



Comptroller of the Currency
Administrator of National Banks

US Department of the Treasury



25th Anniversary

Quarterly Journal

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Office of the Comptroller of the Currency
Administrator of National Banks

John C. Dugan
Comptroller of the Currency

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1063 , Letter concludes that a national bank may engage in customer-driven, perfectly matched, cash-settled derivative transactions (such as swaps, options, forwards, caps, floors, collars, and futures) where payments are based on prices of (i) hogs (including lean hogs and pork bellies); (ii) lumber; (iii) corrugated cardboard (including new and recycled); and (iv) polystyrene. Before doing so, however, the bank’s examiner-in-charge (EIC) must be satisfied that the bank has adequate risk management and measurement systems and controls to conduct the activities on a safe and sound basis. (6/1/2006)	

August [[Interpretations and Actions](#)]

1064, Letter concludes that a national bank may hedge the risks arising from bank permissible, customer-driven derivative transactions using below-investment grade bonds, and that when the bank acquires such bonds for this purpose, it is subject to the standards applicable to derivative hedges and not the limitations of 12 CFR Part 1 applicable to investment securities. (7/13/2006)

1065, Letter concludes that it is legally permissible for national banks to engage in customer-driven, perfectly matched, cash-settled derivative transactions with payments based on 11 categories of reference assets related indices. (7/24/2006)

1066, Letter permits bank to use, pursuant to the OCC’s reservation of authority, an alternative calculation based on the bank’s value-at-risk model (VAR approach) to determine the risk-based capital charge for certain securities lending transactions. Under the VAR approach, the risk-based capital charge would be based on a measure of economic exposure that takes into account the market value of collateral received and security lent, as well as the market price volatilities of both the securities lent by the bank and received as collateral. (11/8/2005)

1067, Letter clarifies that “service costs” paid on an innovative capital instrument by an operating subsidiary to third-party investors constitutes a dividend for the purposes of 12 USC 60. However, to avoid double counting of the service costs, the bank may adjust its net income for distributions on innovative capital instruments that are treated as dividends. (2/28/2006)

1068, Letter concludes that laws recently enacted in some states that prohibit or restrict branching by out-of-state industrial loan companies into the enacting state undercut those states’ laws permitting interstate de novo branching by banks generally. The result is that under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, federal regulators cannot approve the establishment of de novo branches in such states by any out of state bank. (7/28/2006)

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A large, stylized, light-colored 'OCC' logo is centered in the background. A white scroll with a black border is overlaid on the 'O' and 'C'. The scroll contains the text '25th Anniversary' in a black, serif font. The scroll is decorated with intricate, black, swirling floral and vine patterns.

25th Anniversary

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December 2006

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Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller, who is appointed by the President, with the advice and consent of the Senate, for a five-year term.

The OCC regulates national banks by its power to:

- Examine the banks;
- Approve or deny applications for new charters, branches, capital, or other changes in corporate or banking structure;
- Take supervisory actions against banks that do not conform to laws and regulations or that otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices, and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into four geographical districts, with each headed by a deputy comptroller.

The OCC is funded through assessments on the assets of national banks, and federal branches and agencies. Under the International Banking Act of 1978, the OCC regulates federal branches and agencies of foreign banks in the United States.



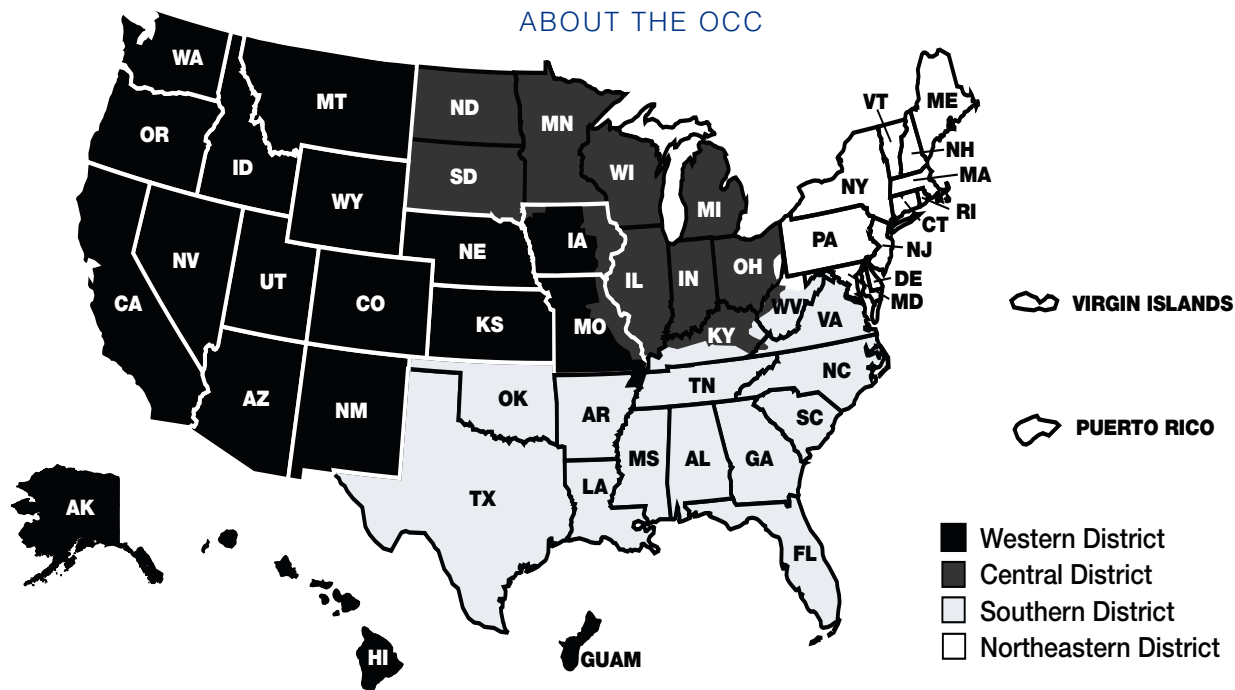
The Comptroller

John C. Dugan was sworn in as the 29th Comptroller of the Currency on August 4, 2005. Prior to his appointment as Comptroller, Mr. Dugan was a partner at the law firm of Covington & Burling, where he chaired the firm's Financial Institutions Group. He specialized in banking and financial institution regulation. He also served as outside counsel to the ABA Securities Association. He served at the Department of the Treasury from 1989 to 1993 and was appointed assistant secretary for domestic finance in 1992. While at Treasury, Mr. Dugan had extensive responsibility for policy initiatives involving banks and financial institutions, including the savings and loan cleanup, Glass-Steagall and banking reform, and regulation of government-sponsored enterprises. In 1991, he oversaw a comprehensive study of the banking industry that formed the basis for the financial modernization legislation proposed by the administration of the first President Bush. From 1985 to 1989, Mr. Dugan was minority counsel and minority general counsel for the U.S. Senate Committee on Banking, Housing, and Urban Affairs. There he advised the committee as it debated the Competitive Equality Banking Act of 1987, the Proxmire Financial Modernization Act of 1988, and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

Among his professional and volunteer activities before becoming Comptroller, he served as a director of Minbanc, a charitable organization whose mission is to enhance professional and educational opportunities for minorities in the banking industry. He was also a member of the American Bar Association's committee on banking law, the Federal Bar Association's section of financial institutions and the economy, and the District of Columbia Bar Association's section of corporations, finance, and securities laws. A graduate of the University of Michigan in 1977 with an A.B. in English literature, Mr. Dugan also earned his J.D. from Harvard Law School in 1981.

The *Quarterly Journal* is the journal of record for significant actions and policies of the OCC. It is published four times a year, based on data released in March, June, September, and December. The *Quarterly Journal* is first released on the Web at www.occ.treas.gov/qj/qj.htm, and then, by subscription, on the CD-ROM *Quarterly Journal Library*, a cumulative collection starting with volume 17. The *Quarterly Journal* includes the condition and performance of commercial banks, statistical tables on the performance of FDIC-insured banks and OCC data on bank corporate structure, policy statements, decisions on banking structure, appeals to the ombudsman, links to selected speeches and congressional testimony and interpretive letters, summaries of enforcement actions, and other information of interest in the administration of national banks. Please send your comments and suggestions to Rebecca Miller, senior writer-editor, by fax to (202) 874-5263 or by e-mail to quarterlyjournal@occ.treas.gov. Subscriptions to the *Quarterly Journal Library* CD-ROM are available for \$50 a year by writing to Publications—QJ, OCC, Attn: Accounts Receivable, MS 4-8, 250 E St., SW, Washington, D.C. 20219.

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(revised July 2005)

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