Comptroller of the Currency
Administrator of National Banks

March 6, 2008

Statement of Comptroller of the Currency John C. Dugan
On the March 6 Report by the Senior Supervisors Group

One of the key questions coming out of this unprecedented period of market turmoil is whether shortcomings in risk management may have contributed to the losses taken by some of the world's largest and most sophisticated financial institutions. While the job of answering that question is by no means finished, the report of the Senior Supervisors Group identifies a number of risk-management practices that distinguish firms that performed well through the period of market disruptions from those that didn't, and these findings should prove useful for all financial institutions.

I believe that one of the most important lessons we've learned from this period – and one that is highlighted in the report – is that large balance sheet concentrations are dangerous, even if the assets are triple A rated. The majority of the reported subprime writedowns in capital markets stemmed from "super senior" tranches of collateralized debt obligations consisting of securities backed by subprime mortgages – securities that were considered very low risk.

One other lesson the report drew from the recent market disruptions was that off-balance sheet exposures might eventually have to be funded on the balance sheet at a time in which such funding would prove to be expensive or difficult to find. Some firms failed to adequately price that risk, and the resulting impact on their balance sheets was significant.

This report is particularly important to the Office of the Comptroller of the Currency, which supervises a number of the world's largest banks. Using the observations of the report to set expectations, the OCC will continue to carefully evaluate the efforts of individual national banks to address weaknesses in credit, market and liquidity risk management practices that emerged during the period of market turmoil.