

How to Use This Manual

The *Commercial Bank Investment Management Manual* is designed to provide a single, comprehensive source of practical “how-to” information on running your bank’s investment portfolio. The manual has 35 chapters divided into five parts:

- The six chapters in Part I cover the essential elements of investment management. We review the role of the investment officer, fundamental investment concepts, and broad issues such as economics, interest rates, and the Federal Reserve. We also take an in-depth look at bank investment policy requirements and provide a sample policy.
- The 12 chapters in Part II provide a detailed look at specific investment instruments, from plain Treasury bills to exotic derivatives. Four of these chapters are devoted to mortgage-related securities and explore both their potential benefits and their risks.
- The seven chapters in Part III address topics for enhancing investment portfolio performance. We explore various methods for measuring and evaluating investment returns. We also explore methods and tools for managing the portfolio as a whole.
- The eight chapters in Part IV address the three primary risks for bank investors — credit risk, liquidity risk, and interest rate risk. We also discuss how investment securities can be used to manage bankwide rate risk exposures.
- The nine chapters in Part V focus on operations. Topics range from the mechanics of settling investment trades to bank examinations and audits. Critical issues, such as internal controls, oversight, dealing with brokers, and safekeeping, are discussed in detail.

Part VI provides a list of Web sites that include valuable information for investors.

The manual explains investing concepts, investment risks, portfolio management concepts, oversight of investment activities, and controls for investment activities. Practical concerns, specific investment ideas to reduce risk and enhance performance, and effective oversight issues are discussed individually and examined in the context of the goals and constraints that banks typically face.

The discussions in this manual do not dwell on background information regarding market volumes, issuers, and other basics. Instead, they focus on the everyday problems that portfolio managers face. Nor does the manual use extensive mathematical calculations. Explanations are nontechnical, and the examples incorporate mathematics only as necessary for clarification. Many points are illustrated by examples. Each major topic is considered in context, in depth, and in clear language. The goal is to provide easy-to-understand, readily accessible analyses of the important issues.

We do not intend for this investment manual to be a prescriptive or formulaic compliance manual. It is not a “cookbook” with recipes that can be followed step by step. Instead, it aims to give investment

officers, their supervisors, and directors enough understanding of the essential issues to make prudent investment portfolio management decisions. Readers should keep in mind that this manual provides general background information. Investors must determine whether a particular strategy or procedure is suitable for their particular circumstances.