agencies will consider both a rising and falling interest rate scenario based on an instantaneous uniform 200 basis point parallel change in market interest rates at all maturities. The agencies may, from time to time, modify the specified interest rate scenarios as appropriate, considering historical and current interest rate levels, interest rate volatilities and other relevant market and supervisory considerations.

IV. Description of the Supervisory Model

A. Overview

The intent of the supervisory model is to provide the agencies with a measure that estimates the sensitivity of a bank's economic value to a specified change in interest rates with sufficient accuracy so as to allow the agencies to identify banks that have high IRR exposures. The model applies a series of IRR risk weights to a bank's reported repricing and maturity balances. These weights estimate price sensitivity of a bank's reported balances to a 200 basis point change in interest rates. The summation of these weighted balances, along with certain price sensitivity information that a bank may be required to self-report, results in a net risk-weighted exposure for the bank. This net risk-weighted exposure is an estimate of the sensitivity of the bank's economic value to the specified change in interest rates.

The maturity and repricing information contained in the Call Report that all non-exempted banks are required to file, along with the IRR risk weights that are applied to that information, form the baseline supervisory model. Banks with concentrations in fixed- or adjustable-rate residential mortgage products are required to submit additional information on those holdings through supplemental Call Report schedules. Supplemental IRR risk weights are applied to this information. These supplemental reporting schedules and IRR risk weights are referred to as supplemental modules to the baseline supervisory model.

B. Supervisory Model Calculations

The structure and format of the supervisory model is designed to allow a bank manager to be able to calculate the IRR exposure of his or her bank so as to not be dependent upon the agencies for obtaining model results. The calculation of a bank's IRR exposure using the supervisory model generally requires the following steps

(1) The bank's assets, liabilities, and off-balance sheet contracts must be assigned to the appropriate balance sheet categories based on the instrument's cash flow characteristics.

(2) Within each balance sheet category, each asset, liability or off-balance sheet contract must be assigned to the appropriate time band generally based on each instrument's remaining maturity or next repricing date.

(3) Balances within each time band must be multiplied by the appropriate risk weight to produce a risk-weighted position for each interest rate scenario.

(4) All risk-weighted positions must be summed to produce a net risk-weighted position for each interest rate scenario which is the basis for determining the bank's measured exposure to interest rate risk.

A bank performs the first two steps in its compilation and submission of the IRR Call Report schedules. Those schedules and accompanying instructions are contained in the Appendices 1 and 2 to this policy statement. The risk-weights required for step three are contained in the tables in Appendix 3 to this policy statement.

C. Information Requirements of the Supervisory Model

Use of the supervisory model requires information on the maturity and repricing characteristics of a bank's assets, liabilities and off-balance-sheet positions. This information is collected by the agencies through the quarterly Call Report submissions filed by non-exempted banks and illustrated by Schedule 1.[7] This reporting schedule requires a bank to report its assets, liabilities and off-balance-sheet items across seven maturity ranges (time bands) based on the instrument's time remaining to maturity or next repricing date. The time bands used:

(1) Less than or equal to 3 months;

(2) Greater than 3 months and less than or equal to 12 months;

(3) Greater than 1 year and less than or equal to 3 years;

(4) Greater than 3 years and less than or equal to 5 years;

(5) Greater than 5 years and less than or equal to 10 years;

(6) Greater than 10 years and less than or equal to 20 years;

(7) Greater than 20 years.

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[7] The agencies have not yet recommended to the Federal Financial Examination Council (FFIEC), Call Report changes for IRR. The schedules and associated reporting requirements and instructions that are discussed in this proposed policy statement and appendix are under consideration by the agencies. These items are included in this policy statement to provide commenters with a fuller understanding of the proposal and to give them opportunities to comment on items under consideration by the agencies. The agencies plan to forward to the FFIEC recommended Call Report changes for IRR. Once final recommendations are made by the agencies, the FFIEC will publish the proposed changes for public comment.