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Comptroller Says Effective Supervision Needed to Manage International Crises

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. said today that recent financial dislocations have demonstrated the importance of effective supervision and that regulators should work to promote the adoption of fundamental supevisory principles in parts of the world where they have not already been accepted.

"No one has more to gain from effective supervision than the financial institutions that operate under its umbrella," Mr. Hawke said in a speech to the Institute of International Bankers. "Conversely, no one has more to lose when financial supervision goes awry, as events in East Asia demonstrated."

The Comptroller said that supervisory errors were at least partly to blame for the financial difficulties from which many East Asian economies are still struggling to recover.

"It seems clear that a more robust, independent, and pro-active supervisory presence in those countries would have mitigated, if not averted, some of their problems," he said. "Just as clearly, supervisory vigilance beyond the afflicted countries has played an important role in keeping the Asian contagion from spreading beyond the Pacific Rim to other shores."

Mr. Hawke said it is important to remember that despite losses attributable to Asian problems, the overall safety and soundness of the U.S. banking system -- and every other major banking system outside of Asia -- has not been compromised.

The Comptroller said the system has been helped by globalization and diversification.

"With their loans and investments so widely dispersed over product and place, and the growing importance of fee income generated by new products and services, commercial banks in this country seem more resilient and more resistant to sectoral downturns than at virtually any time in their history," he said.

In addition, many banks have taken a portfolio approach to managing risk, offsetting riskier loans and investments with higher quality ones in line with the institution's appetite for risk. And banks have adopted advanced systems to measure, monitor and price risk.

While bankers deserve most of the credit for their apparent success in weathering international storms, Mr. Hawke said bank supervisors have also played a role.

"Supervision today is certainly more sophisticated and -- shall I say -- more worldly than it was three decades ago," he added. "Supervision across borders -- and across functions -- requires collaboration with other supervisors who may not share the same legal mandate or operational philosophy or even speak the same language."

The Comptroller said an abundance of liquidity in the marketplace has increased the competition for loans and prompted some bankers to take foolish risks. Experience teaches that economic conditions will eventually change and that compromises and concessions made during good times have a likelihood of generating losses in bad times.

While prudent risk-taking is the essence of the banking business, "risk-taking in an information vacuum, based not on sound credit judgments but on the stylishness of the borrower, can never be prudent," Mr. Hawke said.

"Any loan officer who asks a hot' borrower for financial information only to be told we never give that out,' should walk away from the credit," he added. "Advancing hundreds of millions of dollars without adequate information simply because other creditors may be scrambling to provide funds to some group perceived as market geniuses, is not prudent lending. It's Russian roulette."

Mr. Hawke said that supervisors must have more regular, ongoing dialogue than ever before.

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