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Mr Jaime Caruana
Chairman of the Basel Committee
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

11 May 2004

Dear Mr Caruana,

Treatment of Loss Given Default

The European Banking Federation and ISDA (the International Swaps and Derivatives Association) are writing simultaneously with the IIF to express jointly held and urgent concerns in respect of new additional proposals, not included in the Third Consultation Paper (April 2003), to the Basel Capital Accord for the treatment of Loss Given Default (LGD).

As you know all three associations have supported the work of the Basel Committee, have greatly appreciated the level of consultation to date and would wish to be able to positively welcome the publication of a new Accord in June this year.

Against this background, the members of all three associations are very concerned that new proposals for the treatment of LGD appear to have been developed to the point that they may be part of the final agreement, but without any systematic, substantive dialogue with industry. This concern is greatly accentuated as these proposals appear to be a significant structural change involving increased cost and complexity, that will impact current risk management practice, bank preparations for compliance with the new Accord and thereby expectations as to entry into the Advanced Internal Ratings Based Approach.

We would therefore request that as soon as possible, and certainly prior to the publication of the new Accord, an early opportunity to discuss these proposals in detail is arranged.

We are sending a copy of this letter to Mr Ryozo Himino, Secretary General of the Basel Committee.

Yours sincerely,



Nikolaus BÖMCKE
Secretary General, FBE



Emmanuelle Sebtou
Head of Risk Management and
Co-Head of the European Office,
ISDA