



IGTA International Group of Treasury Associations

PRESS STATEMENT – 17th October 2003

Basel II: the position of the International Group of Treasury Associations (IGTA)

Representatives of treasury associations world-wide met recently in Slovakia as the International Group of Treasury Associations (IGTA) to discuss, amongst other matters about some of the unintended consequences of the Basel reforms.

While agreeing with the international regulators' concern that banking activities which have considerably changed over the past years require a more appropriate framework, the IGTA makes the following comments:

As corporate treasurers we see a serious threat to the access of our companies to credit:

1. Although the inevitably procyclical effects of such a regulation are now taken into consideration, the IGTA is still worried about the long term impact of this approach on companies during periods of sustained economic crisis; the logic and structure of **the system tend to induce banks to favour retail customers and small enterprises**. In a European Union, particularly, where capital markets are fragmented and generally not very liquid, companies may have extreme difficulties in finding the financial resources they need for their activities in times of economic crisis, entailing the risk of reinforcing the downturn cycle even further.
2. The IGTA is concerned about the obvious “retail” bias in the Committee’s recommendations; as we know from past experience, there is a serious risk of imbalances and excesses due to measures favouring specific customer segments. The aim of the exercise, however, is to strengthen the banking system, not to weaken it through arrangements resulting from political compromises among the representatives of the national regulators in the Basel Committee.
3. Additionally, a system which aims at stabilising the banking sector worldwide and which will be applied to all financial institutions in the EU should not impose more severe constraints on the EU banking sector than on the rest of the world. It must not be forgotten that some countries are not yet applying the Basel I standards and

that some developed countries will deliberately apply Basle II to a limited part of their banking sector only. The IGTA wants competition between banks and more particularly between the most advanced countries to take place in as harmonious a setting as possible.

4. Due to the considerable complexity of the Basel Committee's recommendations, national regulators will inevitably be given substantial powers regarding the fine-tuning of the recommendations (national discretion). Divergent interpretations might lead to incoherence or even regulatory arbitrage between different banking systems, also within the European Union - quite obviously the opposite of the intended aim. The IGTA therefore supports the European Commission's proposal to create a coordination committee in charge of the application of the recommendations (§ 66 and following of the Commission's third consultative paper dated 1st July, 2003) but its remit will have to be solid enough to make it truly efficient. It should include direct assistance to the regulators of smaller countries who may lack the resources or competences needed to apply the recommendations.
5. Moreover, the structure of the weighting table in the standard method does nothing to invite companies to apply for a rating although this is indispensable to gain direct access to the capital markets and to the commercial paper segment.
6. Lastly, for the sake of the coherence and transparency, the IGTA, fully supporting the view held and expressed by many, also recommends that the definitions of the basic concepts be aligned between Basel II and IAS (§ 85 and 86).

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NOTES TO EDITORS

The International Group of Treasury Associations (IGTA) was formed to enhance activities of Treasury Associations across nations. It encourages the highest standards of professional ethics and best practice among treasury professionals world-wide and campaigns to raise the profile of the treasury profession.

For further information please visit www.igta.org