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Comptroller of the Currency
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OCC 2011-50

Subject: Capital Policy-Market Risk
Date: December 29, 2011

**National Banks and
Federal Branches and
Agencies, Department and Division Heads, and All
Examining Personnel**

Description: Notice of Proposed Rulemaking

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 (the agencies) are seeking comment on a notice of proposed rule making (NPR) that would revise their market risk capital rules.

The NPR, which amends an interagency NPR published January 11, 2011 (January 2011 NPR), includes 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 rules.

The proposed creditworthiness standards include the use of country risk classifications published by the Organization for Economic Cooperation and Development for sovereign positions; company-specific data related to leverage, cash flow, and the volatility of the company's monthly stock market returns for corporate debt positions; and a supervisory formula for securitization positions.

Background

The January 2011 NPR proposed modifications to the agencies' market risk capital rules that were largely based on revisions to the market risk framework published by the Basel Committee on Banking Supervision since 2005. The January 2011 NPR, however, did not include aspects of the Basel Committee revisions that rely on credit ratings because, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, all federal agencies must remove references to, and requirements of, reliance on credit ratings from their regulations and replace them with appropriate alternatives for evaluating creditworthiness.

This is the first proposal in which the agencies have proposed to replace references to credit ratings in their respective risk-based capital regulations. The agencies also expect to propose to replace references to credit ratings in their general risk-based capital regulations and the advanced approaches risk-based capital regulations in the coming months.

The OCC's current market risk capital rule (12 CFR 3, appendix B) 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. Neither the January 2011 NPR nor the current NPR changes the scope of application of the rule.

The NPR was published in the *Federal Register* on December 21, 2011. Comments on the proposal are due on or before February 3, 2012.

Further Information

You may direct questions or comments to Mark Ginsberg, Risk Expert, Capital Policy Division, at (202) 874-5070; or Carl Kaminski, Senior Attorney, Legislative and Regulatory Affairs Division, at (202) 874-5405.

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Related Link

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