

§615.5132

(1) *You* means a Farm Credit bank, association, or service corporation.

[64 FR 28895, May 28, 1999, as amended at 70 FR 51589, Aug. 31, 2005]

§615.5132 Investment purposes.

Each Farm Credit bank is allowed to hold eligible investments, listed under §615.5140, in an amount not to exceed 35 percent of its total outstanding loans, to comply with the liquidity reserve requirement of §615.5134, manage surplus short-term funds, and manage interest rate risk under §615.5135.

[70 FR 51589, Aug. 31, 2005]

§615.5133 Investment management.

(a) *Responsibilities of Board of Directors.* Your board must adopt written policies for managing your investment activities. Your board of directors must also ensure that management complies with these policies and that appropriate internal controls are in place to prevent loss. Annually, the board of directors must review these investment policies and make any changes that are needed.

(b) *Investment policies.* Your board's written investment policies must address the purposes and objectives of investments, risk tolerance, delegations of authority, and reporting requirements. Investment policies must be appropriate for the size, types, and risk characteristics of your investments.

(c) *Risk tolerance.* Your investment policies must establish risk limits and diversification requirements for the various classes of eligible investments and for the entire investment portfolio. These policies must ensure that you maintain appropriate diversification of your investment portfolio. Risk limits must be based on your institutional objectives, capital position, and risk tolerance. Your policies must identify the types and quantity of investments that you will hold to achieve your objectives and control credit, market, liquidity, and operational risks. The policy of any association or service corporation that holds significant investments and each bank must establish risk limits for the following four types of risk.

(1) *Credit risk.* Investment policies must establish:

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(i) Credit quality standards, limits on counterparty risk, and risk diversification standards that limit concentrations based on a single or related counterparty(ies), a geographical area, industries or obligations with similar characteristics.

(ii) Criteria for selecting brokers, dealers, and investment bankers (collectively, securities firms). You must buy and sell eligible investments with more than one securities firm. As part of your annual review of your investment policies, your board of directors must review the criteria for selecting securities firms and determine whether to continue your existing relationships with them.

(iii) Collateral margin requirements on repurchase agreements.

(2) *Market risk.* Investment policies must set market risk limits for specific types of investments, the investment portfolio, or your institution. Your board of directors must establish market risk limits in accordance with these regulations and our other policies.

(3) *Liquidity risk.* Investment policies must describe the liquidity characteristics of eligible investments that you will hold to meet your liquidity needs and institutional objectives.

(4) *Operational risk.* Investment policies must address operational risks, including delegations of authority and internal controls in accordance with paragraphs (d) and (e) of this section.

(d) *Delegation of authority.* All delegations of authority to specified personnel or committees must state the extent of management's authority and responsibilities for investments.

(e) *Internal controls.* You must:

(1) Establish appropriate internal controls to detect and prevent loss, fraud, embezzlement, conflicts of interest, and unauthorized investments.

(2) Establish and maintain a separation of duties and supervision between personnel who execute investment transactions and personnel who approve, reevaluate, and oversee investments.

(3) Maintain management information systems that are appropriate for the level and complexity of your investment activities.

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(f) *Securities valuation.* (1) Before you purchase a security, you must evaluate its credit quality and its price sensitivity to changes in market interest rates. You must also verify the value of a security that you plan to purchase, other than a new issue, with a source that is independent of the broker, dealer, counterparty or other intermediary to the transaction.

(2) You must determine the fair market value of each security in your portfolio and the fair market value of your whole investment portfolio at least monthly. You must also evaluate the credit quality and price sensitivity to change in market interest rates of all investments that you hold on an ongoing basis.

(3) Before you sell a security, 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.* Each quarter, management must report to the board of directors or a board committee on the performance and risk of each class of investments and the entire investment portfolio. These reports must identify all gains and losses that you incur during the quarter on individual securities that you sold before maturity. Reports must also identify potential risk exposure to changes in market interest rates and other factors that may affect the value of your bank's investment holdings. Management's report must discuss how investments affect your bank's overall financial condition and must evaluate whether the performance of the investment portfolio effectively achieves the board's objectives. Any deviations from the board's policies must be specifically identified in the report.

[64 FR 28895, May 23, 1999]

§ 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