

To: Douglas E. Harris

From: Eugene A. Ludwig

Date: May 20, 1996

Subject: Your Departure

I want you to know that it is with regret that I send you this memo on your departure. I fully understand your decision to depart the OCC and I want to thank you for your many great efforts and successes while serving here.

At the time I hired you, I said the growth in derivatives demanded a special focus and policy response from the OCC. When you arrived in 1993, derivatives activity had grown more than 50 percent in three years at that point. It exploded from there and has more than doubled since you came to the OCC.

You and your staff set the standard for bank involvement in derivatives when Banking Circular 277 was issued in 1993. The nature of derivatives, where financial instruments are cut into pieces and mixed in complex combinations, required that banks take into account the risk combinations and linkages. This demanded more than managing the separate pieces of risk that was the practice up to that point. Banking Circular 277 set forth the management risk practices needed to conduct the derivatives business in a safe and sound manner.

Your tenure at the OCC was marked by anticipating in advance what we needed to address and marshaling OCC resources to deal with it. That was true of our advisory letter to banks in 1994 on structured notes. You learned that our exams showed that some small banks had purchased structured notes without fully understanding them. Our advisory outlined sound approaches to these investments and provided a needed caution to our smaller banks.

You continued to target the areas of risk when you and your staff issued guidance to our banks on emerging markets and futures brokerage. Both of these areas were growing rapidly and demanded attention to the risks of these businesses and how to manage them properly. I believe it is critical to alert banks to these concerns at the earliest stage possible. One of your greatest strengths was getting our guidance out to our banks on a timely basis when competition was putting great demands on our banks to get up to speed on these businesses very quickly.

You most recently spearheaded the approval of a AAA-rated derivatives subsidiary. This is an example of a competitive opportunity that the OCC endorsed in an increasingly important sector of the financial services market. The ability to compete is of great importance to all banks that engage in the derivatives business. This was a notable accomplishment.

I have only hit the highlights of your successes here at the OCC. You have put us in excellent position for the present and given us a strong foundation for the future. The banking industry and its customers owe you a great debt of thanks and I wish you much success in the future.