policies. You must document your assessment and the information used in your assessment. Your board must approve your decision to hold an investment that does not comply with your investment policies.

(ii) *Valuation.* Prior to purchase, you must verify the value of the investment (unless it is a new issue) with a source that is independent of the broker, dealer, counterparty or other intermediary to the transaction.

(iii) *Risk assessment.* Your assessment of each investment at the time of purchase must at a minimum include an evaluation of credit risk, liquidity risk, market risk, interest rate risk, and the underlying collateral of the investment. This assessment must be commensurate with the complexity and risk in the investment. You must perform stress testing on any investment that is structured or that has uncertain cash flows, including all mortgage-backed securities and asset-backed securities, before you purchase it. The stress test must be commensurate with the risk and complexity of the investment and must enable you to determine that the investment does not expose your capital, earnings, or liquidity to risks that are greater than those specified in your investment policies. The stress testing must comply with the requirements in paragraph (f)(4)(ii) of this section.

(2) *Ongoing value determination.* At least monthly, you must determine the fair market value of each investment in your portfolio and the fair market value of your whole investment portfolio.

(3) *Ongoing analysis of credit risk.* You must establish and maintain processes to monitor and evaluate changes in the credit quality of each investment in your portfolio and in your whole investment portfolio on an ongoing basis.

(4) *Quarterly stress testing.* (i) You must stress test your entire investment portfolio, including stress tests of all investments individually and stress tests of the portfolio as a whole, at the end of each quarter. The stress tests must enable you to determine that your investment securities, both individually and on a portfolio-wide basis, do not expose your capital, earnings, or liquidity to risks that exceed the risk tolerance specified in your investment policies. If your portfolio risk exceeds your investment policy limits, you must develop a plan to comply with those limits.

(ii) Your stress tests must be defined in a board-approved policy and must include defined parameters for the types of securities you purchase. The stress tests must be comprehensive and appropriate for the risk profile of your institution. At a minimum, the stress tests must be able to measure the price sensitivity of investments over a range of possible interest rate/yield curve scenarios. The methodology that you use to analyze investment securities must be appropriate for the complexity, structure, and cash flows of the investments in your portfolio. You must rely to the maximum extent practicable on verifiable information to support all your assumptions, including prepayment and interest rate volatility assumptions, when you apply your stress tests. You must document the basis for all assumptions that you use to evaluate the security and its underlying collateral. You must also document all subsequent changes in your assumptions.

(5) *Presale value verification.* Before you sell an investment, you must verify its value with a source that is independent of the broker, dealer, counterparty, or other intermediary to the transaction.

(g) *Reports to the board of directors.* At least quarterly, your management must report on the following to your board of directors or a designated board committee:

(1) Plans and strategies for achieving the board's objectives for the investment portfolio;

(2) Whether the investment portfolio effectively achieves the board's objectives;

(3) The current composition, quality, and liquidity profile of the investment portfolio;

(4) The performance of each class of investments and the entire investment portfolio, including all gains and losses realized during the quarter on individual investments that you sold before maturity and why they were liquidated;

(5) Potential risk exposure to changes in market interest rates as identified through quarterly stress testing and any other factors that may affect the value of your investment holdings;

(6) How investments affect your capital, earnings, and overall financial condition;

(7) Any deviations from the board's policies (must be specifically identified);

(8) The status and performance of each investment described in §615.5143(a) and (b) or that does not comply with your investment policies; including the expected effect of these investments on your capital, earnings, liquidity, and collateral position; and

(9) The terms and status of any required divestiture plan or risk reduction plan.

§ 615.5134 Liquidity reserve requirement.

(a) Each Farm Credit bank must maintain a liquidity reserve, discounted in accordance with paragraph (c) of this section, sufficient to fund 90 days of the principal portion of maturing obligations and other borrowings of the bank at all times. The liquidity reserve may only be funded from cash, including cash due from traded but not yet settled debt, and the eligible investments under § 615.5140. Money market instruments, floating, and fixed rate debt securities used to fund the liquidity reserve must be backed by the full faith and credit of the United States or rated in one of the two highest NRSRO credit categories. If not rated, the issuer's NRSRO credit rating, if one of the two highest, may be used.

(b) All investments that the bank holds for the purpose of meeting the liquidity reserve requirement of this section must be free of lien.

(c) The liquid assets of the liquidity reserve are discounted as follows:

(1) Multiply cash and overnight investments by 100 percent.

(2) Multiply money market instruments and floating rate debt securities that are below the contractual cap rate by 95 percent of the market value.

(3) Multiply fixed rate debt securities and floating rate debt securities that meet or exceed the contractual cap rate by 90 percent of the market value.

(4) Multiply individual securities in diversified investment funds by the discounts that would apply to the securities if held separately.

(d) Each Farm Credit bank must have a contingency plan to address liquidity shortfalls during market disruptions. The board of directors must review the plan each year, making all needed changes. Farm Credit banks may incorporate these requirements into their § 615.5133 investment management policies.

[58 FR 63056, Nov. 30, 1993, as amended at 64 FR 28896, May 28, 1999; 70 FR 51590, Aug. 31, 2005]

§ 615.5135 Management of interest rate risk.

The board of directors of each Farm Credit Bank, bank for cooperatives, and agricultural credit bank shall develop and implement an interest rate risk management program as set forth in subpart G of this part. The board of directors shall adopt an interest rate risk management section of an asset/liability management policy which establishes interest rate risk exposure limits as well as the criteria to determine compliance with these limits. At a minimum, the interest rate risk management section shall establish policies and procedures for the bank to:

(a) Identify and analyze the causes of risks within its existing balance sheet structure;

(b) Measure the potential impact of these risks on projected earnings and market values by conducting interest rate shock tests and simulations of multiple economic scenarios at least on a quarterly basis;

(c) Explore and implement actions needed to obtain its desired risk management objectives;

(d) Document the objectives that the bank is attempting to achieve by purchasing eligible investments that are authorized by § 615.5140 of this subpart;

(e) Evaluate and document, at least quarterly, whether these investments have actually met the objectives stated under paragraph (d) of this section.

[58 FR 63056, Nov. 30, 1993, as amended at 63 FR 39225, July 22, 1998]

EFFECTIVE DATE NOTE: At 77 FR 66372, Nov. 5, 2012, § 615.5135 was removed, effective 30 days after publication in the FEDERAL REGISTER during which either or both Houses of Congress are in session.

§ 615.5136 Emergencies impeding normal access of Farm Credit banks to capital markets.

An emergency shall be deemed to exist whenever a financial, economic, agricultural or national defense crisis could impede the normal access of Farm Credit banks to the capital markets. Whenever the Farm Credit Administration determines after consultations with the Federal Farm Credit Banks Funding Corporation that such an emergency exists, the Farm Credit Administration Board shall, in its sole discretion, adopt a resolution that:

(a) Increases the amount of eligible investments that Farm Credit Banks, banks for cooperatives and agricultural credit banks are authorized to hold pursuant to § 615.5132 of this subpart; and/or

(b) Modifies or waives the liquidity reserve requirement in § 615.5134 of this subpart.

[58 FR 63057, Nov. 30, 1993]

EFFECTIVE DATE NOTE: At 77 FR 66372, Nov. 5, 2012, § 615.5136 was revised, effective 30 days after publication in the FEDERAL REGISTER