Federal Financial Analytics, Inc.

PROPOSAL SHOWS BANK CAPITAL RULES ARE CHANGING WITH OR WITHOUT BASEL II

> "Even as the deadline for new Basel capital rules advances, risk-based capital standards are being altered by US regulators. These changes will have an immediate competitiveness impact."

FOR IMMEDIATE RELEASE – September 23, 2003
CONTACT: Arezou Rafikian (202) 296-5240

WASHINGTON, D.C. – A report sent today to clients by Federal Financial Analytics (FedFin) finds that U.S. bank regulators are changing capital rules for large banks even as the total overhaul of international rules falters. The report focuses on a rewrite of asset securitization capital standards approved by federal banking agencies on September 12. These rules are a big win for bank issuers of asset-backed commercial paper, FedFin finds, but they come at a long-term cost to large banks, with those issuing credit card asset-backed securities paying the highest price.

A series of recent FASB rulings pose major challenges to the decade-old bank capital standards, the FedFin report concludes, with the changes related to special-purpose entities the source not only of this capital rewrite, but also of another one for trust preferred securities now in the works. "These changes blunt the impact of the FASB consolidation rule sparked by the Enron scandal," said FedFin managing partner Karen Shaw Petrou. "This is welcome news for sophisticated banks," she continued, "but major problems will arise if bank capital standards diverge too far from accounting ones." The FedFin report finds that U.S. capital rules will change in a win some/lose some way that could create significant problems for individual institutions unless or until the overall capital framework is revised.

The FedFin report notes that the price regulators have exacted for the liberalization of asset-backed commercial paper capital is a new charge on short-term liquidity facilities and a new quality test for all such instruments. Credit-card securitizers also face a new charge related to early amortization triggers. This proposal has been in the works for years, but the industry has to date been able to avert it out of fears of cost and complexity. "Now, regulators have made it clear: to modernize the rules in desirable ways for the industry means new charges elsewhere that the regulators find are urgently needed," Petrou concluded.

The report is attached.

900 Seventeenth Street, N.W.
Washington, DC 20006
www.fedfin.com

PHONE 202.296.5240
FAX 202.452.6816
E-Mail: info@fedfin.com

Federal Financial Analytics, Inc. advises domestic and international financial services firms on U.S. legislative and regulatory developments. Clients can be found on the firms' website, and these include not only large institutions, but also regulatory bodies at home and abroad.

#####