Statement of John D. Hawke, Jr.

On Basel Capital Accord Issuances

July 11, 2003

Today we are taking a major step toward revising the international accord that governs bank capital standards. I would like to commend the men and women at the federal bank and thrift agencies who have worked so hard to bring us to this point. While we still have much work ahead of us, we are now in a position to seek comment from the banks and others that will be impacted by any new capital framework that we might adopt under the Basel II Capital Accord.

The documents we are publishing today for comment are both long and complex and they deserve careful consideration by all involved. I believe that we are taking the right step in publishing these proposals for comment, not because I am certain they represent the right approach, but because this step is so crucial in determining what ultimately is the right thing to do.

I must acknowledge taking some comfort in the fact that these proposals are not set in stone. Let me be clear that the OCC -- which has the sole statutory responsibility for promulgating capital regulations for national banks -- will not begin implementing a final revision to the Basel capital framework until we have fully considered all comments received and conducted whatever cost-benefit and impact analyses are required. If we determine through this process that changes to the proposal are necessary, we will not approve any revisions to our capital rules until appropriate changes are made.

The documents that we are releasing today identify, and seek comment on, a number of important issues that we must resolve before we can move forward. Among them is the possibility that a new capital framework could lead to competitive inequalities between domestic and foreign institutions, between large and small banks, and between banks and nonbank financial companies. There are a number of other questions that must be answered before we can proceed:

- Should the conceptual foundation of the Internal Ratings-Based approach and the Advanced Measurement Approach be based on a framework that allocates capital to expected loss plus unexpected loss, or to unexpected loss only?
- What are the supervisory implications of placing significantly greater reliance on internal risk assessment systems?
- Are there areas in which the proposals fail to more closely align capital requirements with risk, or areas in which the effort to improve risk sensitivity adds complexity that exceeds the supervisory benefit of better measurement?

And finally, there are a number of technical issues in areas such as retail, specialized lending, securitizations, credit risk mitigation, operational risk and disclosure that warrant additional focus.

I look forward to receiving public comments on this critically important topic and to working with my colleagues at the other bank and thrift regulatory agencies. My overarching consideration in implementing changes to the 1988 Basel Capital Accord is the need to act in accordance with our primary mission -- to ensure the continued maintenance of a robust and safe and sound banking system.

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