Press Release

January 07, 2010

Board advises institutions of supervisory expectations for sound practices in managing interest rate risk

For immediate release

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The Federal Reserve Thursday released an advisory reminding depository institutions of supervisory expectations for sound practices in managing interest rate risk. This advisory, adopted along with the other financial regulators, reiterates the importance of effective corporate governance, policies and procedures, risk measuring and monitoring systems, stress testing, and internal controls related to the interest rate risk exposures of depository institutions. It also clarifies elements of existing guidance and describes interest rate risk-management techniques used by effective risk managers.

The financial regulators recognize that some interest rate risk is inherent in the business of banking. At the same time, institutions are expected to have sound risk-management practices to measure, monitor, and control interest rate risk exposures. The financial regulators expect each depository institution to manage its interest rate risk exposures using processes and systems commensurate with its complexity, business model, risk profile, and scope of operations.

The financial regulators remind depository institutions that an effective interest rate risk-management system does not involve only the identification and measurement of interest rate risk, but also addresses appropriate actions to control this risk. If an institution determines that its core earnings and capital are insufficient to support its level of interest rate risk, it should take steps to mitigate its exposure, increase its capital, or both.

In an accompanying Supervision and Regulation letter to Reserve Bank heads of supervision, the Federal Reserve noted that although the advisory is targeted at depository institutions, the advice provided is also directly pertinent to bank holding companies. Bank holding companies are reminded of supervisory expectations that they should manage and control aggregate risk exposures, including interest rate risk, on a consolidated basis, while recognizing legal distinctions and possible obstacles to cash movements among subsidiaries.

In addition to the Fed, the financial regulators include the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Financial Institutions Examination Council State Liaison Committee.

Attachment

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