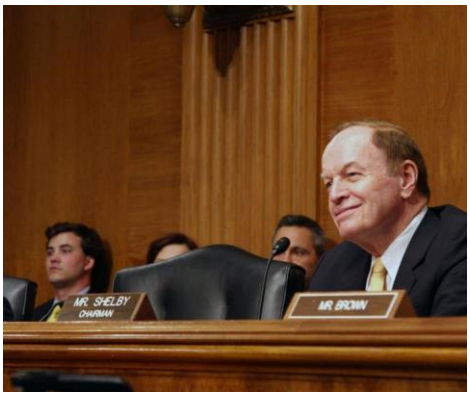
Shelby Opening Statement at Hearing on Bank Capital and Liquidity Regulation

June 7, 2016



WASHINGTON, DC – Tuesday, June 7, 2016 – U.S. Senator Richard Shelby (R-Ala.), Chairman of the United States Senate Committee on Banking, Housing, and Urban Affairs, today delivered the following opening statement during a full committee hearing entitled, "Bank Capital and Liquidity Regulation."

The text of Chairman Shelby's remarks, as prepared, is below.

"Today, we will hear testimony regarding one of the most critical areas of this Committee's jurisdiction: the regulation of the U.S. banking system.

"In particular, the panel of experts before us will discuss the appropriateness and effects of recent capital and liquidity rules.

"For years, I have urged regulators to implement strong capital requirements.

"I believe they are essential for a safe and sound banking system and also to avoid taxpayer bailouts.

"In 2006, when this Committee held a hearing on the Basel II Capital Accord, I remarked, 'We only need to look at U.S. economic history to see how thinly capitalized banks have…made our financial system vulnerable to unanticipated economic shocks and how a crisis in the banking system quickly infects the rest of our economy.'

“Shortly thereafter, our economy experienced the worst financial crisis in a generation, and it became clear, even to the Federal Reserve and other banking regulators, that the amount of high-quality capital held by many banks was insufficient.

“The question we must ask ourselves is, are banks in a position today to withstand another major financial crisis?

“Both Dodd-Frank and Basel III as implemented by U.S. regulators increased significantly the number of capital and liquidity requirements for financial institutions.

“But, they also significantly increased their complexity.

“History has demonstrated that excessive complexity can actually lead to a weakening of capital standards – the exact opposite effect of what is intended.

“Recent studies have shown that simple capital ratios are better than complex risk-weighted ratios at predicting banks’ asset risk and their probabilities of failure.

“These conclusions have been stated by experts from academic and governmental institutions such as New York University, the Bank of England, and the International Monetary Fund.

“Unfortunately, when pressed to do further analysis on the effectiveness of our capital and liquidity rules, our banking regulators have balked.

“In 2012, I urged the regulators to conduct a transparent process in implementing Basel III, and asked for more quantitative data on its effectiveness and economic impact.

“Regrettably, instead of performing their own rigorous analysis, they chose to outsource it to the Basel Committee.

“For example, the Federal Reserve relied on Basel analysis that included data from only 13 U.S. banks out of the 249 banks that were studied.

“Now, as banks respond to Basel and Dodd-Frank capital and liquidity requirements, I worry that regulators are again employing a process that is not thorough and does not consider the cumulative impact.

“Instead, they appear to think that more is better – more regulation, more regulators, and

more spending. None of these, however, will necessarily ensure that banks actually hold more capital. In fact, the reverse may be true.

“If regulations are too complex to determine their cumulative impact or if they are even effective in the first place, then we must simplify them.

“Because unnecessary layers of complexity can create undue burdens for banks big and small, a more complex regulatory system could actually lead to an increase in systemic risk.

“How can we be assured that regulators are focused on the right measures when there are so many overlapping, and even counterintuitive, rules for capital and liquidity? I worry that they will be so focused on the myriad details that they will, once again, be unable to see the forest for the trees.

“With that in mind, I look forward to hearing from the experts before us today on the state of our current capital and liquidity regime, as well as any recommendations they may have.”

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