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Comptroller of the Currency
Administrator of National Banks

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Comptroller Hawke Restates U.S. Commitment to Basel Capital Process
But Warns that Many Complex and Difficult Issues Must Still be Resolved

BERLIN -- Comptroller of the Currency John D. Hawke, Jr. said today that while the U.S. remains committed to completing work on the Basel II capital accord by mid-2004, many complex issues must still be worked out before the agreement can be implemented.

"There is a staggering amount of work confronting both us and our banks before Basel II can be implemented, and I am absolutely confident, based on past experience, that as we move into the implementation phase we will uncover a myriad of issues not previously thought of or addressed," the Comptroller said in a speech to the American Academy.

Mr. Hawke expressed concern that the "monumental level of prescriptiveness" in the proposed accord does not mesh well with the traditional approach to bank supervision in the U.S.

"Not only do we place substantial importance on the expert judgments of experienced bank examiners, but, under legislative mandate, we have grounded our system of supervision on the concept of prompt corrective action – that is, we place very heavy emphasis on supervisory actions that force restoration of capital well before real net worth turns negative," Mr. Hawke said.

"To this end, we have attributed significant importance to the maintenance of a specified minimum leverage ratio – a practice that is not common in many other supervisory regimes. Basel II is not grounded in a similar requirement for prompt corrective action, and it remains to be seen how a more formulaic approach will fit with our traditional approach," he added.

Mr. Hawke said there is also a risk that homogenized capital rules could do serious damage to some markets in which U.S. banks – particularly national banks -- have been world leaders, such as credit cards and securitizations.

"We have to exercise great caution that we do not, in the name of achieving international uniformity, needlessly disrupt settled banking practices and established, well-functioning markets," he said.

The Comptroller said the proposal that has emerged from the Basel Committee is "mind-

numbing" in its complexity and said some aspects of it, such as the formulas for securitizations, are "so complex that the mere visual depiction of them has been cause for ridicule, which serves only to undermine public regard for the committee."

In addition, Mr. Hawke said, banks in the U.S. are examined more frequently than institutions in other countries. Large banks may have as many as 40 full-time, year-round examiners assigned to them, and the U.S. has by far the lowest ratio of banking assets per supervisory staff members of any G10 country.

"Can anyone reasonably assume that a mandate of the complexity of Basel II will be applied with equal forcefulness across such a broad spectrum of supervisory regimes?" he asked.

The Comptroller said criticism of the U.S. decision not to apply the proposed rules to small institutions is "simply uninformed."

"Smaller banks in the U.S. are both better capitalized and more robustly regulated than their counterparts anywhere else in the world – indeed, they are generally better capitalized than our larger banks," Mr. Hawke said. "They already bear substantial cost burdens imposed by the extensive complex of laws and regulations under which they operate, and we see absolutely no useful purpose to be served in adding to the burdens of our community banks by subjecting them to the complexities of Basel II."

Mr. Hawke noted that the OCC had concurred in the Basel Committee's announcement that it would work toward resolving outstanding issues by the middle of next year, but said that commitment does not mean that substantial issues should be ignored.

"It is far more important to get the new Accord right than to get it done on some predetermined schedule," he said.

The Comptroller also renewed his pledge to maintain the integrity of the rulemaking process by carefully considering comments received from banks and other interested parties, and said the U.S. would not move ahead without conducting a fourth quantitative impact study based on the final Basel document.

"I do not believe any responsible bank supervisor can or should make a judgment about the impact of Basel II on the capital level of the banks it supervises based on QIS-3," he said, referring to the third quantitative impact study of the proposed accord's effect on capital. That study, he said, had significant shortcomings.

"Should QIS-4 lead us to project that there might be wide or unwarranted swings in the capital of our banks, either up or down, that will present us with a very significant decision point, and we would feel compelled to bring that concern back to the Committee," he said.

The Comptroller noted that the success of the Basel Committee, since its beginning nearly three decades ago, has turned on its ability to reconcile widely varying national supervisory practices.

"I believed then – and believe just as fervently today – that the better able we are to harmonize and accommodate those differences, the more likely we are to achieve the

common supervisory excellence and global financial stability to which all nations aspire," he said.

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The OCC charters, regulates and examines approximately 2,100 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.