



GUIDELINES TO BANKS
GUIDELINES NO. BU/G-1/2020/20

GUIDELINES ON MARKET RISK MANAGEMENT

1 INTRODUCTION

- 1.1 Market risk is defined as the risk to earnings or capital resulting from adverse movements in market prices, particularly, changes in interest rates, foreign exchange rates, equity and commodity prices.
- 1.2 These Guidelines on Market Risk Management (“these Guidelines”) set forth the expectations of the Authority for banks to have adequate and effective market risk management systems commensurate to their market risk-taking activities.
- 1.3 These Guidelines further articulate sound principles and practices that should be embedded in the market risk management framework of banks and cover the following areas:
 - 1.3.1 risk management strategy, policies, and procedures; and
 - 1.3.2 risk measurement, monitoring, and control.

While banks may employ different approaches in the management of their market risk, the Authority expects that all these areas are effectively addressed.

- 1.4 A bank may take on any level of market risk in its business activities as long as those activities are within the scope of its license and its ICAAP, and the bank:
 - 1.4.1 Understands, measures, monitors and controls the risk assumed;
 - 1.4.2 Adopts risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled; and
 - 1.4.3 Maintains capital commensurate with the risk exposure assumed.
- 1.5 If the Authority determines that a bank’s risk exposures are excessive relative to its capital, or that the risk assumed is not well managed, the Authority may direct the bank to reduce its exposure to an appropriate level and/or strengthen its risk management systems.
- 1.6 The principles set forth in these guidelines should be used in determining the adequacy and effectiveness of a bank’s market risk management process, the level and trend of market risk exposure and adequacy of capital relative to exposure. The following facts should be considered:



- 1.6.1 The major sources of market risk exposure and the complexity and level of risk posed by the assets, liabilities, and off-balance-sheet activities of the bank;
- 1.6.2 The bank's actual and prospective level of market risk in relation to its earnings, capital, and risk management systems;
- 1.6.3 The adequacy and effectiveness of the bank's risk management practices and strategies as evidenced by:
 - a) The adequacy and effectiveness of Board and Senior Management oversight;
 - b) Management's knowledge and ability to identify and manage sources of market risk as measured by past and projected financial performance;
 - c) The adequacy of internal measurement, monitoring, and management information systems;
 - d) The adequacy and effectiveness of risk limits and controls that set tolerances on income and capital losses; and
 - e) The adequacy and frequency of the bank's internal review and audit of its market risk management process.
- 1.7 These Guidelines as elaborated upon further in **ANNEX 1** are issued pursuant to section 126 of the Banking Order, 2006 and applies to all banks in Brunei Darussalam (hereinafter referred to as "bank(s)").
- 1.8 The broad principles and standards under these Guidelines are aligned with the publications issued by the Basel Committee on Banking Supervision ("BCBS") such as "Interest Rate Risk in the Banking Book" (April 2016) and "Principles for Sound Stress Testing Practices and Supervision" (May 2009).
- 1.9 These Guidelines are not exhaustive and subject to revision from time to time as deemed necessary by the Authority.
- 1.10 These Guidelines take immediate effect.

**MANAGING DIRECTOR
AUTORITI MONETARI BRUNEI DARUSSALAM**

Date: 23 Syaaban 1441H / 17 April 2020