



Market Risk

FIL-50-95
July 31, 1995

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Joint Agency Proposal to Establish a Risk-Based Capital Requirement for Market Risk*

The FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency have jointly issued for public comment a proposed rule that would establish a risk-based capital requirement for market risk in foreign exchange, commodity activities and in the trading of debt and equity instruments. The proposed rule would amend Part 325 of the FDIC's regulations. A copy of the *Federal Register* notice describing the proposal is attached.

The proposed rule would affect institutions with large trading portfolios and activities, as determined by a measurement process explained in the attached notice. The agencies expect that about 25 relatively large institutions and a few other smaller institutions would be affected. If an institution is required to comply, it would have two choices for calculating its capital requirement for market risk. One method would use an institution's internal models but include some principal assumptions from the FDIC. The second method, referred to as the "standardized approach," would be based on calculations that are set out in the proposed rule. Depending on the outcome of the measurement process selected, an institution could be required to increase its capital holdings to reflect its market risk exposure.

The FDIC will accept written comments on the proposed rule through September 18, 1995. For more information, please contact one of the FDIC officials listed on Page 38082 of the attached *Federal Register* notice.

Nicholas J. Ketcha Jr.
Acting Director

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