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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

**Interpretive Letter #1063**  
**July 2006**

June 1, 2006

Subject: Authority of a National Bank to Engage in Financial Intermediation Transactions

Dear [ ]:

This responds to your request that the Office of the Comptroller of the Currency (“OCC”) confirm that it is permissible for [ ] (“Bank”), to engage in customer-driven,<sup>1</sup> perfectly matched, cash-settled derivative transactions (such as swaps, options, forwards, caps, floors, collars and futures) in which payments are based on prices of four reference assets: (i) hogs (including lean hogs and pork bellies); (ii) lumber; (iii) corrugated cardboard (including new and recycled); and (iv) polystyrene. As discussed below, we conclude that the Bank may engage in these transactions. Before doing so, however, the Bank’s examiner-in-charge (“EIC”) must be satisfied that the Bank has established adequate risk measurement and management systems and controls to ensure that the Bank effectuates the transactions on a safe and sound basis.

In OCC Interpretive Letter No. 1039 (September 13, 2005), we determined that a national bank may engage in customer-driven, perfectly matched, cash-settled derivative transactions on the reference assets identified in the letter as part of a permissible financial intermediation business.<sup>2</sup> The permissibility of the activity was subject to the national bank in question having established,

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<sup>1</sup> A “customer-driven” transaction is one entered into for a customer’s valid and independent business purpose. See OCC Interpretive Letter No. 892 (September 13, 2000).

<sup>2</sup> In addition to the four reference assets enumerated above, your request includes other reference assets we previously approved for customer-driven, perfectly matched, cash-settled derivative transactions in OCC Interpretive Letter No. 1039 and OCC Interpretive Letter No. 1056 (March 29, 2006). We note in connection with your request that our approval of dairy as a reference asset in OCC Interpretive Letter No. 1039 encompasses your request for butter and class I milk as a reference asset.

to the satisfaction of its EIC, an appropriate risk measurement and management process for the activities.

On the basis of the analysis and subject to the conditions set forth in detail in OCC Interpretive Letter No. 1039, we conclude that the Bank may similarly act as a financial intermediary in customer-driven, perfectly matched, cash-settled derivative transactions on the reference assets described above. Before doing so, however, the Bank's EIC must be satisfied that the Bank has adequate risk management systems and controls to conduct the activities on a safe and sound basis. Our conclusions herein are specifically based on the Bank's representations and written submissions describing the facts and circumstances of the subject transactions. Any change in the facts or circumstances could result in different conclusions. If you have any questions concerning this letter, please contact Jamey Basham, Counsel, Securities and Corporate Practices Division, at (202) 874-5210.

Sincerely,

*signed*

Julie L. Williams  
First Senior Deputy Comptroller  
and Chief Counsel