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Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

The Icelandic Financial Supervisory Authority (FME) has submitted to the Basel Committee its comments on the *Proposal for a New Basel Capital Accord issued January 16, 2001*. In formulating its views on the proposal, the FME consulted the Central Bank of Iceland. The Bank welcomes the progress being made towards improving the capital adequacy framework. It fully shares the views of the FME contained in its comments.

The Central Bank of Iceland wishes to emphasize the point made in the FME comments that new capital accord should not work to the disadvantage of small economies/financial systems and small banks. Different capital rules in large and small countries must not be allowed to give a competitive advantage to bigger banks which might have financial stability implications in smaller countries where banks may not have the same flexibility to choose between options in classifying risk.

The Central Bank of Iceland is aware of concerns that the capital accord may be procyclical in nature. These concerns should be taken seriously and adjustments made to the Proposal if they are found to be valid.

Yours sincerely

CENTRAL BANK OF ICELAND

For Birgir Ísl. Gunnarsson
Governor and Chairman
of the Board of Governors

Guinevere Furber
Assistant Governor

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