CSBS SINCE 1902
CONFERENCE OF STATE BANK SUPERVISORS

November 14, 2012

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064-AD96

Dear Mr. Feldman,

The Conference of State Bank Supervisors (CSBS) is pleased to comment on the Federal Deposit Insurance Corporation's (FDIC's) Initial Regulatory Flexibility Analysis (IRFA) for its Notice of Proposed Rulemaking (NPR) entitled *Regulatory Capital Rules: Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements* (Standardized Approach proposal).

Section 3(a) of the Regulatory Flexibility Act (RFA) requires an agency to publish in the Federal Register an IRFA or a summary of its IRFA, or to certify that the proposed rule will not have a significant economic impact on a substantial number of small entities. For purposes of the IRFA, a small entity includes a banking organization with total assets of $175 million or less.

The FDIC published this IRFA addressing the Standardized Approach Proposal on October 17, 2012 separately from the Federal Reserve Board (FRB) and the Office of the Comptroller of the Currency (OCC), the two agencies with which the FDIC published the proposed rule.

FDIC CONCLUSIONS

As detailed in the IRFA, to determine if the Standardized Approach proposal would have a significant economic impact on small banks and savings associations, the FDIC compared the estimated annual cost with annual noninterest expense and annual salaries and employee benefits for each institution. If the estimated annual cost was greater than or equal to 2.5 percent of total noninterest expense or 5 percent of annual salaries and employee benefits, the FDIC classified the impact as significant. The FDIC has concluded that the proposals included in the NPR would exceed this threshold for 2,413 small state nonmember banks, 114 small savings banks, and 45 small state savings institutions. Accordingly, for the purposes of this IRFA, the FDIC has concluded that the changes proposed in the Standardized Approach NPR, when considered without regard to other changes to the capital requirements that the agencies simultaneously are proposing, would have a significant economic impact on a substantial number of small banks and savings associations. Further, if both the Standardized Approach NPR and the Basel III NPR were adopted together, the impact on small institutions would increase.

ECONOMIC IMPACT

In our comments to the agencies on the Basel III and Standardized Approach proposed rules, we highlighted the potentially negative impact the proposals could have on the economy and on job growth. It seems the analysis conducted in the FDIC's IRFA supports our projections. The FDIC has estimated that the Standardized Approach proposal will have a significant impact on 2,413 institutions with assets below $175 million that are under the agency's regulatory purview. This is clearly a significant number of institutions. It is important to note that this analysis was only performed for those institutions below $175 million in assets. The same type of analysis, if applied to the rest of the industry, may yield more striking results.

As detailed in our comment letters, we support the effort to quantify the impact these proposals could have on the industry. We therefore endorse the FDIC's work in this area, and we believe the FDIC employed a thoughtful and sound methodology to evaluate the potential impact on small institutions. Given the fact that this analysis has yielded a positive affirmation that the proposals would have a significant economic impact on at least those institutions below the RFA threshold, we strongly urge the FDIC and the other agencies to consider measures that may be taken to lessen the potentially negative impact their proposals may have on the general economy and on job growth.

INCONSISTENCY IN EVALUATION

CSBS would like to note the inconsistent fashion in which the agencies have performed their required IRFAs on the Basel III and Standardized Approach proposals. We understand the agencies' obligation is to focus on the institutions they individually regulate. However, we find it troubling that the agencies seem not to have worked closely on these analyses and did not develop a common understanding of the proposals' potential impact. All the agencies performed an IRFA on the Basel III proposal and published some preliminary economic impact dialogue in the Standardized Approach proposal. The methodologies the agencies have used to evaluate the proposals' impact are different, and the conclusions are not consistent.

We believe it is important for the agencies to establish a unified understanding of the potential economic impact the Basel III and Standardized Approach proposals would have on the industry before releasing proposals of this magnitude. We note that the FDIC's supplemental analysis was released only four business days before the end of the comment period for the proposal in question. The FRB and OCC still have not released their own supplemental analyses referenced in the FDIC's notice. The FDIC maintains that any comments on this notice will be considered in the development of a final rule. However, we believe the utility of the IRFA is significantly minimized since the public was not able to supplement its analysis of the proposals themselves with the agencies' projections.

Overall, we are concerned that the inconsistent approach employed by the agencies to evaluate the impact of the proposals, combined with the actual conclusion of the analysis, which is not encouraging, contribute to the uncertainty surrounding the proposals and the need to re-evaluate their structure.

Sincerely,

John W. Ryan
President and CEO