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OCC APPROVES RULE ON BANK CAPITAL FOR MARKET RISK

Washington, D.C. -- Comptroller Eugene Ludwig has approved an interim rule that permits banks and their holding companies to take advantage of their improved modeling capabilities to set capital requirements for specific market risk.

Specific market risk is the potential for loss from individual portfolio holdings, rather than broad market movements. Under the interim rule, banks that meet certain criteria will be able to use their own models to determine how much capital is needed for specific market risk.

Banks whose models do not meet the agencies' criteria will continue to apply a requirement that capital for specific market risk must be at least 50 percent of the capital calculated under a standardized approach. The standardized approach is used to determine capital allocations for individual instruments, such as debt and equity securities.

To qualify, regulators will assess the adequacy of internal models using various criteria. They will determine if models measure specific market risk in a way that explains the historical price variation in the portfolio. Regulators will also determine if models are sensitive to changes in portfolio concentrations and assign additional capital for greater concentrations. Models will also be validated through backtesting, a procedure that assesses whether specific risk was adequately captured by the model. Regulators will also review whether models are able to capture event and default risk.

The Basle Committee on Banking Supervision adopted the same changes to specific market risk capital requirements in September of this year.

Capital requirements for general market risk are unchanged by today's rule. Banks and bank holding companies are subject to rules for general market risk which require capital for exposure to risk arising from fluctuations in interest rates, equity prices, foreign exchange rates and commodity prices.

The interim rule is effective upon publication in the Federal Register though public comments will be accepted for 60 days. The immediate effective date is necessary to conform to the January 1, 1998 effective date of the market risk capital rules that the agencies issued in September, 1996.

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The OCC charters, regulates and supervises more than 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 56 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.