

Supporting Statement
Risk-weighted Assets – Market Risk and Credit Valuation Adjustment (CVA)
OMB Control No. 1557-0247

A. Justification.

1. Circumstances that make the collection necessary:

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (the Board), and the Federal Deposit Insurance Corporation (FDIC) are issuing a proposed rule that would substantially revise the capital requirements applicable to large banking organizations and to banking organizations with significant trading activity. The revisions set forth in the proposed rule would improve the calculation of risk-based capital requirements to better reflect the risks of these banking organizations' exposures, reduce the complexity of the framework, enhance the consistency of requirements across these banking organizations, and facilitate more effective supervisory and market assessments of capital adequacy. Specifically, the rule would revise the information collections encompassed by this information collection by revising 12 CFR part 3, subpart F in its entirety. The revisions would include replacing the current market risk and credit valuation adjustment risk requirements with revised approaches. The proposed revisions would be generally consistent with recent changes to international capital standards issued by the Basel Committee on Banking Supervision. The proposed rule would not amend the capital requirements applicable to smaller, less complex banking organizations.

2. Use of the information:

The information collection requirements will be located at 12 CFR part 3, subpart F. The revisions set forth in the proposed rule would strengthen the calculation of risk-based capital requirements to better reflect the risks of these banking organizations' exposures. In addition, the proposed revisions would enhance the consistency of requirements across large banking organizations and facilitate more effective supervisory and market assessments of capital adequacy. A description of each proposed information collection is provided below.

Reporting Requirements

Prior approvals

Sections 3.201(b)(5)(i) & (ii), 3.202(1)(ii)(A)(2), 3.204(d)(1), 3.204(d)(3)(i), 3.204(e)(1), 3.204(e)(2)(v), 3.204(e)(3), 3.204(g)(2), 3.204(g)(4), 3.205(f)(1)(ii), 3.205(h)(1)(ii)(B), 3.205(h)(1)(ii)(A)(3), 3.207(a)(3), (4), & (5), 3.207(a)(8), 3.208(b)(4), 3.208(h)(3)(ii), 3.212(a)(2), 3.212(b)(1)(iii)(C), 3.212(b)(3), 3.215(c)(1), 3.215(d)(1)(i), 3.221(a), 3.221(c)(2)(iii), 3.221(3), 3.223(a)(1), & 3.224(d)(3)(iii) require that a national bank or Federal savings association request prior approval from the OCC before commencing an action.

Model related prior approvals

Sections 3.204(g)(1)(iii), 3.212(b)(2), and 3.212(c) relate to the model-related prior approvals.

Mapping Demonstration

Section 3.224(d)(3)(ii) provides that a national bank or Federal savings association may map an illiquid counterparty to a single liquid reference name if the national bank or Federal savings association demonstrates to the OCC that such mapping is appropriate.

Recordkeeping Requirements

Market risk policies and procedures

Section 3.203(a)(1) requires a national bank or Federal savings association to have clearly defined policies and procedures for determining its market risk covered positions that are updated annually.

Market risk trading and hedging strategies

Section 3.203(a)(2) requires that a national bank or Federal savings association have clearly defined trading and hedging strategies for its market risk covered positions that are approved by senior management.

Trading desk policies

Section 3.203(b)(2) requires that a national bank or Federal savings association have clearly defined trading policies that are approved by senior management of the bank. The policies must describe the general strategy of the trading desk, the risk and position limits established for the trading desk, and the internal controls and governance structure established to oversee the risk-taking activities of the trading desk.

Internal market risk management systems

Section 3.203(e)(1) requires that a national bank or Federal savings association have internal market risk management systems and processes for identifying, measuring, monitoring, and managing market risk.

Internal audit function

Section 3.203(e)(3) requires that a national bank or Federal savings association have an internal audit function that no less than once per assess the effectiveness of the controls supporting its market risk measurement systems, including the activities of the business trading units and independent risk control unit, the initial designation of positions as market risk covered positions and any re-designations of positions, compliance with policies and procedures, and the calculation of its measures for market risk under subpart F, including the mapping of risk factors to liquidity horizons, as applicable.

Prudent valuation process

Section 3.203(f) requires that a national bank or Federal savings association have a process for the prudent valuation of its market risk covered positions that includes policies and procedures on the valuation of its market risk covered positions, determining the fair value of its market risk covered positions, independent price verification, and independent validation of the valuation models and valuation adjustments or reserves.

Capital adequacy assessment

Section 3.203(g) requires that a national bank or Federal savings association have a process for assessing its overall capital adequacy in relation to its market risk, taking into account risks that may not be captured fully by the standardized measure for market risk or in the models-based measure for market risk, including concentration and liquidity risk under stressed market conditions.

Demonstrations of compliance

Sections 3.203(c), 3.203(h), 3.208(h)(1)(ii)(B), and 3.214(b)(7)(iv), (vi), & (vii) requires demonstrations of compliance regarding active risk management of market risk covered positions, due diligence requirements for securitization positions, delta risk factors for foreign exchange risk, and data for modellable risk factors.

General recordkeeping (annual)

Sections 3.203(i) and 3.205(h) contain documentation requirements that a national bank or Federal savings association must adequately document all material aspects of its identification, management, and valuation of market risk covered positions, trading desk structure, and its internal models, including validation and review processes and results and an explanation of the empirical techniques used to measure market risk. Documentation for internal risk transfers must identify exposures under subpart D or subpart E of 12 CFR part 3. A national bank or Federal savings association that calculates the models-based measure for market risk must also document policies that describe how each trading desk satisfies applicable requirements. Policies and procedures related to the risk factor eligibility test, data alignment of hypothetical profit and loss and risk-theoretical profit and loss, and the assignment of risk factors to liquidity horizons must also be documented.

General recordkeeping (quarterly)

Section 3.203(h)(2)(i) requires a national bank or Federal savings association to demonstrate its comprehensive understanding of securitization positions by conducting an analysis of the risk characteristics of securitization positions and documenting the analysis.

Securitization data

Section 3.203(h)(2)(ii) requires a national bank or Federal savings association, on an ongoing basis (not less frequently than quarterly), to evaluate and update the analysis required under § 3.203(h)(2)(i) for each securitization position.

Profit and loss attribution (PLA) testing and backtesting (quarterly)

Section 3.213 requires that a national bank or Federal savings association conduct backtesting and PLA testing at the trading desk level on a quarterly basis. The national bank or Federal savings association must be able to demonstrate various practices used in connection with these tests, e.g., that any exceptions are due to technical issues that are unrelated to internal models used; that one or more non-modellable risk factors caused any relevant loss, and the capital requirement for these non-modellable risk factors exceeds the difference between the national bank or Federal savings association's Value-at-Risk (VaR)-based measure and the actual or hypothetical loss for that business day; that hypothetical profit and loss input data can be used appropriately for risk-theoretical profit and loss purposes; that no differences in the risk factors or in the valuation models have been omitted; etc.

Weekly risk factor updates

Section 3.214(b)(7)(v) requires that data used to calibrate the ES-based measure be updated by the national bank or Federal savings association on a weekly basis, at minimum. When regressions are used to estimate risk factor parameters, these must be re-estimated on a regular basis. The national bank or Federal savings association must have clear policies and procedures for backfilling and gap-filling missing data.

Reporting and disclosure policy

Section 3.217(c) requires that a national bank or Federal savings association have a formal reporting and disclosure policy approved by the board of directors that addresses its approach for determining its market risk reports and disclosures and the associated internal controls and reporting and disclosure controls and procedures.

Credit Valuation Adjustment (CVA) hedging policy

Section 3.220(b) requires that a national bank or Federal savings association that hedges its CVA risk have a clearly defined hedging policy that quantifies the level of CVA risk that it is willing to accept and details the instruments, techniques, and strategies that it will use to hedge CVA risk. The hedging policy must be reviewed and approved by senior management at least annually.

Credit Valuation Adjustment (CVA) model validation process

Sections 3.223(b)(4), (7), and (9) requires that a national bank or Federal savings association have a model validation policy. Section 3.223(b)(4) provides that the banks must document the process for initial and ongoing validation of its models used for calculating regulatory CVA under § 3.224(d), including exposure models. The documentation must set out the minimum frequency (no less than annual) with which ongoing validation will be conducted as well as other circumstances (such as a sudden change in market behavior) under which additional validation must be conducted more frequently. In addition, the documentation must sufficiently

describe how the validation is conducted with respect to data flows and portfolios, what analyses are used, and how representative counterparty portfolios are constructed. Section 3.223(b)(7) describes that the banks define criteria on which to assess the exposure models and their inputs and have a written policy in place to describe the process to assess the performance of exposure models and remedy unacceptable performance. While under section 3.223(b)(9) the bank's exposure models must reflect transaction terms and specifications accurately. The terms and specifications must reside in a secure database that is subject to formal and periodic audit no less than annually. The transmission of transaction terms and specifications data to the exposure model must also be subject to internal audit, and formal reconciliation processes must be in place between the internal model and source data systems to verify on an ongoing basis that transaction terms and specifications are being reflected correctly or at least conservatively.

Historical market data

Section 3.223(b)(10) requires that a national bank or Federal savings association acquire current and historical market data, maintained in a secure database subject to formal and periodic audit. The national bank or Federal savings association must also have a well-developed data integrity process and, where an exposure model relies on proxy market data, must set internal policies to identify suitable proxies and must demonstrate empirically on an ongoing basis that the proxy provides a conservative representation of the underlying risk under adverse market conditions.

Disclosure Requirements

Proprietary confidential information

Section 3.217(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.

Location

Section 3.217(e) requires that a national bank or Federal savings association 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.

Quarterly and annual public disclosures

Section 3.217(f)(1) requires that a national bank or Federal savings association publicly disclose, on at least a quarterly basis, the following: the aggregate amount of on-balance sheet and off-balance sheet securitization positions by exposure type; the soundness criteria on which its

internal capital adequacy assessment is based and a description of each methodology used to achieve a capital adequacy assessment; the aggregate amount of correlation trading positions; and for a national bank or Federal savings association that calculates the models-based measure for market risk, a comparison of VaR-based estimates with actual gains or losses experienced by the national bank or Federal savings association for each material portfolio of market risk covered positions, including an analysis of important outliers. Section 3.217(f)(2) requires that a national bank or Federal savings association provide annual public disclosures of its market risk strategy, including, but not limited to: a description of the structure and organization of the market risk management system; a description of the policies and processes for determining whether a position is designated as a market risk covered position and the risk management policies for monitoring market risk covered positions; the composition of material portfolios of market risk covered positions; a description of the scope and nature of risk reporting and/or measurement systems and the strategies and processes implemented to identify, measure, monitor and control market risks, including policies for hedging; a description of the trading desk structure and the types of market risk covered positions included on the trading desks or in trading desk categories; a description of the approaches used for validating and evaluating the accuracy of internal models and modeling processes for purposes of this subpart F; etc. Section 3.217 (f)(3) requires that a national bank or Federal savings association subject to the market risk capital requirements as described in § 3.201(b)(1) provide, in the manner and form prescribed by the OCC, on a quarterly basis, a public report of its measure for market risk.

Disclosure requirements related to the proposed CVA are included in section 3.162, which would be part of Subpart E of the Capital Adequacy Standards. Therefore, those requirements are included in the Capital Adequacy Standards information collection (1557-0318).

3. *Consideration of the use of improved information technology:*

Institutions 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.

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 OCC, FRB, and FDIC published a proposed rule regarding the collection on September 18, 2023 (88 FR 64208).

9. Payment or gift to respondents:

None.

10. Any assurance of confidentiality:

The information will be kept confidential to the extent permitted by law.

11. Justification for questions of a sensitive nature:

Not applicable. No sensitive information is collected.

12. Burden estimate:

	Estimated number of respondents	Estimated annual frequency	Estimated average hours per response	Estimated annual burden hours
Reporting				
Prior approvals (on occasion) -- Sections: 3.201(b)(5) (i) & (ii), Market Risk Covered Position 3.202(1)(ii) (A)(2), 3.204(d)(1), 3.204(d)(3)(i), 3.204(e)(1), 3.204(e)(2)(v), 3.204(e)(3), 3.204(g)(2), 3.204(g)(4), 3.205(f)(1)(ii), 3.205(h)(1)(ii)(B), 3.205(h)(1)(ii)(A)(3), 3.207(a)(3), (4), and (5), 3.207(a)(8), 3.208(b)(4), 3.208(h)(3)(ii), 3.212(a)(2),	10	1	1,200	12,000

3.212(b)(1)(iii)(C), 3.212(b)(3), 3.215(c) (1), 3.215(d)(1)(i), 3.221(a), 3.221(c)(2) (iii), 3.221(3), 3.223(a)(1), 3.224(d) (3)(iii)				
Model related prior approvals (on occasion) – Sections: 3.204(g)(1) (iii), 3.212(b)(2), and 3.212(c)	49	1	300	14,700
Mapping Demonstration (on occasion) -- Section: 3.224(d)(3) (ii)	3	1	2	6
Recordkeeping				
Market risk policies and procedures (annual) -- Section: 3.203(a)(1)	49	1	96	4,704
Market risk trading and hedging strategies (annual) -- Section: 3.203(a)(2)	49	1	16	784
Trading desk policies (annual) -- Section: 3.203(b)(2)	49	1	16	784
Internal market risk management systems (annual) -- Section: 3.203(e)(1)	49	1	12	588
Internal audit function (annual) -- Section: 3.203(e)(3)	49	1	12	588
Prudent valuation process (annual) -- Section: 3.203(f)	49	1	121	588
Capital adequacy	49	1	12	588

assessment (annual) -- Section: 3.203(g)				
Demonstrations of compliance (annual) -- Sections: 3.203(c), 3.203(h), 3.208(h)(1)(ii)(B), and 3.214(b)(7)(iv),(vi), & (vii)	49	1	96	4,704
General recordkeeping (annual)-- Sections: 3.203(i), and 3.205(h)	49	1	48	2,352
General recordkeeping (quarterly)-- Section: 3.203(h)(2)(i)	49	4	80	15,680
Securitization data (quarterly) -- Section: 3.203(h)(2)(ii)	49	4	12	2,352
PLA testing and Backtesting (quarterly) -- Section: 3.213	49	4	128	25,088
Weekly risk factor updates (weekly) -- Section: 3.214(b)(7)(v)	49	52	12	30,576
Reporting and disclosure policy (annual) -- Section: 3.217(c)	49	1	40	1,960
CVA hedging policy (annual) -- Section: 3.220(b)	49	1	40	1,960

CVA model validation process (annual) -- Section: 3.223(b)(4), 3.223(b)(7), and 3.223(b)(9)	49	1	40	1,960
Historical market data (annual) -- Section: 3.223(b)(10)	49	1	12	588
Disclosure				
Proprietary confidential information (on occasion) -- Section: 3.217(d)	49	1	12	588
Location (on occasion) -- Section: 3.217(e)	49	1	12	588
Public disclosures (quarterly) -- Section: 3.217(f)(1) and 3.217(f)(3)	49	4	16	3,136
Public disclosures (annual) -- Section: 3.217(f)(2)	49	1	8	392
Total	49			127,254

Cost of Hour Burden to Respondents:

127,254 hours x \$128.05 per hour = \$16,294,875

To estimate wages the OCC reviewed May 2022 data for wages (by industry and occupation) from the U.S. Bureau of Labor Statistics (BLS) for credit intermediation and related activities (NAICS 5220A1). To estimate compensation costs associated with the rule, the OCC uses \$128.05 per hour, which is based on the average of the 90th percentile for six occupations adjusted for inflation (5.1 percent as of Q1 2023), plus an additional 34.3 percent for benefits

(based on the percent of total compensation allocated to benefits as of Q4 2022 for NAICS 522: credit intermediation and related activities).

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:

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 89,938 hours.

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:

None.

B. Collections of Information Employing Statistical Methods.

None.