) were required by a FASB ruling to segregate investments into separate available-for-sale and hold-to-maturity accounts in order to enhance the ability of the public (I presume it was primarily meant for potential acquirers of banks, or analysts of larger institutions) to measure the value of our franchise. Serious acquirers of banks do not need this information as it is readily provided by our bond accounting. Bank regulators can get the information from the same source. In our case it is irrelevant from the operational standpoint because we do very little trading of securities. Because it represents volatility to our capital accounts we do not keep a large portfolio of AFS securities. It represents a distraction to our operations so far as we have to designate all securities by type and make general ledger entries to reflect the periodic change in AFS values.

To have this mark-to-market adjustment flow through to CET1 capital is worse than a distraction. It introduces volatility into the CET1 capital calculation without any tangible benefit to anyone, with the possible exception of bank regulators who are contemplating closing down a trouble bank. I would have to guess that the decline in value of the AFS securities plays a very minor role in a regulator's assessment of the survivability of a troubled institution. The new proposal may have the negative effect of inducing banks to carry more of its investments HTM in order to reduce volatility in the capital accounts with the result that banks may have less flexibility in managing their liquidity position going forward.

Since many, if not most, smaller financial institutions do not actively "manage" (buy/sell) investments, they should not be held to the AFS FASB standard. Since this proposal does not come from FASB but from banking regulators, those regulators could ease off on the requirement either by exempting smaller FIs (under $1 billion? $250 million?), having banks certify that their investment portfolio is not managed as a profit center (perhaps by limiting their selling to a certain dollar amount annually), or just by requiring a new Call Report entry which shows the dollar value of investment sales, with an adjustment to Schedule RC-R if necessary.

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