



Mellon Financial Corporation

Michael E. Bleier  
General Counsel

September 24, 2004

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Re: Docket No. OP-1207; Proposed Changes to Bank Holding Company Rating System

Dear Secretary Johnson:

Mellon Financial Corporation appreciates this opportunity to comment on the changes the Federal Reserve Board (the "Board") proposes to its Bank Holding Company Rating System that appeared in the July 23, 2004 issue of the *Federal Register*.

A troubling feature of the proposal is that although the Board explains that it will rely principally on a primary regulator's conclusions about a subsidiary bank, the Board nevertheless proposes to reserve the right to differ from that regulator's conclusions and assign a rating far different from that suggested by that other regulator. Such an option would create the possibility that Federal Reserve staff members' judgment will be substituted for that of another regulator more familiar and experienced with the operations, issues, business practices, and market of a particular bank. Clearly, a bank's primary regulator is the best authority to examine and make determinations with respect to that bank. We recognize that the Board has been assigned the role of "umbrella regulator" of bank holding companies by the Gramm-Leach-Bliley Act, but the fact remains that Federal Reserve System staff have limited experience in the examination and rating of most types of depository institutions, including national banks. The option to disagree with a primary regulator should be abandoned by the Board, or at the least exercised in only the most compelling circumstances.

We are also concerned with the Board's apparent intent to examine virtually any type of functionally regulated nonbank subsidiary, such as mutual funds. Federal Reserve examination staff have limited experience with many types of such entities, and we believe the Board should continue to rely on the primary or functional regulator of such entities to examine them.

Similarly, we urge the Board to make all reasonable effort to assure that examination personnel, when reviewing a subsidiary, take appropriate steps to coordinate with the

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subsidiary's primary and functional regulators. We believe that such coordination efforts are likely to increasingly involve agencies, such as the SEC and state insurance regulators, that have not traditionally coordinated examinations with each other or the Federal Reserve. Consequently, the Board must not overlook the importance of proper training of examination and other staff to work effectively with other regulators. The absence of coordination with, and appropriate deference to, the regulator best equipped to serve as the primary or lead examining authority will almost certainly result in harm to the regulated entity, and perhaps its affiliates.

Another problematic element of the proposal is the Board's contemplation of adding another qualitative component to its rating process once the new Basel II advanced models are finalized. This is a matter for which the SEC is the most experienced and qualified authority. Therefore, we recommend that the Board refrain from adding this item to its rating system, and instead rely on the SEC, which has been regulating disclosures for over half a century.

If you have any questions, please do not hesitate to contact me at 412-234-1537..

Sincerely,

A handwritten signature in black ink, appearing to read "M. Bleier", is written over a light gray rectangular background.

Michael E. Bleier

cc: J. Abdelnour  
L. Cunningham