



Federal Financial Analytics, Inc.

PETROU OUTLINES WAY THROUGH BASEL QUAGMIRE

“Basel I is in urgent need of a face-lift, in part because of the M&A impact Basel II is already exerting and because – more worrisome – the current rules encourage undue risk-taking as we’ve seen in the subprime-mortgage arena.”

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WASHINGTON, D. C. – Today, Karen Shaw Petrou, managing partner of Federal Financial Analytics, laid out a way forward on the controversial new risk-based capital rules generally known as Basel II. In remarks before the Federalist Society, Petrou said, “Current proposals are better than nothing and absent it, there’s a serious risk nothing new will occur in U.S. capital regulation for far too long with far too much systemic and competitiveness risk.”

Petrou’s talk noted that Basel is already having M&A impact in deals like the one for ABN Amro and in the glut of subprime mortgages that came into the U.S. market in the past three years. She argued that, “If the U.S. leaves the capital rules as is – increasingly likely as the decision-making process bogs down – the banking system will get still more consolidated

into still fewer banks in still more lines of business.” This will, she said, create unanticipated risks that a better regulatory-capital system would prevent.

The full text of the speech is attached.

Federal Financial Analytics, Inc. has for the past twenty years counseled large financial institutions and even their regulators on major legislative, regulatory and policy issues that pose strategic risk. It does not lobby on behalf of clients, but advises them on appropriate responses in light of identified challenges, working on an array of GSE, Basel II, and acquisition-value issues. The firm publishes numerous information and analytical services, including Financial Services Management and GSE Activity Report.

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