

**Shadow Financial
Regulatory Committee**

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Statement No. 44

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Carnegie-Mellon University
KENNETH E. SCOTT
Stanford Law School

Statement of the Shadow Financial Regulatory Committee

on

The Comptroller of the Currency's
Proposal for a Minimum Bank Leverage Ratio

The Comptroller of the Currency (OCC) recently issued a proposed regulation to set a 3% minimum leverage ratio that national banks would be required to meet in addition to the 8% risk-based capital standard that will be fully implemented by 1992. The Shadow Financial Regulatory Committee agrees with the thrust of the Comptroller's conclusion that the risk-based capital system is inadequate to protect the deposit insurance system, but we have serious reservations about the specifics of the Comptroller's proposal. Our criticisms of the risk-based requirements are spelled out in Statements Nos. 18 and 29, issued May 18, 1987 and February 8, 1988.

We have urged, instead, the adoption of a structure of capital requirements that would call for increasingly strong supervisory actions as properly measured capital falls. The Committee's proposal was set forth in Statement No. 41, issued on February 13, 1989.

Our criticisms of the OCC proposal relate to:

- (1) the definition of capital;
- (2) the appropriate ratio requirement; and
- (3) the action to be taken if the requirement is not met.

1. The appropriate definition of capital in terms of protection to bank creditors and the deposit

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