

**OPENING STATEMENT OF
CHAIRMAN SPENCER BACHUS
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
SUBCOMMITTEE
“THE NEW BASEL ACCORD – IN SEARCH OF A UNIFIED
U.S. POSITION”
JUNE 19, 2003**

The Subcommittee meets today to examine the proposed Basel II Capital Accord and its potential effects on the domestic and international banking systems. The goal of Basel II is to develop a more flexible and forward-looking capital adequacy framework that better reflects the risks facing banks and encourages them to make ongoing improvements to their risk assessment capabilities.

The Subcommittee on Domestic and International Monetary Policy, Trade and Technology (DIMP) held a hearing in February to examine the Basel II proposal where we heard from a distinguished panel of regulators, including Federal Reserve Vice Chairman Ferguson, Comptroller Hawke, FDIC Chairman Powell and a panel of private sector witnesses. This hearing revealed that the federal regulators did not have a unified position on the scope and the merits of the Basel II proposal.

Following this hearing, I along with Congresswoman Maloney, Chairman Oxley and Ranking Member Frank introduced H.R. 2043, the United States Financial Policy Committee for Fair Capital Standards Act. H.R. 2043 requires the federal banking regulators to develop a unified position on issues under consideration in the Basel Committee on Banking Supervision. Today we will again hear from the Federal Reserve, OCC, and FDIC along with OTS Director Jim Gilleran. Our second panel of private

sector witnesses includes a large bank, financial services trade associations and an academic. I look forward to hearing from today's witnesses and thank them for taking time from their busy schedules to join us.

I applaud the intent and objectives of the Basel II Agreement: to ensure solvency of our banking institutions and protect against substantial losses, and to create international standards to better manage risk and align regulatory capital to economic risk. The distinguished witnesses on our first panel are to be commended for the work they have already accomplished on this agreement.

Nonetheless I have concerns regarding Basel II on several grounds. First, I believe it is unnecessarily complex and costly with inflexible formulas replacing current rules and supervisory examinations. In addition, I believe that the current draft would create an uneven playing field – one that unfairly penalized many banks in this country, particularly our regional banks. But my main concern is about the transparency of the Basel process as a whole and specifically, about how the U.S. position at the Basel Committee is determined.

I know that there has been an extensive comment process, and representatives of the Federal Reserve Board assure me that the banks that would be subject to Basel II approve of it. Nonetheless, some of those banks have indicated to me through their representatives that they are, in fact, concerned about Basel. I understand that banks that have reservations about the United States position are hesitant to object openly to a regulatory agency that exercises power over them. This concern seems reasonable to me,

and I believe we must arrange for a full airing of the views of all interested parties without institutional constraints.

In addition, it has become clear to me that the banking regulators are not in agreement on the desirability of the accord as currently drafted. I am hesitant about supporting fundamental changes to our banking system in the face of a lack of consensus among thoughtful regulators.

H.R. 2043 would require the regulators to reach agreement by establishing a procedural framework for further deliberations on Basel. Our bill would create an inter-agency committee chaired by the Treasury Department and include federal banking regulators. If the members cannot reach consensus on a position, the position of the Treasury would prevail. It is important that the Secretary, as part of the elected Administration, set U.S. policy. Yesterday, I announced at the Exchequer club that the subcommittee plans to mark up this legislation in July.

In closing, I want to thank Chairman Oxley, Ranking Member Frank and Mrs. Maloney for working with me to develop this legislation. I look forward to working with them and the other members of this subcommittee on this important issue.

I am now pleased to recognize the Ranking Member, Mr. Sanders, for an opening statement.