

## SUBCHAPTER E—FEDERAL HOME LOAN BANK RISK MANAGEMENT AND CAPITAL STANDARDS

### PART 930—DEFINITIONS APPLYING TO RISK MANAGEMENT AND CAPITAL REGULATIONS

AUTHORITY: 12 U.S.C. 1422a(a)(3), 1422b(a), 1426, 1436(a), 1440, 1443, and 1446.

#### § 930.1 Definitions.

As used in this subchapter:

*Affiliated counterparty* means a counterparty of a Bank that controls, is controlled by or is under common control with another counterparty of the Bank. For the purposes of this definition only, direct or indirect ownership (including beneficial ownership) of more than 50 percent of the voting securities or voting interests of an entity constitutes control.

*Certain drawdown* means a legally binding agreement that commits the Bank to make an advance or acquire a loan, at or by a specified future date.

*Charges against the capital of the Bank* means an other than temporary decline in the Bank's total equity that causes the value of total equity to fall below the Bank's aggregate capital stock amount.

*Class A stock* means capital stock issued by a Bank, including subclasses, that has the characteristics specified by § 931.1(a) of this subchapter.

*Class B stock* means capital stock issued by a Bank, including subclasses, that has the characteristics specified by § 931.1(b) of this subchapter.

*Contingency liquidity* means the sources of cash a Bank may use to meet its operational requirements when its access to the capital markets is impeded, and includes:

- (1) Marketable assets with a maturity of one year or less;
- (2) Self-liquidating assets with a maturity of seven days or less;
- (3) Assets that are generally accepted as collateral in the repurchase agreement market; and
- (4) Irrevocable lines of credit from financial institutions rated not lower than the second highest credit rating category by an NRSRO.

*Credit derivative contract* means a derivative contract that transfers credit risk.

*Credit risk* means the risk that the market value, or estimated fair value if market value is not available, of an obligation will decline as a result of deterioration in creditworthiness.

*Derivative contract* means generally a financial contract the value of which is derived from the values of one or more underlying assets, reference rates, or indices of asset values, or credit-related events. Derivative contracts include interest rate, foreign exchange rate, equity, precious metals, commodity, and credit contracts, and any other instruments that pose similar risks.

*Exchange rate contracts* include cross-currency interest-rate swaps, forward foreign exchange rate contracts, currency options purchased, and any similar instruments that give rise to similar risks.

*General allowance for losses* means an allowance established by a Bank in accordance with GAAP for losses, but which does not include any amounts held against specific assets of the Bank.

*Government Sponsored Enterprise, or GSE*, means a United States Government-sponsored agency or instrumentality originally established or chartered to serve public purposes specified by the United States Congress, but whose obligations are not obligations of the United States and are not guaranteed by the United States.

*Interest rate contracts* include, single currency interest-rate swaps, basis swaps, forward rate agreements, interest-rate options, and any similar instrument that gives rise to similar risks, including when-issued securities.

*Investment grade* means:

- (1) A credit quality rating in one of the four highest credit rating categories by an NRSRO and not below the fourth highest rating category by any NRSRO; or
- (2) If there is no credit quality rating by an NRSRO, a determination by a

Bank that the issuer, asset or instrument is the credit equivalent of investment grade using credit rating standards available from an NRSRO or other similar standards.

*Market risk* means the risk that the market value, or estimated fair value if market value is not available, of a Bank's portfolio will decline as a result of changes in interest rates, foreign exchange rates, equity and commodity prices.

*Marketable* means, with respect to an asset, that the asset can be sold with reasonable promptness at a price that corresponds reasonably to its fair value.

*Market value at risk* is the loss in the market value of a Bank's portfolio measured from a base line case, where the loss is estimated in accordance with §932.5 of this chapter.

*Minimum investment* means the minimum amount of Class A and/or Class B stock that a member is required to own in order to be a member of a Bank and in order to obtain advances and to engage in other business activities with the Bank in accordance with §931.3 of this chapter.

*Operations risk* means the risk of an unexpected loss to a Bank resulting from human error, fraud, unenforceability of legal contracts, or deficiencies in internal controls or information systems.

*Permanent capital* means the retained earnings of a Bank, determined in accordance with GAAP, plus the amount paid-in for the Bank's Class B stock.

*Redeem or Redemption* means the acquisition by a Bank of its outstanding Class A or Class B stock at par value following the expiration of the six-month or five-year statutory redemption period, respectively, for the stock.

*Regulatory risk-based capital requirement* means the amount of permanent capital that a Bank is required to maintain in accordance with §932.3 of this chapter.

*Regulatory total capital requirement* means the amount of total capital that a Bank is required to maintain in accordance with §932.2 of this chapter.

*Repurchase* means the acquisition by a Bank of excess stock prior to the expiration of the six-month or five-year

statutory redemption period for the stock.

*Repurchase agreement* means an agreement between a seller and a buyer whereby the seller agrees to repurchase a security or similar securities at an agreed upon price, with or without a stated time for repurchase.

*Sales of federal funds subject to a continuing contract* means an overnight federal funds loan that is automatically renewed each day unless terminated by either the lender or the borrower.

*Total assets* means the total assets of a Bank, as determined in accordance with GAAP.

*Total capital* of a Bank means the sum of permanent capital, the amounts paid-in for Class A stock, the amount of any general allowance for losses, and the amount of other instruments identified in a Bank's capital plan that the Finance Board has determined to be available to absorb losses incurred by such Bank.

*Walkaway clause* means a provision in a bilateral netting contract that permits a nondefaulting counterparty to make a lower payment than it would make otherwise under the bilateral netting contract, or no payment at all, to a defaulter or the estate of a defaulter, even if the defaulter or the estate of the defaulter is a net creditor under the bilateral netting contract.

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## PART 931—FEDERAL HOME LOAN BANK CAPITAL STOCK

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- 931.1 Classes of capital stock.
- 931.2 Issuance of capital stock.
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- 931.8 Other restrictions on the repurchase or redemption of Bank stock.
- 931.9 Transition provision.

AUTHORITY: 12 U.S.C. 1422a(a)(3), 1422b(a), 1426, 1440, 1443, 1446.

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