

RESCINDED



Outdated - See OCC 2015-38

OCC BULLETIN 2007-27

Subject: FAS 159 and Risk-Based Capital –
Market Risk
Date: July 27, 2007

To: Chief Executive Officers of National Banks,
Department and Division Heads, All Examining
Personnel, and Other Interested Parties

Description: Compliance with the Market Risk Capital Rule

The market risk capital rule (12 CFR 3 Appendix B)¹ requires a national bank with significant trading activity to measure the market risk of the debt and equity positions in its trading account. The bank must measure and hold capital for its market risk using its internal value-at-risk (VAR) model. The rule outlines quantitative requirements for a bank's internal VAR model as well as qualitative requirements for the bank's management of market risk. The rule applies to a national bank that meets either of the following two criteria:

- The sum of the bank's trading assets and liabilities is at least 10 percent of total assets, or
- The sum of the bank's trading assets and liabilities exceeds \$1 billion.

The market risk capital rule also provides the Office of the Comptroller of the Currency (OCC) with flexibility to exempt a bank that meets either of the two criteria as a consequence of accounting, operational, or similar considerations and the OCC determines that such an exemption is consistent with safe and sound banking practices. Notwithstanding any potential exemption from the market risk capital rules, banks with significant trading assets are expected to have adequate risk management and financial controls and practices that allow bank management to determine reliable fair value measurements; identify, measure, monitor, and control the associated risks; and, ensure the bank has sufficient capital to support the risks being taken.

Under Financial Accounting Standards Board Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities* (FAS 159), a national bank that elects to account for securities within the scope of Financial Accounting Standards Board Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), at fair value must report those securities as trading assets. As a result, the size of a bank's trading account may increase, which in turn, might cause it to meet one of the criteria.

A national bank that has met one of the criteria above and has not previously complied with the market risk rule should contact its supervisory office. Additionally, a national bank that is approaching one of the two criteria and anticipates that the size of its trading book might increase in the near term is also encouraged to contact its supervisory office.

For further information about this bulletin, contact the Office of the Chief National Bank Examiner (202) 649-6370.

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¹The market risk capital rule is currently under review and proposed changes to this rule are set forth in the *Federal Register* Joint Notice of Proposed Rulemaking, published September 25, 2006, "[Risk-Based Capital Standards: Market Risk](#)".