

**MEMO# 13154**

February 21, 2001

## **EUROPEAN COMMISSION LAUNCHES SECOND CONSULTATION ON NEW CAPITAL ADEQUACY FRAMEWORK**

[13154] February 21, 2001 TO: INTERNATIONAL COMMITTEE No. 12-01 RE: EUROPEAN COMMISSION LAUNCHES SECOND CONSULTATION ON NEW CAPITAL ADEQUACY FRAMEWORK On February 5, 2001, the European Commission launched a second round of consultations on a new capital adequacy framework for banks and investment firms.<sup>1</sup> The Commission's consultative paper on capital adequacy complements the work of the Basel Committee. The paper focuses on issues of particular concern to the European Union (EU) and highlights differences between the Basel proposals and the approach being considered by the EU. The consultative paper discusses numerous topics and issues, including the "internal ratings based" and "revised standardized" approaches, credit risk mitigation, consolidated capital requirements, interest rate and operational risks, the supervisory review process, and disclosure requirements. A copy of the Commission's consultation paper is attached. Although the current Capital Adequacy Directive does not apply to UCITS funds, non-UCITS funds, or managers of these funds, the EU Council recently has been considering imposing certain minimum capital requirements of the Capital Adequacy Directive on management companies of UCITS funds.<sup>2</sup> If the UCITS amendments incorporate a requirement of the Capital Adequacy Directive into the UCITS Directive, the new framework for capital adequacy also may have implications for the management companies of UCITS funds. For example, the current Capital Adequacy Directive subjects investment firms to a minimum capital charge based on expenditures (13 weeks of their preceding year's fixed overhead) and the current text of the UCITS proposal would incorporate this standard. The Commission is considering the need to revise this current requirement based on expenditures in light of the new risk based capital charges for operational risk that would be imposed on investment firms. The Commission is seeking comments on the consultative paper by May 31, 2001. If you have any comments on the consultation draft, please forward them to me by phone at 1 The Capital Adequacy Directive generally applies to investment firms, including managers of pension funds, that are subject to the requirements of the Investment Services Directive (ISD). The ISD currently does not apply to funds or their managers. 2 See Memorandum to International Committee No. 10-01 (Feb. 9, 2001) (discussing recent proposals to impose, among other things, requirements of ongoing regulatory capital based on expenditures by reference to the Capital Adequacy Directive). 2(202) 326-5810, by fax at (202) 326-5841, or by e-mail at jchoi@ici.org. The Commission intends to issue proposals for a revised capital adequacy framework in the fall of 2001. Jennifer S. Choi Assistant Counsel Attachment Attachment (in .pdf format)

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