SUPPORTING STATEMENT
Risk-Based Capital Standards: Market Risk
OMB Control No. 1550-NEW

The Office of Thrift Supervision (OTS) requests OMB approval of the collection of information contained in the interagency proposed rulemaking, "Risk-Based Capital Standards: Market Risk" ("the Market Risk Rule" or "joint NPRM," Attachment 1). OTS proposes to collect information from savings associations with aggregate trading assets and liabilities equal to 10 percent or more, or $1 billion or more, of total assets. The Market Risk Rule will supplement the general risk-based capital rules (12 CFR part 567) by requiring any savings association subject to the rule to adjust its risk-based capital ratio to reflect explicitly market risk in its trading assets.

A. JUSTIFICATION

1. Circumstances and Need

The first international capital framework for banks (and savings associations) entitled, International Convergence of Capital Measurement and Capital Standards (1988 Capital Accord), was developed by the Basel Committee on Banking Supervision (BCBS) and endorsed by the G-10 governors in 1988. The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), and the OTS (collectively, the agencies) implemented the 1988 Capital Accord in 1989. 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). The OCC, Board, and FDIC implemented the MRA effective January 1, 1997 (market risk capital rule).[1] OTS did not adopt the MRA.

In June 2004, the BCBS issued a revised regulatory capital framework for banks entitled, International Convergence of Capital Measurement and Capital Standards: A Revised Framework (New Accord), which was intended for use by individual countries as the basis for national consultation and implementation. 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.

By way of a joint NPRM, published on September 25, 2006 (71 FR 55958), the OCC, Board, and FDIC are proposing revisions to the market risk capital rule to enhance its risk

[1] 61 FR 47358 (September 6, 1996). The agencies' implementing regulations are available at 12 CFR part 3, Appendices A and B (national banks); 12 CFR part 208, Appendices A and E (state member banks); 12 CFR part 225, Appendices A and E (bank holding companies); and 12 CFR part 325, Appendices A and C (state nonmember banks).

sensitivity and introduce requirements for public disclosure of certain qualitative and quantitative information about the market risk of a bank or bank holding company. Because OTS currently does not apply a market risk capital rule for savings associations, it is now proposing in the joint NPRM a market risk capital rule for savings associations.

For market risk, the New Accord generally retains the approach contained in the MRA. In addition, the New Accord adopts the July 2005 publication of The Application of Basel II to Trading Activities and the Treatment of Double Default Effects by the BCBS and the International Organization of Securities Commissions (IOSCO),[2] and incorporates it within its "three-pillar" structure. With respect to market risk, the Pillar 1 changes clarify the types of positions that are subject to the market risk capital framework and revises 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.

The information collection requirements contained in the Market Risk Rule are found in Subpart B to Part 566–Market Risk Adjustment, Sections 3, 4, 5, 6, and 9. The collections of information are essential for supervisory, regulatory, and informational purposes.

2. Use of Information Collected

The information collection is necessary to ensure capital adequacy according to the level of market risk. OTS will use the information in the off-site evaluation of the institution in planning examinations, as well as in performing on-site examinations. OTS's Office of Economic Analysis will use the data periodically for verification of modeling approaches implemented by the institution, and for economic studies.

3. Use of Technology to Reduce Burden

Savings associations may use any information technology that permits review by OTS examiners.

4. Efforts to Identify Duplication

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

[2] The treatment of double default effects is discussed in section V.C.5 of the proposed advanced capital adequacy framework.

5. Minimizing the Burden on Small Institution

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

6. Consequences of Less Frequent Collections

OTS will not be able to adequately supervise and monitor capital levels and ensure safety and soundness if the collection is conducted less frequently.

7. Special Circumstances

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

8. Consultation with Persons Outside the OTS

The agencies are publishing a joint NPRM. Extensive interagency collaboration was involved in creating this proposed information collection. The NPRM is being issued for 120 days of comment. The agencies will carefully consider all public comments received in response to the NPRM in developing the Final Rule.

9. Payment or Gifts to Respondents

None.

10. Any Assurance of Confidentiality

The information will be kept confidential, pursuant to applicable exemptions under the Freedom of Information Act. 5 U.S.C. § 552.

11. Information of a Sensitive Nature

There are no questions of a sensitive nature.

12. Burden Estimates

Number of Respondents: 1
Number of Responses per Respondent: Varied – Some requirements are done at least quarterly and some at least annually
Estimated Burden Hours Per Respondent: 2,088 hours
Total Annual Burden: 2,088 hours

Hours of Response:
1,208 hours for Section 3 policy development responses, 40 hours for Section 4 reporting responses, 480 hours for Section 5 model development responses, 240 hours for Section 6

model development responses, 120 hours for Section 9 recordkeeping responses x 1 respondent.

Total Burden Hours: 1,208 policy development and 40 reporting and 720 program development and 120 recordkeeping = 2,088 hours.

Cost of Hour Burden to Respondents:

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

2,088 x $100/hour (combination of various levels of staff) = $208,800

Total Hour Burden Cost: $208,800

Section-by-Section Burden Analysis

Section 3 requires that the institution have clearly defined policies and procedures for determining the positions (covered positions) subject to the Market Risk Rule, and for actively managing these positions. This section also requires a clearly defined trading and hedging strategy, and policies and procedures for valuation of these positions. It establishes the requirements for modeling risks of the covered positions, validation, stress testing, control, and oversight. Section 3 also requires that the institution document all material aspects of the internal models, management/valuation of covered positions, control, oversight, validation, and internal assessment of capital adequacy.

Section 4 establishes adjustments to the risk-based capital ratio calculations.

Section 5 establishes the basic requirements that the institution must follow to develop general and specific risk models. It specifies what risks internal models must include and address.

Section 6 establishes criteria for modeling incremental default risk.

Section 9 requires the institution to develop a formal disclosure policy and to have internal disclosure controls in place. The institution must also publicly disclose specified information quarterly for each portfolio, and annually if there is a material change.

Section Number	Section Title	Estimated Burden Hours
Section 3	Requirements for Application of the Market Risk Capital Rule	1,208
Section 4	Adjustments to the Risk-Based Capital Ratio Calculations	40
Section 5	Specific Risk	480
Section 6	Incremental Default Risk	240
Section 9	Market Risk Disclosures	120

13. Estimates of Annualized Costs

Not applicable.

14. Estimates of Cost to the Government

OTS will spend approximately 1,000 hours having professional staff (average $60 per hour) review this information. With 1 respondent, the cost to the government is approximately $60,000.

15. Reason for Change in Burden

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

16. Statistical Methods

OTS has no plans to publish the information for statistical purposes.

17. Reasons for Not Displaying OMB Approval Expiration Date

Not applicable.

18. Exceptions to the Certification Statement

None.

B. Collections of Information Employing Statistical Methods

Not applicable.

Attachments:
Notice of Proposed Rulemaking