

June 16, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Financial Institutions and Consumer Credit Hearing entitled, "The New
Basel Accord – In Search of a Unified U.S. Position"

Thank you, Mr. Chairman, for holding this important hearing. I appreciate this opportunity to be updated on negotiations regarding the new Basel Capital Accord (Basel II) to regulate international banking risk.

Currently, over 100 nations utilize the original Basel Accord (Basel I) model for capital standards. However, I understand many financial institutions concerns that this general approach failed to take into consideration the specific characteristics of larger entities, frequently changing market conditions, and risk reduction strategies implemented by individual financial institutions.

Basel II addresses these concerns under its three pillar system including: minimum capital requirements, supervisory review, and greater public disclosure. Basel II provides for greater flexibility in the determination of a bank's capital requirements, allowing two separate methods to be utilized by small and large institutions.

As was made clear during this committee's Subcommittee on Domestic and International Monetary Policy, Trade and Technology hearing on Basel II, federal regulators have failed to take a unified position on the current proposal. I look forward to learning more regarding their opinions this morning and to hearing from industry representatives on any remaining concerns with the Basel II proposal. In particular, I want to be sure that allowing the separate methods for determining credit risk does not put one type of institution at a competitive disadvantage.

Thank you again, Mr. Chairman, for bringing these important negotiations to this subcommittee's attention. I look forward to a very informative session.