SUPPORTING STATEMENT
MARKET RISK – NOTICE OF PROPOSED RULEMAKING

A. Justification.

1. Circumstances that make the collection necessary:

The federal banking agencies are issuing a notice of proposed rulemaking to revise the market risk capital framework to enhance its risk sensitivity and introduce requirements for public disclosure of certain qualitative and quantitative information about a bank's or bank holding companies' market risk.

The first international capital framework for banks was developed by the Basel Committee on Banking Supervision (BCBS) and endorsed by the G-10 governors in 1988. In 1996, the BCBS amended the 1988 Capital Accord to require banks to measure and hold capital to cover their exposure to market risk associated with foreign exchange and commodity positions and positions located in the trading account (the Market Risk Amendment or MRA).

In June 2004, the BCBS issued a final text of a revised regulatory capital framework for banks, which was intended for use by individual countries as the basis for national consultation and implementation (New Accord). The New Accord sets forth a "three pillar" framework encompassing (1) minimum risk-based capital requirements for credit risk, market risk, and operational risk; (2) supervisory review of capital adequacy; and (3) market discipline through enhanced public disclosures. The changes to the capital framework for credit and operational risks are the subject of the agencies' Notice of Proposed Rulemaking published concurrently with this rule.

For market risk, the New Accord generally retains the approach contained in the MRA. However, in releasing the New Accord, the BCBS announced that work would continue on the treatment of double default effects for the New Accord and that improvements to the MRA would be developed immediately, especially with respect to the treatment of specific risk. With respect to market risk, the Pillar 1 changes clarify the types of positions that are subject to the market risk capital framework and revised modeling standards; the Pillar 2 changes require banks to conduct internal assessments of their capital adequacy with respect to market risk, taking into account the output of their internal models, valuation adjustments, and stress tests; and the Pillar 3 changes require banks to disclose quantitative and qualitative information on their valuation techniques for covered positions, the soundness standard they employ for modeling purposes, and the methodologies they use to make the internal capital adequacy assessment.

In this proposal, the OCC, Board, and FDIC are proposing to amend their market risk capital rules to implement the BCBS's 2005 changes to the market risk capital framework. The current market risk capital rule supplements the general risk-based capital rules[1] by requiring any bank subject to the rule to adjust its risk-based capital ratio to reflect explicitly market risk in its

[1] The OCC's general risk-based capital rules are at 12 CFR part 3, Appendix A.

trading activities. The rule applies to a bank with worldwide, consolidated trading activity equal to at least 10 percent of total assets or $1 billion.

2. Use of the information:

The collection of information is necessary to ensure capital adequacy according to the level of market risk.

Section 3 sets forth the requirements for applying the market risk framework. Section 3(a)(1)(i) requires clearly defined policies and procedures for determining which trading assets and trading liabilities are trading positions and specifies what must be taken into account. Section 3(a)(2) requires a clearly defined trading and hedging strategy for trading positions approved by senior management and specifies what the strategy must articulate. Section 3(b)(1) requires clearly defined policies and procedures for actively managing all covered positions and specifies the minimum that they must require.

Section 5(b)(1) specifies what internal models must include and address. Sections 6(a) and 6(b) require prior written approvals for incremental default risk. Section 8(b) requires a formal disclosure policy approved by the board of directors that addresses the bank's approach for determining the market risk disclosures it makes.

3. Consideration of the use of improved information technology:

National banks may use any information technology that permits review by OCC examiners.

4. Efforts to identify duplication:

The required information is unique and is not duplicative of any other information already collected.

5. Methods used to minimize burden if the collection has a significant impact on a substantial number of small entities:

Not applicable. The collection does not have a significant impact on a substantial number of small entities.

6. Consequences to the Federal program if the collection were conducted less frequently:

The OCC will not be able to adequately monitor capital levels and ensure safety and soundness.

7. Special circumstances that would cause an information collection to be conducted in a manner inconsistent with 5 CFR Part 1320:

The information collection will be conducted in a manner consistent with 5 CFR Part 1320.

8. Efforts to consult with persons outside the agency:

The notice of proposed rulemaking is being issued for 120 days of comment.

9. Payment or gift to respondents:

None.

10. Any assurance of confidentiality:

The information will be kept confidential only as permitted by means of an exemption under the Freedom of Information Act. 5 U.S.C. § 552.

11. Justification for questions of a sensitive nature:

There are no questions of a sensitive nature.

12. Burden estimate:

Section Number	Section Title	Requirement	Estimated Burden Hours
Section 3(a)(1)(i)	Trading Positions	Clearly defined policies and procedures for determining which trading assets and trading liabilities are trading positions. Specifies what must be taken into account.	40 hrs.
Section (3) (a)(2)	Trading/hedging strategies	Clearly defined trading and hedging strategy for trading positions approved by senior management. Specifies what strategy must articulate.	16 hrs.
Section (3) (b)(1)	Requirements for Management of covered positions: Active Management	Clearly defined policies/procedures for actively managing all covered positions. Specifies minimum that they must require.	16 hrs.

Section Number	Section Title	Requirement	Estimated Burden Hours
Section 5(b)(1)	Requirements for Specific Risk Modeling	Specifies what internal models must include/address.	88 hrs.
Section 6	Incremental default risk	Paragraphs (a) and (b) require prior written approvals	480 hrs.
Section 8(b)	Disclosure Policy	Must have formal disclosure policy approved by board of directors. Board and senior management must ensure appropriate verification of the disclosures. Effective internal/disclosure controls established/maintained.	40 hrs.
TOTAL			680

The burden is calculated as follows:

Number of Respondents: 10

Number of Responses per Respondent: 7

Total Number of Responses: 70

Burden Per Respondent: 680 hours

Total Estimated Annual Burden: 6,800 hours

Cost of Hour Burden to Respondents:

The OCC estimates the cost of the hour burden to respondents as follows:

6,800 hours x $100/hour (combination of various levels of staff) = $ 680,000

Total Hour Burden Cost: $ 680,000

13. Estimate of total annual costs to respondents (excluding cost of hour burden in Item #12):

Not applicable.

14. Estimate of annualized costs to the Federal government:

Not applicable.

15. Change in burden:

<u>*Former Burden:*</u>
N/A

<u>*New Burden:*</u>
10 respondents; 680 burden hours per respondent; 6,800 burden hours

<u>*Difference:*</u>
+10 respondents; +680 burden hours per respondent; + 6,800 burden hours

The program change (increase) is due to the fact that this is a new collection.

16. Information regarding collections whose results are to be published for statistical use:

The OCC has no plans to publish the information for statistical purposes.

17. Reasons for not displaying OMB approval expiration date:

The OCC is not requesting permission to not display the OMB approval expiration date.

18. Exceptions to the certification statement in Item 19 of OMB Form 83-I:

None.

B. Collections of Information Employing Statistical Methods.

Not applicable.