AmSouth Bancorporation
AmSouth Bank
Post Office Box 11007
Birmingham, Alabama 35288
(205) 307-4190

Sloan D. Gibson
Vice Chairman and
Chief Financial Officer

Mme NOUY

AMSOUTH

May 31, 2001

Basel Committee Secretariat
Basel Committee on Bank Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland

RE: The New Basel Capital Accord: January 2001 Consultative Papers

Dear Sir or Madam:

AmSouth Bancorporation (AmSouth) is pleased to have the opportunity to comment on the January 2001 proposed revisions to the Basel Committee's risk-based capital accord. AmSouth is a regional bank holding company headquartered in Birmingham, Alabama with $38.8 billion in assets and 600 branch offices in the southeastern United States.

I. Overview and Summary of Recommendations

We agree with the Committee's goal of introducing a risk sensitive framework for capital that is compatible with current market practices, however, we have significant concerns about key aspects of the current capital proposals. The proposed 2001 Accord also intends to treat all financial service providers consistently, not advantaging any one provider based on charter. It strives to maintain the absolute levels of capital in the banking system with only a reallocation due to the risk levels present in different organizations. However, the risk of adverse outcomes are quite high due to the lack of consistent practices currently deployed in the industry and the complexity of the risk assessment processes proposed by the Accord. The comments included below reflect the observations of our review of the proposed accord and the insights provided by the Financial Services Roundtable, of which we are a member. Our primary concerns are centered in three areas: the operational risk-based capital charge, the proposed accord will not deliver its intended goal of capital neutrality, and the internal risk based assessment models need additional development.

A. Operational Risk

AmSouth is concerned with the proposed operational risk-based capital requirement. We believe significant additional efforts are required to appropriately assess the operational risk component of capital. Many institutions do not have the data necessary to calculate the operational risk factors. The impact of insurance and other control environment issues should be evaluated to determine if any operational risk has been mitigated. Also, the proposed credit risk component of capital should be reviewed to ascertain if this portion of capital also contains an operational risk factor. We believe the addition of the operational risk component to the capital requirement will result in an overall increase to the currently required capital levels. This additional capital requirement will place financial institutions at a distinct disadvantage to other financial services providers from the less well-regulated non-bank sector.

Recommendations

- eliminate a separate capital charge for operations risk;
- delay any specific operational risk component of capital until more accepted measurement techniques are available.

B. Capital Neutrality

AmSouth supports the Committee's efforts to ensure that the new framework will not require additional regulatory capital in the banking system. However, reviews of both the standardized and internal ratings based (IRB) approaches suggest that the proposed accord does not achieve this objective. The proposed Accord provides for IRB weightings ranging from 10% to 625%, with far fewer credits qualifying for factors below 100% than above 100%. Also, imposition of an operational risk component and requirement of capital charges on assets previously outside the framework will result in higher required capital levels.

Recommendations

We urge the Committee to conduct additional research on the impact of the proposed accord in order to:

- assess more accurately the extent to which the proposed accord is capital neutral, as intended;
- ensure that the variances around average capital level are not so broad as to arbitrarily create big winners and losers;
- evaluate the impact of the accord on the global economy;
- provide opportunity for continued industry comment on additional changes to the accord necessary to mitigate the macroeconomic concerns, and the potentially arbitrary impact on competitiveness within the financial sector.

C. IRB Concerns

While AmSouth supports efforts to move toward a more sensitive, institution-based approach, our reviews of the proposed IRB foundation and advanced approaches clearly indicate that these regulatory models are not yet sufficiently evolved to avoid unintended outcomes, with potentially serious repercussions for some institutions. We believe the IRB models will result in higher capital levels than the standardized approach for many institutions. We are also concerned about the requirement that would make adoption of the IRB approach contingent on using these models as the primary driver of management decision-making. Given the serious problems with the calibration of the IRB, this requirement could drive management decisions that would undermine both competitiveness and safety and soundness.

Also, the Committee should review the recommendations for retail exposures. The Committee should evaluate if the approach suggested is a quantification of the loan loss reserves required or if it truly reflects the capital that should be attributed to the retail credits. The losses from retail credits tend to be more predictable, therefore requiring lower capital levels. This lower capital level is not reflected in the proposed accord.

Finally, the IRB proposal provides flexibility in how small business lending is classified. Additional consideration should be given to the definition of small business lending and the criteria to be used to assess the proper evaluation of this loan group on a pool basis or on an individual credit basis.

Recommendations

We urge the Committee to:

- delay the IRB foundation and advanced models;
- permit reliance on internal models from companies that have demonstrated advanced and reliable systems, without superimposing regulatory formulas on such models;
- loosen the strength of the tie-in between the IRB model and management decision making;
- Clarify the IRB proposal for retail exposures.

III. Conclusion

AmSouth commends the efforts of the Committee to develop a new capital framework that relies on market indicators and individual institution experience to measure risk and allocate regulatory capital. Given the rapid pace of development in financial products and risk management techniques, it is a tremendously difficult undertaking.

However, as we have outlined above, several aspects of the proposal are not yet developed fully enough to serve as reliable tools for setting regulatory capital. As the

Committee moves forward, we urge caution on those elements of the proposal — most notably IRB and operational risk — that have the potential to cause significant market dislocations. We strongly urge the Committee to ensure that the final accord adheres to the Committee's initial objectives — to maintain competitive equality and preserve overall capital at a level that, on average, neither raises nor lowers capital for the banking system.

Thank you for considering the views of AmSouth on these important issues. If you have any further questions or comments on this matter, please do not hesitate to contact me.

Sincerely,

Sloan D. Gibson