Ben Bernanke, Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Thomas Curry
Comptroller
Office of the Comptroller of the Currency
250 E. Street, SW. Mail Stop 2-3
Washington, DC 20219

Martin J Gruenberg, Chairman
FDIC
550 17th Street NW
Washington, DC 20249

Jacob J Lew
Secretary of the Treasury
U.S. Treasury Department
1500 Pennsylvania Avenue
Washington DC 20220

Dear Sir/Madam:

The Florida International Bankers Association (FIBA) appreciates the opportunity to comment on the interim final rules to implement the Basle III capital reforms in the United States. More specifically, we would like to comment on and propose revisions to the risk weights assigned to trade finance for those banks using the Standardized Approach. We are seriously concerned that the proposed risk weights will have a significant negative impact on the cost and availability of financing currently made available to correspondent banks in Emerging Markets of Central, South America and the Caribbean Basin ("Latin America" for simplification purposes).

FIBA is a trade association established 32 years ago. Our membership includes 72 financial institutions from 18 countries. The primary focus of FIBA member banks is in the realm of international trade financing and private banking wealth management. Many of our member banks are community banks ranging in size from relatively small institutions to medium size banks. These banks are located in South Florida and have been active in financing trade with correspondent banks located in Latin America for 50 years or more. In general terms their experience in trade finance has been very satisfactory.

On October 19, 2012, FIBA expressed to you its opinion on many of the proposed revised capital guidelines reflected in the interim final rules, including the proposed risk weights for trade

finance. While we are very happy that appropriate and reasonable changes were made in the areas of mortgage finance and the unique requirements of community banks in the United States were taken into consideration, we continue to be very concerned that similar appropriate considerations were not made in the area of trade finance, which has never been a source of regulatory concern in the United States. In this regard, trade finance was not an issue in the financial crisis of 2008 and there is no valid compelling reason to assign a higher capital requirement to these exposures (on-balance sheet or off-balance sheet), which we believe would result in significant disruption to trade finance activity.

Any unwarranted interruption of the financing of international trade is bound to have a negative impact on all our trading partners and various trade agreements already in effect. The new rules may increase the commercial account deficit and will have a serious repercussion on employment in the State of Florida where it is estimated 1,300,000 persons depend on international business. Of these, it is estimated 1,100,000 jobs are linked to international trade. Over 95% of all exporters in Florida are considered small and medium enterprises with fewer than 500 employees. One out of every 6 jobs in our State is dependent on international business.

The interim final rules assign risk weights to trade finance exposures based on risk classifications adopted by the OECD, (Country Risk Classifications or CRC) albeit further downgraded one notch from the OECD classifications. Membership in OECD is also a determining factor, although only two countries in the region (excluding the United States and Canada) are members. Off-balance sheet exposures are affected by a Credit Conversion Factor or CCF prior to assigning a final risk weight to determine "its credit equivalent on-balance sheet."

The OECD classifies countries into 8 categories ranging from 0-8 (with 8 being the highest risk) based on the OECD's Country Risk Assessment Model (CRAM) and the integration of political and other factors, which methodology has never been made public. Only the final numerical rating is available once a year.

The OECD ratings are based on the "Arrangement on Officially Supported Credits"("the "Arrangement") established in 1978 to provide a framework for the orderly use of "officially supported" or "government subsidized" export credits with a minimum term of 2 years. This Arrangement is voluntary and non-binding. More importantly, the OECD Secretariat "does not endorse nor encourage the use of CRC's for any other purpose" than that for which it was created. The OECD further states that "CRCs are not Sovereign Risk Classifications and should not be compared with the Sovereign Risk Classifications determined by Credit Rating Agencies (CRAs)." Many countries are not classified or rated at all. Usually these are the higher income countries and the smaller countries, which apparently are never analyzed. Surprisingly, a small country with no rating could be subject to a lower risk weight than many rated countries which, prima facie, should be a lesser risk. The OECD ratings do not differentiate between short-term and long-term financing, or between local currency and foreign currency financing.

Consistent with the Dodd-Frank principle of eliminating reliance on external ratings not supported by the bank's own independent evaluation and where the methodology is not made

F.I.B.A.
80 S.W. 8th Street, Suite 2505 * Miami, Florida 33130
Phone: (305) 579-0086 * Fax: (305) 579-0969 * www.fiba.net * e-mail: fiba@fiba.net

publicly available, and based on the fact that the CRCs established by the OECD are NOT Sovereign Risks and were based on 2-year exposures, we respectfully propose the following changes to the interim final rules:

1. We accept the 20% CCF proposed for off-balance sheet exposures of up to one year. However, we propose that a similar concept be applied to trade related, self liquidating financing for on-balance sheet exposures for up to one year (instead of 90 days) provided the bank has proper documentation to substantiate the transaction. This includes loans related to pre-export financing, import financing, refinancing of letters of credit whose term initially was under 180 days and non-financial or trade related Stand-By letters of credit. For these on-balance sheet exposures, a CCF of 30% would seem reasonable and fair and would differentiate these risks from contingent assets.

2. In addition to the above, and if the bank regulatory agencies insist on using the OECD risk ratings (which we find are less reliable than others used by private CRAs) then we would urge you to consider using the same CRCs used by OECD without any further downgrade. These ratings were designed originally for trade transactions of up to 2 years in duration and there is absolutely no need to assign a higher risk to similar transactions of lesser tenure.

As we have indicated earlier, short-term, self liquidating trade related financing has never posed a systemic risk to the banking system and had nothing to do with the last financial crisis. The ICC estimates the default and loss rate on various forms of trade finance has ranged from 0.0007% to 0.03%. The ICC also estimates the typical trade transaction has an average of 147 days. Trade finance is the engine that makes international commerce possible and the lifeline for low-income countries in emerging markets. Anything that increases the cost of financing from these countries will affect their merchandise exports and therefore their balance of payments and commercial accounts.

The Basle Committee on Bank Supervision recognized the importance of trade finance in its October 2011 working paper and estimated that 20% of all trade finance is conducted via letters of credit. That means that 80% is conducted by bank-to-bank lending (correspondent bank financing) and/or documentary collections, many of which are subsequently refinanced. A common terminology used by financial institutions is “pre-export” or “post-import” financing and even “post export” financing. In fact, many emerging countries dictate to their banks the minimum term of financing which invariably is between 180-360 days.

We urge our regulatory banking agencies and our legislators to consider that international trade and commerce is vital to the United States and also vital to our trading partners, particularly the most vulnerable low-income countries in the Americas. The proposed risk weights in the final interim rule are not based on fact and are simply not fair or consistent with the risk of these transactions

Thank you for your consideration. As always we are happy to make ourselves available by phone or in person should you wish to discuss these matters in greater detail.

Sincerely,

David Schwartz
CEO
FIBA
80 SW 8th Street, Suite 2505
Miami, FL 33130