European Banking Federation

Secretary General

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Executive Secretary
Attention: Comments/ Legal ESS
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Jennifer J. Johnson
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Washington, DC 20551

Regs.comments@federalreserve.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW.
Washington, DC 20552
Attention: No. 2006-49

Regs.comments@ots.treas.gov

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

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Subject: **Joint notice of proposed rulemaking to revise the existing risk-based capital framework for banking organisations that do not use Basel II (Basel 1A) - OCC Docket Number 06-15; Board Docket No. R-1238; FDIC FIL-111-2006; OTS No. 2006-49**

Ladies and Gentlemen,

The European Banking Federation (EBF) is the umbrella federation of 29 national European banking federations. It represents the interests of over 5000 European banks, large and small, with assets of more than EUR 20 000 billion and over 2.3 million employees.

Whilst we recognise that the proposals made in the US for the implementation of the Basel 1A capital standards concern in the first place the domestic business, we nevertheless take the liberty to submit some general comments, both on behalf of the European banking organisations that have subsidiaries in the United States and in consideration of the overall Basel II context.

The EBF welcomes the US regulators' intention to enhance the risk-sensitivity of the current capital adequacy rules not only for the larger organisations, but also for the large number of smaller and less sophisticated banks. Alternatively, and indeed preferably, we would welcome the introduction of the simpler Basel II approaches in the US, as it has been considered in the recent discussion.

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In our view, the simpler Basel II approaches would have several advantages over the currently proposed rules. Notably, they are more risk-sensitive than the US regulators' proposal, and they would also be better aligned with the advanced Basel II options. As a result, organisations could move more easily from the simpler to the more sophisticated approaches. Furthermore, we believe that the introduction of the Basel II approaches instead of Basel 1A would reduce the potential for competitive distortions, due to the enhanced consistency between the sets of rules available to banks. Finally, remaining entirely within the Basel II framework would facilitate the risk management of internationally active organisations, as foreign-based organisations would be able to align their US models with the domestic models. An equivalent effect could be achieved for US organisations with non-US subsidiaries if the US regulators decided to open the use of the simpler approaches for minor parts of the portfolios of Basel II mandatory banks.

Furthermore, we believe that for the sake of regulatory clarity as well as for competitive reasons the number of choices given to banks should remain limited, and that the standardised approach should therefore replace the current rules rather than to be introduced as an additional non-binding option.

However, if the US regulators decided in spite of these arguments against the introduction of the simpler Basel II approaches, we would suggest that all effort be made to at least align the proposed Basel 1A rules with the simpler Basel II approaches. This should serve to alleviate as much as possible the adverse consequences in terms of both the risk management for internationally active institutions and competitive equality within the US. Enhanced consistency between the different solvency measurement approaches available in the US would furthermore help to maintain the possibility for banks to move from the simpler to the more advanced rules. Equivalent to the above-mentioned reasoning, we additionally believe that if Basel 1A is introduced, it should definitely replace the current rules.

Finally, we wish to suggest that the discussion around the simpler capital adequacy rules should not add to the delay in the implementation of the Basel II rules and thereby prolong the gap period in the international implementation of the rules. If necessary, we believe that there could be a split implementation date for the implementation of the sophisticated and the simpler capital adequacy rules.

We hope that you will find these comments informative. Please don't hesitate to contact me for any question you might have.

Yours sincerely,

Guido Ravoet