Supporting Statement
Market Risk Capital Requirements
New Collection

A. Justification

This statement supports a request for OMB to approve the collections of information contained in a Notice of Proposed Rulemaking that would amend the market risk capital requirements of the FDIC. The NPRM is sponsored jointly by the FDIC, the Federal Reserve, and the Office of the Comptroller of the Currency (the agencies). The amendments are based on the June 2004 Basel Committee of Banking Supervision's (BCBS's) final paper "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" and the July 2009 BCBS's final paper "Revisions to the Basel II market risk framework - final version." This framework recognizes developments in financial products, incorporates advances in risk measurement and management practices, and assesses capital requirements that are generally more sensitive to risk.

1. Circumstances and Need

The proposed collection will revise the definition of positions subject to the market risk risk-based capital requirements to reduce regulatory arbitrage between the market risk and the credit risk capital frameworks. It will introduce an incremental risk capital requirement to capture default and credit-quality migration risk for non-securitization credit exposures. Further, the collection will add a stressed Value-at-Risk-based capital requirement to banks' general Value-at-Risk-based capital requirement of the existing rule. In addition, the proposed collection will permit banks to use internal models to measure all price risk for correlation trading positions. Finally, it will impose more conservative capital requirements and enhanced disclosure requirements for securitization positions.

2. Use of the Information

The FDIC will use the data in this proposed collection to assess the adequacy of a bank's capital held to cover exposure to market risk associated with foreign exchange and commodity positions and positions located in the trading account.

3. Use of Technology to Reduce Burden

Respondents may use any available technology to reduce burden.

4. Efforts to Identify Duplication

For a number of reasons, including a desire to identify possible duplication in this collection, the agencies are seeking comment for an extended period of time (90 days). The agencies believe the information in this collection is not otherwise available.

5. Minimizing the Burden on Small Entities

This collection of information does not affect small entities; only the largest institutions will be affected.

6. Consequence of Less Frequent Collections

Less frequent collection would prevent the agencies from adequately monitoring capital levels in affected institutions.

7. Special Circumstances

The proposed recollection does not involve any special circumstances.

8. Consultation with Persons Outside the FDIC

The agencies participated with other members of the Basel Committee during the development of the Basel Committee's 2004 final paper. In addition, the NPR containing the collection for which we are currently seeking approval will have an extended public comment period (90 days) to assure full public participation in the development of the collection.

9. Payment to Respondents

None.

10. Confidentiality

Information deemed confidential is exempt from public disclosure under the Freedom of Information Act (5 U.S.C. 552).

11. Information of a Sensitive Nature

None.

12. Burden Estimate

Summary
Frequency of response: varies.
Number of respondents: 2.
Average number of burden hours: 1,964.
Total annual burden: 3,928 burden hours.

Cost per response: $100 per hour.
Estimated annual cost: $136,000.

Discussion: The section numbers in the table below refer to the sections of the notice of proposed rulemaking containing paperwork burden. The collection requires respondents to (1) clearly define policies and procedures for determining which trading assets are trading positions; (2) clearly define a trading and hedging strategy for trading positions approved by senior management; (3) clearly define policies and procedures for active management of all covered positions; (4) at least annually review its internal models in light of developments in financial markets and modeling technologies, enhancing them as appropriate; (5) at least annually audit and report to the institution's board of directors the effectiveness of controls supporting the bank's market risk measurement systems; (6) backtest each of its most recent 250 business days' trading losses with corresponding daily VaR-based measures and at least once each quarter identify the number of exceptions that have occurred over the preceding 250 business days; (7) demonstrate to the FDIC's satisfaction the appropriateness of any proxies used to capture the risks of the bank's actual positions for which such proxies are used in calculating a VaR-based measure of general market risk of all covered positions; (8) retain and make available to the FDIC certain information for each subportfolio used for backtesting purposes; (9) define policies and procedures that describe how it determines the period of significant financial stress used to calculate the institution's stressed VaR-based measure and notify the FDIC of any material changes to the policies and procedures; (10) use one of several methods to measure the specific risk for each of its debt, equity, and securitization positions with specific risk; (11) obtain the FDIC's prior approval to include portfolios of equity positions in its incremental risk model for measuring the specific risk of a portfolio of debt positions; (12) obtain the FDIC's prior approval to use any of certain specified methods to measure comprehensive risk (i.e., all price risk) for one or more portfolios of correlation trading positions; (13) retain and make available to the FDIC the results of supervisory stress testing, including comparisons with the capital requirements generated by the institution's comprehensive risk model; (14) demonstrate to the FDIC's satisfaction a comprehensive understanding of the features of a securitization position that would materially affect the performance of the position, including conducting and documenting an analysis of the risk characteristics of a securitization position prior to acquiring the position, and no less frequently than quarterly evaluate and update as appropriate the analysis of risk characteristics for each securitization position; (15) publicly disclosure each quarter certain market risk information regarding the institution's capital adequacy and risk profile; (16) adopt a formal disclosure policy, approved by the institution's board of directors, that addresses associated internal controls and disclosure controls and procedures; (17) publicly disclose at least quarterly certain quantitative information for each portfolio of covered positions; and (18) publicly disclose at least annually, or more frequently in the event of material changes, certain qualitative information for each of its covered positions.

These requirements are described in Sections 3(a)(1), 3(a)(2), 3(b)(1), 3(c)(4), 3(d)(4), 4(b), 5(a), 5(c), 6, 7, 8, 9(a), 9(c), 10(d), 11(a), 11(b), 11(c), and 11(d) of the NPR. Details of the estimated burden for each section are provided below.

Section Number	Description	Frequency of Response	Burden Per Response	Total Burden
3(a)(1)	Policies and procedures for trading positions	1	40	40
3(a)(2)	Policies and procedures for trading and hedging strategies	1	16	16
3(b)(1)	Policies and procedures for actively managing covered positions	1	16	16
3(c)(4)	Internal model review	1	16	16
3(d)(4)	Internal audit report	1	16	16
4(b)	Backtesting adjustments to risk-based capital ratio calculations	4	16	64
5(a)	Demonstrate appropriateness of proxies	1	8	8
5(c)	Retention of subportfolio information	1	24	24
6	Policies and procedures for stressed VaR-based measure quantitative requirements	1	40	40
7	Modeled specific risk	1	88	88
8	Incremental risk model – prior approval	1	480	480
9(a)	Comprehensive risk measurement – prior approval	1	480	480
9(c)	Requirements for stress testing	1	80	80
10(d)	Demonstration of securitization positions	4	120	480
11(a)	Quantitative market risk disclosures	4	8	32
11(b)	Disclosure policy	1	40	40
11(c)	Quantitative disclosures for each portfolio of covered positions	4	8	32
11(d)	Qualitative disclosures for each portfolio of covered positions	1	12	12
Total				1,964

Total Burden = 2 respondents x 1964 hours = 3,928 hours

13. Capital, Start-Up and Maintenance Costs

Covered institutions already have established systems to accumulate data and produce reports for the internal calculation of capital held against market risk. Therefore, no additional capital, start-up or maintenance costs are involved.

14. Estimated Annual Cost to the Federal Government

No new costs to the Federal government are anticipated; current bank examination resources will be used to collect and review the information.

15. Reason for Change in Burden

The entire change in burden hours, an increase from zero to 1,964 hours, is a program change due to the creation of a new collection.

16. Publication

No publication is made of the information.

17. Display of Expiration Dates

Not applicable.

18. Exceptions to Certification

None.

B. Statistical Methods

Not applicable.