OSMO within 15 calendar days of the determination.

(c) Requirements for investments that are ineligible or no longer satisfy eligibility criteria—(1) Reporting requirements. Each quarter, you must report to the OSMO and your board on the status of investments identified in paragraph (a) or (b) of this section. Your report must demonstrate the effect that these investments may have on the Corporation’s capital, earnings, and liquidity position. Additionally, the report must address how the Corporation plans to reduce its risk exposure from these investments or exit the position(s).

(2) Other requirements. Investments identified in paragraph (a) or (b) of this section may not be used to satisfy the liquidity requirement(s) in § 652.40. These investments must continue to be included in the investment portfolio limit calculation established in § 652.15(b).

(d) Reservation of authority. FCA retains the authority to require you to divest of any investment at any time for failure to comply with § 652.15(a) or for safety and soundness reasons. The timeframe set by FCA for such required divestiture will consider the expected loss on the transaction (or transactions) and the effect on the Corporation’s financial condition and performance.

§ 652.30 Interest rate risk management.

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

(b) 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 (c) and (d) of this section. At least annually, the board of directors, or a designated committee 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 the OSMO within 10 business days of adoption.

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

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

(2) Identify the causes of interest rate risk and set appropriate quantitative limits consistent with a clearly articulated board risk tolerance;

(3) Require management to establish and implement comprehensive procedures to measure the potential effect of these risks on the Corporation’s projected earnings and market values by conducting interest rate stress tests and simulations of multiple economic scenarios at least quarterly. Your stress tests must gauge how interest rate fluctuations affect the Corporation’s capital, earnings, and liquidity position. The methodology that you use must be appropriate for the complexity of the structure and cash flows of your on- and off-balance sheet positions, including the nature and purpose of derivative contracts, and establish counterparty risk thresholds and limits for derivatives. It must also ensure an appropriate level of consistency with the stress-test scenarios considered under § 652.10(f)(4). Assumptions applied in stress tests must, to the maximum extent practicable, rely on verifiable information. You must document the basis for all assumptions that you use.

(4) Describe and authorize management to implement actions needed to achieve Farmer Mac’s desired risk management objectives;

(5) Ensure procedures are established to evaluate and document, at least quarterly, whether actions taken have actually met the Corporation’s desired risk management objectives;

(6) Identify exception parameters and approvals needed for any exceptions to the policy’s requirements;

(7) Describe delegations of authority; and,

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

(d) At least quarterly, management must report to the Corporation’s board of directors, or a designated committee 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 committee of the board.

§ 652.35 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.