

MEMO# 16616

October 7, 2003

DRAFT INSTITUTE COMMENT LETTER TO THE EUROPEAN COMMISSION ON CAPITAL ADEQUACY

URGENT/ACTION REQUESTED [16616] October 7, 2003 TO: INTERNATIONAL COMMITTEE No. 65-03 RE: DRAFT INSTITUTE COMMENT LETTER TO THE EUROPEAN COMMISSION ON CAPITAL ADEQUACY Attached is the Institute's draft comment letter on the European Commission's Third Consultation Paper on Capital Requirements for Credit Institutions and Investment Firms.¹ The Third Consultation Paper provides the basis upon which the Commission expects to issue draft proposals for a directive on new capital requirements for credit institutions and investment firms in the European Union in early 2004. In the letter, the Institute expresses two particular concerns with respect to the revision of the capital adequacy framework for asset managers: (1) bank-styled capital requirements are not appropriate for the asset management industry and (2) use of insurance should be permitted to offset minimum capital requirements. The letter states that the Institute is pleased that the Commission has acknowledged that, in the case of asset management firms, their limited activities and risk profile indicate the need for a modified approach. Specially, the Institute supports the Commission's proposal to permit asset management companies to continue to calculate their minimum capital requirements under the current rules (13-weeks of expenditures). The letter, however, expresses disappointment that the Commission reversed its position of permitting the use of insurance under all three methods of calculating capital. Specifically, the Institute is concerned that the Commission decided not to permit the use of insurance to offset capital requirements if firms use the two simpler (Basic Indicator and Standardised) approaches to calculating minimum capital. The letter takes the view that it is critical for insurance to be part of all of the methodologies for calculating minimum capital, including the current expenditure-based approach. Finally, the letter urges the Commission to reconsider the specific conditions under which Member States may grant waivers to investment firm groups from the requirements to consolidated capital. ¹ See Memorandum to International Members No. 23-03 (16260) July 7, 2003. ² If you have any comments on the draft letter, please contact me by Monday, October 13, 2003 at jchoi@ici.org or at (202) 326-5810. Jennifer S. Choi Associate Counsel Attachment (in .pdf format)