

OFFICIAL SUPERVISORY CORRESPONDENCE

Date: [Insert Date]

[Recipient Name]
Chief Risk Officer / Head of Capital Management
[Financial Institution Name]
[Address Line 1]
[Address Line 2]

RE: Supervisory Assessment of Market Risk Capital Adequacy

Dear [Recipient Name],

This letter presents the findings of the [Regulator Name]'s recent supervisory review regarding [Financial Institution Name]'s market risk capital adequacy and internal model frameworks.

1. Executive Summary

Based on the assessment conducted as of [Review Date], the [Regulator Name] has determined that your institution's current market risk capital levels are [Adequate / Inadequate] to cover potential losses under stressed market conditions. While the institution maintains a capital buffer above the regulatory minimum, specific deficiencies in [Mention Areas, e.g., Value-at-Risk modeling or Stress Testing] have been identified.

2. Key Findings and Deficiencies

- **Model Performance:** Back-testing results indicated [Number] of exceptions over the past twelve months, exceeding the threshold for the [Green/Amber/Red] zone.
- **Risk Aggregation:** Weaknesses were noted in the aggregation of idiosyncratic risks across the trading book.
- **Data Integrity:** Issues regarding the timeliness and accuracy of proxy data used for illiquid instruments.

3. Supervisory Requirements

In response to these findings, the [Financial Institution Name] is required to:

- Apply a multiplication factor of [X.X] to the market risk capital requirement effective [Date].
- Submit a Remediation Plan addressing the modeling deficiencies by [Date].
- Conduct an independent validation of the [Specific Risk Model] within the next [Number] months.

4. Conclusion and Next Steps

Failure to address these findings within the specified timeline may result in further supervisory action, including additional Pillar 2 capital add-ons. Please acknowledge receipt of this letter and confirm your intent to comply with the requirements listed above.

Sincerely,

[Signature]

[Name of Lead Supervisor]

[Title]

[Department/Regulatory Body Name]