Supporting Statement
Market Risk Capital Requirements
(OMB No. 3064-0178)

INTRODUCTION

The FDIC is requesting OMB approval for a three-year extension, without any change in the method or substance of collection, to continue the information collection requirements contained in the market risk capital rule published jointly, by the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency. The FDIC's market risk capital rules (12 CFR part 324, subpart F) 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.

A. Justification

1. Circumstances and Need

The market risk rule is designed to determine capital requirements for trading assets based on general and specific market risk associated with these assets. General market risk is the risk of loss in the market value of positions resulting from broad market movements, such as changes in the general level of interest rates, equity prices, foreign exchange rates, or commodity prices. Specific market risk is the risk of loss from changes in the fair value of a position due to factors other than broad market movements, including event risk (changes in market price due to unexpected events specific to a particular obligor or position) and default risk.

Application of the market risk rule to all banking organizations with material exposure to market risk is particularly important because of banking organizations' increased exposure to traded credit products, such as CDSs, asset-backed securities and other structured products, as well as other less liquid products. In fact, many of the August 2012 revisions to the market risk rule were made in response to concerns that arose during the recent financial crisis when banking organizations holding certain trading assets suffered substantial losses. For example, in addition to a market risk capital requirement to account for general market risk, the revised rules apply more conservative standardized specific risk capital requirements to most securitization positions and implement an additional incremental risk capital requirement for a banking organization that models specific risk for one or more portfolios of debt or, if applicable, equity positions. Additionally, to address concerns about the appropriate treatment of traded positions that have limited price transparency, a banking organization subject to the market risk rule must have a well-defined valuation process for all covered positions.

2. Use of the Information

The FDIC will use the data in this proposed collection to assess the adequacy of a covered institution'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

There is no duplication.

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

On December 15, 2015, the FDIC published a *Federal Register* notice proposing to extend the Market Risk Capital Requirements existing information collection (80 FR 77630). The FDIC did not receive any comments addressing this collection of information.

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: 1.
Average number of burden hours: 1,964.
Total annual burden: 1,964 burden hours.

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

Discussion:

The information collection requirements are located at 12 CFR 324.203 through 324.212. The rules enhance risk sensitivity and include requirements for the public disclosure of certain qualitative and quantitative information about the market risk of state nonmember banks and state savings associations subject to the market risk rule (FDIC-supervised institutions). The collection of information is necessary to ensure capital adequacy appropriate for the level of market risk.

Section 324.203 sets forth the requirements for applying the market risk framework. Section 324.203(a)(1) requires FDIC-supervised institutions to have clearly defined policies and procedures for determining which trading assets and trading liabilities are trading positions and specifies the factors a FDIC-supervised institutions must take into account in drafting those policies and procedures. Section 324.203(a)(2) requires FDIC-supervised institutions to have clearly defined trading and hedging strategies for trading positions that are approved by senior management and specifies what the strategies must articulate. Section 324.203(b)(1) requires FDIC-supervised institutions to have clearly defined policies and procedures for actively managing all covered positions and specifies the minimum requirements for those policies and procedures. Sections 324.203(c)(4) through 324.203(c)(10) require the annual review of internal models and specify certain requirements for those models. Section 324.203(d) requires the internal audit group of a FDIC-supervised institution to prepare an annual report to the board of directors on the effectiveness of controls supporting the market risk measurement systems.

Section 324.204(b) requires FDIC-supervised institutions to conduct quarterly backtesting. Section 324.205(a)(5) requires institutions to demonstrate to the FDIC the appropriateness of proxies used to capture risks within value-at-risk models. Section 324.205(c) requires institutions to develop, retain, and make available to the FDIC value-at-risk and profit and loss information on sub-portfolios for two years. Section 324.206(b)(3) requires FDIC-supervised institutions 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 to obtain prior FDIC approval for any material changes to these policies and procedures.

Section 324.207(b)(1) details requirements applicable to a FDIC-supervised institution when the FDIC-supervised institution uses internal models to measure the specific risk of certain covered positions. Section 324.208 requires FDIC-supervised institutions to obtain prior written FDIC approval for incremental risk modeling. Section 324.209(a) requires prior FDIC approval for the use of a comprehensive risk measure. Section 324.209(c)(2) requires FDIC-supervised institutions to retain and report the results of supervisory stress testing. Section 324.210(f)(2)(i) requires FDIC-supervised institutions to document an internal analysis of the risk characteristics of each securitization position in order to demonstrate an understanding of the position. Section 324.212 requires quarterly quantitative disclosures, annual qualitative disclosures, and a formal disclosure policy approved by the board of directors that addresses the approach for determining the market risk disclosures it makes.

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 change is due to a reduction in the number of FDIC supervised institutions subject to the information collection notice.

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.