



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

April 13, 2006

Interpretive Letter #1059
May 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 your client, [] (“Bank”), to engage in customer-driven,¹ perfectly matched, cash-settled derivative transactions (such as swaps, options, forwards, caps, floors, collars and futures) where payments are based on prices of three reference assets: (i) polypropylene: injection molding (copoly) (2,6); (ii) old corrugated cardboard #11 (OCC 11); and (iii) the Dow Jones AIG Commodity Index (DJ-AIGCI).

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. The permissibility of the activity was conditioned on the national bank in question having established, to the satisfaction of its examiner-in-charge (“EIC”), an appropriate risk measurement and management process for the activities.²

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,³ provided the Bank’s EIC is satisfied that the Bank has adequate risk

¹ 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).

² This process is necessary for the Bank to achieve its customer risk management objectives in a safe and sound manner and, thus, must be established before the OCC can conclude that the activities are permissible for the Bank.

³ The OCC recently confirmed that polypropylene is a permissible reference asset for these transactions. OCC Interpretive Letter No. 1056 (March 29, 2006). Our approval of polypropylene as a reference asset for customer-driven, perfectly matched, cash-settled derivative transactions in OCC Interpretive Letter No. 1056 encompasses its different grades, including the polypropylene: injection molding (copoly) (2,6) which is the subject of your request.

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 Tena M. Alexander, Special Counsel, Securities and Corporate Practices Division, at (202) 874-5210.

Sincerely,

Signed

Julie L. Williams
First Senior Deputy Comptroller
and Chief Counsel