

MEMO# 13705

July 6, 2001

DELAY OF BASEL COMMITTEE'S CAPITAL ADEQUACY PROPOSALS

[13705] July 6, 2001 TO: INTERNATIONAL COMMITTEE No. 42-01 RE: DELAY OF BASEL COMMITTEE'S CAPITAL ADEQUACY PROPOSALS On June 25, 2001, the Basel Committee on Banking Supervision issued a press release stating that the Committee has decided to modify the timetable for completion and implementation of the new Basel Accord in light of the numerous comments it has received.¹ The Committee intends to release a proposal for an additional round of consultations in early 2002 (instead of July 2001) and to finalize the new accord during 2002 (rather than the beginning of 2002). The Committee expects an implementation date of 2005 for the new accord. As you know, in January 2001, the Basel Committee undertook a second round of consultations on a revised capital adequacy framework for banks, banking groups, and holding companies that are parents of banking groups.² The Committee proposed to impose capital requirements for operational risk for the first time and to calculate those requirements based on operational risk of each business line, including asset management. The Institute submitted a comment letter to the Basel Committee because of the Institute's concern that the new Basel Accord that would take operational risks of asset management affiliates into consideration could have the unintended consequence of setting a capital adequacy standard for the asset management industry and would make judgements about operational risk in asset management without adequate analysis or consultation with securities regulators.³ In its press release, the Committee highlights several important decisions that it has taken with respect to the proposals. The Committee states that it intends to consider the numerous comments and suggestions it has received regarding operational risk, including the comments of the Institute. The Committee notes that it has concluded that the regulatory capital for operational risk as originally proposed reflects too large an allocation of regulatory capital to risk. Accordingly, the Committee intends to reduce the capital charge for operational risk. 1 The press release is available on <http://www.bis.org/press/p010625.htm>. 2 See Memorandum to International Committee No. 28-01 (Apr. 11, 2001). 3 See Memorandum to International Committee No. 37-01 (May 30, 2001) (Institute comments on Basel Committee's proposals). 2If you have any questions about the Basel Committee proposals, please contact me at (202) 326-5810 or at jchoi@ici.org. Jennifer S. Choi Assistant Counsel