In the interest of minimizing reporting burdens, no coupon or yield data are collected for the baseline supervisory model. Rather, the model applies general assumptions regarding coupon rates and other characteristics of the underlying assets, liabilities, and off-balance-sheet instruments in developing the interest rate sensitivity weights. Banks with concentrations in fixed-rate or adjustable-rate residential mortgages are required to provide additional information on those holdings. For fixed-rate mortgages, this information includes data on the underlying coupons of the mortgage assets. For adjustable-rate mortgages, the information includes data on lifetime and periodic caps. These supplemental modules for fixed- and adjustable-rate mortgages are discussed in Section E of this policy statement.

A brief description of how various types of assets, liabilities, and interest-rate related off-balance sheet instruments are reported is provided below. Instructions for completing the schedules required for the supervisory model are provided in the Call Report package issued by the FFIEC.[8]

a. *Reporting for assets.* The price sensitivity of a financial instrument is determined by the instrument's cash flow characteristics. Accordingly, maturity and repricing data on most assets are collected in one of five categories that reflect different types of cash flows:

(1) *Adjustable-rate 1–4 family mortgage instruments,* including adjustable-rate mortgage loans and adjustable-rate, pass-through mortgage securities. This category would not include home-equity loans; those loans would be reported with other amortizing loans based on their remaining maturity or next repricing date;

(2) *Fixed-rate 1–4 family mortgages,* including both fixed-rate mortgage loans and pass-through, fixed-rate mortgage-backed securities, again excluding home-equity loans;

(3) *Other amortizing loans and securities,* including asset-backed securities, consumer loans and other easily identifiable instruments that involve scheduled periodic amortization of principal more frequently than once a year;

(4) *Zero- or low-coupon securities,* including securities with coupons of less than 3 percent that do not involve scheduled periodic payments of principal; and

(5) *All other loans and securities,* including loans and securities that involve only periodic payments of interest, with payment of principal at maturity.

Banks holding certain types of assets are required to self-report the current market value and estimates of the change in market value of these instruments for the specified interest rate scenarios. Banks can use either their internal estimates or estimates obtained from a reliable third-party source, provided that the bank knows, understands, and documents the assumptions and methodologies used to calculate the estimated market value sensitivities. Assumptions, pricing methodologies and all other documentation must be reasonable and available for examiner review. Self-reporting is used for the following assets:

(1) *All mortgage-backed derivative securities that meet the FFIEC's definition of ''high-risk.''*[9]

(2) *All structured notes,* as defined in the Call Report instructions;

(3) *Non-high risk mortgage derivative securities* when those holdings represent 10 percent or more of a bank's assets. Banks whose holdings are less than 10 percent of assets have the option of either self-reporting or reporting those instruments as non-amortizing securities based on bank management's estimate of the instrument's current average life.

(4) *Trading account portfolios.* A bank should report the change in the economic value of all of their trading account positions for a 100 basis point parallel increase and decrease in interest rates.[10]

(5) *Mortgage servicing rights* that are capitalized and reported on the bank's balance sheet.

b. *Reporting for Liabilities.* The majority of bank liabilities repay principal only at maturity. Hence, the supervisory model applies the same set of risk-weights to all of a bank's interest-sensitive liabilities. Bank liabilities differ, however, in the certainty of their maturity. In particular, many bank liabilities have uncertain or indeterminate contractual maturities. Given these differences, liabilities with contractual maturities are reported separately from those with indeterminate contractual maturities.

The agencies have adopted uniform rules for distributing non-maturity deposits accounts across the time bands. These rules specify the longest time band that can be used for each type of deposit and the maximum percentage amount that can be reported into that time band. In its reporting of these deposits, a bank may distribute such deposits across the time bands according to the bank's own assumptions and experience, subject to the following constraints:

(1) *Commercial Demand Deposits:* A bank should report 50 percent of its commercial demand deposits in the 0–3 month time band. The remaining balances may be distributed across the first four time bands, with a maximum of 20 percent of total balances in the 3–5 year time band.

(2) *Retail DDA, Savings, and NOW Accounts:* A bank may distribute the balances in these accounts across any of the first five time bands, with a maximum of 20 percent in the 5–10 year time band and no more than 40 percent combined in the 3–5 and 5–10 year bands.

(3) *MMDA Accounts:* A bank may distribute these balances across any of the first three time bands, with a maximum of 50 percent in the 1–3 year band.

Within these deposit reporting parameters, a bank is permitted to use different distributions of these deposits for the rising and falling rate scenarios. This flexibility is designed to reflect the embedded optionality associated with these products.

c. *Reporting for Off-Balance-Sheet Positions.* Off-balance-sheet contracts that represent a firm obligation for both parties are reported within the maturity ladder framework using a two-entry approach to reflect how the contract alters the timing of cash flows. For interest rate swaps, the first entry would be reported in the time band corresponding to the next repricing date of the contract, and the second entry would be reported in the time band corresponding to the maturity of the instrument. For futures, forwards, and FRAs, the first entry would be reported in the time band corresponding to

[8] Draft reporting instructions for the schedules under consideration by the agencies are provided in Appendix 2 of this policy statement. As previously noted, the schedules and associated reporting requirements and instructions discussed in this proposed policy statement have not been finalized and submitted to the FFIEC.

[9] Effective February 10, 1992 agencies and the Office of Thrift Supervision adopted revised supervisory policies on securities activities that were developed under the auspices of the FFIEC. The revised policies established a framework for identifying ''high-risk mortgage derivative products.''

[10] The agencies expect banks to have prudential internal risk limits and effective risk measurement systems for their trading activities. For banks with significant trading operations, the adequacy and results of those systems will be closely reviewed by examiners and would be incorporated into their assessment of the bank's overall risk position. The Basle Committee on Bank Supervision is also considering methods of evaluating IRR in trading accounts and determining appropriate capital requirements. This process could lead to an international agreement which would affect the treatment of trading activities for U.S. banks.