May 31, 2001

Federal Reserve Board
Basel 2001 Capital Proposal, Mail Stop 179
21 st and C Streets, NW
Washington, DC 20551

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

Compass Bancshares, Inc. (Compass) appreciates the opportunity to respond to the Basel Committee on Banking Supervision's consultative proposal setting forth the proposed changes to the Basel Capital Accord. Compass is a $22 billion Sunbelt-based financial services company that operates 341 full-service banking offices in Alabama, Arizona, Colorado, Florida, Nebraska, New Mexico and Texas. We support the Committee's efforts to more closely align bank capital requirements with the actual risks that capital is meant to cover. However, we feel the accord is too complex, not yet complete and the costs to implement for regional banks do not appear justifiable. We are concerned the proposed accord will not improve the safety and soundness of the majority of the U.S. banks.

Additionally, we are concerned about the comment period. This highly complex proposal has significant pending items and the completed sections contain overlapping options that offer several approaches. It is impossible to adequately address this incomplete proposal during this comment period. Based on the foregoing, we strongly encourage the Basel Committee to complete the draft proposal, U.S supervisors provide additional guidance for implementation, and extend the comment period. This proposal is too significant to be rushed through the approval process.

In light of the current comment deadline, we have several comments on the proposal. The following are comments and concerns related to the proposal based on the three "Pillars."

Pillar 1 – Minimum Capital Requirements

The Pillar 1, minimum capital requirements, includes both the standardized and the new internal ratings based (IRB) approaches (foundation and advanced).

One of the most significant changes in the new Accord is the proposal for an operational risk charge, which is expected to represent, on average, 20% of the minimum regulatory capital charge. The operational risk concept is sound, however, like many other parts of the proposal, it seems difficult or impossible to actually gauge the effect without additional time and further implementation guidance. If the simplest approach is selected, a fixed percentage of an institution's gross income is used. This approach appears to completely invalidate the intended purpose of the proposal – focus on operational risk. Is it possible to accurately measure an institution's operational risk by applying a fixed percentage of gross revenue?

The IRB approach is intended to build on internal credit risk rating practices of banks used by some institutions to estimate the amount of capital they believe necessary to support their economic risks. The risk-management infrastructure necessary to evaluate a customer's creditworthiness with the required precision under the proposal seems currently unnecessary for most U.S. institutions.

The Consultative Document on Asset Securitization, embedded in Pillar 1, has many pending sections which it appears the committee intends to refine during the consultative period. It is difficult to respond to this incomplete draft, however, we have included an attachment listing some of our most significant concerns, questions and recommendations related to the document.

Pillar 2 – Supervisory Review

Pillar 2, supervisory review, encourages supervisors to assess banks' internal approaches to capital allocation and internal assessments of capital adequacy, and, subject to national discretion, provides an opportunity for the supervisor to indicate where such approaches do not appear sufficient.

In the U.S., supervisory oversight has been an integral part of the regulatory framework. Supervision is currently risk-focused. It emphasizes the adequacy of controls and internal processes. U.S. supervisors know the risk profiles of their institutions and allocate resources accordingly.

Under the proposal, it appears that the supervision burden will be increased substantially for U.S supervisors. There is a menu of approaches to measure each type of risk. Many of the approaches include inputs and specific calculations which will require supervisors to validate the models and methods used to develop the inputs. The supervisors would need to approve many of these models and inputs prior to implementation of the advanced approaches. Is it even feasible to implement the advanced approach from a supervision standpoint based on the significant number of additional supervisors that would need to be available, probably on site at the institutions, to help develop and approve the ratings? Should we completely change the current effective system, or merely tweak it for the most complex institutions?

Pillar 3 – Market Discipline

The third pillar, market discipline, relies on public disclosure to ensure the safety and soundness of the banking system. Market discipline disclosures discussed in the proposal also raise additional issues. We understand the Committee's goal with Pillar 3, however the result appears to be massive disclosures which would be costly to provide and confusing for the users of the information. The recent amendments to the Call Report and the disclosure requirements of U.S. Financial Accounting Standards Board Statement of Financial Accounting Standards No. 140 appear to have addressed the majority of the concerns of the Committee. To require more information would result in confusing financial statements and could reveal proprietary information. We feel the current disclosure requirements for U.S. institutions are adequately addressed and do not need to be amended.

General Comments/Concerns

The current standard was structured on the basis of credit risk alone. Its 8 percent capital charge level was set higher than warranted for credit risk alone, in effect incorporating a buffer to cover other risks. As the precision in measuring the credit and other risks is refined and capital reduced, are some of the buffers lost? There appears to be a risk that the proposal could have the effect of reducing capital for the more complex and risky institutions and therefore reduce the safety and soundness of the institutions.

The current capital charges may not be appropriate for some of the largest institutions given the complexities and innovation in the financial markets. However, the proposed approaches, even the standardized approach, would be very difficult to implement at less complex institutions that are not actively participating in these high-risk activities. Additionally, as many of the larger institutions implement the IRB approach, other institutions will be forced by competitive pressures to pursue the advanced IRB approach. The allocation of resources by these less complex institutions, and resulting time and effort by their supervisors, would be neither desirable nor efficient.

The majority of U.S. banks do not have externally rated credits, nor do they lend to foreign governments. It does not appear to make sense for these institutions to incur the costs to change their system when there would be little, if any, benefit.

Conclusion

The significant issues that are still to be resolved by the Committee, along with the short comment period, have made it impossible to evaluate the effect the proposal will have on our institution's capital requirements. We strongly encourage the Basel Committee to complete the unresolved issues, issue a complete draft and then allow an adequate comment period.

Compass supports the Committee's continuing efforts to modify capital requirements to truly reflect the relative risk associated with various activities. However, as discussed above, we are concerned it will be difficult and expensive to develop and to implement the current proposal. We feel the significant costs that will be incurred to implement the proposal will not be justified by the benefits. We do not believe implementation of the proposal is necessary for the vast majority of U.S. institutions. We look forward to continuing to work with the Committee and its staff on the proposals set forth in the Consultative Paper. Thank you for allowing us the opportunity to express our views on this very important subject.

Sincerely,

/s/ Timothy L. Journy

Timothy L. Journy
Executive Vice President and Controller

Attachment

The following are our primary concerns, questions and recommendations related to the Consultative Document on Asset Securitization.

Originating Banks

We recommend the removal of any requirement that a third party hold a first-loss position in order for an originating bank to achieve capital relief. This creates a troublesome inconsistency in how second loss credit enhancements will be treated. A second loss "A" rated security would receive a 50% risk weight if it were held by an "Investing Bank" while it would be deducted from capital if it were held by an "Originating Bank" which also held the first loss position. The point being that if a 50% risk weight is the appropriate amount of capital to be held against an "A" rated asset, then that risk weight should apply regardless of the holder.

We recommend a 0% credit conversion factor for servicer advances. At a minimum, in transactions where the servicer has the discretion to "opt out"of making an advance when it is deemed by the servicer to be non-recoverable, the conversion factor for this type of advance should be 0%.

Investing Banks

We recommend increasing the granularity of the proposed risk weight tranches for investing banks. The current tranches are much too large, particularly for assets rated "A-" and lower.

We also recommend recalibration of the proposed risk weights to lower levels overall. Again, particular attention should be paid to assets rated "A-" and lower.

Sponsoring Banks

We recommend the Committee retain the current credit conversion factor of 0% for liquidity facilities. Increasing the credit conversion factor to 20% will, at a minimum, drive up the cost of liquidity. By increasing the cost, market participants will seek out alternative forms of liquidity from new sources, thereby increasing competition for bank providers. We respectfully request the Committee reconsider their position.

We request clarification that a bank selling its own assets to a conduit it sponsors may provide a liquidity facility to the conduit and still achieve a "clean break". Paragraph 51 of the Consultative Document on Asset Securitization indicates that the Committee believes that a bank cannot do this while at the same time achieving legal isolation. To the extent that liquidity can only be drawn due to market disruptions beyond the control of the sponsoring bank and the conditions under which liquidity may be drawn are fully defined in the governing documents, then the existence of a liquidity facility is consistent with the requirements of legal isolation under SFAS No. 140 and accordingly should satisfy the clean break requirements of the proposal.