factors, including the adequacy of the bank's internal interest rate risk management. Consistent with each banking agency's safety and soundness guidelines, the banking agencies expect a bank to properly manage all of its risks, including its interest rate risk, in a manner commensurate with its risk profile. Nothing in this rule is intended to diminish the importance or need for a bank to have an effective risk management system.

This final rule represents the banking agencies' adoption of the Risk Assessment approach described in the September 1993 proposed rule with the exception that, unlike that proposed rule, this final rule does not establish an explicit supervisory threshold that defines whether a bank had an above ''normal'' level of interest rate risk exposure. The banking agencies have concluded that it is appropriate to first collect industry data and to evaluate the level of interest rate risk exposure in the banking industry before establishing an explicit supervisory threshold above which capital would be required. It is important to note, however, that the banking agencies intend for this case-by-case approach for assessing a bank's capital adequacy for interest rate risk to be a transitional arrangement.

The second step of the banking agencies' process will be to issue a proposed rule that would establish an explicit minimum capital charge for interest rate risk, based on the level of bank's measured interest rate risk exposure. The banking agencies anticipate that the proposed policy statement on the supervisory assessment of interest rate risk will provide the foundation for the proposed rule that would propose the establishment of an explicit minimum capital requirement. The banking agencies will implement this second step at some future date, through a subsequent and separate proposed rule after the banking agencies and the banking industry have gained more experience with the proposed supervisory measurement and assessment process.

During the transitional period before the second rulemaking process is initiated, the banking agencies will work with the industry to determine what, if any, further modifications to the proposed measurement process are warranted. Such modifications may include further refinements to the supervisory model and to other criteria used by examiners to evaluate the adequacy of banks' internal models. The transition period also allows the banking agencies to collect and monitor more rigorous and consistent information on the level of banks' interest rate risk exposures. This experience and information will assist the banking agencies in formulating a proposed rule for explicit minimum capital standards for interest rate risk.

Second 305(b)(2) of FDICIA requires the banking agencies to discuss the development of comparable standards with members of the supervisory committee of the Bank for International Settlements (BIS). The Basle Committee on Banking Supervision, under the auspices of the BIS, has been working on ways to incorporate interest rate risk into the Basle Accord on risk-based capital standards. *See* International Convergence of Capital Measurement and Capital Standards (July 1988). The banking agencies are participating actively in that international effort. However, the timing of any international standard for monitoring and assessing capital for interest rate risk is uncertain. Given the importance of interest rate risk to the safety and soundness of the banking industry and the mandate of section 305 of FDICIA, the banking agencies have concluded that they should not delay the implementation of this rule and measurement process until an international standard is achieved. The banking agencies will continue to work with international organizations to develop consistent international capital standards. At the time that an international agreement emerges on either a measurement system or explicit minimum capital standard, the banking agencies will revisit their rules in light of the international standard.

IV. Regulatory Flexibility Act Statement

Each banking agency has concluded after reviewing the final regulations that the regulations, if adopted, will not impose a significant economic hardship on small institutions. The final rules do not necessitate the development of sophisticated recordkeeping or reporting systems by small institutions nor will small institutions need to seek out the expertise of specialized accountants, lawyers, or managers in order to comply with the regulation. Each banking agency therefore hereby certifies pursuant to section 605b of the Regulatory Flexibility Act (5 U.S.C. 605b) that the final rule will not have a significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act (5 U.S.C. 601 et seq.).

V. Executive Order 12866

The Comptroller of the Currency has determined that this final rule is not a significant regulatory action under Executive Order 12866.

VI. OCC Response to Unfunded Mandates Act of 1995

Section 202 of the Unfunded Mandates Act of 1995 (Unfunded Mandates Act) (signed into law on March 22, 1995) requires that an agency prepare a budgetary impact statement before promulgating a rule that includes a Federal mandate that may result in the expenditure by state, local, and tribal governments, in the aggregate, or by the private sector, of $100 million or more in any one year. If a budgetary impact statement is required, section 205 of the Unfunded Mandates Act also requires an agency to identify and consider a reasonable number of regulatory alternatives before promulgating a rule. Because the OCC has determined that this final rule will not result in expenditures by state, local and tribal governments, or by the private sector, of more than $100 million in any one year, the OCC has not prepared a budgetary impact statement or specifically addressed the regulatory alternatives considered. As discussed in the preamble, this final rule will clarify the authority of the OCC to require additional capital for any significant exposure to declines in the economic value due to changes in interest rates. Under the proposed joint policy statement, the supervisory model and internal bank models will serve as supervisory tools to assist examiners in assessing capital adequacy. Any decision to require additional capital will be made on a case-by-case basis as prescribed under the current capital procedures.

List of Subjects

OCC

12 CFR Part 3

Administrative practice and procedure, Capital risk, National banks, Reporting and recordkeeping requirements.

Board

12 CFR Part 208

Accounting, Agriculture, Banks, banking, Confidential business information, Crime, Federal Reserve System, Mortgages, Reporting and recordkeeping requirements, Securities.

FDIC

12 CFR Part 325

Bank deposit insurance, Banks, banking, Capital adequacy, Reporting and recordkeeping requirements, Savings associations, State nonmember banks.