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Comptroller of the Currency  
Administrator of National Banks

NR 2003-15

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FOR IMMEDIATE RELEASE  
March 03, 2003

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## **Comptroller Hawke Highlights Importance of New Basel Capital Accord But Says Important Issues Must be Resolved Before OCC Will Issue Rules**

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. said today that the Basel Committee's work on a new Capital Accord is an extremely important endeavor that deserves strong support from the industry and bank regulators. However, he added, important issues must still be resolved and the Office of the Comptroller of the Currency will carefully weigh industry comments before adopting new capital rules for national banks.

A major concern for the OCC, Mr. Hawke said in a speech to the Institute of International Bankers, is the proposed Capital Accord's complexity. The committee's effort has given rise to hundreds of pages of rules, guidelines and standards and is saturated with mathematical formulae.

"They're not written by or for bankers -- or for that matter, by or for conventional bank examiners," he said. "They're written by mathematicians and economists for mathematicians and economists. While the draft Accord may be conceptually sound, we need to make certain that the final Accord is written in a form that is understandable to those responsible for implementing it."

The complexity of the rules has a cost that goes beyond the heavy burden it will impose on banks that have to design systems and educate staff, Mr. Hawke added. It also has a cost in terms of public acceptance and, most important, in terms of competitive equality for U.S. banks.

"Bank supervision varies significantly from one country to another in approach, intrusiveness and quality," he said. While the OCC has up to 40 examiners working full time in its largest banks, some countries rely on outside auditors for supervisory oversight.

"Is it realistic to think that an enormously complex set of rules will be applied in an evenhanded way across a broad spectrum of supervisory regimes?" Mr. Hawke asked.

The Comptroller said that the OCC does not believe that a reduction in minimum capital for some institutions is an adverse feature of Basel II, provided that it is based on a regulatory regime that has validity and integrity, and that reflects the degree of risk in a bank's positions and activities.

“Until we have better evidence that Basel II meets that standard, the OCC will be reluctant to allow national banks to materially lower their current capital levels,” Mr. Hawke added.

Mr. Hawke said a U.S. rulemaking proceeding based on Basel II will be initiated later this year and that the OCC will give careful thought to all of the comments it receives during this rulemaking.

“The OCC, which has been vested by Congress with the sole authority to fix capital requirements for national banks, will not give its final agreement to Basel II until we have fully and objectively considered all the comments we receive,” he said.

“And we will not sacrifice good public policy to the dictates of an arbitrary time schedule,” he added. “If, after reviewing comments, we determine that changes to the Basel proposal are necessary, we will insist upon such changes.”

Mr. Hawke expressed confidence that the efforts of the OCC and others on the Basel committee will ultimately result “in a more workable Basel agreement -- one that all concerned parties can live with and prosper under.”

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The OCC charters, regulates and examines approximately 2,100 national banks and 52 federal branches of foreign banks in the U.S., accounting for more than 55 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.

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