STATE OF NEBRASKA
Department of Banking & Finance

IN THE MATTER OF:	)	ORDER ADOPTING MODIFICATIONS
	)	TO APPENDIX B AND APPENDIX C
	)	OF ORDER ADOPTING
Lending Limits Involving Derivatives	)	CONSIDERATION GIVEN TO CREDIT
and Securities Financing	)	EXPOSURE ARISING FROM
	)	DERIVATIVE AND SECURITIES
	)	FINANCING TRANSACTIONS

On December 14, 2012, the Nebraska Department of Banking and Finance ("Department") issued an Order Adopting Consideration Given to Credit Exposure Arising from Derivative and Securities Financing Transactions ("Derivatives Order"). Attached to, and made a part of, the Derivatives Order were Appendix A, entitled "Definitions," Appendix B, entitled "Calculation of Credit Exposure," and Appendix C, entitled "Tables Used in the Calculation of Credit Exposure from Non-Credit Derivatives." The Derivatives Order and the Appendices thereto became effective January 21, 2013.

The Director of the Department has determined that Appendix B and Appendix C of the Derivatives Order should be modified as set forth in the attached Revised Appendix B, "Calculation of Credit Exposure," and the attached Revised Appendix C, "Tables Used in the Calculation of Credit Exposure from Non-Credit Derivatives."

IT IS THEREFORE ORDERED that Appendix B, "Calculation of Credit Exposure," and Appendix C, "Tables Used in the Calculation of Credit Exposure from Non-Credit Derivatives," of the Order Adopting Consideration Given To Credit Exposure Arising From Derivative and Securities Financing Transactions, be, and hereby are, modified as set forth in the attached

Revised Appendix B, "Calculation of Credit Exposure," and the attached Revised Appendix C, "Tables Used in the Calculation of Credit Exposure from Non-Credit Derivatives."

All provisions of the referenced Derivatives Order and all provisions of Appendix A, "Definitions," remain in full force and effect.

IT IS FURTHER ORDERED that a copy of this Order shall be made publicly available on the Department's website.

This Order is effective immediately.

DATED this 22 day of October, 2015.

STATE OF NEBRASKA
DEPARTMENT OF BANKING AND FINANCE

By: ______________________
Mark Quandahl, Director

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REVISED
APPENDIX B

CALCULATION OF CREDIT EXPOSURE

I. **Calculation of Credit Exposure: Non-Credit Derivative Transactions.** A bank shall calculate the credit exposure to a counterparty arising from a non-credit derivative transaction, for purposes of determining compliance with the bank's lending limit, by one of the two following methods. Subject to Section IV of this Revised Appendix B, a bank shall use the same method for calculating counterparty credit exposure arising from all of its derivative transactions.

1. **Conversion Factor Matrix Method.** Credit exposure calculated with the Conversion Factor Matrix Method, at the execution of the transaction, shall equal and remain fixed at the potential future credit exposure of the derivative transaction. The potential future credit exposure is calculated by multiplying the notional amount of the transaction by the factor taken from Table 1 in Revised Appendix C of this Order for the type and original maturity of the derivative contract.

2. **Current Exposure Method.** Credit exposure under the Current Exposure Method is calculated by adding the current credit exposure and the potential future credit exposure of the derivative transaction. The current credit exposure is the greater of zero or the current mark-to-market value of the derivative transaction. The potential future credit exposure is calculated by multiplying the notional amount of the transaction by the factor taken from Table 2 in Revised Appendix C of this Order for the type and remaining maturity of the derivative contract.

II. **Calculation of Credit Exposure: Credit Derivative Transactions.** A bank shall calculate credit exposure arising from a credit derivative transaction, for purposes of determining compliance with the bank's lending limit as follows:

1. A bank shall calculate the counterparty credit exposure arising from credit derivatives entered by the bank by adding the net notional value of all protection purchased on the reference entity.

2. Credit exposure to a reference entity shall equal the notional value of all protection sold on the reference entity.

3. A bank may reduce its credit exposure to a reference entity by the amount of any eligible credit derivative purchased on that entity from an eligible protection provider.

III. **Calculation of Credit Exposure: Securities Financing Transactions.** Calculation of credit exposure arising from a securities financing transaction for purposes of determining compliance with the bank's lending limit shall be made as follows:

1. **Repurchase Agreement**. Credit exposure arising from a repurchase agreement shall equal, and remain fixed at, the market value at execution of the transaction of the securities transferred to the other party, less cash received.

2. **Reverse Repurchase Agreements**. Credit exposure arising from a reverse repurchase agreement shall equal, and remain fixed at, the product of the haircut associated with the collateral received, as determined by Table 3 in Revised Appendix C of this Order, and the amount of cash transferred.

3. **Securities Lending; Cash Collateral Transactions.** Credit exposure arising from a securities lending transaction where the collateral is cash shall equal, and remain

fixed at, the market value at execution of the transaction of securities transferred, less cash received.

4. **Securities Lending; Non-cash Collateral Transactions.** Credit exposure arising from a securities lending transaction where the collateral is other securities shall equal, and remain fixed at, the product of the higher of the two haircuts associated with the two securities, as determined by Table 3 in Revised Appendix C of this Order, and the higher of the two par values of the securities.

5. **Securities Borrowing; Cash Collateral Transactions**. Credit exposure arising from a securities borrowed transaction where the collateral is cash shall equal, and remain fixed at, the product of the haircut on the collateral received, as determined by Table 3 in Revised Appendix C of this Order, and the amount of cash transferred to the other party.

6. **Securities Borrowing; Non-cash Collateral Transactions**. Credit exposure arising from a securities borrowed transaction where the collateral is other securities shall equal, and remain fixed at, the product of the higher of the two haircuts associated with the two securities, as determined by Table 3 in Revised Appendix C of this Order, and the higher of the two par values of the securities.

IV. **Mandatory Methods.** Notwithstanding Sections I, II, and III of this Revised Appendix B, the Department or the bank's primary federal regulator may require a bank to use a specific method to calculate credit exposure resulting from derivative transactions and securities financing transactions.

Original Effective Date: 01-21-2013
Revised Effective Date: 10-20-2015

REVISED
APPENDIX C

TABLES USED IN THE CALCULATION OF CREDIT EXPOSURE

FROM NON-CREDIT DERIVATIVES

Table 1—Conversion Factor Matrix for Calculating Potential Future Credit Exposure.[1]

Original maturity[2]	Interest rate factor	Foreign exchange rate and gold factor	Equity factor	Other factor[3] (includes commodities and precious metals except gold)
1 year or less	.015	.015	.20	.06
Over 1 to 3 years	.03	.03	.20	.18
Over 3 to 5 years	.06	.06	.20	.30
Over 5 to 10 years	.12	.12	.20	.60
Over 10 years	.30	.30	.20	1.00

[1] For an OTC derivative contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the derivative contract.
[2] For an OTC derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero, the remaining maturity equals the time until the next reset date. For an interest rate derivative contract with a remaining maturity of greater than one year that meets these criteria, the minimum conversion factor is 0.005.
[3] Transactions not explicitly covered by any other column in the Table are to be treated as "Other."

Table 2—Current Exposure Factor Matrix for Calculating Potential Future Credit Exposure.[1]

Remaining maturity[2]	Interest rate factor	Foreign exchange rate and gold factor	Equity factor	Other factor[3] (includes commodities and precious metals except gold)
1 year or less	0.00	0.01	0.06	0.10
Over 1 to 5 years	0.005	0.05	0.08	0.12
Over 5 years	0.015	0.075	0.10	0.15

[1] For an OTC derivative contract with multiple exchanges of principal, the conversion factor is multiplied by the number of remaining payments in the derivative contract.
[2] For an OTC derivative contract that is structured such that on specified dates any outstanding exposure is settled and the terms are reset so that the market value of the contract is zero, the remaining maturity equals the time until the next reset date. For an interest rate derivative contract with a remaining maturity of greater than one year that meets these criteria, the minimum conversion factor is 0.005.
[3] Transactions not explicitly covered by any other column in the Table are to be treated as "Other."

TABLE 3—Collateral Haircuts

Sovereign Entities

Sovereign Entity	Residual Maturity	Haircut Without Currency Mismatch[1]
OECD Country Risk Classification[2] 0-1	≤ 1 year	.005
	> 1 year, ≤ 5 years	.020
	> 5 years	.040
OECD Country Risk Classification 2-3	≤ 1 year	.010
	> 1 year, ≤ 5 years	.030
	> 5 years	.060

Corporate and Municipal Bonds That Are Bank-Eligible Investments

Bond	Residual Maturity for Debt Securities	Haircut Without Currency Mismatch
All	≤ 1 year	.02
All	> 1 year, ≤ 5 years	.06
All	> 5 years	.12

Other Eligible Collateral

Collateral	Haircut
Main index[3] equities (including convertible bonds)	.15
Other publicly traded equities (including convertible bonds)	.25
Mutual funds	Highest haircut applicable to any security in which the fund can invest
Cash collateral held	0

[1] In cases where the currency denomination of the collateral differs from the currency denomination of the credit transaction, an additional 8 percent haircut will apply.
[2] OECD Country Risk Classification means the country risk classification as defined in Article 25 of the OECD's February 2011 Arrangement on Officially Supported Export Credits Arrangement.
[3] Main index means the Standard & Poor's 500 Index, the FTSE All-World Index, and any other index for which the covered company can demonstrate to the satisfaction of the Federal Reserve that the equities represented in the index have comparable liquidity, depth of market, and size of bid-ask spreads as equities in the Standard & Poor's 500 Index and FTSE All-World Index.

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