NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Comptroller Hawke Says Good Progress is Being Made on Capital Accord, Although Many Thorny Issues Remain to be Worked Out by Basel Committee

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. said today that the Basel Committee on Bank Supervision is making good progress toward developing a new capital accord to replace the international agreement that was put in place in 1988, although a number of thorny issues remain to be worked out.

The Comptroller said that an overriding objective of his, as the Committee works toward a new accord, is that the competitive vitality of U.S. banks not be impaired and that banks not be placed at a competitive disadvantage to other financial service providers.

The Comptroller praised New York Fed president William J. McDonough for keeping the process moving forward. Mr. McDonough, he said, has kept the committee on point and moving in the right direction.

One of the most difficult issues facing the committee, Mr. Hawke said, is how to deal with operational risk.

"A one-size-fits-all approach to operational risk -- such as a formulaic capital charge based on some percentage of gross revenues or a percentage of the charge for credit risk -- while simple to apply, would disadvantage the best managed banks and provide undeserved advantage to the worst managed," he said.

Worst of all, he added, it would provide no incentive to improve internal control systems. For that reason, Mr. Hawke has argued that operational risk is particularly well suited for a Pillar 2 approach -- supervisory review. The other two pillars of the Basel proposal are minimum capital and market discipline.

Securitization is another area of concern, Mr. Hawke said. "While we must address the real risks here, we need to do so with care, so that we don't needlessly or unintentionally disrupt an important market," he explained.

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Finally, Mr. Hawke stressed the need to avoid excessive complexity in the proposal. It is essential, he said, that the new rules be stated in as clear and concise a manner as possible.

"Bankers, examiners, legislators, and policy makers need to be able to comprehend the structure and content of the new accord without having to plow through reams of mathematical minutiae," he said.

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