نظـام مخاطر أسعار الفائدة ونسبة العائد
في السجل المصرفي

INTEREST RATE AND RATE OF RETURN RISK IN THE BANKING BOOK REGULATION
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## Interest Rate and Rate of Return Risk In the Banking Book Regulation

**Circular No:** 165/2018  
**Date:** 29/08/2018

To: All Banks  

**Subject:** Interest Rate and Rate of Return Risk in the Banking Book

### INTRODUCTION

The Central Bank seeks to promote the effective and efficient development and functioning of the banking system. To this end, Banks exposed to interest rate and rate of return risk in the banking book (IRRBB) must have appropriate policies, processes, procedures, systems and controls to identify, measure, monitor, report on, control and mitigate such risks.

In introducing this Regulation and the accompanying Standards, the Central Bank intends to ensure that Banks’ approaches to the management of (IRRBB) are in line with leading international practices.

This Regulation and the accompanying Standards are issued pursuant to the powers vested in the Central Bank under the Central Bank Law.

Where this Regulation or its accompanying Standards, include a requirement to provide information or to take certain measures, or to address certain items listed at a minimum, the Central Bank may impose requirements, which are additional to the list provided in the relevant article.

### OBJECTIVE

The objective of these Regulations is to establish minimum requirements for (IRRBB) management for Banks, with a view to:

1. Ensuring the soundness of Banks; and
ii. Enhancing financial stability.

The accompanying Standards supplement the Regulation to elaborate on the supervisory expectations of the Central Bank with respect to the management of (IRRBB).

SCOPE OF APPLICATION

This Regulation and the accompanying Standards apply to all Banks. Banks established in the UAE with significant Group relationships, including Subsidiaries, Affiliates, or international branches, must ensure that the Regulation and Standards are adhered to on a solo and Group-wide basis.

This Regulation and Standards must be read in conjunction with the Risk Management Regulation and Standards, which establish the requirements for a Bank’s overarching approach to risk management.

ARTICLE 1: DEFINITIONS

1. **Affiliate**: An entity that, directly or indirectly, controls is controlled by or is under common control with another entity. The term control as used herein shall mean the holding, directly or indirectly, of voting rights in another entity or of the power to direct or cause the direction of the management of another entity.

2. **Bank**: A financial entity, which is authorized by the Central Bank to accept deposits as a Bank.

3. **Board**: The Bank’s Board of Directors.

4. **Banking Book**: Positions in financial instruments that are expected to be held to maturity.

5. **Central Bank**: The Central Bank of the United Arab Emirates.

6. **Central Bank Law**: Union Law No (10) of 1980 concerning the Central Bank, the Monetary System and Organization of the monetary affairs of the United Arab Emirates. This Law is amended by Decree No. 2 of 2002 concerning the Capital Stock of the Central Bank. The Law stipulates that the Central Bank is independent, and its independence is protected. The Law also states that the Central Bank is not subject to the provisions of the UAE financial law, although it is subject to the provisions of the UAE financial law.
7. Central Bank regulations: any resolution, regulation, circular, rule, standard or notice issued by the Central Bank.

8. **Group**: a group of entities which includes an entity (the 'first entity') and:

   a) any Parent of the first entity;
   b) any Subsidiary of the first entity or of any Parent of the first entity; and
   c) any Affiliate.

9. **Islamic Financial Services**: Shari'a compliant financial services offered by Islamic Banks and Conventional Banks offering Islamic banking products (Islamic Windows).

10. **Parent**: an entity (the 'first entity') which:

    a) holds a majority of the voting rights in another entity (the 'second entity');
    b) is a shareholder of the second entity and has the right to appoint or remove a majority of the board or managers of the second entity; or
    c) is a shareholder of the second entity and controls alone, pursuant to an agreement with other shareholders, a majority of the voting rights in the second entity.

    Or:

    d) if the second entity is a subsidiary of another entity which is itself a subsidiary of the first entity.

11. **Risk appetite**: The aggregate level and types of risk a Bank is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan.

12. **Risk governance framework**: As part of the overall approach to corporate governance, the framework through which the Board and management establish and make decisions about the Bank's strategy and risk approach;
articulate and monitor adherence to the risk appetite and risk limits relative to the Bank's strategy; and identify, measure, manage and control risks.

13. **Risk limits**: Specific quantitative measures that must not be exceeded based on, for example, forward looking assumptions that allocate the Bank's aggregate risk appetite to business lines, legal entities or management units within the Bank or Group in the form of specific risk categories, concentrations or other measures as appropriate.

14. **Risk profile**: Point in time assessment of the Bank's gross (before the application of any mitigants) or net (after taking into account mitigants) risk exposures aggregated within and across each relevant risk category based on current or forward-looking assumptions.

15. **Senior Management**: The executive management of the Bank responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank, generally including but not limited to the chief executive officer, chief financial officer, chief risk officer and heads of the compliance and internal audit functions.

16. **Subsidiary**: an entity (the 'first entity') is a subsidiary of another entity (the 'second entity') if the second entity:

   a) holds a majority of the voting rights in the first entity;

   b) is a shareholder of the first entity and has the right to appoint or remove a majority of the board or managers of the first entity; or

   c) is a shareholder of the first entity and controls alone, pursuant to an agreement with other shareholders, a majority of the voting rights in the first entity.

Or:

   d) if the first entity is a subsidiary of another entity which is itself a subsidiary of the second entity.
17 Trading Book: Positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book.

**ARTICLE 2: RISK GOVERNANCE FRAMEWORK**

1. A Bank must have an appropriate IRRBB strategy and risk governance framework that provides a bank-wide and if applicable Group-wide view of IRRBB. This includes policies and processes to identify, measure, evaluate, monitor, report and control or mitigate material sources of IRRBB on a timely basis.

2. A Bank’s IRRBB strategy, policies and processes must be consistent with the risk appetite statement, risk profile and systemic importance of the Bank, taking into account market and macroeconomic conditions.

3. A Bank’s IRRBB strategy, policies and processes must be reviewed at least annually and appropriately adjusted, where necessary, in line with the Bank’s changing risk profile and market developments.

4. A Bank’s strategy, policies and processes for IRRBB must be approved and reviewed at least annually by the Board.

5. The Senior Management must ensure that the strategy, policies and processes are developed and implemented effectively.

6. A Bank’s policies and processes must establish an appropriate and properly controlled IRRBB environment, including, at a minimum, the following items:
   i. Comprehensive and appropriate interest rate risk measurement systems;
   ii. Regular review and independent (internal or external) validation of any models used by the functions tasked with

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المادة 2: إطار حوكمة المخاطر

1. يجب أن تكون لدى البنك استراتيجية ملائمة لمخاطر أسعار الفائدة ونسبة العائد في السجل المصرفي، وإطار لحوكمة المخاطر يوفر نظرة لمخاطر سعر الفائدة ونسبة العائد في السجل المصرفي، على مستوى البنك وعلى مستوى المجموعة إذا كان ذلك منطبقًا. يشمل ذلك السياسات والعمليات للتحديد وقياس وتحقيق ومراقبة المصدر الجهري لمخاطر أسعار الفائدة ونسبة العائد في السجل المصرفي، والسلاسة عليها أو تقليلها، ورفع التقارير بشأنها في الأوقات المناسبة.

2. يجب أن تكون استراتيجية وسياسات وممارسات المخاطر أسعار الفائدة ونسبة العائد في السجل المصرفي متوافقة مع نتائج التحليل، وسمات المخاطر والأهمية النظامية للبنك، مع الأخذ في الاعتبار أوضاع السوق والاقتصاد الكلي.

3. يجب مراجعة استراتيجية وسياسات وممارسات المخاطر أسعار الفائدة ونسبة العائد في السجل المصرفي مرة واحدة على الأقل في السنة، ويجب إلزام البنوك بالقيام بذلك، مع التغييرات في سمات مخاطر البنك وظروف السوق.

4. يجب أن يتم إعداد استراتيجية وسياسات وممارسات البنك المتعلقة بمخاطر أسعار الفائدة ونسبة العائد في السجل المصرفي من قبل مجلس الإدارة، وتمارجتها على الأقل سنويًا.

5. يجب على الإدارة العليا أن تحقق من أن الاستراتيجية والسياسات والعمليات قد تم تطويرها وتطبيقها على نحو قملي.

6. يجب على البنك وضع سياسات وإجراءات لخلق بيئة مناسبة لمراقبة مخاطر أسعار الفائدة ونسبة العائد في السجل المصرفي، بما في ذلك وحدة أدنى البند التالية:
   i. أنظمة شاملة وموثوقة لقياس مخاطر سعر الفائدة;
   ii. مراجعة منتظمة وتفحص مستقل (داخلي أو خارجي)، لأية نماذج مستخدمة بواسطة الوظائف المكلفة بإدارة مخاطر أسعار الفائدة ونسبة العائد في
managing IRRBB, including review of key model assumptions;

iii. Appropriate limits that are approved by the Board and Senior Management and that reflect the Bank’s risk appetite, risk profile and capital strength, and are understood by and regularly communicated to, relevant staff;

iv. Effective processes for exception tracking and reporting which ensure prompt action at the appropriate level of the Senior Management or Board, where necessary; and

v. Effective information systems for accurate identification, aggregation, monitoring and timely reporting of IRRBB exposure to the Board and Senior Management.

**ARTICLE 3: RISK MANAGEMENT FUNCTION**

المادة 3: وظيفة إدارة المخاطر

1. A Bank’s risk management function must include policies, procedures and systems for monitoring and reporting to ensure that IRRBB exposures are aligned with the Bank’s strategy and business plan and consistent with the Board approved risk appetite statement and individual risk limits, as well as the systemic importance of the Bank, taking into account market and macroeconomic conditions.

**ARTICLE 4: RISK MEASUREMENT AND USE OF MODELS**

المادة 4: قياس المخاطر واستخدام النماذج

1. A Bank must have comprehensive and appropriate interest rate risk measurement systems, which generate a quantification of the threat to earnings and economic value from IRRBB.

2. A Bank must ensure that there is a regular review and independent (internal or external) validation of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions).
### Article 5: Stress Testing

1. A Bank must include appropriate scenarios in its stress testing programs to measure its vulnerability to loss under adverse interest rate movements, including but not limited to the impact on the banking book of a standardized interest rate shock as prescribed by the Central Bank.

2. A Bank must ensure that its internal capital measurement systems adequately capture IRRBB.

### Article 6: Information Systems and Internal Reporting

1. A Bank must have information systems that enable it to identify, accurately aggregate, monitor and report IRRBB to the Board and Senior Management on a timely basis, in formats suitable for their use.

### Article 7: Reporting Requirements

1. Banks must report to the Central Bank on their IRRBB exposure in the format and frequency prescribed in the Standards.

2. A Bank must provide upon request any specific information with respect to IRRBB that the Central Bank may require.

3. A Bank must promptly notify the Central Bank when it becomes aware of a significant deviation from the Board-approved IRRBB risk limits, policies or procedures or becomes aware that a material interest rate risk has not been adequately addressed.
ARTICLE 8: ISLAMIC BANKING

1. A Bank offering Islamic financial services must apply the provisions of this Regulation, subject to such adjustments as are necessary, in relation to its RoRR (rate of return risk).

2. A Bank offering Islamic financial services must establish a comprehensive risk management and reporting process to assess the potential impacts of market factors affecting rates of return on assets in comparison to rates paid on its liabilities.

3. A Bank offering Islamic financial services must have in place an appropriate framework for managing displaced commercial risk, where applicable.

ARTICLE 9: ENFORCEMENT

1. Violation of any provision of this Regulation and the accompanying Standards shall be subject to supervisory action as deemed appropriate by the Central Bank.

ARTICLE 10: INTERPRETATION OF REGULATIONS

1. The Regulatory Development Division of the Central Bank shall be the reference for interpretation of the provisions of this Regulation.

ARTICLE 11: CANCELLATION OF PREVIOUS NOTICES

1. These Regulation and the accompanying Standards replace all previous Central Bank Regulations and Notices with respect to IRRBB.
ARTICLE 12: PUBLICATION AND APPLICATION

1. This Regulation and the accompanying Standards shall be published in the Official Gazette in both Arabic and English and shall come into effect one month from the date of publication.

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