April 30, 2001

PE-125-0535/01

William J. McDonough
Chairman
Basel Committee on Banking Supervision
and President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Daniele Nouy
Secretary General
Basel Committee Secretariat
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Chairman McDonough and Secretary General Nouy:

Corporación Andina de Fomento is pleased to have the opportunity to comment on The New Basel Capital Accord consultative document (the "Proposal") issued by the Basel Committee on Banking Supervision in January 2001.

Corporación Andina de Fomento ("CAF") is a multilateral development bank established in 1968 by an international treaty to foster and promote economic development within the countries of the Andean Community. Its principal shareholders are the Republics of Bolivia, Colombia, Ecuador, Peru and Venezuela. CAF provides project and corporate lending and trade financing to public and private sector entities in the Andean Community and the surrounding region. CAF enjoys the privileges and immunities typical of institutions with its supranational status. (For a more detailed description of CAF and its operations, please refer to Annex A to this letter)

In my letter dated November 19, 1999, to Chairman McDonough and Chairman Norgren, I urged the Committee to include multilateral institutions among the entities that would receive risk weightings according to external credit assessments and recommended creating a new category of risk weightings for obligations of multilateral institutions. Accordingly, CAF welcomes the Proposal's new standardized approach for risk weightings that is based on external credit assessments and that would assign a 0%

Corporación Andina de Fomento
Av. Luis Roche, Torre CAF, Altamira. Caracas, Venezuela. Apartados Postales: Carmelitas 5086 y Altamira 69011 - 69012.
Teléfono: (582) 209.2111 - Fax: (582) 284.5754

risk weighting to multilateral development banks ("MDBs") that are "highly rated" by the Committee.

The Proposal recognizes the principle that an MDB may be entitled to a more favorable risk weighting than the risk weighting that would be assigned to a bank or corporate entity carrying a similar credit rating from a recognized credit rating agency, in part because of the supranational shareholder structure and support that is unique to multilateral institutions. The Proposal currently provides that an MDB, a majority of whose long-term securities are rated AAA, would be entitled to a 0% risk weighting if the Committee determines it to be "highly rated", whereas the risk weighting of claims on a bank or corporate with a similar external credit rating would be 20%.

CAF believes that this same principle should be extended to MDBs whose long-term securities are rated A- or better and that their supranational structure and support should entitle them to a more favorable risk weighting than banks and corporates with a similar securities rating. Under the Proposal as currently drafted, MDBs that do not satisfy the Basel Committee's criteria for 0% risk weighting are assigned the same risk weightings as banks and corporates with similar external credit ratings. This results in a significant risk weighting disparity among MDBs that does not apply to any other category of issuers under the Proposal, i.e., the range between the 0% risk weighting assigned to a AAA "highly rated" MDB and the 50% risk weighting assigned to an A-rated MDB, such as CAF, is far greater than the range between the 20% risk weighting for a AAA rated bank or corporate and the 50% risk weighting for a A- rated bank or corporate.

In light of the 0% risk weighting assigned to many of the MDBs with which CAF competes in the capital markets for funds, the 50% risk weighting assigned to CAF's obligations and the 20% risk weighting assigned to its short-term obligations would unduly adversely affect CAF's cost of funds and, under certain market conditions, could adversely affect its ability to raise funds in the international capital markets. An MDB, such as CAF, whose long-term securities are rated A and to which a 50% risk weighting is assigned under the Proposal, may find it more difficult to compete with a "highly rated" MDB assigned a 0% risk weighting than is currently the case. CAF believes this disparity is too great and that it can and should be reduced as the Basel Committee continues to refine the new capital adequacy framework.

Specifically, CAF proposes that those MDBs with high external credit ratings (AAA to AA- and A+ to A-) that do not otherwise meet the Basel Committee's standard for 0% risk weighting should receive a preferred risk weighting of 20% for long-term claims and 0% for short-term claims rather than the levels that would prevail under the Proposal.

While CAF acknowledges that the ratings of its member countries may not at the present time satisfy the Basel Committee that CAF should receive 0% risk weighting, CAF respectively requests that the Basel Committee note CAF's supranational and preferred creditor status and superior credit quality as recognized by external credit assessment institutions through the assignment of strong investment grade ratings and by G-10 bank regulatory authorities through exemptions from country risk provisioning requirements.

For example, although CAF's rating is limited by the fact that virtually none of its capital is held by investment grade shareholders, the recognized rating agencies have acknowledged that the multilateral nature of CAF's ownership structure provides investors greater protection against the default risk of any single sovereign issuer and have assigned a significantly higher credit rating to CAF than the sovereign ceilings of any of its constituent nations. Moody's has recognized that "the special status of the institution as a supranational organization - together with the inherent strength of the institution, as demonstrated by its asset quality, capitalization, and profitability - supports a rating for CAF that exceeds the sovereign ratings of its shareholder countries." The rating agencies have taken a similar approach with respect to other multilateral development banks.

Various G-10 bank regulatory authorities have also recognized CAF's supranational status as well as its superior credit quality. The bank regulatory authorities of Belgium, France, Spain, Switzerland, the United Kingdom and the United States have exempted bank loans to CAF from the country risk provisioning requirements applicable from time to time to bank loans to entities incorporated in CAF's member states. The bank regulatory authorities of Belgium, France and The Netherlands have also extended this provisioning exemption to co-financing loans for which CAF remains the lender of record, thereby providing default protection to the syndicate participants.

In conclusion, CAF believes that the foregoing examples of the special consideration afforded to MDBs such as CAF by rating agencies and regulatory authorities demonstrate that even MDBs that are not deemed to be "highly rated" are recognized as different from banks and corporates with similar external securities ratings. Consequently, CAF requests that the Committee continue to evaluate the weightings assigned to MDBs with a view to reducing or eliminating the disparity under the Proposal between the risk weightings assigned to "highly rated" MDBs and other MDBs.

CAF sincerely thanks the Basel Committee for this opportunity to comment on the Proposal and to inform the Committee of substantial inequities under the 1988 Accord in its present form.

We would welcome any opportunity to discuss these matters with you or any other representatives of the Basel Committee whom you deem appropriate.

Please do not hesitate to contact us in respect of this letter, or the themes discussed herein, in Caracas, Venezuela at (58) (212) 209-2110.

Sincerely,

L. Enrique García
President & CEO

(Attachments)

cc: Roger Cole
Board of Governors of the Federal Reserve System

Darryll Hendricks
Federal Reserve Bank of New York

CORPORACION ANDINA DE FOMENTO

Corporación Andina de Fomento ("CAF") was established in 1968 pursuant to the Constitutive Agreement, an international treaty, to foster and promote economic development within the Andean Community countries by the efficient use of financial resources in conjunction with both public and private sector entities. CAF is a supranational financial institution. Our principal shareholders are the current member countries of the Andean Community – the Republics of Bolivia, Colombia, Ecuador, Peru and Venezuela (collectively accounting for 95.8% of paid-in capital). Brazil, Chile, Mexico, Panama, Paraguay and Trinidad and Tobago are non-regional shareholders (collectively accounting for 4.1% of paid-in capital). Shares are also held by 22 financial institutions from within the Andean Community countries (collectively accounting for 0.1% of paid-in capital). CAF commenced operations in 1970. Our headquarters is in Caracas, Venezuela, and we have regional offices in the capital cities of each of the five Andean Community countries.

Our objective is to support sustainable development and economic integration within the Andean Community countries by assisting the Andean Community countries in making their economies diversified, competitive and more responsive to social needs.

As a supranational institution, CAF is a legal entity under public international law, created by an international treaty, CAF has its own legal personality, which permits us to enter into contracts, acquire and dispose of property and take legal action. Our Constitutive Agreement has been ratified by the legislature in each of the Andean Community countries, where we have been granted the following immunities and privileges:

(1) immunity from expropriation, search, requisition, confiscation, seizure, sequestration, attachment, retention or any other form of forceful seizure by reason of executive or administrative action by any of the Andean Community countries and immunity from enforcement of judicial proceedings by any party prior to final judgment;

(2) free convertibility and transferability of our assets;

(3) exemption from all taxes and tariffs on income, properties or assets, and from any liability involving payment, withholding or collection of any taxes; and

(4) exemption from any restrictions, regulations, controls or moratoria with respect to our property or assets.

Our primary operations are project and corporate lending and trade finance. Within the Andean community countries, we provide financing for public and private sector projects and, through trade finance, endeavor to strengthen trade and assist companies located in the Andean Community countries in their efforts to access world markets. Project loans are specific-purpose loans to public entities or corporations, and the term "project loan" generally does not denote limited-recourse financing.

The Constitutive Agreement delegates to our Board of Directors, the power to establish and direct our financial, credit and economic policies. A formal statement of our financial and operational policies, the *Políticas de Gestión* ("Operational Policies"), has been adopted by the Board of Directors. The Operational Policies provide our management with guidance as to significant financial and operational issues.

CAF raises fund for operations both within and outside the Andean Community countries. Our strategy with respect to funding and borrowing has been to obtain long-term and medium-term funds for project and corporate loans and short-term funds for trade loans. CAF is an active issuer in the international capital markets. Since 1993, CAF has issued debt securities on various markets and in various currencies worth over US$4.1 billion in aggregate.