25th Anniversary

Interpretations

Interpretations

July [Interpretations and Actions]

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)