- The amount of collateral provided to the underlying asset pool, relative to the amount of assets that have experienced delinquency or some other credit impairment;
- The attachment point of the relevant tranche;
- The detachment point of the relevant tranche; and
- The securitization surcharge. This is a supervisory input which is set at 0.5 for securitization exposures and 1.5 for resecuritization exposures.

IV. Supervision Under the New Market Risk Capital Rule

The supervisory review process emphasizes the need for banks to assess their capital adequacy positions relative to risk, and for PFRs to review and take appropriate actions in response to those assessments, such as requiring additional risk-based capital or requiring a bank to reduce its exposure to market risk. The final rule requires banks to have an internal capital adequacy program to address their capital needs for market risk and capture these and all material risks. The final rule provides requirements for the control, oversight, validation mechanisms, and documentation of internal models. However, the final rule also recognizes that models can be limited in their ability to fully capture all material risks. Therefore, under the final rule the use of any model must be supplemented periodically by a stress test that emphasizes risk concentrations, illiquidity under stressed market conditions, and risks arising from the bank's trading activities that may not be adequately captured in the bank's internal models.

V. Disclosures Under the New Market Risk Capital Rule

Market discipline is a key component of Basel II. The third pillar of Basel II establishes disclosure requirements to allow market participants to assess key information about a bank's risk profile and its associated level of capital. Increased disclosures are intended to allow a bank's stakeholders to more fully evaluate the bank's financial condition, including its capital adequacy.

[1] “Risk-Based Capital Standards: Market Risk,” published in the *Federal Register* on September 6, 1996 (see FIL-84-96, dated October 10, 1996).

[2] VaR is a statistical measure of a worst-case scenario loss and a standard for measuring market risk.