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 regulators\(^1\) 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 existing guidance, as well as in the interagency guidance on IRR management issued by the banking agencies in 1996.\(^2\) 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).


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”