NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Contact: Robert M. Garsson
(202) 874-5770

Comptroller Addresses Corporate Reform for Banks

Phoenix, Az. – The prospect of financial conglomerates owning banks underscores the need to safeguard bank interests in the activities of diversified financial holding companies, Comptroller of the Currency John D. Hawke said today.

"It is important to assure that the interests of the banks are being properly regarded when affiliated companies seek to take advantage of their relationship with the bank," Mr. Hawke said.

Mr. Hawke cited the example of a bank relationship manager using bank customer information to promote the sale of the products of the insurance or securities affiliate.

"A bank's customer relationships are assets of the bank, and if the bank is going to give an affiliate the license to mine those assets it should be compensated."

Various approaches can be taken to preserve bank interests.

"Another approach might be to require that in situations in which a bank wants to enter into transactions with an affiliate, the bank's management engage some completely independent party – a special counsel or other outside advisor – to opine, from the bank's perspective, on the fairness of the transaction or on a procedure established for a series of such transactions," Mr. Hawke said.

The role of the board of directors is high on the list of concerns for corporate governance.

"In many cases there's a gap between what the board is supposed to do and the role it actually plays. In the past it was not uncommon for outside directorships to go to people having connections that might be useful to the company and who were not likely to rock the boat," Mr. Hawke said.

Mr. Hawke cited the problems of making effective use of bank directors.

"It's just as troublesome when companies appoint competent and courageous people to their boards and leave them there to languish – unheeded, unnoticed, and uninvolved."

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The current make-up of boards of directors can be improved.

“What I perceive to be the currently prevailing patterns – either replicating all or part of the holding company board at the bank, or using bank officers, who may also be holding company officers, to comprise the bank board – does not assure the kind of independent view that I believe is needed,” Mr. Hawke said.

A solution is for the banking industry to adopt standards of corporate governance.

“Time and time again we have seen legislative or regulatory initiatives adopted that might have been avoided or mitigated if the industry had either some credible program of self-regulation or at least some standards of conduct expressing an industry consensus as to what is acceptable conduct,” Mr. Hawke said.

Mr. Hawke encourages the banking industry to move quickly and with force on corporate governance ahead of government action.

“If only out of enlightened self-interest, the industry could provide a useful service by expressing its own expectations and values, demonstrating that it recognizes – as I am confident it does – the importance of basic principles that have not been universally observed.”

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