

# FEDERAL RESERVE BANK OF CHICAGO

MICHAEL H. MOSKOW

President and Chief Executive Officer

May 31, 2001

Basel Committee on Banking Supervision  
c/o Basel Committee Secretariat  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

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Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Re: **New Basel Capital Accord**

Committee Members and Ms. Johnson:

On behalf of the Federal Reserve Bank of Chicago, I am pleased to have this opportunity to comment on the proposed New Basel Capital Accord. The Chicago Reserve Bank supports the ongoing efforts of the Basel Committee on Banking Supervision to more closely align banks' economic risk and regulatory capital requirements.

The Chicago Reserve Bank's comments on the proposed capital framework are informed by three general principles:

- Capital charges should, to the fullest extent possible, be risk sensitive.
- The preferred role of a regime of capital charges is to provide incentives for banks to manage risks appropriately.
- Supervisory authorities should utilize capital charges that, when applied in conjunction with well-informed supervisory oversight, lead to the adoption of sound risk management practices.

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The Bank's comments, which are contained in the attached paper prepared by Bank staff, cover three specific areas: (1) we expand on the position expressed in our March 2000 letter on the First Consultative Proposal with a discussion of the proposed capital charges for credit risk, in particular the proposed Internal-Rating Based Approach ("IRB"); (2) we reiterate our support for expanded capital reductions where effective risk mitigation procedures are employed; and (3) we discuss the proposed capital charges for operational risk.

I hope you will find these comments useful. If we can be of further assistance, please do not hesitate to contact me.

I want to thank the Basel Committee for this opportunity to comment. The Chicago Reserve Bank looks forward to making further contributions to the development of public policy in this very important area.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Mahoney". The signature is fluid and cursive, with the first and last names being more prominent.

Attachment