



FEDERAL RESERVE BANK *of* KANSAS CITY

January 19, 2010

Interagency Advisory on Interest Rate Risk Management

Attention: Chief Executive Officer of each Tenth District Bank Holding Company and each Tenth District State Member Bank

Subject: Interagency Advisory on Interest Rate Risk Management

In Brief: The financial regulators have adopted the attached *Advisory on Interest Rate Risk Management*.

Highlights: The Federal Reserve and the other financial regulators issued this advisory to remind institutions of longstanding supervisory expectations regarding interest rate risk management. The current low short-term interest rate environment and financial market and economic conditions present significant risk management challenges to institutions of all sizes. Robust processes for measuring and, when necessary, mitigating risks are essential to address potentially increasing exposures.

The financial regulators recognize that a certain degree of interest rate risk is inherent to the business of banking. However, institutions are also expected to maintain risk management systems and processes commensurate with the existing and planned risk exposures, capital and earnings protection, business model, complexity, composite risk profile, and scope of operations. Interagency regulatory guidance issued in 1996 specifically addressed the expectations regarding board and senior management oversight, policy guidance, management information systems, and internal controls related to interest rate risk management. This guidance is provided as an attachment to this advisory statement as a reminder of the 1996 policy statement.

This advisory re-emphasizes the importance of corporate governance, policies and procedures, risk measurement and monitoring systems, stress testing, and internal controls related to institutions' interest rate risk exposures. It also clarifies certain elements of existing guidance and describes selected techniques used by effective risk managers.

Internet: The attached SR Letter 10-1 and the attached Advisory on Interest Rate Risk Management are also available at:
www.KansasCityFed.org --> Banking Supervision - > References --> Public SR Letters.