supervisory model to improve its accuracy while still endeavoring to limit the burden of the expanded reporting and maintain model transparency. The refinements to the September NPR model include:

(1) Separate risk-weights and reporting for residential adjustable-rate mortgages;

(2) Separate risk-weights and reporting for residential fixed-rate mortgages and all other amortizing assets;

(3) Self-reporting by banks of price sensitivities of instruments with complex and/or non-standardized cash flow characteristics such as structured notes, collateralized mortgage obligations (CMOs), and mortgage servicing rights;

(4) Supplemental reporting for banks with concentrations in adjustable- and fixed-rate mortgage loans.

(5) Greater flexibility in reporting deposits without stated maturity or repricing dates;

(6) Separate reporting and treatment in the baseline schedule for residential mortgage loans which are held by the bank for sale and delivery to a secondary market participant under terms of a binding commitment.

A summary of the public comments and agency analysis that led to these refinements are included in section IV of this document and the refinements themselves are described in detail in the policy statement and accompanying reporting instructions.

For a bank choosing also to report the results of its internal IRR model, the agencies are proposing to collect the dollar change in value of the bank's major portfolios and the net change in the bank's economic value using the same rate scenario incorporated in the supervisory model. To the extent specific details concerning a bank's financial instruments are incorporated in an internal model with adequate integrity and reasonable assumptions, those results should provide the agencies with an improved understanding of a bank's IRR profile. For a bank reporting internal model results, an examiner would have the benefit of weighing the results of both measures in assessing a bank's overall IRR exposure for capital adequacy purposes. Moreover, comparisons between the results of the supervisory model and internal models are expected to aid the agencies in determining what, if any, refinements should be made to the proposed measurement framework before incorporating it into a minimum capital charge for IRR.

III. CDFI Section 335 Considerations

On September 23, 1994 the Reigle Community Development and Regulatory Improvement Act of 1994 (''CDFI'') (Pub. L. 103–325) was enacted. Section 335 of CDFI amended section 305 of FDICIA by instructing the agencies to be sure that steps taken to implement Section 305 ''take into account the size and activities of the institutions and do not cause undue reporting burdens.'' The agencies believe that the Congressional mandate to avoid undue reporting burdens is also applicable and desirable for purposes of implementing the proposed policy statement. Consequently, as already noted, the agencies have formulated a reporting exemption test that takes into account the size and activities of an institution. In addition, the reporting requirements for the supervisory model also considers the nature and scope of a bank's activities. Banks holding certain types of financial instruments that often have complex or nonstandardized cash flow characteristics will be expected to have the ability to calculate on their own, or obtain from reliable sources, estimates of those instruments' market value sensitivity. Banks with holdings of fixed- and adjustable-rate residential mortgage loans and securities that exceed certain levels would be required to report additional information on those portfolios to better assess the embedded option risks associated with those products.

IV. September 1993 Notice of Proposed Rulemaking

A. Description of September NPR

In September 1993, the Banking Agencies issued a notice of proposed rulemaking (September NPR) [58 FR 48206, September 14, 1993] that solicited comments on a framework for measuring a bank's IRR exposure and determining the amount of capital the bank needed for IRR.

The framework outlined in the September NPR incorporated the use of a three-level measurement process to evaluate banks' IRR exposures. The first measure was a quantitative screen, based on existing Call Report information, that exempted potential low risk banks from additional reporting requirements. The exemption screen used two criteria: (1) The amount of a bank's off-balance-sheet interest rate contracts in relation to its total assets; and (2) the relation between a bank's fixed- and floating-rate loans and securities that mature or reprice beyond five years and its total capital.

Banks not meeting the proposed exemption test were required to calculate their economic exposure by either: (1) A supervisory model that measured the change in the economic value of bank for a specified change in interest rates; or (2) the bank's own IRR model, provided that the model was deemed adequate by examiners for the nature and scope of the bank's activities and that it measured the bank's economic exposure using the interest rate scenarios specified by the agencies.

B. Comments on the September NPR Measurement Framework

The agencies collectively received a total of 133 comments on the September NPR. The majority of commenters were banks. Thrift, trade associations, bank consultants, and other government-sponsored agencies and regulators also commented. The majority of commenters responded favorably to modifications that the agencies made from an earlier, advanced notice of proposed rulemaking (ANPR) [57 FR 35507, August 10, 1992]. In particular, most commenters expressed strong support for using the results of a bank's own IRR model to determine its level of exposure and corresponding need for capital. Commenters noted the potential inaccuracies of standardized regulatory models as one reason for allowing the use of internal models. Internal models, they believed, would better capture the unique characteristics of individual bank portfolios. Many commenters also stated that permitting the use of internal models would provide banks with incentives to improve their internal risk measurement systems.

Many commenters raised concerns about various elements of the measurement framework outlined in the September NPR. Most commenters believed that the proposed treatment of non-maturity deposits understated their effective maturity. Others questioned the accuracy of the proposed supervisory model and the appropriateness of the proposed exemption test criteria.

C. Agencies' Responses to Comments

The agencies have carefully considered the concerns raised by commenters regarding the structure and elements of the proposed measurement framework and the accuracy of the proposed supervisory model. Although the agencies have decided to retain many of the principles and structures outlined in the September NPR framework, the agencies are also proposing several modifications and refinements to that framework. These modifications include changes to the proposed exemption criteria, the structure of the supervisory model, and the treatment of certain types of assets and non-maturity deposits. These modifications are discussed in greater detail in the sections that follow.