Commerce Bancshares, Inc.

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January 16, 2006

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219
ATTN: Docket No. 05-16

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
ATTN: Docket No. R-1238

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

RE: ANPR for Risk-Based Capital Guidelines; Capital Adequacy Guidelines; Capital Maintenance: Domestic Capital Modifications

Ladies and Gentlemen:

We appreciate the opportunity to comment on the ANPR, commonly referred to by banking industry participants as Basel IA or Basel 1.5. This letter responds to the Agencies' request for broad comment on possible modifications to the proposed risk-based capital standards.

Our bank has participated with The Risk Management Association ("RMA") and a significant number of large and midsize banks in the development of a response to the Agencies that shares our concerns and offers recommendations for your consideration.

We would offer three themes for comment that are also highlighted in the RMA response on behalf of its member banks.

**Use of External Credit Ratings:** The ANPR proposes to broaden the use of NRSRO credit ratings for direct obligations of such rated borrowers and for obligations secured by or guaranteed by NRSRO rated obligors. While this approach might aid the largest U.S. banks, it will provide little or no relief for the vast majority of midsize and community banks. The commercial loan portfolios of these banks are largely constituted with C&I and Commercial Real Estate loans to middle-market and small businesses.

**"One Size Fits All" Does Not Recognize or Promote Risk Management:** As the RMA response points out, large and midsize banks, like our own, have been developing advanced IRB methodologies that are being used today in the stratification and measurement of risk in their loan portfolios. We have done so with the strong encouragement and oversight of our primary banking regulators, in our case, the OCC.

With the regulatory oversight over the past 10 to 20 years, it is probably accurate to say that these internal risk rating systems for loans within the portfolios have substantial similarities. It is also likely that the measurement and calibration of the accuracy of these systems will not measure up to the expectations that are being associated with Basel II advanced IRB expectations.

Nevertheless, the performance of the portfolios of banks that have developed and employed these internal risk rating systems over that timeframe have performed most favorably. Certainly, that seems apparent in the net charge-off and non-performing asset measures over past, recent economic cycles. We would offer the results of our own bank as some evidence of the quality and the impact of these internal risk rating systems on asset quality and earnings. We believe many other large and midsize banks could make similar claims.

**Competitive Equality and Inequality**: The argument has been made that by allowing and/or requiring the 10 to 20 largest U.S. banks to employ advanced IRB methodologies, consistent with what will be required of foreign banks, all of whom compete on an international basis, it will level the playing field in terms of the determination of required capital levels. It will have the effect of allowing these banks to price their credit and non-credit products competitively based on similar levels of risk and capital requirements.

By allowing the largest of U.S. banks to employ advanced IRB methodologies and compete more effectively with foreign banks on matters of capital and returns on capital, there will be an adverse impact on the competitive environment between these very largest banks and smaller, midsize and community banks. This will be particularly true for publicly traded large and midsize banking companies, like our own bank.

The protection of a strong domestic competitive environment should be of greater concern and a higher priority for our U.S. banking regulators than the competitive environment of our very largest banking institutions in the international markets.

**Conclusion:** With these factors considered, we strongly solicit your consideration of the ***Multi-Tier Approach*** advocated in the RMA response on behalf of the largest majority of its members and the banking industry as a whole. The tiered approach in the proposal advocates that banks, other than the 10 to 20 largest U.S. banks, be allowed to use their developing internal risk rating systems and risk management frameworks in the determination of capital needs to protect against credit risk.

Allowing the banks to adapt the proposed ***Multi-Tiered Approach*** will recognize the achievements that have been gained with the encouragement and in-bank supervision of our regulatory agencies in the management of risk. It will encourage further development of risk management systems for this vast majority of U.S. banks in the future.

Yours very truly,

David Kemper

David W. Kemper
Chairman, President &
Chief Executive Officer

Robert C. Matthews, Jr.
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