

Opening Statement

Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit

“The New Basel Accord — In Search of a Unified U.S. Position”

June 19, 2003

I would like to thank Subcommittee Chairman Bachus for holding this important and timely hearing on the new Basel Capital proposal. I look forward to hearing from the witnesses on the state of the Basel negotiations, the third consultative paper, and on H.R. 2043, the “United States Financial Policy Committee for Fair Capital Standards Act,” which I have co-sponsored along with my colleague, the Ranking Member on the Committee, Mr. Frank. This legislation was developed following a hearing the Committee held in February on the Basel negotiations. What we learned from that hearing was that not only were many financial institutions concerned that Basel II could adversely affect them, but more importantly that the federal regulators responsible for negotiating the proposal could not agree on how Basel II would be implemented or the impact it would have on U.S. banks.

This lack of consensus among the agencies responsible for ensuring the safety and soundness of our banking system is alarming and should cause us to pause before moving forward on Basel II.

In February we heard concerns related to the mandatory capital charges for operational risk and credit risk, the effect this agreement will have on real estate lending, and the potential for disparate treatment of small to medium sized institutions. As a result of that hearing, I understand that there has been some progress made on the real estate concerns, however additional issues have come to light. Non-bank financial institutions have expressed concerns over the potential impact of Basel II on their businesses. Additionally, there have been concerns raised by the EU over the decision to apply Basel II to only the 10 largest financial institutions in the U.S. I would like to know how the third consultative paper addresses all of these outstanding issues and whether there is any willingness to entertain further changes to the Basel II proposal.

I understand the comment period on the third consultative paper will close in July and the Advanced Notice of Rule Making will begin shortly thereafter. I do not understand why the regulators are moving forward with rule making prior to examining all of the comments filed during the comment period and prior to a final

agreement on Basel II which is scheduled for December of this year. It seems to me that the concerns that have been raised are being largely ignored while the proposal continues to move forward.

I would like the record to reflect that we did try to have additional witness on the second panel that would be supportive of the Basel II proposal, however we could not find any institution that was completely supportive of Basel II. I am in agreement that there needs to be changes to the Basel Accord. The practice of risk arbitrage has made Basel I less effective than when it was adopted in the late 1980s. My concern is that Basel II goes too far and will hinder the banking system more than it will protect it. Basel II has been in development for several years and has gone through many stages.

We are in the process of the third consultation on the Basel II proposal. In my opinion, there are still some kinks that need to be worked out. With a proposal that is so far reaching, and which changes the fundamental way many banks do business, it is my hope that the regulators will develop a unified position on Basel II, go back to the Basel Committee, and return with an agreement that protects the banking system while ensuring that there are no unintended consequences.

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