

Supporting Statement
Market Risk
OMB Control No. 1557-NEW

A. Justification.

1. Circumstances that make the collection necessary:

The Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Board), and Federal Deposit Insurance Corporation (FDIC) are requesting comment on a proposal to revise their market risk capital rules to better capture positions for which the market risk capital rules are appropriate; reduce procyclicality in market risk capital requirements; enhance the rules' sensitivity to risks that are not adequately captured under the current regulatory measurement methodologies; and increase transparency through enhanced disclosures.

2. Use of the information:

The information collection requirements are found in sections 3-11 of the proposed rule. The proposed rule will enhance risk sensitivity and introduce requirements for the public disclosure of certain qualitative and quantitative information about a bank's or bank holding company's market risk. 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) requires banks to have clearly defined policies and procedures for determining which trading assets and trading liabilities are trading positions and specifies the issues banks must take into account in drafting those policies and procedures. Section 3(a)(2) requires banks to have a clearly defined trading and hedging strategy for trading positions that is approved by senior management and that specifies what each strategy must articulate. Section 3(b)(1) requires banks to have clearly defined policies and procedures for actively managing all covered positions and specifies the minimum requirements for those policies and procedures. Sections 3(c)(4) through 3(c)(10) require the annual review of internal models and specify certain requirements for those models. Section 3(d) requires the bank's internal audit group to prepare an annual report to the board of directors on the effectiveness of controls supporting the market risk measurement systems.

Section 4(b) requires quarterly backtesting. Section 5(a) requires institutions to demonstrate to the agencies the appropriateness of proxies used to capture risks within value-at-risk models. Section 5(c) requires institutions to develop, retain, and make available to the agencies value-at-risk and profit and loss information on subportfolios for two years. Section 6(b)(3) requires banks to have policies and procedures that describe how they determine the period of significant financial stress used to calculate the institution's stressed value-at-risk models and also requires institutions to obtain the prior approval of the agencies for any material changes to these policies and procedures.

Section 7(b)(1) details the requirements for the modeling of specific risks. Sections 8(a) and 8(b) require prior written approvals for incremental risk. Section 9(a) requires prior approval for the use of a comprehensive risk measure. Section 9(c)(2) requires banks to retain and report the results of supervisory stress testing. Section 10(d)(1)(i) requires documentation the analysis of risk characteristics of each securitization position held by a bank. Section 11 requires quarterly quantitative disclosures, annual qualitative disclosures, and 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 information collection requirements contained in the notice of proposed rulemaking are being issued for 30 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:

Number of Respondents: 15

Estimated Burden Per Respondent: 1,964 hours

Total Estimated Annual Burden: 29,460 hours

Cost of Hour Burden to Respondents:

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

33,060 hours x \$100/hour (combination of various levels of staff) = \$3,306,000

Total Hour Burden Cost: \$3,306,000

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:

Former Burden:

N/A

New Burden:

15 respondents; 2,204 burden hours per respondent; 33,060 burden hours

Difference:

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.