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**FBE Draft Response to Joint Advance Notice of Proposed Rulemaking (ANPR) on  
Modifications to the Risk-Based Capital Framework**

Ladies and Gentlemen,

The European Banking Federation (FBE)<sup>i</sup> welcomes the opportunity to respond to the Joint ANPR on "Basel 1A". The European banking industry appreciates this effort by the US agencies to address the competitive concerns arising from the implementation of the Basel II advanced approaches amongst the bigger banks in the US through modification of the existing regulatory capital regime.

The FBE does not wish to comment on the broader substance of the ANPR. We do, however, believe that this system should be optional. Banks which intend to move to Basel II should not be required to implement throw-away systems for an interim period. We fully support the Institute of International Bankers' (IIB) position in this respect.

Of most concern to European banks with significant retail subsidiaries in the US is the possibility that regulatory capital calculated under the modified Basel 1A rules will be the benchmark against which the Basel II floors will be applied. If Basel 1A were used as a benchmark it would oblige banks, which are currently working towards Basel II implementation, to modify their current systems to take account of the proposed changes in the ANPR. This would be an unacceptable cost and resource burden for these banks. We would encourage the US agencies to base the Basel II floors on the existing Basel I calculations for the first wave of banks aiming to apply the advanced approaches from the implementation date of 1 January 2009.

The FBE also has concerns regarding the global implications of the implementation of Basel 1A and the potential for an unlevel playing field to develop between the EU and US. We believe that a move towards a more risk-sensitive framework for the community banks in the US can only benefit the wider financial services industry. However, the Basel 1A rules do not go as far as the Standardised Approach under Basel II which will be applied by smaller banks in the EU, as well as in other Basel II countries, in particular with the absence of a capital charge for operational risk. While these banks will not be competing

directly, we believe that this inconsistency highlights the need to continue to encourage global consistency and comparability through the new framework.

Yours faithfully

Guido Ravoet

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<sup>i</sup> Set up in 1960, the European Banking Federation (FBE) is the voice of the European Banking Sector. It represents the interests of over 4,500 European banks, large and small, with total assets of more than €20,000 billion and over 2.3 million employees.