

Enhanced Risk Management and Governance
AFDC and MAFC (Shanghai)
Sessions 4.2 and 4.3

Web Resources for Interest Rate Risk in the Banking Book

Bank for International Settlements, Basel Committee on Banking Supervision:
Principles for the Management and Supervision of Interest Rate Risk (July 2004):

<http://www.bis.org/publ/bcbs108.pdf?noframes=1>

Hong Kong Monetary Authority Supervisory Policy Manual for Interest Rate Risk
Management (December 2003):

<http://www.info.gov.hk/hkma/eng/bank/spma/attach/IR-1.pdf>

HKMA Return of Interest rate Exposures (December 2003):

<http://www.info.gov.hk/hkma/eng/bank/spma/attach/IR-1-return.pdf>

FDIC Law, Regulations, Related Acts: Joint Agency Policy Statement on Interest
Rate Risk (May 1996):

<http://www.fdic.gov/regulations/laws/rules/5000-4200.html>

Monetary Authority of Singapore: Guidelines on Sound Risk Management Practices
(October 2002):

http://www.mas.gov.sg/resource/publications/consult_papers/2002/riskguidelines.pdf

APRA has a nice short article on interest rate risk in the banking book:

<http://www.apra.gov.au/Policy/upload/Technical-paper-Interest-rate-risk-on-the-banking-book-May-2003.pdf>

Questions to think about

1. How is interest rate risk on the balance sheet defined?
2. Think of a couple of examples of how fee income might be subject to interest rate risk.
3. The standardized approach to measuring interest rate risk involves subjecting the balance sheet to a shock. What is the size of the shock? How would you go about determining whether the size of the shock is appropriate?
4. Should a financial institution be focusing on earnings or economic value when measuring interest rate risk on the balance sheet?
5. Give two examples of 'embedded optionality' that are affected by interest rate risk.
6. What is the difference between static and dynamic gap analysis?