§ 217.206 Stressed VaR-based measure.

(a) *General requirement.* At least weekly, a Board-regulated institution must use the same internal model(s) used to calculate its VaR-based measure to calculate a stressed VaR-based measure.

(b) *Quantitative requirements for stressed VaR-based measure.* (1) A Board-regulated institution must calculate a stressed VaR-based measure for its covered positions using the same model(s) used to calculate the VaR-based measure, subject to the same confidence level and holding period applicable to the VaR-based measure under § 217.205, but with model inputs calibrated to historical data from a continuous 12-month period that reflects a period of significant financial stress appropriate to the Board-regulated institution's current portfolio.

(2) The stressed VaR-based measure must be calculated at least weekly and be no less than the Board-regulated institution's VaR-based measure.

(3) A Board-regulated institution must have policies and procedures that describe how it determines the period of significant financial stress used to calculate the Board-regulated institution's stressed VaR-based measure under this section and must be able to provide empirical support for the period used. The Board-regulated institution must obtain the prior approval of the Board for, and notify the Board if the Board-regulated institution makes any material changes to, these policies and procedures. The policies and procedures must address:

(i) How the Board-regulated institution links the period of significant financial stress used to calculate the stressed VaR-based measure to the composition and directional bias of its current portfolio; and

(ii) The Board-regulated institution's process for selecting, reviewing, and updating the period of significant financial stress used to calculate the stressed VaR-based measure and for monitoring the appropriateness of the period to the Board-regulated institution's current portfolio.

(4) Nothing in this section prevents the Board from requiring a Board-regulated institution to use a different period of significant financial stress in the calculation of the stressed VaR-based measure.

§ 217.207 Specific risk.

(a) *General requirement.* A Board-regulated institution must use one of the methods in this section to measure the specific risk for each of its debt, equity, and securitization positions with specific risk.

(b) *Modeled specific risk.* A Board-regulated institution may use models to measure the specific risk of covered positions as provided in paragraph (a) of section 205 of this subpart (therefore, excluding securitization positions that are not modeled under section 209 of this subpart). A Board-regulated institution must use models to measure the specific risk of correlation trading positions that are modeled under § 217.209.

(1) *Requirements for specific risk modeling.* (i) If a Board-regulated institution uses internal models to measure the specific risk of a portfolio, the internal models must:

(A) Explain the historical price variation in the portfolio;

(B) Be responsive to changes in market conditions;

(C) Be robust to an adverse environment, including signaling rising risk in an adverse environment; and

(D) Capture all material components of specific risk for the debt and equity positions in the portfolio. Specifically, the internal models must:

(*1*) Capture event risk and idiosyncratic risk; and

(*2*) Capture and demonstrate sensitivity to material differences between positions that are similar but not identical and to changes in portfolio composition and concentrations.

(ii) If a Board-regulated institution calculates an incremental risk measure for a portfolio of debt or equity positions under section 208 of this subpart, the Board-regulated institution is not required to capture default and credit migration risks in its internal models used to measure the specific risk of those portfolios.

(2) *Specific risk fully modeled for one or more portfolios.* If the Board-regulated institution's VaR-based measure captures all material aspects of specific risk for one or more of its portfolios of

debt, equity, or correlation trading positions, the Board-regulated institution has no specific risk add-on for those portfolios for purposes of paragraph (a)(2)(iii) of § 217.204.

(c) *Specific risk not modeled.* (1) If the Board-regulated institution's VaR-based measure does not capture all material aspects of specific risk for a portfolio of debt, equity, or correlation trading positions, the Board-regulated institution must calculate a specific-risk add-on for the portfolio under the standardized measurement method as described in § 217.210.

(2) A Board-regulated institution must calculate a specific risk add-on under the standardized measurement method as described in § 217.210 for all of its securitization positions that are not modeled under § 217.209.

§ 217.208 Incremental risk.

(a) *General requirement.* A Board-regulated institution that measures the specific risk of a portfolio of debt positions under § 217.207(b) using internal models must calculate at least weekly an incremental risk measure for that portfolio according to the requirements in this section. The incremental risk measure is the Board-regulated institution's measure of potential losses due to incremental risk over a one-year time horizon at a one-tail, 99.9 percent confidence level, either under the assumption of a constant level of risk, or under the assumption of constant positions. With the prior approval of the Board, a Board-regulated institution may choose to include portfolios of equity positions in its incremental risk model, provided that it consistently includes such equity positions in a manner that is consistent with how the Board-regulated institution internally measures and manages the incremental risk of such positions at the portfolio level. If equity positions are included in the model, for modeling purposes default is considered to have occurred upon the default of any debt of the issuer of the equity position. A Board-regulated institution may not include correlation trading positions or securitization positions in its incremental risk measure.

(b) *Requirements for incremental risk modeling.* For purposes of calculating the incremental risk measure, the incremental risk model must:

(1) Measure incremental risk over a one-year time horizon and at a one-tail, 99.9 percent confidence level, either under the assumption of a constant level of risk, or under the assumption of constant positions.

(i) A constant level of risk assumption means that the Board-regulated institution rebalances, or rolls over, its trading positions at the beginning of each liquidity horizon over the one-year horizon in a manner that maintains the Board-regulated institution's initial risk level. The Board-regulated institution must determine the frequency of rebalancing in a manner consistent with the liquidity horizons of the positions in the portfolio. The liquidity horizon of a position or set of positions is the time required for a Board-regulated institution to reduce its exposure to, or hedge all of its material risks of, the position(s) in a stressed market. The liquidity horizon for a position or set of positions may not be less than the shorter of three months or the contractual maturity of the position.

(ii) A constant position assumption means that the Board-regulated institution maintains the same set of positions throughout the one-year horizon. If a Board-regulated institution uses this assumption, it must do so consistently across all portfolios.

(iii) A Board-regulated institution's selection of a constant position or a constant risk assumption must be consistent between the Board-regulated institution's incremental risk model and its comprehensive risk model described in section 209 of this subpart, if applicable.

(iv) A Board-regulated institution's treatment of liquidity horizons must be consistent between the Board-regulated institution's incremental risk model and its comprehensive risk model described in section 209, if applicable.

(2) Recognize the impact of correlations between default and migration events among obligors.

(3) Reflect the effect of issuer and market concentrations, as well as concentrations that can arise within and