



OCC 2006-40

Subject: Proposed Revisions to (1) Risk-Based Capital Rule Implementing the new Basel Capital Accord and (2) Market Risk Rule
Date: September 25, 2006

To: Chief Executive Officers of All National Banks, Federal Branches and Agencies, Department and Division Heads, and All Examining Personnel

Description: Notices of Proposed Rulemaking and Proposed Agency Information Collections – Requests for Comments

This bulletin briefly summarizes two Notices of Proposed Rulemaking (NPR). The first NPR (Basel II NPR) would implement new risk-based capital requirements for large or internationally active U.S. banking organizations. The second NPR (Market Risk NPR) proposes changes to the current risk-based capital charge for market risk. The NPRs, together with related requests for comment on proposed supervisory reporting templates for Basel II and market risk, were published jointly today in the *Federal Register* by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (the agencies). The agencies seek comments on all aspects of these proposals. Because of their length, the NPRs and the requests for comment on the proposed reporting templates are not attached to this bulletin but can be accessed at

- Basel II NPR – [71 FR 55830](#)
- Basel II request for comment on reporting templates – [71 FR 55981](#)
- Market Risk NPR – [71 FR 55958](#) and
- Market Risk request for comment on reporting templates – [71 FR 55986](#)

In addition, the proposed supervisory reporting templates may be accessed at

- Basel II reporting templates – <http://www.ffiec.gov/forms101.htm> [<http://www.ffiec.gov/forms101.htm>], and
- Market Risk reporting templates – <http://www.ffiec.gov/forms102.htm> [<http://www.ffiec.gov/forms102.htm>].

Basel II NPR Summary

The Basel II NPR proposes and requests comments on U.S. plans for implementing the "International Convergence of Capital Measurement and Capital Standards: A Revised Framework," also known as Basel II, issued by the Basel Committee on Banking Supervision in June 2004. Reviewers should focus particularly on the 62 questions contained in the preamble of the Basel II NPR. The Basel II NPR identifies three groups of banks: (1) large or internationally active banks that would be required to adopt advanced capital approaches under Basel II (core banks), (2) banks that voluntarily decide to adopt the advanced approaches (opt-in banks), and (3) banks that do not adopt the advanced approaches and for which the provisions of the Basel II NPR are inapplicable. The Basel II NPR contains relevant implementation timeframes for core banks and qualification requirements that each core and opt-in bank must meet to the satisfaction of its primary federal supervisor before using the advanced approaches for risk-based capital purposes.

The Basel II NPR defines a core bank as a bank that meets either of two criteria: (1) consolidated assets of \$250 billion or more, or (2) consolidated total on-balance-sheet foreign exposure of \$10 billion or more. Also, a bank is a core bank if it is a subsidiary of a bank or bank holding company that uses advanced approaches.

The Basel II NPR sets forth a new risk-based capital adequacy framework that would use an internal ratings-based approach to calculate regulatory credit risk capital requirements for wholesale, retail, equity, and securitization portfolios; and advanced measurement approaches to calculate regulatory operational risk capital requirements. The Basel II NPR also sets forth proposed disclosure requirements of Basel II.

The agencies expect to publish for comment in the near future proposed supervisory guidance on requirements contained in the Basel II NPR.

Market Risk NPR Summary

The Market Risk NPR proposes and requests comment on modifications to the existing risk-based capital rule for market risk, 12 CFR 3, appendix B (current market risk rule). The current market risk rule applies to national banks for which (1) the sum of the bank's trading assets and liabilities is at least 10 percent of total assets, (2) the sum of the bank's trading assets and liabilities is at least \$1 billion, or (3) an election to apply the market risk rule has been made. The Market Risk NPR does not make any change in the applicability of the rule; the proposed rule applies to the same set of national banks as the current market risk rule. The applicability of the market risk rule is determined separately from that of the Basel II NPR.

Consistent with the July 2005 joint issuance by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions entitled "The Application of Basel II to Trading Activities and the Treatment of Double Default Effects," the Market Risk NPR proposes seven significant changes to the current market risk rule: (1) specific criteria for determining the trading book/banking book boundary, (2) higher standards for specific risk modeling that eliminate the partial modeling option, (3) addition of a new capital charge for default risk – the incremental default risk charge, (4) changes to the standard specific risk charges, (5) expanded set of requirements for internal models, (6) improved regulatory back testing, and (7) new disclosure requirements for bank holding companies or top-tier banks. For banks subject to the market risk rule, these modifications would apply without regard to whether the bank also implements the Basel II NPR when finalized or remains subject to the general risk-based capital rules found in 12 CFR 3, appendix A.

FOR FURTHER INFORMATION, CONTACT:

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