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Q's & A's CLARIFY OCC POLICY ON INTEREST RATE RISK MANAGEMENT

The Office of the Comptroller of the Currency (OCC) today issued a series of questions and answers to provide more guidance to national banks on interest rate risk management systems. The guidance follows up on Advisory Letter 95-1, issued by the OCC February 8, 1995.

Today's questions and answers clarify what constitutes reasonable minimum standards for systems to identify, measure, monitor and control interest rate risk. They also explain how the OCC will evaluate the significance of interest rate exposures and assess the adequacy of banks' measurement systems.

Advisory Letter 95-1 specified that the OCC expects all national banks to have systems to measure the amount of earnings at risk when interest rates change. Earnings at risk is the potential adverse impact on earnings as a result of interest rate changes. Today's issuance makes clear the OCC believes that, when a bank's level of exposure is significant, it should also adopt a system to measure value at risk -- i.e., potential changes in the underlying values of assets, liabilities, and off-balance sheet positions as a result of interest rate changes.

"Interest rate risk management is an essential component of safe and sound banking practices," said Comptroller of the Currency Eugene A. Ludwig. "Our initial advisory letter provided a base line for all banks. These questions and answers suggest and encourage refinements as a bank's interest rate positions change and the complexity of its activities increases."

The banking regulators are continuing to work on a joint final rule to implement Section 305 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), which requires risk-based capital standards for interest rate and other risk exposures.

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