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OCC 2011-3

Subject: Proposed Revisions to Market Risk Capital Rule
Date: January 12, 2011

To: Chief Executive Officers of All National Banks, Federal Branches and Agencies, Department and Division Heads, and All Examining Personnel

Description: Notice of Proposed Rulemaking

SUMMARY

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (agencies) are seeking comment on a notice of proposed rulemaking (NPR) that would revise their market risk capital rules. The revisions would broaden the scope of these rules to better capture the risk inherent in trading positions. Specifically, the proposal would improve the rules' sensitivity to risks not adequately captured under the current regulatory measurement methodologies, such as the default and migrations risks associated with less liquid products. The agencies' analysis indicates that, for those banking organizations subject to the market risk capital rules, these revisions will significantly increase the risk-based capital allocated to market risk.

BACKGROUND

The NPR proposes modifications to the OCC's existing risk-based capital rule for market risk, 12 CFR 3, appendix B. The current market risk rule applies to national banks for which (1) the sum of the bank's trading assets and liabilities is at least 10 percent of total assets, (2) the sum of the bank's trading assets and liabilities is at least $1 billion, or (3) an election to apply the market risk rule has been made. The NPR does not change the scope of application of the rule.

Consistent with the July 2009 publication by the Basel Committee on Banking Supervision of "Revisions to the Basel II market risk framework," the NPR proposes changes to the current market risk rule. The NPR incorporates: (1) a revised definition of "trading position" that excludes trading assets and liabilities not held for the purpose of short-term resale or to lock in arbitrage profits, (2) a stressed value-at-risk measure, in which the calibration of the model reflects a period of significant financial stress, (3) a new capital charge for default risk and migration risk—the incremental default risk charge, (4) a substantially revised treatment of positions that comprise the correlation trading portfolio, (5) an expanded set of requirements for internal models, and (6) revised requirements for regulatory back testing.

The NPR was published in the *Federal Register* on January 11, 2011. Comments on the proposal are due on or before April 11, 2011.

FURTHER INFORMATION

You may direct questions or comments to Roger Tufts, Senior Economic Advisor, Capital Policy Division, at (202) 874-4925; or Carl Kaminski, Senior Attorney, at (202) 874-5405.

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Related Link

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