DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Part 3

[Docket No. 95–19]

RIN 1557–AB14

FEDERAL RESERVE SYSTEM

12 CFR Parts 208 and 225

[Regulations H and Y; Docket No. R–0884]

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 325

RIN 3064–AB64

Risk-Based Capital Standards: Market Risk

AGENCIES: Office of the Comptroller of the Currency (OCC), Department of the Treasury; Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC).

ACTION: Joint notice of proposed rulemaking.

SUMMARY: The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) (the Agencies) are proposing to amend their risk-based capital requirements to incorporate a measure for market risk in foreign exchange and commodity activities and in the trading of debt and equity instruments. Under the proposal, banks and bank holding companies (institutions) regulated by the OCC, the Board, and the FDIC with relatively large trading activities would calculate their capital charges for market risk using either their own internal value-at-risk model(s) or, alternatively, risk measurement techniques that were developed by supervisors. The effect of the proposed market risk measure would be that, in addition to existing capital requirements for credit risk, certain institutions would be required to hold capital based on the measure of their market risk exposure.

DATES: Comments must be received on or before September 18, 1995.

ADDRESSES: Comments should be directed to:

OCC: Comments may be submitted to Docket Number 95–19, Communications Division, Third Floor, Office of the Comptroller of the Currency, 250 E Street, S.W., Washington, DC 20219. Comments will be available for inspection and photocopying at that address.

Board: Comments directed to the Board should refer to Docket No.R–0884 and may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. Comments may also be delivered to Room B–2222 of the Eccles Building between 8:45 and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street, N.W. (between Constitution Avenue and C Street) at any time. Comments may be inspected in Room MP–500 of the Martin Building between 9 a.m. and 5 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding availability of information.

FDIC: Written comments should be sent to Jerry L. Langley, Executive Secretary, Attention: Room F–402, Federal Deposit Insurance Corporation, 550 17th Street N.W., Washington, D.C. 20429. Comments may be hand-delivered to Room, F–402, 1776 F Street N.W., Washington, D.C. 20429, on business days between 8:30 a.m. and 5 p.m. (Fax number (202)898–3838; Internet address: comments@fdic.gov). Comments will be available for inspection and photocopying in Room 7118, 550 17th Street, N.W., Washington, D.C. 20429, between 9 a.m. and 4:30 p.m. on business days.

FOR FURTHER INFORMATION CONTACT:

OCC: Roger Tufts, Senior Economic Advisor (202/874–5070), or Christina Benson, Capital Markets Specialist, (202/874–5070) Office of the Chief National Bank Examiner. For legal issues, Ronald Shimabukuro, Senior Attorney, Legislative and Regulatory Activities Division (202/874–5090), Office of the Comptroller of the Currency, 250 E Street S.W., Washington, D.C. 20219.

Board: Roger Cole, Deputy Associate Director (202/452–2618), James Houpt, Assistant Director (202/452–3358), Barbara Bouchard, Supervisory Financial Analyst (202/452–3072), Division of Banking Supervision and Regulation; or Stephanie Martin, Senior Attorney (202/452–3198), Legal Division. For the hearing impaired *only*, Telecommunication Device for the Deaf, Dorothea Thompson (202/452–3544).

FDIC: William A. Stark, Assistant Director, (202/898–6972), Kenton Fox, Senior Capital Markets Specialist, (202/898–7119), Division of Supervision; Jamey Basham, Counsel, (202/898–7265), Legal Division, FDIC, 550 17th Street, N.W., Washington, D.C. 20429.

SUPPLEMENTARY INFORMATION: The Agencies are proposing amendments to their risk-based capital requirements to incorporate a measure for market risk. The proposed amendments would generally apply only to institutions that have (1) total assets exceeding $5 billion and either on-balance-sheet trading activities representing at least 3.0 percent of total assets or a volume of off-balance-sheet trading activities with notional amounts exceeding $5 billion, or (2) total assets of $5 billion or less and a volume of trading activities representing at least 10.0 percent of total assets.

I. Background

The Agencies' risk-based capital standards are based upon the principles contained in the agreement on International Convergence of Capital Measurement and Capital Standards of July, 1988 (the Accord) that was agreed to by the Basle Committee on Banking Supervision (the Committee) and endorsed by the central bank governors of the Group of Ten (G–10) countries.[1] That Accord sets forth a framework for measuring capital adequacy under which weighted risk assets are calculated by weighting an institution's assets and off-balance-sheet items on the basis of their perceived credit risk using a relatively small number of risk categories.

By focusing on credit risk, the risk that a loss will be incurred due to an obligor or counterparty default on a transaction, the Accord generally excludes coverage of risks arising from adverse movements in market interest rates, foreign exchange rates, or commodity or equity prices. The potential for loss from such movements is referred to as market risk. In April 1993, the Committee, recognizing the need to incorporate market risk into the risk-based capital standard, requested comments on an initial measurement framework. The Agencies' current proposal reflects substantial revisions to that 1993 paper and is based upon revisions to the Accord that were proposed by the Committee on April 12, 1995.[2]

The 1993 paper proposed standardized measurement procedures for assessing risks in traded debt, equity,

[1] The Basle Supervisors' Committee is comprised of representatives of the central banks and supervisory authorities from the G–10 countries (Belgium, Canada, France, Germany, Italy, Japan, The Netherlands, Sweden, Switzerland, the United Kingdom, and the United States) plus Luxembourg.

[2] The Committee's document is entitled "Proposal to Issue a Supplement to the Basle Capital Accord to Cover Market Risks" and is available through the Board's and the OCC's Freedom of Information Office and the FDIC's Reading Room.