

31 May 2001

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

Dear Sirs

THE NEW BASEL CAPITAL ACCORD

The Fund Managers' Association (FMA) represents over 70 of the leading fund managers based in the United Kingdom, who manage in aggregate funds in excess of £2.2 trillion.

Our members range from the large international groups who operate on a global basis to smaller independent firms.

We are deeply concerned about the provisions of the proposed new Basel Accord insofar as they relate to the asset management industry, in particular the provisions relating to a capital requirement for operational risk.

We write to express our full support of the submission made by Donald Brydon, President of the European Asset Management Association ('EAMA') of which FMA is a founder member, in his letter to you dated 1 May 2001.

We would draw your attention in particular to EAMA's conclusion that requiring internationally active banks to hold a high level of regulatory capital to cover operational risk in their asset management subsidiaries would not diminish systemic risk but could lead to an increase in systemic risk by inhibiting the development of the asset management industry by increasing its costs.

We would also urge that the consultation process should continue until a satisfactory formula, appropriate to asset management business, has been developed in full consultation with the industry. We believe that the proposed use of the indicator of total funds under management is inappropriate and the indication of tenths of a percentage would lead to unacceptable increases in capital requirements. If, nevertheless, funds under management is to be used the formula would need significant modification and there must be sufficient

flexibility in the formula to recognise different types of asset mix and different types of business within the fund management business.

Yours sincerely

Michael J Perry
Director General