BANKING ISSUANCE

Comptroller of the Currency
Administrator of National Banks

Type:	Banking Circular	Subject:	Securities Denominated in Foreign Currencies

TO: Chief Executive Officers of All National Banks, Deputy Comptrollers (District) and All Examining Personnel

PURPOSE

The purpose of this circular is to advise national banks of the Comptroller of the Currency's policies concerning ownership of securities which are not denominated in U.S. dollars.

SCOPE

This circular applies to all securities not denominated in U.S. dollars held by national banks.

BACKGROUND

The supply of investment securities which are denominated in foreign currencies is expanding. Banks that traditionally have not conducted international operations or acquired assets denominated in a foreign currency are now acquiring foreign currency denominated securities for investment purposes.

The limitations applicable to a national bank's acquisition of securities for investment purposes are listed in 12 USC 24 and 12 CFR 1. Eligible investment securities are not required to be denominated in U.S. dollars. However, national bank portfolio investment in a security which is denominated in a foreign currency introduces a risk in the form of foreign (currency) exchange risk. Foreign exchange risk can be substantially different from the risks ordinarily managed by investor banks, because the value of the foreign currency may fluctuate in relation to the dollar value at which the bank carries the security on its books.

POLICY

National banks are authorized to acquire foreign currency denominated investment securities subject to the limits of 12 USC 24 and 12 CFR 1. Foreign currency denominated investment securities must be revalued, reported and recorded in accordance with FASB Statement No. 52, "Foreign Currency Translation" (FAS 52). Except as otherwise provided by FAS 52, gains or losses resulting from the currency revaluation should be included in the determination of net income for the reporting period.

National banks which choose to hold foreign currency denominated investment securities should demonstrate the ability to manage the resulting foreign exchange risk. Bank management should establish and maintain prudent management controls and procedures, taking into consideration all other foreign currency exposure of the institution. The Board of Directors or a board committee should approve and enforce policies to control foreign currency risks. These policies, at a minimum, should address:

- Currency limits
- Gross and net open position limits
- Asset and liability mismatch (gap) limits
- Stop loss limits
- Individual purchase and sale authority limits
- Evaluation and periodic reevaluation of currency risk exposure, and country risk exposure
- Procedures for periodic revaluation
- Financial reporting considerations
- Appropriate management information systems and Board or board committee information systems
- Internal audit procedures

EXAMINING ISSUANCE

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A discussion of the standards for controlling foreign exchange risk is contained in Section 813 of the Comptroller's Handbook for National Bank Examiners. National banks which choose to function as dealers in foreign currency denominated investment securities, subject to 12 USC 24 and 12 CFR 1, should refer to the FFIEC Uniform Guideline on Internal Control for Foreign Exchange Activities in Commercial Banks (BB 80-15, dated June 11, 1980).

ORIGINATING OFFICE

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