

Mr. William J. McDonough
Chairman of the Basel Committee on
Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH – 4002 Basel

HES (0806/Vers. 1.1)

Brussels, 30 May 2001

The New Basel Capital Accord: ESBG position paper and further consultation of the credit sector in the remaining process

Dear Mr McDonough,

The European Savings Banks Group (ESBG) has the pleasure to submit herewith its position paper on the second consultative process on the New Basel Capital Accord.

The ESBG believes that this review will improve the existing capital adequacy framework as well as, in the end, global financial stability. We, therefore, agree with the overall objective of the consultative document of the Basel Committee. The new proposal of the Basel Committee contains improvements as compared to the First Consultative Document of June 1999. Within the proposal, the ESBG specifically welcomes the refinement of capital allocation for regulatory purposes and, by this, a more differentiated risk-weighting system.

We feel, however, that amendments are needed to ensure that the New Capital Accord is coherent and well focused:

First and foremost, we are concerned that the consultative document does not reflect the specific nature of the European credit sector scene in an appropriate manner. As you are aware, the European banking community is characterised by the existence of many small and medium-sized credit institutions such as Savings Banks. Parts of the consultative paper, however, are still shaped for the biggest and highly sophisticated banks and reveal the culture of capital-market-oriented business reporting. Due to the vast and complex formulas, methods and information requirements of the proposals, the ESBG has doubts whether the overall regulatory capital for smaller banks will on average remain consistent.

Furthermore, several parts of the consultative package are still incomplete or are still being worked on. To mention only a few: treatment of retail exposures, treatment of equity exposures, treatment of project finance, operational risk. A further exchange of views on these issues is, in our view, of the utmost importance.

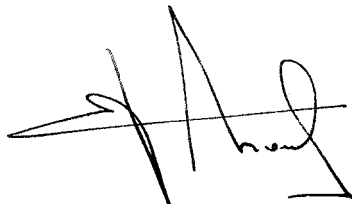
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Moreover, the 'Quantitative Impact Study II' on the basis of which the precise risk weights and crediting rates can finally be determined, will only be available after the expiry of consultation deadline.

Therefore, the ESBG and its Members strongly believe that the consultation process should not be terminated within the 31 May deadline. Although we do appreciate the existing timetable, the ESBG feels that the credit sector industry should be given ample opportunity to provide its opinion during a prolonged and interactive consultation process. The ESBG, for its part, is in any case prepared to continue contributing to the ongoing works and is counting on the Basel Committee to develop a constructive working atmosphere.

We hope that you and your colleagues will take the arguments set out in the ESBG position paper into consideration and we look forward to continuing this dialogue and exchange of views in coming months. We are at your disposal should you have any additional questions and look forward to hearing from you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Chris De NOOSE', with a stylized, flowing script.

Chris De NOOSE