agencies, general obligation securities issued by states and other political subdivisions of the OECD-based group of countries, multilateral development banks, and debt instruments issued by U.S. depository institutions or OECD-banks that do not qualify as capital of the issuing institution.[23] It also includes other securities, including revenue securities issued by states and other political subdivisions of the OECD-based group of countries, that are:

i. Rated investment-grade by at least two nationally recognized credit rating services, or rated investment-grade by one nationally recognized credit rating agency and not less than investment-grade by any other credit rating agency; or

ii. With the exception of securities issued by U.S. firms and subject to review by the FDIC, unrated but deemed to be of comparable investment quality by the reporting bank and issued by an entity which has securities listed on a recognized stock exchange.

d. The *other* category consists of debt securities not meeting the criteria for government or qualifying securities. This would include non-OECD central government securities that do not meet the criteria for the government or qualifying categories. This category also includes instruments that qualify as capital issued by other banking organizations.

e. The FDIC will consider the extent of a bank's position in non-investment grade instruments (sometimes referred to as ''high yield debt''). If those holdings are not well-diversified or otherwise represent a significant position to the institution, the FDIC may prevent a bank from offsetting positions in these instruments with other positions in qualifying instruments that may be offset when calculating its general market risk element. In addition, the FDIC may impose a specific risk factor as high as 16.0 percent.

2. *General Market Risk.* a. A bank may determine the general market risk element of the measure for market risk by using, on a continuous basis, either the maturity method (which uses standardized risk weights that approximate the price sensitivity of various instruments) or, subject to the FDIC's review, the duration method (in which the institution calculates the precise duration of each instrument, weighted by a specified change in interest rates).

b. Both methods use a maturity-ladder that incorporates a series of ''time bands'' and ''zones'' to group together securities of similar maturities and that are designed to take into account differences in price sensitivities and interest rate volatilities across different maturities. Under either method, the general market risk element is the sum of a base charge that results from fully netting various risk-weighted positions and a series of additional charges (add-ons), which effectively ''disallow'' part of the previous full netting to address basis and yield curve risk.

c. For each currency in which a bank has significant positions, a separate maturity ladder must be constructed. No netting of positions is permitted across different currencies. Offsetting positions of the same amount in the same issues, whether actual or 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 paragraph A.3. of this section.

d. 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 allocated according to its first call date, while a callable bond priced below par is allocated according to remaining maturity. Fixed-rate mortgage-backed securities, including collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs), are allocated according to their expected weighted average lives.

e. Once all long and short positions are allocated 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 time band. The risk weights for each time band are set out in Table 1:

TABLE 1.—MATURITY METHOD: TIME BANDS AND WEIGHTS

Zone	Coupon 3% or more	Coupon less than 3 % and zero-coupon bonds	Risk weights
1	Up to 1 month	Up to 1 month	0.00
	1 up to 3 months	1 up to 3 months	0.20
	3 up to 6 months	3 up to 6 months	0.40
	6 up to 12 months	6 up to 12 months	0.70
2	1 up to 2 years	1 up to 1.9 years	1.25
	2 up to 3 years	1.9 up to 2.8 years	1.75
	3 up to 4 years	2.8 up to 3.6 years	2.25
3	4 up to 5 years	3.6 up to 4.3 years	2.75
	5 up to 7 years	4.3 up to 5.7 years	3.25
	7 up to 10 years	5.7 up to 7.3 years	3.75
	10 up to 15 years	7.3 up to 9.3 years	4.50
	15 up to 20 years	9.3 up to 10.6 years	5.25
	Over 20 years	10.6 up to 12 years	6.00
		12 up to 20 years	8.00
		Over 20 years	12.50

f. Next, 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 risk-weighted long or short position for each time band. Since different instruments and different maturities may be included and netted within each time band, an addition to the risk measure, referred to as the vertical disallowance, is assessed to allow for basis risk. The vertical disallowance 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.[24] 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 element.

g. Next, 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

[23] U.S. government-sponsored agencies, multilateral development banks, and OECD banks are defined in section III.C. of appendix A of this part.

[24] 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.