any other factors that may affect the value of your investment holdings;

(4) How investments affect your overall financial condition;

(5) Whether the performance of the investment portfolio effectively achieves the board's objectives; and

(6) Any deviations from the board's policies. These deviations must be formally approved by the board of directors.

§ 652.15 Interest rate risk management and requirements.

(a) The board of directors of Farmer Mac must provide effective oversight (direction, controls, and supervision) to the interest rate risk management program and must be knowledgeable of the nature and level of interest rate risk taken by Farmer Mac.

(b) The management of Farmer Mac must ensure that interest rate risk is properly managed on both a long-range and a day-to-day basis.

(c) The board of directors of Farmer Mac must adopt an interest rate risk management policy that establishes appropriate interest rate risk exposure limits based on the Corporation's risk-bearing capacity and reporting requirements in accordance with paragraphs (d) and (e) of this section. At least annually, the board of directors, or a designated subcommittee of the board, must review the policy. Any changes to the policy must be approved by the board of directors. You must report any changes to the policy to FCA's Office of Secondary Market Oversight within 10 business days of adoption.

(d) The interest rate risk management policy must, at a minimum:

(1) Address the purpose and objectives of interest rate risk management;

(2) Identify and analyze the causes of interest rate risks within Farmer Mac's existing balance sheet structure;

(3) Require Farmer Mac to 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 quarterly;

(4) Describe and implement actions needed to obtain Farmer Mac's desired risk management objectives;

(5) Document the objectives that Farmer Mac is attempting to achieve by purchasing eligible investments that are authorized by § 652.35 of this subpart;

(6) Require Farmer Mac to evaluate and document, at least quarterly, whether these investments have actually met the objectives stated under paragraph (d)(4) of this section;

(7) Identify exception parameters and post approvals needed for any exceptions to the policy's requirements;

(8) Describe delegations of authority; and

(9) Describe reporting requirements, including exceptions to policy limits.

(e) At least quarterly, Farmer Mac's management must report to the Corporation's board of directors, or a designated subcommittee of the board, describing the nature and level of interest rate risk exposure. Any deviations from the board's policy on interest rate risk must be specifically identified in the report and approved by the board, or a designated subcommittee of the board.

§ 652.20 Liquidity reserve management and requirements.

(a) *Minimum liquidity reserve requirement.* Within 24 months of this rule becoming effective, and thereafter, Farmer Mac must hold cash, eligible non-program investments under § 652.35 of this subpart, and/or on-balance sheet securities backed by portions of Farmer Mac program assets (loans) that are guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act (in accordance with the requirements of paragraphs (b) and (c) of this section), to maintain sufficient liquidity to fund a minimum of 60 days of maturing obligations, interest expense, and operating expenses at all times. You must document your compliance with this minimum reserve requirement at least once each month as of the last day of the month using month end data. Liquid asset values must be marked to market. In addition, you must have the capability and information systems in place to be able to calculate the minimum reserve requirement on a daily basis.

(b) *Free of lien.* All investments held for the purpose of meeting the liquidity reserve requirement of this section must be free of liens or other encumbrances.

(c) *Discounts.* The amount that may be counted to meet the minimum liquidity reserve requirement is as follows:

(1) For cash and overnight investments, multiply the cash and investments by 100 percent;

(2) For money market instruments with maturities of 5 business days or less, multiply the instruments by 97 percent of market value;

(3) For money market instruments with maturities greater than 5 business days and floating rate debt and preferred stock securities, multiply the instruments and securities by 95 percent of market value;

(4) For diversified investment funds, multiply the individual securities in the funds by the discounts that would apply to the securities if held separately;

(5) For fixed rate debt and preferred stock securities, multiply the securities by 90 percent of market value;

(6) For securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act, multiply the securities by 75 percent; and

(7) We reserve the authority to modify or determine the appropriate discount for any investment used to meet the minimum liquidity reserve requirement if the otherwise applicable discount does not accurately reflect the liquidity of that investment or if the investment does not fit wholly within one of the specified investment categories. In making any modification or determination, we will consider the liquidity of the investment as well as any other relevant factors. We will provide notice of at least 20 business days before any modified discounts will take effect.

(d) *Liquidity reserve policy—board responsibilities.* Farmer Mac's board of directors must adopt a liquidity reserve policy. The board must also ensure that management uses adequate internal controls to ensure compliance with the liquidity reserve policy standards, limitations, and reporting requirements established pursuant to this paragraph and to paragraphs (e), (f), and (g) of this section. At least annually, the board of directors or a designated subcommittee of the board must review and validate the liquidity policy's adequacy. The board of directors must approve any changes to the policy. You must provide a copy of the revised policy to FCA's Office of Secondary Market Oversight within 10 business days of adoption.

(e) *Liquidity reserve policy—content.* Your liquidity reserve policy must contain at a minimum the following:

(1) The purpose and objectives of liquidity reserves;

(2) A listing of specific assets, debt, and arrangements that can be used to meet liquidity objectives;

(3) Diversification requirements of your liquidity reserve portfolio;

(4) Maturity limits and credit quality standards for non-program investments used to meet the minimum liquidity reserve requirement of paragraph (a) of this section;

(5) The minimum and target (or optimum) amounts of liquidity that the board believes are appropriate for Farmer Mac;

(6) The maximum amount of non-program investments that can be held for meeting Farmer Mac's liquidity needs, as expressed as a percentage of program assets and program obligations;

(7) Exception parameters and post approvals needed;

(8) Delegations of authority; and

(9) Reporting requirements.

(f) *Liquidity reserve reporting—periodic reporting requirements.* At least quarterly, Farmer Mac's management must report to the Corporation's board of directors or a designated subcommittee of the board describing, at a minimum, liquidity reserve compliance with the Corporation's policy and this section. Any deviations from the board's liquidity reserve policy (other than requirements specified in § 652.20(e)(5)) must be specifically identified in the report and approved by the board of directors.

(g) *Liquidity reserve reporting—special reporting requirements.* Farmer Mac's management must immediately report to its board of directors any noncompliance with board policy requirements that are specified in § 652.20(e)(5). Farmer Mac must report, in writing, to FCA's Office of Secondary Market

Oversight no later than the next business day following the discovery of any breach of the minimum liquidity reserve requirement at § 652.20(a).

§ 652.25 Non-program investment purposes and limitation.

(a) Farmer Mac is authorized to hold eligible non-program investments listed under § 652.35 for the purposes of complying with the interest rate risk requirements of § 652.15, complying with the liquidity reserve requirements of § 652.20, and managing surplus short-term funds.

(b) Non-program investments cannot exceed the greater of $1.5 billion or thirty-five (35) percent of program assets and program obligations, excluding 75 percent of the program assets that are guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Farm Credit Act of 1971, as amended.

§ 652.30 Temporary regulatory waivers or modifications for extraordinary situations.

Whenever the FCA determines that an extraordinary situation exists that necessitates a temporary regulatory waiver or modification, the FCA may, in its sole discretion:

(a) Modify or waive the minimum liquidity reserve requirement in § 652.20 of this subpart; and/or

(b) Modify the amount, qualities, and types of eligible investments that you are authorized to hold pursuant to § 652.25 of this subpart.

§ 652.35 Eligible non-program investments.

(a) You may hold only the types, quantities, and qualities of non-program investments listed in the following Non-Program Investment Eligibility Criteria Table. These investments must be denominated in United States dollars.