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March 9, 2001

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

To Whom It May Concern:

The consultative paper issued by the Basel Committee on Banking Supervision wherein the "three pillars" of capital adequacy are addressed is interesting but has very little relevance for community financial institutions. This proposal is intended to address the complex financial instruments and transactions that have developed since 1988. Recently U.S. bank regulators proposed a much-simplified capital rule for small non-complex banks. If this rule is adopted the Basel Committee's proposal becomes largely irrelevant for most community banks except for the competitive inequities it may create.

The complexity of the Basel Committee proposal will make adherence and enforcement very difficult. How will these rules be applied to smaller, less complex institutions? How will risk disclosure methodologies be measured across firms? I personally see numerous problems from both the bank and regulatory side.

In theory, providing options for minimal capital requirements is appealing. In practice I see numerous problems not the least of which are implementation and proper verification. For example, as long as a financial institution is doing well, full disclosure of risk analytics is easy. Once problems begin, however, the tendency of bank management is to minimize disclosures or "spin" risk information in the most favorable light. How do regulatory agencies determine if this is happening? There must be some sort of independent testing and verification of institutions' risk management systems. Who will do this?

How will the competitive inequities created by these guidelines be reconciled? Under the proposal only a handful of banking institutions in the United States will have systems sophisticated enough to take advantage of the most attractive options for achieving minimal capital requirements. The few banks that qualify under these standards will not be required to keep the same level of capital against financial instruments as the other 99% of financial institutions in this nation who cannot qualify under these standards. Thus, as proposed, the Basel Committee's standards create an unfair competitive advantage for the very largest financial institutions in the United States over all other financial institutions.

On the whole, the Basel Committee's proposal, while interesting, is extremely complex, places heavy burdens on both banks and regulators and creates competitive inequities between the very largest financial institutions and all other financial institutions.

I appreciate the opportunity to comment.

Warmest regards,

Camden R. Fine
President/CEO

CRF/jw