From:	Natixis Wholesale Banking US, Dan Wasserburg
Proposal:	1438 (Ver 2)(RIN 7100-AD86)-Reg YY -Foreign Banking Organizations & Foreign Nonbank Financial Compan
Subject:	Regulation YY

Comments:

[p]Public Comments on Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies:

Title: Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies

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Comment: The Federal Reserve's proposal on Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations (Vol. 77, No. 249, 12 CFR Part 252) contains the following: [/p]

[p]G. Potential Market Indicators and Potential Trigger Design
1. Equity-Based Indicators
Expected default frequency (EDF). EDF measures the expected probability of default in the next 365 days. EDFs could be calculated using Moody's KMV RISKCALC model.[/p]

[p]This appears on page 47 of the PDF or page 76673 of the Federal Reserve's official document (see attached extract.)[/p]

[p]I believe that the reference to RiskCalc is incorrect. Instead, the reference should be to Moody's KMV CreditEdge model. The RiskCalc product was built and used specifically for generating EDFs for private, non-financial corporates. As you can see from page 2 of the attached Moody's KMV Fact Sheet:

Moody's KMV RiskCalc USA 3.1 was developed and validated using 183,046 financial statements from over 40,000 private U.S. companies, excluding financial institutions, state-owned companies, non-profits and real estate developers.[/p]

[p]CreditEdge is Moody's KMV's implementation of a modified Merton model for calculating EDFs of firms with publicly traded common shares, including those of banks with publicly traded shares. (See attached Moody's KMV fact sheet for CreditEdge.)[/p]

[p]While it is true that both RiskCalc and CreditEdge generate EDFs, only CreditEdge would be

applicable to the financial institutes under discussion in the Fed's proposal.[/p]

[p]Please feel free to call me or email should you have any questions. My group has been using RiskCalc, Credit Edge, Market Implied Ratings and other tools for some years now to monitor counterparty credit risk exposures, so we're familiar with their practical applications.[/p]

[p]Thank you,
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