

STATEMENT OF
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before the

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

March 22, 2012

Chairman Johnson, Ranking Member Shelby, and members of the Committee, I appreciate the opportunity to provide my perspective on the international implications of the Dodd-Frank Wall Street Reform and Consumer Protection Act and on efforts currently underway to harmonize U.S. regulatory requirements with international standards. My written testimony provides greater detail on the intersection of Dodd-Frank and international efforts in five key areas: capital standards, liquidity requirements, orderly resolution of large and complex firms, derivatives activities, and the Volcker Rule.

Since the financial crisis of 2008, much has been accomplished to improve the safety and soundness of financial systems and institutions. Internationally, the G20 governments, the Financial Stability Board, the Basel Committee on Banking Supervision, and other international bodies have developed and are introducing standards to increase capital and liquidity, create better mechanisms for resolving large financial institutions, centralize derivatives clearing, and strengthen supervision in a number of other areas. Implementation of this reform agenda is underway in all the G20 countries.

Within the United States, the Dodd-Frank Act encompasses many important parts of the international reform agenda. It enhances the resiliency of the U.S. financial system, requires higher capital and liquidity standards for large financial institutions, and imposes

steps to preclude future taxpayer bailouts. The Act also seeks to strengthen operations and safeguards pertaining to derivatives activities by enhancing transparency and reducing counterparty credit risks.

Most of these efforts are still works in progress, and I believe paths are available for international harmonization in many of these areas. However, even when there is broad international consensus, there will be areas where policy makers in individual countries have chosen to tailor standards to their country's specific circumstances rather than adopt the totality of the international approach. In the U.S., for example, the Dodd-Frank Act has added two requirements that will cause our implementation of the international capital standards to differ from those of other countries.

The Collins Amendment requires the same generally applicable minimum capital requirements to be applied to bank holding companies as apply to banks, and places a floor under the capital requirements for large banks applying Basel's advanced approaches capital framework. The goal is to ensure that capital requirements for large banks do not decline below generally applicable minimum capital requirements, but it also means that U.S. banks pursuing safer loans or lower risk securities would not obtain a capital benefit for doing so.

Section 939A of Dodd-Frank requires all federal agencies to remove references to, and reliance on, credit ratings from their regulations and replace them with appropriate alternatives for evaluating creditworthiness. Basel III, in contrast, continues to rely on credit ratings in many areas, so implementation of those provisions of Basel III will differ from international standards, and generally be more stringent in the U.S. Credit ratings are referenced in various non-capital regulations as well. While we fully agree that blind reliance on credit ratings should be stopped, the cumulative impact of precluding any references to credit ratings, even in conjunction with other factors, will be challenging, particularly for community banks.

The Dodd-Frank Act also contains certain provisions that have no foreign equivalent and, unlike capital and liquidity requirements, currently are not the subject of international harmonization efforts— most notably the “Volcker Rule.” This provision generally prohibits a bank from engaging in proprietary trading and from making investments in, and having certain relationships with, a hedge fund or private equity fund. This is a policy aimed at the organization of activities within the U.S. banking system, not part of a broader international policy consensus. As such, the legislation reflects a determination that these policy objectives need to predominate over competitive considerations. The OCC is committed to consistent implementation of the Dodd-Frank Act and international financial regulatory agreements. As we move forward with implementing Dodd-Frank, we must be mindful of the need to strike an appropriate balance between enhanced regulations, better supervision, and market restrictions. Achieving a level playing field for internationally active institutions is an important objective, but it is never fully achieved, and sometimes national policy choices place other important national objectives above competitive equity.

Thank you for the opportunity to discuss the international implications of the Dodd-Frank Act and to update the Committee on the efforts currently underway to harmonize U.S. regulatory requirements with international standards and frameworks. I am happy to answer your questions.