Cayman Monetary Regulatory Authority International

At the forefront of financial regulation, the Cayman Monetary Regulatory Authority International (CMRAI) is dedicated to upholding the highest standards of financial oversight and compliance. Our mission is to safeguard the stability and integrity of the global financial system by ensuring that financial services operate within a framework of transparency, accountability, and excellence.

As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

With a legacy of excellence in financial oversight, the Cayman Monetary Regulatory Authority International (CMRAI) is a beacon of trust in the international financial community. Our role extends beyond regulation; we are innovators, collaborators, and protectors of the global financial ecosystem. By fostering compliance, promoting best practices, and embracing technological advancements, CMRAI ensures that financial services remain resilient and adaptable in a dynamic global market.

Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

 Statement of Guidance Interest Rate Risk Management 1. Statement of Objectives 1.1. To provide guidance on the requirement imposed upon licensees by Rule 4(B). 1.2. As financial institutions operate in a changing competitive environment with products and services of increased complexity, the importance of managing this risk has been heightened. It is vital that banks have comprehensive risk management processes in place that identify, measure, monitor, and control a bank s exposure to interest rate risk. 2. Board and senior management oversight of interest rate risk 2.1. The board of directors should be informed regularly of the interest rate risk exposure of the bank and immediately if there are any material changes in the bank s current or prospective liquidity position, in order to assess the monitoring and controlling of such risk. 2.2. Senior management must ensure that the structure of the bank's business and the level of interest rate risk it assumes are effectively managed, that appropriate policies and procedures are established to control and limit these risks, and that resources are available for evaluating and controlling interest rate risk. 2.3. Banks should clearly define the individuals and/or committees responsible for managing interest rate risk and should ensure that there is adequate separation of duties in key elements of the risk management process to avoid potential conflicts of interest. Banks should have risk measurement, monitoring and control functions with clearly defined duties that are

 sufficiently independent from position-taking functions of the bank and which report risk exposures directly to senior management and the board of directors. Larger or more complex banks should have a designated independent unit responsible for the design and administration of the bank's interest rate risk measurement, monitoring and control functions. 3. Guidance on Adequate risk management policies and procedures 3.1. It is essential that banks' interest rate risk policies and procedures are clearly defined and consistent with the nature and complexity of their activities. These policies should be applied on a consolidated basis and, as appropriate, at the level of individual affiliates, especially when recognising legal distinctions and possible obstacles to cash movements among affiliates. 3.2. Banks should identify the risks inherent in new products and activities and ensure that these are subject to adequate procedures and controls before being introduced or undertaken. The board or its appropriate delegated committee should approve major hedging or risk management initiatives in advance. 4. Guidance on Risk measurement, monitoring and control functions 4.1. Banks should measure their vulnerability to loss under stressful market conditions - including the breakdown of key assumptions - and consider those results when establishing and reviewing their policies and limits for interest rate risk. 4.2. Banks should have adequate information systems for measuring, monitoring, controlling and reporting interest rate exposures. Reports must be provided on a timely basis to the bank's board of directors, senior management and, where appropriate, individual business line managers. L:\Administration\IT Division\Projects\Website\Content\Updates\SOG\SOG_Interest_Rate_Risk_Management.doc

4.3. Banks should report interest rate risk exposure in Schedule B of the BS Form. This is based on either the Residual Maturity, that is, the period remaining between the reporting date and the maturity date, OR the period of the next Repricing Date WHICHEVER IS SHORTER. 4.4. The Bank s financial statements should adhere to accounting principle IAS39 in the reporting of derivatives. 5. Guidance on Internal controls Banks should have an adequate system of internal controls over their interest rate risk management process. A fundamental component of the internal control system involves regular independent reviews and evaluations of the effectiveness of the system and, where necessary, ensuring that appropriate revisions or enhancements to internal controls are made. The results of such reviews should be available to the relevant supervisory authorities. 6. Further Guidance This guidance has been developed using Principles for the Management and Supervision of Interest Rate Risk, January 2001 issued by the Basel Committee on Banking Supervision. Institutions could consult the aforementioned paper for further guidance on the establishment and maintenance of an Interest Rate Risk Management System.