The agencies believe that these maturity limits provide appropriate guidelines for the purpose of standardized IRR measurement across the banking industry. These limits are not intended to replace the need for banks to evaluate and consider the sensitivity of their individual deposit bases when managing their IRR exposures. Examiners will consider a bank's assessment of its deposit base and how those assessments may differ from those used in the standardized supervisory model during the examination process when evaluating a bank's capital adequacy for IRR. The agencies do not propose to require banks to incorporate these assumptions into their internal IRR models when submitting internal model results to the agencies. Rather, through the examination process, examiners will consider whether the treatment used in the bank's model is appropriate, based on the analysis the bank provides.

5. Use of a Bank's Internal IRR Model

The September NPR permitted a bank to use the results of its internal IRR model, as an alternative to the supervisory model, when assessing its need for capital for IRR, provided that its model was deemed adequate by the appropriate supervisor. Most commenters expressed strong support for using the results of a bank's internal model and believed that such a model would provide a more accurate assessment of risk than the proposed supervisory model.

The proposed policy statement provides for the consideration of a bank's internal model results in the assessment of that bank's level of IRR exposure and its need for capital. The results and quality of a bank's IRR measurement process will be one factor that examiners will consider in assessing a bank's need for capital. Among the factors that an examiner will consider when evaluating the quality of a bank's internal model is whether the risk profile it generates is an adequate measure of the bank's risk position, taking account of the types of instruments held or offered by the bank, the integrity and completeness of the data used in the model, and whether the assumptions and relationships underlying the model are reasonable. When assessing the exposure of a bank's economic value to changes in interest rates, examiners generally will place greater reliance on the results of a bank's internal model, rather than the supervisory model, provided that the bank's own model:

(1) Measures IRR from an economic perspective, as defined in this proposal;

(2) Uses the proposed supervisory scenario of an instantaneous and parallel 200 basis point movement in interest rates; and

(3) Is deemed by the examiner to provide a more accurate assessment of the bank's IRR risk profile than the supervisory model and meets the criteria discussed in Section VII of the proposed policy statement.

Reacting to the September NPR, some commenters requested the agencies to provide more explicit guidelines on the criteria that examiners will use to evaluate the adequacy of a bank's model. Other commenters cautioned the agencies against creating checklists of acceptable assumptions or measurement techniques. Such lists, they believed, would be incomplete given the diverse nature of banks and would stifle innovation in both risk measurement and product development. Some commenters also expressed concern that the assumptions and results of the supervisory model would be used as an explicit benchmark against which internal models would be judged and compared. These commenters were concerned that examiners would require the bank to conduct detailed and ongoing reconciliations between the bank's internal model and the supervisory model results. Such requirements, they believed, imposed unnecessary burdens and lessened the incentives for banks to use their own IRR models. Commenters raising these concerns generally urged the agencies to refrain from imposing supervisory model assumptions on bank models and from requiring banks that have their own internal model to report the information required for the supervisory model.

A key issue for the agencies, and one reason for delaying the implementation of explicit minimum capital standards for IRR, is the degree of specification the agencies need to establish when internal models are used for assessing regulatory capital adequacy. The agencies are aware that there are a variety of measurement systems and assumptions in use by the industry to measure exposures. While such variation may be appropriate given the diverse nature of commercial banks, it may lead to different assessments of risk and hence, capital requirements, for institutions that have similar risk profiles. More explicit guidance from the agencies on acceptable techniques and assumptions could help to lessen this variation and the risk that different amounts of capital may be required for banks with similar portfolios. Such guidance also would help reduce inconsistencies among examiners and agencies in evaluating internal models. Efforts to devise more explicit guidance could, however, result in standards which are inappropriate for some institutions and may impede the industry's continued innovation of more sophisticated risk measurement techniques. The agencies welcome industry comments and suggestions on criteria and standards that they should establish for accepting internal model results.

With regard to reporting, the agencies propose that internal model results be reported on voluntary basis in a supplemental Call Report schedule like that portrayed in Schedule A. In response to the concerns of many commenters, the agencies propose that such reporting be on a confidential basis. Although many commenters to the September NPR requested that banks submitting internal model results not be required to also report the data required for the supervisory model, the agencies propose the data for the supervisory model be collected from all non-exempt banks. While recognizing the reporting burden that this imposes, the agencies believe that collecting data for both internal and the proposed supervisory model results will be important for effective supervision. Moreover, such data also will help the agencies evaluate the use of both the supervisory model and internal models as the basis for ultimately establishing minimum capital charges for IRR. By monitoring the maturity and repricing data collected for the supervisory model, the agencies will be able to assess whether supervisory and internal models results capture major shifts in portfolio compositions. Such monitoring may help identify key model assumptions that should be highlighted for examiner review and common strengths or weaknesses of internal measures when compared to the supervisory model. This information will help the agencies to provide better guidance to examiners and bankers on acceptable risk measurement techniques. It will also assist the agencies in determining what, if any, improvements could be made to the proposed supervisory model before explicit minimum capital charges are implemented.

V. Reporting Requirements

The implementation of this policy statement relies on changes to the Call Report. The examples of Call Report schedules shown in this proposal and the accompanying draft reporting instructions for those schedules are provided to assist the reader in analyzing the full implications of the proposal. Once comments are received on the measurement framework and any