Meeting of a Board Member with the
Public on Basel II

On June 4, 2004, Vice-Chairman Ferguson met with Charles Dallara and Andres Portilla of the Institute of International Finance (IIF). Also present were Roger Cole and Edward Ettin, both members of the Board staff.

IIF representatives made the following points:

1. The proposed lack of simultaneity in the effective dates of the three alternatives under Basel II would create problems for global banks. Some of the competitors of those on the proposed delayedadvanced IRB (AIRB) approach now would begin one year earlier to receive the benefits of Basel II
2. This also raised transitional operating issues in addition to competitive ones.
3. All banks, not just AIRB banks, should delay implementation one year.
4. IIF members have heard that some foreign affiliates of AIRB banks may be forced by host countries to adopt for the one year a non-AIRB approach.
5. Some IIF members were anxious that stress LGD language might become too prescriptive before further discussions were held with industry.
6. Some IIF members still wanted more certainty with regard to how the hybrid approach to op risk would work in practice.
7. Some IIF members hope credit risk modeling could soon phase into Basel II.
8. IIF members hoped that double default discussions would continue with high priority and be included by the final implementation.

Vice-Chairman Ferguson explained that U.S. rule making, including serious consideration of public comments, coupled with the need for an adequate interval between final rules and bank implementation, not to mention some concern about the readiness of U.S. banks to adopt AIRB, made the proposed delay in AIRB implementation in the U.S. both necessary and prudent. The rest of the Committee agreed to delay implementation for their own AIRB banks as well, in part because of concern about their own readiness. Delay of the other approaches, not used in the U.S., is not a U.S. regulatory issue.

The Vice-Chairman suggested IIF should consult with BIS secretariat on point 4 and noted that such actions were not adopted by the BIS Supervisors' Committee. He suggested that time should be given on the hybrid approach to op risk, noted IIF desires on credit risk modeling, and said the Fed has not changed its desire to see adoption of a double default adjustment or to get more industry input on stress LGDs.