

The Federal Reserve System periodically re-assesses 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 re-assessment 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 non-priced pledged collateral.

In the recent re-evaluation, the Federal Reserve System has enhanced its valuation process for securities that are priced by the Federal Reserve System's pricing vendor. The Federal Reserve System 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 re-assessment, margins were created for each type of priced security based upon three levels/buckets of duration (0 to 5 years, >5 to 10 years, >10 years). 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 non-priced collateral will be effective September 30, 2002. The current Discount Window and Payments System Risk margin table and the newly developed Federal Reserve System Guide to Discount Window Collateral are posted on the Federal Reserve System's website at <http://www.frbdiscountwindow.org>. At the home page, click on the "Collateral" button to locate these documents. Please reference the table at the website periodically as it will always 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 TT&L National Customer Service Area here at the St. Louis Federal Reserve Bank. The margin tables for Treasury Programs can be found on the Bureau of Public Debt website at <http://www.publicdebt.treas.gov/gsr/gsrctl.htm#ttl>.