PRESS RELEASE
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FDIC FINALIZES RULE REQUIRING BANKS TO BETTER PREDICT MARKET RISK

FOR IMMEDIATE RELEASE

The FDIC Board today finalized a new rule requiring banks with relatively large trading activity to project the maximum amount of trading gains or losses and to hold capital based on their market risk exposure.

Affected banks will measure market risk using their own internal "value-at-risk" (VAR) models. This internal model approach--which has drawn broad support from the banking industry--gives banks incentives for addressing and understanding market risks, without creating undue regulatory burdens. An institution's internal model must address risk factors for interest rates, equity prices, foreign exchange rates, and commodity prices. Banks are required to hold capital on a daily basis sufficient to effectively cover peak levels of market volatility.

Through a process called "back testing," banks will compare past estimates of market risk with actual results. Banks using models that produce poor back testing results will be required to increase their capital for market risk.

Banks who’s trading activity equals ten percent or more of their total assets, or whose trading activity equals $1 billion or more, are affected by the rule. The FDIC may require an institution not meeting this criteria to comply with the rule for safety and soundness purposes. The FDIC may also exclude an institution that meets the criteria. A small number of FDIC-supervised banks are affected by the rule.

The final rule implements an amendment to the Basle Capital Accord that sets forth a supervisory framework for measuring market risk. The rule will be incorporated into the FDIC's risk-based capital standards.

The Federal Reserve Board and the Office of the Comptroller of the Currency have recently approved final rules on market risk for the banks they regulate.

Banks must comply with the final rule by January 1, 1998, but may voluntarily begin compliance as early as January 1, 1997.