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Remarks by Lawrence R. Uhlick
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Thank you Everett, and good morning everyone.

I would like to focus my remarks on two policy issues of importance to our members: Basel II and the competitiveness of the U.S. financial markets.

Since we're in Washington, however, let me start on a political note. As we have already observed in the early days of the 110th Congress, the new Democratic majority will influence many areas of national policy ranging from Iraq and other foreign policy issues to overall tax policy and environmental concerns. We also anticipate some significant divergence of views in the area of retail financial services – for example with regard to subprime lending and credit card issues.

However, I believe there is likely to be much less of an impact in the wholesale banking and financial services area. I say this in part because these matters have generally been handled by both the Senate and House banking/financial services committees on a bipartisan basis and there has been a good understanding and support for economic efficiency in wholesale financial markets on both sides of the aisle. I do not expect this to change in a major way under the leadership of Senator Dodd and Congressman Barney Frank, who we will have the pleasure of hearing from at lunch today.

With regard to Basel II, almost from the beginning bipartisan concerns have been expressed in Congress regarding the potential overall reduction in capital in the banking system, the complexity of the advanced methodologies and the competitive impact of not applying Basel II requirements to the vast majority of U.S. banking institutions.

These issues were addressed in the recent GAO study, which recommended that the United States continue the Basel II process. This was an encouraging development, but there continues to be concerns as to whether the revised time frame previously announced by the banking regulators can be achieved in the short amount of time available between the end of the comment period in late March and the start of the parallel run that was scheduled for January 1, 2008 — which is already one year later than when Europe and other countries started their parallel runs. There is no question that the process has been difficult. But I am reminded of Winston Churchill's remark: You can always count on Americans to do the right thing – after they've tried everything else.



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The Institute strongly supports the finalization of Basel II in the United States in a manner that achieves greater consistency with the International Basel Accord. We are also very supportive of the concerns expressed by a number of large U.S. banks regarding the additional requirements, or so-called “safeguards”, announced by the U.S. regulators in response to the inconsistent results of the 4th quantitative impact study. We believe the justification for imposing additional requirements that are not part of the International Capital Accord should be carefully reconsidered and, at a minimum, phased out at the earliest stage feasible in the implementation process.

We are also concerned with the provisions of the Basel II Notice of Proposed Rulemaking requiring intermediate U.S. holding companies that have \$250 billion or more in consolidated assets to apply the U.S. advanced approach even if their U.S. bank subsidiaries would not otherwise be treated as so-called “core” banks. It is especially troubling that each bank subsidiary of such a holding company also would be subject to the advanced approach regardless of the bank’s size.

Under the proposal an intermediate U.S. holding company with substantial U.S. securities activities but relatively small U.S. banking activities could be required to apply the U.S. advanced approach to both its bank and nonbank activities. Indeed, several of our members now face the prospect of having to comply with the U.S. advanced approach principally because of the size of their nonbank securities operations. Moreover, the prospect exists that future acquisitions in the United States, as well as organic growth of existing U.S. activities, could mandate the U.S. advanced approach for the U.S. operations of additional member banks even if their banking “footprint” remained a small fraction of the \$250 billion threshold.

The intermediate U.S. holding company requirement was proposed for the first time last March when the Basel II proposed regulation was released, and I think it is fair to say it caught the industry by surprise. U.S. banks that qualify as core banks, including one of our members with a very large U.S. subsidiary, have been aware for several years that they will be required to implement the U.S. advanced approach. Accordingly, they have been gathering the data and developing the systems necessary to do so, but none of our other member institutions had reason, prior to the March NPR, to undertake such efforts. Having to upgrade their operations and systems on such relatively short notice presents difficult challenges to our members and raises serious questions regarding the fairness of this requirement.

In addition to these considerations, we question whether mandating U.S. advanced methodologies can be justified for intermediate U.S. holding companies of internationally headquartered institutions that are themselves applying home country advanced methodologies that reflect the International Capital Accord on a global consolidated basis. Of critical importance, such holding companies are not required to meet the “well capitalized test” under Gramm-Leach-Bliley if the global bank itself



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qualifies as well capitalized for financial holding company purposes. This reflects longstanding and well established Federal Reserve precedent – as articulated in Supervisory Letter 01-01 – and we strongly believe this approach should be maintained.

I want to conclude with just a few comments on the subject of international competitiveness of U.S. financial markets in comparison with other major international centers such as London, Tokyo, Hong Kong, etc.

Of course the Institute enthusiastically supports efforts to focus on the competitive position of the U.S. vis-à-vis other international centers and the influence the U.S. regulatory regime can have on maintaining strong and vibrant markets. In general, we support fostering an environment in which bankers are able to decide where to conduct business based on economic and commercial factors rather than the regulatory climate of a particular financial center.

Given our members' extensive banking and capital market activities in the United States, there is no question that we would like to see improvements in the regulatory and tax environment that will facilitate their business and encourage expansion. For example, we firmly support efforts to reduce the overall regulatory burden on our institutions and feel strongly that better results can be achieved, and the reputation of the U.S. as having a favorable regulatory environment for doing international business enhanced, by restoring a more balanced emphasis on prudential supervision in place of regulatory enforcement.

We would also emphasize the recommendation in the recent McKinsey Report that urges the prompt recognition by the SEC of IFRS as a means to encourage additional securities activities in the U.S. financial markets. In this regard we continue to urge the U.S. authorities to accept IFRS for tax purposes in connection with valuing securities and derivative positions. This approach is especially appropriate because the fair value of mark-to-market positions under these non-U.S. financial reporting standards is almost invariably *the same as* the fair value of those positions under U.S. GAAP. We understand the IRS and Treasury Department are giving serious consideration to our recommendations in this area, and we sincerely hope they will adopt our position when they finalize the tax regulations dealing with the valuation of trading positions.

Let me conclude by emphasizing that the focus of enhancing U.S. international competitiveness and improving the U.S. regulatory environment should not be a “flavor of the month” exercise but a long-term, consistent effort constantly to seek to adjust the regulatory environment to market developments and needs. Working with our member banks operating here in the U.S., we look forward to contributing to that worthy effort.

Thank you.