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Comptroller of the Currency  
Administrator of National Banks

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Washington, D.C. 20219

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To: All Chief Executive Officers of National Banks and All Examining Personnel

The enclosed booklet, "Risk Management of Financial Derivatives," is part of an ongoing revision of the *Comptroller's Handbook*. This booklet provides updated guidance for examiners and bankers to reflect the evolution of risk management practices, consistent with the OCC's supervision by risk program. In addition to updating our introductory material and examination procedures to reflect the latest market practices, we have also clarified and expanded several areas of the booklet to improve the efficiency of the examination process.

Significant improvements include:

- New guidance on the risks associated with engaging in transactions with undisclosed counterparties.
- New guidance on developing and managing compensation plans for personnel involved in derivative activities.
- Expansion of the examination and internal control procedures to provide a more comprehensive guide for examining bank dealer and end-user activities.

Our intention was to develop a better and more comprehensive framework for evaluating the adequacy of risk management practices of derivative dealers and end-users. Accordingly, some of the examination, internal control, and verification procedures in this booklet will not apply to every bank. Examiners will exercise judgment in determining which procedures are appropriate for the activities of an individual bank.

If you have any questions regarding this booklet, please call the Treasury and Market Risk Division at (202) 874-5670. Examiners may send E-mail comments and questions to the OCC.Derivatives conference board.

To order more copies of this booklet, please send your request and \$15 for each booklet to the Comptroller of the Currency, P.O. Box 70004, Chicago, Illinois 60673-0004.