



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.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 10-01

January 11, 2010

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

SUBJECT: Interagency Advisory on Interest Rate Risk

Attached is an interagency advisory issued by the Board of Governors of the Federal Reserve System and other federal regulators¹ that reminds institutions of supervisory expectations on sound practices for managing interest rate risk (IRR). The advisory does not constitute new guidance. It reiterates basic principles of sound IRR management that each of the regulators has codified in its exiting guidance, as well as in the interagency guidance on IRR management issued by the banking agencies in 1996². The advisory highlights the need for active board and senior management oversight and a comprehensive risk-management process that effectively measures, monitors, and controls IRR.

The advisory targets interest-rate risk management at insured depository institutions. However, principles and supervisory expectations articulated also apply to bank holding companies, which are reminded of long-standing supervisory guidance that they should manage and control aggregate risk exposures on a consolidated basis while recognizing legal distinctions and possible obstacles to cash movements among subsidiaries.

Reserve Banks are asked to distribute this letter to supervisory and examiner staff and the financial institutions they supervise. Questions regarding this letter may be directed to Jim Embersit, Deputy Associate Director, Market and Liquidity Risk, at (202) 452-5249;

¹ The other financial regulators include the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the Federal Financial Institutions Examination Council (FFIEC) State Liaison Committee (collectively, the regulators).

² See SR 96-13, "Joint Policy Statement on Interest Rate Risk," May 23, 1996.

Ricardo Crumble, Supervisory Financial Analyst, Market and Liquidity Risk, at (202) 728-5852; or Mary Arnett, Supervisory Financial Analyst, Market and Liquidity Risk, at (202) 721-4534.

Patrick M. Parkinson
Director

Attachment:

Interagency Advisory on Interest Rate Risk Management

Cross References:

- [SR letter 96-13](#), “Joint Policy Statement on Interest Rate Risk”