



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

September 18, 2002

DALLAS, TEXAS
75265-5906

Notice 02-50

TO: The Chief Operating Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

New Margins for the Valuation of Collateral

DETAILS

The Federal Reserve System (FRS) periodically reassesses the margins that are used in the valuation of collateral pledged to the U.S. Treasury and the Federal Reserve for Treasury Programs, Discount Window, and Payments System Risk purposes. This reassessment helps to ensure that the collateral margins reflect current market conditions. These margins are used to account for various risks and are applied both to priced and to nonpriced pledged collateral.

In the recent reevaluation, the FRS has enhanced its valuation process for securities that are priced by the FRS's pricing vendor. The FRS margins have always been based on the interest rate sensitivity of the security, which is also known as the duration of the security. However, in this reassessment, margins were created for each type of priced security based upon three levels/buckets of duration (0 to 5, >5 to 10, >10). To illustrate, when a security is pledged as collateral, the FRS will obtain the price and duration of the security from its pricing vendor and apply the margin according to the duration bucket within which the security falls.

The updated margins for priced and nonpriced collateral will be effective September 30, 2002. The current Discount Window and Payments System Risk margin table is posted on the Federal Reserve System's web site at www.frbdiscountwindow.org. Please reference the table at the web site periodically, as it will contain the most current version of the margin table, reflecting any changes in the acceptable asset types and associated margins. The collateral margins for Treasury purposes will be distributed under separate cover by the St. Louis Federal Reserve Bank. The margin tables for Treasury Programs can be found on the Bureau of Public Debt web site at www.publicdebt.treas.gov/gsr/gsrttl.htm#ttl.

MORE INFORMATION

If your institution has questions regarding valuation or acceptability of assets as collateral for Discount Window or Payments System Risk purposes or regarding any of the information contained in this notice, please contact the Discount Window at (877) 682-3256.

Paper copies of this notice or previous Federal Reserve Bank notices can be printed from our web site at <http://www.dallasfed.org/banking/notices/index.html>.

Sincerely,

Helen E. Holcomb