Statement of John C. Dugan
Comptroller of the Currency and member of the Board of Directors,
Federal Deposit Insurance Corporation
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I am pleased to support the publication of this advance notice of proposed rule making. The ANPR is a good first step in the right direction of improving the risk-based capital rules that apply to U.S. banks, without the enormous expense and massive complexity of the Basel II framework.

Our primary goal is to increase the risk sensitivity of our domestic risk-based capital rules without unduly increasing regulatory burden. This is no small challenge, and we cannot easily accomplish that goal without substantial input from the banking industry and other interested parties. Consequently, we must acknowledge that much important work lies ahead. While some of the modifications the ANPR presents are well defined, there are some areas that are not specified in great detail at this time. We are looking to commenters to provide views and information on current risk management practices to help refine these areas. So I am eager to hear from the industry, and I hope this public comment process will begin a fruitful dialogue that will lead to more definitive proposals for a more risk sensitive regime.

Our existing risk-based capital rules are the same for all banks. It is well known that we expect to propose for public comment, in a few months, a separate set of rules that would govern the implementation of the Basel II capital framework in the U.S. That would mean that some of our largest banks would follow a new and different capital regime. We recognize that a number of banks and industry groups are concerned that banks operating under Basel II might gain a competitive edge over banks that would not be governed by the Basel II framework. That is an issue that will remain of great concern to us as we more fully develop any proposals that might stem from this ANPR, as well as proposals for Basel II implementation. It is almost a certainty that the level of risk sensitivity we hope to achieve under Basel II is not possible in a simpler risk-based capital regime. However, we need to be very mindful of competitive equity issues, and we will endeavor to reduce gaps between the two frameworks as much as possible given our overarching priority to ensure that both frameworks move in the direction of greater risk sensitivity. It is also critical for regulators and interested parties to be able to review and compare definitive proposals for Basel II and for other domestic capital revisions within the same general timeframes.

In closing, I simply want to reiterate the importance of each step of the notice and comment process. If there are areas where we have failed to more closely align capital requirements with risk or where the benefits of increased risk sensitivity are outweighed by regulatory burden or increased complexity, I urge commenters to let us know.