Johnson Statement on Basel III Oversight Hearing

WASHINGTON – Today, Senate Banking Committee Chairman Tim Johnson (D-SD) held an oversight hearing to discuss the proposed Basel III international banking rules. The Committee heard from representatives of the Federal Reserve, OCC, and FDIC.

Below is Chairman Johnson's statement as prepared for delivery:

"After the financial crisis, Congress passed Wall Street Reform into law, and asked our regulators to strengthen the financial sector by enhancing capital standards and prudential supervision. In addition, federal banking agencies negotiated the Basel III accords, an agreement with other nations' banking agencies. The proposed capital rules under discussion today implement that agreement. These are complex rules, and today we will hear from the experts at the Fed, OCC and FDIC about the important goals they hope to accomplish with these proposed rules, as well as their potential impact.

"Since the rules were proposed in June, members of this Committee have heard a number of concerns about these rulemakings from former federal regulators, current state regulators, industry participants and academics. These concerns are documented in over 2,000 comment letters submitted by a wide range of stakeholders including community banks and insurance companies.

"While most agree the higher levels of capital are appropriate, the details of how to improve bank capital will have a broad impact and must be closely examined.

"Specifically, with respect to community banks, I appreciate that your agencies have undertaken a number of efforts to explain the proposed rules to community banks, including issuing a capital estimation tool for banks to evaluate how the proposed rules will impact them. However, I am concerned that the proposed risk weights could have an adverse impact on small banks' ability and willingness to offer mortgages, especially in rural areas. I look forward to hearing more today about how the risk weights were determined for mortgages, securitizations, and mortgage servicing rights, and what kind of impact these rules might have on our housing market.

"I also want to hear more about the proposed treatment of 'accumulated other comprehensive income.' At a time where interest rates cannot get much lower, we should pay particular attention to how new rules could make interest rate management more difficult, especially for smaller banks.

"In addition, I am concerned by the treatment of the business of insurance in the proposed rules. Before moving forward with applying these rules to insurance companies, the banking agencies should take additional time to work with state insurance regulators, the Federal Insurance Office, and the independent insurance expert on the Financial Stability Oversight Council to better understand the insurance accounting framework and risk-based capital model currently used. This feedback should then be used to develop a capital framework that is more suitable for financial institutions engaged in the traditional business of insurance, and give these companies appropriate time to implement the new framework.

“A strong capital base is a key component of a resilient financial system. This was a major lesson of the financial crisis in 2008, and your agencies are to be commended in your efforts to steadily recapitalize the U.S. banking system and establish new standards. But while capital can serve as an important loss-absorbing buffer, capital alone will not prevent financial firms from failing and potentially threatening the broader financial stability. It is important that capital standards are well calibrated with other supervisory requirements, including new rules mandated by the Wall Street Reform Act. I look forward to hearing how each of your agencies is coordinating the ongoing rulemakings to ensure all of the pieces fit together.

“I believe we share the same goal of strong and harmonized capital rules to promote financial stability, but before moving forward it is important to understand how the regulators have considered, and will continue to consider, the concerns being raised. I encourage your agencies to take the appropriate amount of time needed to get these rules right.

“Last, I want to applaud you all for the steps your agencies took last week to provide clarity on the Basel III rules’ effective date. This was well in advance of the previously announced January 1, 2013 effective date and I believe the announcement was very useful to those companies working to comply with these rules.

“With that, I turn to Ranking Member Shelby.”

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