PRESS RELEASE
Federal Deposit Insurance Corporation

May 14, 1996

Media Contact:
Robert M. Garsson (202) 898-6993

FDIC BOARD ADOPTS INTEREST RATE RISK POLICY STATEMENT

FOR IMMEDIATE RELEASE

The Board of Directors of the Federal Deposit Insurance Corporation today approved a policy statement on sound practices for managing interest rate risk in commercial banks. The Federal Reserve Board will consider this policy statement later in the month, and the Comptroller of the Currency is expected to approve it today.

The statement emphasizes that a bank's board and senior management must exercise adequate oversight over the bank's interest rate risk exposure and must develop and maintain a comprehensive process for managing that risk. It identifies the key elements of sound interest rate risk management and describes prudent practices for each of these elements.

The policy statement does not include a standardized framework for measuring interest risk. "After much deliberation, the agencies have elected not to pursue a standardized measure and explicit capital charge for interest rate risk at this time," the agencies said in the preamble to the statement. "This decision reflects concerns about the burden, accuracy, and complexity of a standardized measure and recognition that industry techniques for measuring interest rate risk are continuing to evolve. Rather than dampening incentives to improve risk measures by adopting a standardized measure at this time, the agencies hope to encourage these industry efforts."

In August 1995, the FDIC, the Federal Reserve Board, and the Office of the Comptroller of the Currency adopted a joint regulation that requires them to include in their evaluation of a bank's capital adequacy an assessment of its exposure to reductions in capital caused by changes in interest rates. At the same time, the agencies issued for comment a proposed policy statement, which the Board finalized today.

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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The agencies said they will continue to monitor industry developments in risk measurement techniques. As improvements are made, the agencies will reassess the feasibility of establishing more rigorous supervisory measurement systems and explicit capital treatment for interest rate risk.

When evaluating a bank's capital adequacy for interest rate risk, the agencies will continue to consider both the level of its exposure and the quality of its risk management. The agencies will continue to rely on their examination processes to achieve these goals.

The agencies also will continue to use various quantitative tools to assist examiners in identifying banks that have high exposure or a complex risk profile that requires a more sophisticated interest rate risk management process. For example, the agencies could use interest rate risk filters to monitor exposures, to make preliminary assessments about the nature and scope of a bank's risk, and to direct examination resources.

If the agencies determine that a bank has material weaknesses in its risk management process and/or high levels of interest rate risk exposure relative to its capital base, they will direct the bank to take corrective action. Such actions may include directives to raise additional capital, reduce exposures, strengthen management expertise and/or improve risk measurement systems.

The statement is effective upon publication in the Federal Register.