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Transmittal – See OCC 2020-11

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# Revisions to Market Risk Capital Rule: Final Rulemaking

To

Chief Executive Officers of All National Banks and Federal Savings Associations, Federal Branches and Agencies, Department and Division Heads, All Examining Personnel, and Other Interested Parties


**Summary**

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) on August 30, 2012, published in the *Federal Register* a final rule that amends their respective market risk capital rules, which generally apply to banking organizations that engage in substantial trading activity. The revisions broaden the scope of these rules to better capture the risks inherent in trading positions. Specifically, the final rule improves the sensitivity to risks that were not adequately captured under the current regulatory measurement methodologies, such as the default and migration risks associated with less liquid products. The agencies' analysis indicates that, for those banking organizations subject to the market risk capital rules, these revisions will significantly increase the risk-based capital allocated to market risk. The effective date of the rule is January 1, 2013.


**Background**

The final rule modifies the OCC's existing risk-based capital rule for market risk, 12 CFR 3, appendix B. The current market risk rule generally applies to national banks for which the gross sum of the bank's trading assets and liabilities is equal to (1) 10 percent or more of the bank's total assets or (2) at least $1 billion. Additionally, regardless of the aforementioned thresholds, the OCC may elect to apply the market risk rule to a national bank if the OCC deems it necessary or appropriate for safe and sound banking practices. The final rule does not change the scope of application of the rule.

The revisions in the final rule are consistent with the July 2009 publication by the Basel Committee on Banking Supervision of "Revisions to the Basel II Market Risk Framework." The final rule incorporates (1) a revised definition of "trading position" that excludes trading assets and liabilities not held for the purpose of short-term resale or to lock in arbitrage profits, (2) a stressed value-at-risk measure, in which the calibration of the model reflects a period of significant financial stress, (3) a new capital charge for default risk and migration risk (the incremental default risk charge), (4) a substantially revised treatment of positions that comprise the correlation trading portfolio, (5) alternative standards of creditworthiness to be used in place of credit ratings to determine the capital requirements for certain debt and securitization positions covered by the market risk capital rule, (6) an expanded set of requirements for internal models, and (7) revised requirements for regulatory back testing.

**Further Information**

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## Related Link:

- Final Rulemaking (PDF)