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Mr. William J. McDonough
Chairman
Basle Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel

May 31, 2001
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BIS Consultative Document: The New Basle Capital Accord, January 2001

Dear Mr McDonough,

BVI[1] welcomes the opportunity to comment on preliminary basis on the second consultation of the Basle Committee on Banking Supervision on the proposal for a revised regulatory capital regime.

BVI, however, is concerned on several counts over the impact of capital requirements on the European investment fund industry, especially given the singling out of a new category of risk (i.e. operational risk) that presumably would require a significant and yet accurately to define capital charge.

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1 BVI Bundesverband Deutscher Investment-Gesellschaften e.V. represents the interests of the German investment fund industry. Its 72 members currently manage more than 7,400 investment funds, mainly UCITS, with assets under management in excess of € 900 bn. The units of these funds are held by more than 12 million unit holders.

A Level-Playing Field

The Basle Committee proposal for a new Accord has been designed to apply only to the banking industry and its affiliated entities, including investment fund management firms. This constitutes a distortion of competition as fund management companies that belong to insurance groups and non-financial services groups would be excluded from the scope of the new Capital Accord. We believe that it is imperative that a level playing field in the investment fund business must be maintained and therefore strongly urge the Basle Committee not to include investment funds in the scope of the new Capital Accord at this point in time. In this way, at least a partial level playing field could be maintained between banks and other financial service providers.

Methodology

Fund management companies are primarily affected by the proposed rules on operational risk. As the Basle Committee itself states, this area is still in its infancy and the methodology to assess these risks still needs to be developed. In this context, the Basle Committee also asks for more qualitative data to enable the definition of meaningful rules in this area. FEFSI[2] has commissioned an independent European study by the University of Toulouse concerning this subject, a draft of which should be completed by autumn 2001.

BVI notes the Basel Committee's statement that it intends to work with the industry further on this topic and we accordingly look forward to hearing in more detail how the Basel Committee plans to deal with the question of operational risk. We support the recent suggestion from the banking federations of Canada, Japan, USA and the European Union to provide interim reports possibly before August enabling a response from industry by October.

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[2] FEFSI, the *Fédération Européenne des Fonds et Sociétés d'Investissement*, represents the interests of the European investment funds industry. Through its members, the national associations of the 15 EU member states, the Czech Republic, Hungary, Norway, Poland and Switzerland, FEFSI represents some 900 management companies and over 36,000 investment funds with EUR 4.5 trillion in investment assets.

Banks' Investments in Investment Funds

BVI urges the Basle Committee to address specifically the treatment of units/shares of collective investment undertakings (CIUs) in the 1st Pillar of the new capital accord. The capital charge for investments of banks in CIUs should be linked either to the issuer of the units/shares of the CIU itself or to the issuer of the assets, which are held in the CIU's portfolios ("look-through approach"). The two options should be permissible for banks' investments in CIUs, both in the bank's trading and non-trading book.

This approach is justified as CIUs are subject to prudential regulation, which significantly mitigates the risks of investments. Moreover, there is a practical necessity to add this measure, as there is already considerable bank investment in CIUs in Germany as well as in other European countries.

Credit Mitigation in the Standardised Approach – Collateral

The proposal (No. 89) "that the haircut to be applied to eligible UCITS/units in mutual funds is the highest haircut that would be applicable to any of the assets in which the fund has a right to invest" in, is overstating the credit risk inherent in investment funds[3]. The Basle Accord should at a minimum provide for the option that the haircut to be applied to eligible CIUs is the asset weighted average of the haircuts that are applicable to the assets in which the fund is investing in.

[3] **Example:** In case of an investment fund which is investing 70% of the assets in "AAA rated 1 year bank bonds" and 30% of the assets in "main index equity" this would mean that the haircut for the total fund is equal to the haircut 20 % applicable to "main index equity". This treatment ignores completely the fact that the haircut for the vast majority of assets of the fund is only 1 %. This proposal furthermore denies the additional benefits of risk diversification provided by a regulated investment fund as opposed to direct investments and largely overstates the credit risk of the fund.

Naturally we remain at your disposal for further explanation and comments on areas where you may require such.

Yours sincerely,

signed by	signed by
Rüdiger H. Päsler	Rudolf Siebel LL.M
Managing Director	Director
	General Policy Issues/International Affairs