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OCC Highlights Basel Proposal for a Capital Framework

WASHINGTON--The Office of the Comptroller of the Currency (OCC) advised national banks today that the Basel Committee on Banking Supervision has issued a discussion draft of a new capital adequacy framework for internationally active banks that would replace the current Capital Accord, issued in 1988. The Basel Committee is made up of representatives of central banks and supervisory authorities of the Group of Ten countries and Luxembourg.

All interested parties, including national banks, are invited to comment to the Committee on its proposals by March 31, 2000. The exact date for the implementation of the new Accord will depend on the comments received and the drafting work that needs to be undertaken after the close of the comment period. The Committee expects that the consultation process will include extensive discussion with banks and industry groups.

"This is an opportunity for the banking industry to assist the Committee in developing a new Capital Accord that reflects the realities and the risks of banking today," said Comptroller John D. Hawke, Jr. "I encourage the banking industry to be active participants in the process."

The objectives of the new framework are to: promote safety and soundness in the financial system; enhance competitive equality; and institute a more comprehensive approach for addressing risk.

The new proposal focuses on making credit risk measurement techniques more sensitive to actual risk. The Committee is proposing to revise the current risk bucket framework and to consider the use of external ratings for sovereign and corporate claims. The capital proposal identifies two new approaches for credit risk measurement in the future: use of internal ratings and portfolio credit risk modeling.

Another change from the 1988 Accord is the introduction of the "three pillars" of capital supervision. The 1988 Accord looked primarily at the quantitative aspects of capital, now known as pillar one. The new framework will encompass that pillar, plus two others; the qualitative evaluation of capital adequacy through a supervisory review, and enhanced market discipline through improved transparency of bank risks.

"The Basel Committee is officially acknowledging that we cannot supervise capital adequacy by the numbers alone," said Susan

Krause, Senior Deputy Comptroller for International Affairs and chair of the Basel Committee on Banking Supervision's Transparency Group. "An effective supervisory review process and active market discipline are equally important elements."

A third major change is the proposal for an additional capital charge for "other" risks. The components of that category that the Committee is currently focusing on are operational risk and interest rate risk.

"The main issue in considering other risks is how to arrive at an appropriate capital charge that can be consistently applied to banks that have different business strategies," said Mr. Hawke.

The text of the Basel Committee's proposal for a new capital adequacy framework, "Consultive Paper on a New Capital Adequacy Framework," can be obtained from the Internet site of the Bank for International Settlements at www.bis.org, or may be requested from the OCC's Communications division at (202) 874-4700.

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The OCC charters, regulates and examines approximately 2,500 national banks and 61 federal branches of foreign banks in the U.S., accounting for more than 59 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.