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COMMITTEE LETTER
FROM THE OPERATIONS MANAGERS WORKING GROUP
Commenting on the *Overview of the New Basel Capital Accord*

July 31, 2003

To the Basel Committee on Banking Supervision:

The New York Foreign Exchange Committee's Operations Managers Working Group appreciates the opportunity to review the third consultative paper on the new Basel Capital Accord. Our working group is a subgroup of the New York Foreign Exchange Committee. We develop, publish, and encourage industrywide operations-based best practices for the entire foreign exchange community.

Our membership includes foreign exchange operations professionals from a number of large financial institutions. Because our group's expertise is operations, we focused our attention on the operations risk sections of the *Overview of the New Basel Capital Accord*.

It is clear that the upcoming implementation of rigorous analysis and measurement of operational risk represents quite a challenge for large global financial institutions. Yet, the benefits of this work are apparent. We believe the difficult transition process will be effectively facilitated by the flexibility outlined by your committee as well as the planned close interaction of international supervisors with the financial community.

While we recognize that your group has set up very effective support for the transition to the new capital regime, we want to share with you a few of our thoughts about the Accord.

We acknowledge the potential for an uneven playing field among the variety of institutions around the globe as they, supported by their supervisors, seek to measure and account for their operations risk. Here, we think the Basel Accord Implementation Group (AIG) provides an important solution. The AIG is helpful as it provides a mechanism to guide the global market through the many ongoing innovations that routinely occur in our very creative environment.

We believe, in line with the Basel Capital Accord II, that an accurate capture of risk in new trends may be difficult. Recent fast-moving trends in the operations area caution against rigid capital regimes. For example, many global banks may be relying on remote locations and outsourcing for an increasing portion of their operations support. Limited history with this operational approach may make effective measurement of operational risk difficult.

We also recognize the strain these new processes will put on supervisory resources in the member countries. The demands on the supervisors to support the global institutions may be substantial. Success will require significant supervisory resources in combination with the active participation and cooperation of all global financial institutions. In other words, the Capital Accord's success hinges on the effective collaboration of the public and private sectors.

Again, we appreciate the opportunity to review and study the new risk management plans for the global financial institutions. We hope our brief comments are helpful to you as you finalize your documents.

Sincerely,

Mel Gunewardena
Chairman
Operations Managers Working Group