

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dest. :

Mr Nout WELLINK, Chairman of the Basel Committee on Banking Supervision
Mr Hirotaka HIDESHIMA and Mr Richard THORPE, co-chairs of the Definition of Capital subgroup of the Basel Committee on Banking Supervision

Paris, November 27th 2009

Enc: ICBA Position

Dear Sirs,

On behalf of the International Cooperative Banking Association that I have the honour to chair, please find attached the position adopted by our Board on last November 17th about the reform of core's capital definition that the Basel Committee is currently working on.

Our members, who have significant market shares in the banking sectors of many countries all over the world, are deeply worried by this reform which could affect the prudential classification of their capital shares and lead to a global destabilisation of the banking system in many countries.

The International Cooperative Banking Association is looking forward to providing you with further information on this matter and helping you in establishing appropriate principles to ensure high quality Tier 1 capital for non joint stock companies, and notably for co-operative banks.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'JL Bancel', written in a cursive style.

Jean-Louis Bancel
Chairman of the International Co-operative Banking Association

**POSITION OF THE INTERNATIONAL COOPERATIVE BANKING ASSOCIATION
ON THE INCLUSION OF CO-OPERATIVE MEMBER SHARES IN TIER 1 CAPITAL**

The tangible manifestations of the great crisis the banking world went through may seem to disappear now and some banks that were deeply touched by the subprimes crisis even begin to be profitable again. The financial system nevertheless realized it had to reconsider the basis on which it had founded its functioning.

Banks, it is a fact that seems to be more obvious today than ever, must better control the risks inherent to their investment strategies. Because the whole economic system relies on them, they cannot act as any ordinary investor who only wishes to maximize his personal profit. As a consequence, the international economic community made of the stability of bank's core capital the priority in the reconstruction of a post-crisis financial system. Prudential authorities and international accounting standard setters are working to establish more relevant criteria for the banking regulation.

The International Cooperative Banking Association (ICBA), which represents all the banking members of the International Cooperative Alliance (ICA), can only approve approaches that aim at a more stable financial world, as long as the new criteria take into account the specificities of co-operative banking. Relying on an original model in terms of accounting system, profit redistribution and relationship with their members, co-operative banks have already proven in the past a high level of stability.

The Basel Committee on Banking Supervision current reform of core capital's definition must not threaten the financial health of co-operative banks. Indeed, the risk of this reform would be that their member shares are no longer considered as core capital. It could force some co-operative banks to abandon their co-operative status in order to raise new core capital at a very high cost.

This reform would slow down and threaten the development of a banking sector that proved a high level of resilience in times of crisis. As co-operative banks traditionally pay a great attention to the limitation of their risk-taking, they suffered fewer losses than commercial ones. It would be highly regrettable if they were the first victims of the reform of the financial system.

Secondly, we would like to point out that co-operative member shares have characteristics that guarantee their non-speculative dimension. As they have a limited remuneration and a fixed redemption value, they are subscribed by shareholders with a non-speculative aim but as a long-term investment in the co-operative and in its economic project. This is a guarantee of co-operative bank's core capital's stability, which has already been recognized in February 2008 by the Committee of European Banking Supervisors.

Consequently, ICBA asks the Basel Committee on Banking Supervision to evaluate very carefully the impact of its core capital reform on co-operative banks. Co-operative specificities must not be ignored, and this original banking model, which proved its reliability, shall not be disadvantaged by an inappropriate regulation which would threaten its viability.