FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Division of Supervision

Interest Rate Risk

FIL-55-95
August 4, 1995

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Proposed Policy Statement on a Supervisory Framework For Measuring, Assessing Interest Rate Risk Exposure.*

The FDIC, Federal Reserve Board and the Office of the Comptroller of the Currency have proposed a joint agency policy statement that seeks to establish a uniform framework to use in measuring and assessing interest rate risk exposure in banks. The measurement process described in the attached policy statement is intended to facilitate the banking agencies' assessment of a bank's interest rate risk exposure and its capital adequacy. The results produced by this measurement system or a bank's internal model would be one factor used by regulators in gauging a bank's capital adequacy. Other factors to be considered, as explained in the policy statement, include the quality of the bank's interest rate risk management process, the financial condition of the bank, and the bank's levels of other risks for which capital is required.

Small, well-managed banks, are being provided with an exemption from the provisions of the proposed joint agency policy statement and its reporting requirements in an effort to reduce the regulatory burden. The exemption, however, does not absolve those banks of their responsibility to measure and manage their interest rate risk exposure in accordance with safe and sound banking practices. The criteria for exemption consider the size of the bank, its overall CAMEL rating, and the proportion of assets with intermediate and longer-term maturities relative to total assets.

Call Report schedules and instructions included in the proposed joint agency policy statement will be effective March 31, 1996, for those banks required to report, subject to approval by the Federal Financial Institutions Examination Council. An effective date of December 31, 1996, is proposed for the full implementation of this policy statement.

Concurrent with the publication of this proposed joint agency policy statement, the banking agencies have issued a final rule that amends their capital guidelines to account for interest rate risk. The amendments are in response to Section 305 of the FDIC Improvement Act of 1991 (FDICIA), which directs the banking agencies to amend their risk-based capital standards to take adequate account of interest rate risk. Refer to FIL-54-95 for more details regarding the final rule.

Written comments on the Federal Register notice of the proposed joint agency policy statement are due by October 2, 1995. Questions about this proposal may be directed to William A. Stark, Assistant Director, Division of Supervision (DOS) at 202-898-6972, or Phillip J. Bond, DOS Senior Capital Markets Specialist at 202-898-3519.

Nicholas J. Ketcha Jr.
Acting Director

Attachment: (3.9 Mb)
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