
**Office of the Comptroller of the Currency
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
Office of Thrift Supervision**

December 22, 2004

Earlier this year the Basel Committee's Capital Task Force (CTF) and Accord Implementation Group (AIG) established the LGD Working Group to examine issues related to the quantification of loss-given-default parameters needed to implement Basel II. Of particular interest to the group are issues related to the quantification of loss-given-default parameters that reflect economic downturn conditions. The Working Group has developed the attached discussion note to provide a basis for dialogue between supervisors and banks. Over the coming weeks, supervisors in Basel Committee member countries will be using this note to collect industry views, which will provide a valuable input into the ongoing work of the AIG and the CTF.

The Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision are distributing the LGD Working Group's discussion note to give interested parties in the United States an opportunity to share their views on the issues discussed therein. The U.S. agencies will summarize these views (proprietary business information contained in individual responses will be kept confidential) and will present what they have learned to the LGD Working Group. In this regard, responses that directly address the set of questions posed in the Working Group's discussion note would be most helpful, although more general comments are also welcome.

Although comments received on the attached note may be helpful to the U.S. agencies in developing rules and supervisory guidance for Basel II, it is important to keep in mind that the note was not developed for that purpose. Moreover, the discussion note should not be interpreted as supplemental instructions for U.S. banks participating in the Fourth Quantitative Impact Study (QIS-4).

While the agencies are interested in hearing from interested parties at any time, comments provided on or before January 18, 2005 would be most compatible with the work plan of the LGD Working Group.

Comments on the discussion note should be directed to one of the following agency contacts:

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Attachment