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Office of the Comptroller of the Currency
Public Information Room
250 E. Street SW
Mail Stop 1-5
Washington, DC 20219

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and C Streets NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/OES
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

RE: Interim Rule for Risk-Based Capital Guidelines in Securities Borrowing Transactions (OCC Docket No. 00-28; Federal Reserve Docket No. R-1087)

Ladies and Gentlemen:

The Bond Market Association (the "Association")¹ appreciates the opportunity to comment on the above-referenced interim rule, issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the "Agencies") which changes the capital treatment for cash collateral that is posted in connection with certain securities borrowing transactions. The Association strongly supports the interim rule.

The interim rule would allow banking organizations under the market risk rules to exclude from risk-weighted assets receivables arising from the posting of cash collateral associated with securities borrowing transactions to the extent such receivables are collateralized by the market value of the securities borrowed, subject to certain limitations set forth in the interim rule. The Association agrees with the Agencies' determination that the amended capital holding requirements under the interim rule correlate more closely with the actual risk in securities borrowing transactions.

The Agencies have also requested comment on the capital treatment of securities collateral associated with securities borrowing transactions. As noted in the interim rule, the securities borrower does not incur a capital charge when it posts securities as

collateral. The Association believes that the Agencies should not impose new capital charges for the posting of securities collateral where none currently exist, particularly in light of the recent publication of the new Basel Capital Accord. The Agencies should revisit this issue with the benefit of industry input once the industry has had the opportunity to review and comment upon the treatment of securities collateral in the new Basel Capital Accord. If the Agencies determine that new capital rules should be imposed on securities collateral prior to implementation of the new Basel Capital Accord, the Association suggests a capital charge be imposed only to the extent the mark-to-market value of the securities collateral exceeds the mark-to-market value of the securities borrowed.

Further, the Agencies have requested comment as to whether the revision to the calculation of the capital requirement for securities borrowing transactions should be limited only to banking organizations that have implemented the market risk rules. The Association believes that the reasons stated by the Agencies and restated here apply also to those banking organizations that have not implemented the market risk rules. Therefore, the interim rule should apply to those banking organizations that have not adopted market risk rules.

Again, the Association welcomes the opportunity to comment on this interim rule. If you have any questions, please feel free to contact me at 212.440.9474.

Sincerely,

/s/ Omer Oztan

Omer Oztan
Assistant General Counsel

cc:

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Funding Division Executive Committee

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Footnotes

1. The Association represents securities firms and banks that underwrite, distribute and trade fixed income securities domestically and internationally. These securities and related instruments include: repurchase agreements; U.S. Treasury securities; federal agency securities; mortgage and other asset-backed securities; corporate debt securities; money market instruments; and municipal bonds. Further information concerning the Association may be obtained from its website at (www.bondmarkets.com).