

SUPPORTING STATEMENT
MARKET RISK CAPITAL REQUIREMENTS
(OMB Control No. 3064-0178)

INTRODUCTION

This submission is being made in connection with a joint notice of proposed rulemaking (NPR) published in the Federal Register with the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (FRB) (collectively, the agencies). The current information collection titled, Market Risk Capital Requirements (OMB No. 3064-0178) expires on August 31, 2025.

A. JUSTIFICATION

1. Circumstances and Need

The FDIC's market risk capital rules (12 CFR part 324, subpart F) establish risk-based capital requirements for FDIC-supervised institutions with significant exposure to market risk, provides methods for these FDIC-supervised institutions to calculate their standardized measure for market risk and, if applicable, advanced measure for market risk, and establishes public disclosure requirements. The NPR would comprehensively overhaul both the market risk capital framework and the credit valuation adjustment (CVA) framework, and would move the new CVA requirements to subpart F. This proposed revisions are intended to enhance risk sensitivity, increase transparency through enhanced disclosures 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 (FDIC-supervised institutions). Subpart F currently applies to FDIC-supervised institutions that have aggregated trading assets and trading liabilities equal to 10 percent or more of quarter-end total assets or \$1 billion or more (covered FDIC-supervised institutions). The NPR would apply to FDIC-supervised institutions that are Category I, II, III, or IV FDIC-supervised institutions, and the market risk provisions would also apply to FDIC-supervised institutions whose trading liabilities meet or exceed \$1 billion or 10 percent of trading assets and liabilities. The collection of information is necessary to ensure capital adequacy appropriate for the level of market and CVA risk.

The NPR would amend the market risk information collections to reflect the proposed recordkeeping, disclosure, and reporting requirements associated with the proposed market risk capital requirements. In addition, the NPR would add recordkeeping requirements to this information collection associated with the proposed CVA provisions. The specific information collection requirements are as follows:

Reporting

Sections 324.201(b)(5)(i) and (ii), 324.202(1)(ii)(A)(2), 324.204(d)(1),

324.204(d)(3)(i), 324.204(e)(1), 324.204(e)(2)(v), 324.204(e)(3), 324.204(g)(2), 324.204(g)(4), 324.205(f)(1)(ii), 324.205(h)(1)(ii)(B), 324.205(h)(1)(ii)(A)(3), 324.207(a)(3), (4), and (5), 324.207(a)(8), 324.208(b)(4), 324.208(h)(3)(ii), 324.212(a)(2), 324.212(b)(1)(iii)(C), 324.212(b)(3), 324.215(c)(1), 324.215(d)(1)(i), 324.221(a), 324.221(c)(2)(iii), 324.221(3), 324.223(a)(1), and 324.224(d)(3)(iii) reflect the requirements under part 324, subpart F (Market Risk and Credit Valuation Adjustment) for prior approval.

Sections 324.204(g)(1)(iii), 324.212(b)(2), and 324.212(c) relate to the model-related prior approvals.

Section 324.224(d)(3)(ii) relates to mapping and the prior approval of the agency when no credit spread of any of the counterparty's peers is available due to the counterparty's specific type. In this instance, a bank may, with the agency's approval, use an estimate of credit risk to proxy the spread of an illiquid counterparty; provided that where a bank uses historical probabilities of default as part of this assessment, the resulting spread must relate to credit markets and cannot be based on historical probabilities of default alone.

Recordkeeping

Sections 324.203(c), 324.203(h), 324.208(h)(1)(ii)(B), and 324.214(b)(7), Demonstrations of compliance regarding active management of market risk covered positions, securitization positions, delta risk factors for foreign exchange risk, and model eligibility of risk factors.

Sections 324.213(a) and 324.213(b) require documentation regarding PLA testing and backtesting.

Sections 324.203(h)(2)(i) requires general recordkeeping for securitization positions.

Sections 324.203(i) and 324.205(h), describes the requirements for documentation related to market risk covered positions, trading desks, and internal risk factors.

Section 324.203(a)(1) requires market risk policies and procedures.

Section 324.203(a)(2) requires clearly defined hedging strategies.

Section 324.203(b)(2) requires non-notional trading desk policies.

Section 324.203(e)(1) requires internal market risk management systems.

Section 324.203(e)(3) requires an internal audit function.

Section 324.203(f) requires a prudent valuation process.

Section 324.203(g) requires a process for assessing capital adequacy.

Section 324.203(h)(2)(ii) requires a demonstration of a comprehensive understanding of securitization positions.

Section 324.214(b)(7)(v) requires weekly risk factor updates with respect to modellable risk factors.

Section 324.217(c) requires a formal reporting and disclosure policy.

Section 324.220(b) requires a CVA hedging policy.

Section 324.223(b)(4), (7), and (9) require a CVA model validation policy.

Section 324.223(b)(10) requires the acquisition of historical market data for CVA risk.

Disclosure

Section 324.217(d) provides that in cases where a bank reasonably believes that reporting or disclosure of specific commercial or financial information would materially prejudice its position by making public certain information that is either proprietary or confidential in nature, the bank is not required to publicly report or disclose these specific items, but must report or disclose more general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed.

Section 324.217(e) requires that the bank either provide all of the public reports and disclosures required in one place on the bank's public website, or provide the reporting and disclosures in more than one public financial report or other public regulatory reports, provided that the bank publicly provides a summary table specifically indicating the location(s) of all such reporting and disclosures.

Section 324.217(f)(1) and (f)(3), Quarterly public disclosures.

Section 324.217(f)(2), Annual public disclosures.

Under the NPR, a banking organization that is subject to the proposed market risk capital requirements would have to provide public regulatory reports in the manner and form prescribed by its primary Federal supervisor, including any additional information and reports that the supervisor may require. A banking organization would have to receive a prior written approval of its primary Federal supervisor for calculating market risk capital requirements using internal models.

Section 324.212(b)(2)(i) of the market risk rule requires an FDIC-supervised institution that is subject to the market risk capital requirements to obtain the prior written approval of the FDIC for a trading desk to be a model-eligible trading desk.

Section 324.203(h)(1) of the market risk rule requires that a subject FDIC-supervised institution demonstrate to the satisfaction of the primary Federal supervisor a comprehensive understanding of the features of a securitization position that would materially affect the performance of the position by conducting and documenting the analysis set forth in §324.203(h)(2).

The NPR also includes recordkeeping requirements for banking organizations subject to the CVA. Those include that a banking organization must 1) have a clear documented hedging policy for credit valuation adjustment (CVA) risk, 2) document identification and management of CVA risk covered positions and eligible CVA hedges, 3) document the initial and ongoing validation of models used for calculating regulatory CVA, and 4) maintain current and historical data inputs to exposure models.

Disclosure requirements related to the proposed CVA are included in section .162, which would be part of Subpart E of Regulation Q. Therefore, those requirements are included in the Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulatory Capital Rules information collection (3064-0153).

2. Use of the Information Collected

The FDIC will use the data in this IC 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. Effort to Identify Duplication

This information collection is unique and covers the institution's particular circumstances. No duplication exists.

5. Minimizing the Burden on Small Entities

This collection does not have a significant impact on a substantial number of small entities. In particular, according to Call Report data as of December 31, 2022, there were 3,038 FDIC-supervised institutions. Only 9 of these FDIC-supervised institutions are affected by the regulatory capital rule and do not have total assets of less than \$850 million therefore meeting the Small Business Administration's definition of a "small entity."

6. Consequence of Less Frequent Collections

Without this information, the FDIC would be unable to meet the requirements of the

statute.

7. Special Circumstances

None. This information collection is conducted in accordance with the guidelines in 5 CFR 1320.5(d)(2).

8. Consultation with Persons Outside the Agency

The agencies published the proposed rule in the Federal Register (88 FR 64028, September 18, 2023). The comment period on the NPR in connection with the PRA closes on November 30, 2023.

9. Payment or Gift to Respondents

None.

10. Confidentiality

Any information deemed to be of a confidential nature would be exempt from public disclosure in accordance with the provisions of the Freedom of Information Act (5 U.S.C. 552).

11. Information of a Sensitive Nature

This information collection contains no sensitive information.

12. Burden Estimates

ESTIMATED HOURLY BURDEN - 2023 Basel III NPR (3064-0178)						
	Type of Burden	Estimated Number of Respondents	Estimated Number of Responses per Respondent	Estimated Time per Response	Frequency of Response	Total Annual Estimated Burden
Prior approval reporting burdens under part 324, subpart F (Market Risk and Credit Valuation Adjustment) including but not limited to Sections 324.201(b)(5)(i) and (ii), 324.202, (1)(ii)(A)(2), 324.204(d)(1), 324.204(d)(3)(i), 324.204(e)(1), 324.204(e)(2)(v), 324.204(e)(3), 324.204(g)(2), 324.204(g)(4), 324.205(f)(1)(ii), 324.205(h)(1)(ii)(B), 324.205(h)(1)(ii)(A)(3), 324.207(a)(3), (4), and (5), 324.207(a)(8), 324.208(b)(4), 324.208(h)(3)(ii), 324.212(a)(2), 324.212(b)(1)(iii)(C), 324.212(b)(3), 324.215(c)(1), 324.215(d)(1)(i), 324.221(a), 324.221(c)(2)(iii), 324.221(3), 324.223(a)(1), and 324.224(d)(3)(iii)	Reporting	3	1	1,200	On Occasion	3,600
Sections 324.204(g)(1)(iii), 324.212(b)(2), and 324.212(c) Model related prior approvals	Reporting	1	1	300	On Occasion	300
Section 324.224(d)(3)(ii) Mapping	Reporting	1	1	2	On Occasion	2
Sections 324.203(c), 324.203(h), 324.208(h)(1)(ii)(B), and 324.214(b)(7) Demonstrations of compliance	Recordkeeping	9	1	96	Annual	864
Sections 324.213(a) and 324.213(b) PLA Testing and backtesting	Recordkeeping	9	4	128	Quarterly	4,608
Sections 324.203(h)(2)(i) General recordkeeping	Recordkeeping	9	4	80	Quarterly	2,880
Sections 324.203(i) and 324.205(h) General recordkeeping	Recordkeeping	9	1	48	Annual	432
Section 324.203(a)(1) Market risk policies and procedures	Recordkeeping	9	1	96	Annual	864
Section 324.203(a)(2) Hedging strategies	Recordkeeping	9	1	16	Annual	144
Section 324.203(b)(2) Trading desk policies	Recordkeeping	9	1	16	Annual	144
Section 324.203(e)(1) Internal market risk management systems	Recordkeeping	9	1	12	Annual	108
Section 324.203(e)(3) Internal audit function	Recordkeeping	9	1	12	Annual	108
Section 324.203(f) Prudent valuation process	Recordkeeping	9	1	12	Annual	108
Section 324.203(g) Capital adequacy assessment	Recordkeeping	9	1	12	Annual	108

	Type of Burden	Estimated Number of Respondents	Estimated Number of Responses per Respondent	Estimated Time per Response	Frequency of Response	Total Annual Estimated Burden
Section 324.203(h)(2)(ii) Securitization data	Recordkeeping	9	4	12	Quarterly	432
Section 324.214(b)(7)(v) Weekly risk factor updates	Recordkeeping	9	52	12	Weekly	5,616
Section 324.217(c) Reporting and disclosure policy	Recordkeeping	9	1	40	Annual	360
Section 324.220(b) CVA hedging policy	Recordkeeping	9	1	40	Annual	360
Section 324.223(b)(4), (7), and (9) CVA model validation policy	Recordkeeping	9	1	40	Annual	360
Section 324.223(b)(10) Historical market data	Recordkeeping	9	1	12	Annual	108
Section 324.217(d) Proprietary confidential information	Disclosure	9	1	12	On Occasion	108
Section 324.217(e) Location	Disclosure	9	1	12	On Occasion	108
Section 324.217(f)(1) and (f)(3) Quarterly public disclosures	Disclosure	9	4	16	Quarterly	576
Section 324.217(f)(2) Annual public disclosures	Disclosure	9	1	8	Annual	72
TOTAL ESTIMATED HOURLY BURDEN						22,370

Annualized Cost of Internal Hourly Burden:
22,370 hours x \$95.11 per hour = \$2,127,611.

Summary of Hourly Burden Cost Estimate (OMB No. 3064-0178)								
Information Collection (Obligation to Respond)	Hourly Weight (%)	Percentage Shares of Hours Spent by and Hourly Compensation Rates for each Occupation Group (by Collection)						Estimated Hourly Compensation Rate
		Exec. & Mgr. (\$133.82)	Lawyer (\$165.76)	Compl. Ofc. (\$64.61)	IT (\$102.64)	Fin. Anlst. (\$101.15)	Clerical (\$37.83)	
1. Prior approvals under part 324, subpart F, Market Risk and CVA. (Mandatory)	16.09	10	15	0	0	45	30	\$95.11

Information Collection (Obligation to Respond)	Hourly Weight (%)	Percentage Shares of Hours Spent by and Hourly Compensation Rates for each Occupation Group (by Collection)						Estimated Hourly Compensation Rate
2. Sections 324.204(g)(1)(iii), 324.212(b)(2), and 324.212(c), Model related prior approvals. (Mandatory)	1.34	10	15	0	0	45	30	\$95.11
3. Section 324.224(d)(3)(ii), Mapping. (Mandatory)	0.01	10	15	0	0	45	30	\$95.11
4. Sections 324.203(c), 324.203(h), 324.208(h)(1)(ii)(B), and 324.214(b)(7), Demonstrations of compliance. (Mandatory)	3.86	10	15	0	0	45	30	\$95.11
5. Sections 324.213(a) and 324.213(b), PLA Testing and backtesting. (Mandatory)	20.60	10	15	0	0	45	30	\$95.11
6. Sections 324.203(h)(2)(i), General recordkeeping. (Mandatory)	12.87	10	15	0	0	45	30	\$95.11
7. Sections 324.203(i) and 324.205(h), General recordkeeping. (Mandatory)	1.93	10	15	0	0	45	30	\$95.11
8. Section 324.203(a)(1), Market risk policies and procedures. (Mandatory)	3.86	10	15	0	0	45	30	\$95.11
9. Section 324.203(a)(2), Hedging strategies. (Mandatory)	0.64	10	15	0	0	45	30	\$95.11
10. Section 324.203(b)(2), Trading desk policies. (Mandatory)	0.64	10	15	0	0	45	30	\$95.11
11. Section 324.203(e)(1), Internal market risk management systems. (Mandatory)	0.48	10	15	0	0	45	30	\$95.11
12. Section 324.203(e)(3), Internal audit function. (Mandatory)	0.48	10	15	0	0	45	30	\$95.11

Information Collection (Obligation to Respond)	Hourly Weight (%)	Percentage Shares of Hours Spent by and Hourly Compensation Rates for each Occupation Group (by Collection)						Estimated Hourly Compensation Rate
13. Section 324.203(f), Prudent valuation process. (Mandatory)	0.48	10	15	0	0	45	30	\$95.11
14. Section 324.203(g), Capital adequacy assessment. (Mandatory)	0.48	10	15	0	0	45	30	\$95.11
15. Section 324.203(h)(2)(ii), Securitization data. (Mandatory)	1.93	10	15	0	0	45	30	\$95.11
16. Section 324.214(b)(7)(v), Weekly risk factor updates. (Mandatory)	25.11	10	15	0	0	45	30	\$95.11
17. Section 324.217(c), Reporting and disclosure policy. (Mandatory)	1.61	10	15	0	0	45	30	\$95.11
18. Section 324.220(b), CVA hedging policy. (Mandatory)	1.61	10	15	0	0	45	30	\$95.11
19. Section 324.223(b)(4), (7), and (9), CVA model validation policy. (Mandatory)	1.61	10	15	0	0	45	30	\$95.11
20. Section 324.223(b)(10), Historical market data. (Mandatory)	0.48	10	15	0	0	45	30	\$95.11
21. Section 324.217(d), Proprietary confidential information. (Mandatory)	0.48	10	15	0	0	45	30	\$95.11
22. Section 324.217(e), Location. (Mandatory)	0.48	10	15	0	0	45	30	\$95.11
23. Section 324.217(f)(1) and (f)(3), Quarterly public disclosures. (Mandatory)	2.57	10	15	0	0	45	30	\$95.11
24. Section 324.217(f)(2), Annual public disclosures. (Mandatory)	0.32	10	15	0	0	45	30	\$95.11
Weighted Average Hourly Compensation Rate:								\$95.11
Source: Bureau of Labor Statistics: 'National Industry-Specific Occupational Employment and Wage Estimates: Industry: Credit Intermediation and Related Activities (5221 And 5223 only)' (May 2021), Employer Cost of Employee Compensation (March 2021), and Employment Cost Index (March 2021 and December 2022). Standard Occupational Classification (SOC) Codes: Exec. And Mgr = 11-0000 Management Occupations; Lawyer = 23-0000 Legal Occupations; Compl. Ofc. = 13-1040 Compliance Officers; IT = 15-0000 Computer and Mathematical Occupations; Fin. Anlst. = 13-2051 Financial and Investment Analysts; Clerical = 43-0000 Office and Administrative Support Occupations.								
Note: The estimated hourly compensation rate for a given collection is the average of the hourly compensation rates for the occupations used to								

comply with that collection, weighted by the share of hours spent by each occupation. The weighted average hourly compensation rate is the average of the estimated hourly compensation rates for all information collections, weighted by the share of hourly burden for each collection. These hourly weights, calculated as the estimated number of annual burden hours in a given collection over the total estimated number of annual burden hours across all collections, are shown in the "Hourly Weight" column of this table.

13. Capital, Start-Up and Maintenance Costs

None.

14. Estimate Annualized Cost to the Government

None.

15. Reason for Change in Burden

The NPR modifies the reporting, recordkeeping, and disclosure requirements of the regulatory capital rules by adding new requirements and revising existing reporting, recordkeeping, and disclosure requirements. As a result, there is an increase in burden hours of 17,910 hours.

16. Publication

The information is not published.

17. Display of Expiration Date

Not applicable.

18. Exceptions to Certification Statement

None.

B. STATISTICAL METHODS

Not applicable.