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notional, may be excluded from the calculation, as well as closely matched swaps, forwards, futures, and forward rate agreements (FRAs) that meet the conditions set out in section 6(a)(3) of this appendix B.

(iv) In the maturity method, the bank distributes each long or short position (at current market value) of a debt instrument into the time bands of the maturity ladder. Fixed-rate instruments are allocated according to the remaining term to maturity and floating-rate instruments according to the next repricing date. A callable bond trading above par is slotted according to its first call date, while a callable bond priced below par is slotted according to remaining maturity. Fixed-rate mortgage-backed securities, including collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs), are slotted according to their expected weighted average lives.

(v) Once all long and short positions are slotted into the appropriate time band, the long positions in each time-band are summed and the short positions in each time-band are summed. The summed long and/or short positions are multiplied by the appropriate risk-weight factor (reflecting the price sensitivity of the positions to changes in interest rates) to determine the risk-weighted long and/or short position for each timeband. The risk weights for each timeband are set out in Table 2—Maturity Method: Time-Band and Weights, as follows:

TABLE 2.—MATURITY METHOD: TIME-BANI	DS AND WEIGHTS
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Zone	Coupon 3% or more	Coupon less than 3% and zero coupon bonds	Risk weights
1 2 3	Up to 1 month 1 up to 3 months	Up to 1 month	0.00 0.20 0.40 0.70 1.25 1.75 2.25 2.75 3.25 3.75 4.50 5.25 6.00
		12 up to 20 years Over 20 years	8.00 12.50

(vi) Within each time-band for which there are risk-weighted long and short positions the risk-weighted long and short positions are then netted, resulting in a single net riskweighted long or short position for each timeband. Because different instruments and different maturities may be included and netted within each time-band, a capital requirement, referred to as the vertical disallowance, is assessed for basis risk. The vertical disallowance capital requirement is 10.0 percent of the position eliminated by the intra-time-band netting, that is, 10.0 percent of the smaller of the net risk-weighted long or net risk-weighted short position, or if the positions are equal, 10.0 percent of either position.<sup>4</sup> The vertical disallowances for each time-band are absolute values, that is, neither long nor short. The vertical disallowances for all time-bands in the maturity ladder are summed and included as an element of the general market risk capital requirement.

(vii) Within each zone for which there are risk-weighted long and short positions in

different time-bands, the weighted long and short positions in all of the time-bands within the zone are then netted, resulting in a single net long or short position for each zone. Because different instruments and different maturities may be included and netted within each zone, a capital requirement, referred to as the horizontal disallowance, is assessed to allow for the imperfect correlation of interest rates along the yield curve. The horizontal disallowance capital requirement is calculated as a percentage of the position eliminated by the intra-zone netting, that is, a percentage of the smaller of the net risk-weighted long or net risk-weighted short position, or if the positions are equal, a percentage of either position.<sup>5</sup> The percent disallowance factors for intra-zone netting are set out in Table 3— Horizontal Disallowances in section 6(a)(2)(H). The horizontal disallowances, like the vertical disallowances, are absolute values that are summed and included as an

element of the general market risk capital requirement.

(viii) Risk-weighted long and short positions in different zones are then netted between the zones. Zone 1 and zone 2 are netted if possible, reducing or eliminating the net long or short position in zone 1 or zone 2 as appropriate. Zone 2 and zone 3 are then netted if possible, reducing or eliminating the net long or short position in zone 2 or zone 3 as appropriate. Zone 3 and zone 1 are then netted if possible, reducing or eliminating the long or short position in zone 3 and zone 1 as appropriate. A horizontal disallowance capital requirement is then assessed, calculated as a percentage of the position eliminated by the inter-zone netting. The horizontal disallowance capital requirements for each zone are then summed as absolute values and included in the general market risk capital charge. The percent disallowance factors for inter-zone netting are set out in Table 3-Horizontal Disallowances, as follows:

## TABLE 3.—HORIZONTAL DISALLOWANCES

Zone	Time-band	Within the zone (per- cent)	Between adjacent zones (per- cent)	Between zones 1 and 3 (percent)
1	0 up to 1 month 1 up to 3 months. 3 up to 6 months.	40	40	100

<sup>&</sup>lt;sup>4</sup>For example, if the sum of the weighted longs in a time-band is \$100 million and the sum of the weighted shorts is \$90 million, the vertical

disallowance for the time-band is 10.0 percent of \$90 million, or \$9 million.

 ${}^5$  For example, if the sum of the weighted longs in the 1- to 3-month time-band in Zone 1 is \$8

million and the sum of the weighted shorts in the 3- to 6-month time-band is \$10 million, the horizontal disallowance for the zone is 40 percent of \$8 million, or \$3.2 million.