

Potential Domestic Competitive Implications of the Implementation of Basel II in the
United States

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Presentation Outline

- I. Introduction
 - A. Federal Reserve is conducting several studies of the potential competitive implications of Basel II in the United States.
 - B. Today I will discuss the two studies that have been completed, and indicate the topics of the studies that are underway.
 - C. Definition of the bifurcated U.S. approach and the objectives of the studies.

- II. The potential implications for bank mergers and acquisitions
 - A. Description of the “excess regulatory capital” and the “relative capital advantage” hypotheses.
 - B. Discussion of tests of the excess regulatory capital hypothesis.
 - C. Discussion of tests of the relative capital advantage hypothesis.

- III. The potential implications for bank loans to small and medium-sized enterprises (SMEs)
 - A. Estimates of the reduction in the marginal cost of making an SME loan at banks adopting the advanced internal ratings-based (AIRB) approach.
 - B. Possible effects on SME lending by community banks.
 - C. Possible effects on SME lending by large nonAIRB banks.

- IV. Conclusion