

**STATEMENT**  
**OF**  
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**COMPTROLLER OF THE CURRENCY**  
**Before the**  
**COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS**  
**UNITED STATES SENATE**  
**June 6, 2012**

Chairman Johnson, Ranking Member Shelby, and Committee members, thank you for the opportunity to update you on our implementation of the Dodd-Frank Act, its impact on the supervision of national banks and federal savings associations, and our response to JPMorgan Chase's losses reported in May.

Among the many Dodd-Frank-related rulemakings underway are rules to remove references to credit ratings from OCC regulations and a final market risk capital rule. In addition, I will soon approve publication of a set of proposals to implement Basel III. The OCC is also reviewing comments received in response to proposals regarding the Volcker Rule and stress tests required by the Dodd-Frank Act. These rules, when final, will make important contributions to the regulation of financial institutions in this country.

The Dodd-Frank Act and other reforms have already done much to strengthen our financial regulatory framework. Translating these reforms into improved soundness of our banking system and fair treatment of bank customers requires strong, effective supervision, which is a theme that flows throughout my testimony and will mark my tenure as Comptroller. The OCC has already begun efforts to heighten supervisory expectations for the largest

institutions we oversee. This process includes increasing our awareness of risks facing banks and the banking system, ensuring these risks are understood and well managed, and raising our expectations for management, capital, reserves, liquidity, risk management, and governance. It will take time to achieve these objectives, and we must be vigilant in maintaining our course. My testimony provides considerable detail about these efforts.

I want to use the remainder of my time to provide an overview of what the OCC is doing in response to the JPMC losses reported in May. We are the primary regulator of JPMC's national bank, where the activity leading to its losses occurred, and we are responsible for the prudential supervision of the bank.

Since early April, the OCC has been meeting with bank management to discuss JPMC's Chief Investment Office positions, risk management, and controls. As the positions deteriorated, discussions turned to corrective actions and steps necessary to mitigate and reduce the risk of the bank's positions. We and the Federal Reserve are conducting reviews in the bank and are sharing information with other regulators.

We are also undertaking a two-pronged review of our supervisory activities. The first component focuses on evaluating the adequacy of current risk controls at the bank, informed by their application to the positions at issue. The second component evaluates the lessons learned from this episode that could enhance risk management processes at this and other banks. Consistent with our supervisory policy of heightened expectations for large banks, we are demanding that the bank adhere to the highest risk management standards.

We are not limiting our inquiry to the particular transactions at issue. We are assessing the adequacy of risk management throughout the bank. We are using these events to broadly evaluate the effectiveness of the bank's risk management of its CIO function, and to identify

ways to improve our supervision. If corrective action is warranted, we will pursue appropriate informal or formal remedial measures.

JPMC's national bank has approximately \$1.8 trillion in assets and \$101 billion in Tier 1 common capital. Given that scale, the loss by JPMC affects its earnings, but does not present a solvency issue. JPMC has improved its capital, reserves, and liquidity since the financial crisis, and those levels are sufficient to absorb this loss. It is also worth noting that the events at JPMC do not threaten the broader financial system and the bank's effort to manage its positions is not creating an unusual risk of contagion.

There has been much discussion about whether these JPMC activities would be permissible under the proposed Volcker Rule. While it is premature to reach any conclusion before our review is complete, this episode will certainly help focus our thinking on these issues.

I appreciate the opportunity to appear before the Committee. Before closing, I want to stress my commitment to ensuring that the OCC continues to enhance supervision. I look forward to updating you throughout my tenure on how we are achieving strong, effective, fair, and balanced supervision of national banks and federal thrifts.