DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Part 3

[Docket No. 95–17]

FEDERAL RESERVE SYSTEM

12 CFR Part 208

[Docket No. R–0802]

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 325

Joint Agency Policy Statement: Supervisory Policy Statement Concerning a Supervisory Framework for Measuring and Assessing Banks' Interest Rate Risk Exposure

AGENCIES: Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC).

ACTION: Policy statement; request for comment.

SUMMARY: The OCC, the Board, and the FDIC (collectively, ''the agencies'') seek comment on a proposed interagency Supervisory Policy to establish a uniform supervisory framework for measuring banks' interest rate risk (IRR) exposures. The proposed policy establishes a framework that the agencies would use to measure and monitor the level of IRR at individual banks. The measurement process proposed and described in this policy statement is intended to facilitate the agencies' assessment of a bank's IRR exposure and its capital adequacy. The results of the supervisory and internal models would be one factor used by the agencies in their assessments' of a bank's capital adequacy for IRR. Other factors that the agencies will consider include the quality of the bank's IRR risk management process, the overall financial condition of the bank, and the level of other risks at the bank for which capital is needed. Pursuant to the final rule banks may be required to hold additional capital.

The proposed supervisory framework provides measures of the change in a bank's economic value for a given change in interest rates using a supervisory model. The framework also considers the results of a bank's internal model results when that model provides a measure of the change in a bank's economic value. Banks not specifically exempted from detailed IRR reporting would submit new IRR Call Report schedules indicating the maturity, repricing, or price sensitivity of their various on- and off-balance sheet instruments. A bank also would have the option of reporting its internal model estimates of the price sensitivity of its major portfolios and its economic value.

Concurrent with the publication of this proposed Supervisory Policy statement, the agencies have issued a final rule that amends their capital guidelines for IRR. Those amendments indicate that the agencies will consider in their evaluation of a bank's capital adequacy, the exposure of a bank's capital and economic value to changes in interest rates. The amendments are in response to section 305 of the FDIC Improvement Act of 1991 (FDICIA) which requires the agencies to amend their risk-based capital standards to take adequate account of interest rate risk.

As noted in the discussion of the final rule on IRR, the agencies intend, at a subsequent date, to incorporate explicit minimum requirements for IRR into their risk-based capital standards. The agencies anticipate that the measurement framework described in this proposed policy, will be the basis for such a capital requirement. Toward that end, the agencies intend to work with the industry to evaluate the reliability and accuracy of the results from the supervisory model and bank internal models. Any explicit minimum capital charge would be implemented through the agencies' rulemaking process and would provide the opportunity for public comment before a final rule is adopted.

DATES: Comments must be received by October 2, 1995.

ADDRESSES: Interested parties are invited to submit written comments to any or all of the agencies. All comments will be shared among the agencies.

OCC: Written comments should be submitted to Docket No. 95–17, Communications Division, Ninth Floor, Office of the Comptroller of the Currency, 250 E Street, S.W., Washington, D.C. 20219, Attention: Karen Carter. Comments will be available for inspection and photocopying at that address.

Board of Governors: Comments, which should refer to Docket No. R–0802, may be mailed to Mr. William Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th and Constitution Avenue, N.W., Washington, D.C. 20551. Comments addressed to Mr. Wiles may also be delivered to the Board's mail room between 8:45 a.m. and 5:15 p.m. and to the security control room outside of those hours. Both the mail room and control room are accessible from the courtyard entrance on 20th Street between Constitution Avenue and C Street, N.W. Comments may be inspected in Room B–1122 between 9:00 a.m. and 5:00 p.m., except as provided in 261.8 of the Board's ''Rules Regarding Availability of Information,'' 12 CFR 261.8.

FDIC: Written comments should be sent to, Jerry L. Langley, Executive Secretary, Attention: Room F–402, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429. Comments may be hand-delivered to Room F–402, 1776 F Street N.W., Washington, D.C. 20429, on business days between 8:30 a.m. and 5:00 p.m. [FAX number (202) 898–3838; Internet address: comments @ fdic.gov]. Comments will be available for inspection and photocopying in Room 7118, 550 17th Street, N.W., Washington, D.C. 20429, between 9:00 a.m. and 4:30 p.m. on business days.

FOR FURTHER INFORMATION CONTACT:

OCC: Christina Benson, Capital Markets Specialist, or Lisa Lintecum, National Bank Examiner (202/874–5070), Office of the Chief National Bank Examiner; Michael Carhill, Financial Economist, Risk Analysis Division (202/874–5700); and Ronald Shimabukuro, Senior Attorney, Bank Operations and Assets Division (202/874–4460), Office of the Comptroller of the Currency, 250 E Street, S.W., Washington, D.C. 20219.

Board of Governors: James Houpt, Assistant Director (202/452–3358), William F. Treacy, Supervisory Financial Analyst (202/452–3859), Division of Banking Supervision and Regulation; Gregory Baer, Managing Senior Counsel (202/452–3236), Legal Division, Board of Governors of the Federal Reserve System. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), Dorothea Thompson (202/452–3544), Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551.

FDIC: William A. Stark, Assistant Director (202/898–6972) or Phillip J. Bond, Senior Capital Markets Specialist (202/898–3519), Division of Supervision, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429.

SUPPLEMENTARY INFORMATION:

I. Introduction

Interest rate risk is the risk that changes in market interest rates will have an adverse effect on a bank's