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INTERNATIONAL REPORT PAGES**GENERAL INSTRUCTIONS****Purpose**

Examiners use international report schedules to document the level of foreign exposure risk, the adequacy of risk management systems for controlling country exposures, the risks associated with commonly controlled foreign institutions, and the effect of international activities and risk management practices on the institution's overall condition.

When to Include

Examiners should complete these schedules if the level of country risk is material or the composition of international operations changed significantly since the previous examination.

General

Complete the following ROE report pages and include them after the domestic Items Listed for Special Mention page:

- Transfer Risks Subject to Classification
- Analysis of the Country Exposure Management System
- Selected Concentrations of Country Exposure
- Parallel-Owned Banking Organizations (PBO)

The first three pages listed above focus on an assessment of the impact of country risks and the adequacy of country risk management systems. The PBO page should be completed when the examiner determines the institution is part of a PBO. Refer to RMS Manual Section 11.1, International Banking, for information and guidance on PBOs.

Instructions for completing the schedules listed above are discussed on the following pages. In addition, the International Workpapers section contains instructions for completing a series of optional workpapers that may assist examiners in reviewing specialized areas of an institution's international operations (e.g., foreign exchange trading). The workpapers are not part of the ROE, but if completed, should be retained in the workpapers.

Note: Insert International report pages in the order shown above after the Items Listed for Special Mention page, and use the EDR (International) page in lieu of the standard EDR page in the core section of the Report.

INTERNATIONAL REPORT PAGE

TRANSFER RISKS SUBJECT TO CLASSIFICATION

**Purpose**

The purpose of this page is to identify assets that are adversely classified because of transfer risk considerations.

When to Include

Include this page when the institution has claims subject to transfer risk. The amount extended for adverse classification or comment should be as of the asset review date if possible, particularly if there has been a material change in the outstanding exposure balance since the date of the last quarterly Country Exposure Report (FFIEC Form 009).

General

In general, countries are adversely classified for transfer risk when an interruption in payments has occurred or appears imminent. The Interagency Country Exposure Review Committee (ICERC) makes the decision to adversely classify countries for transfer risk. If a financial institution has claims extended to entities within a classified country, the claims (e.g., loans) are subject to transfer risk and classified accordingly. Examiners have the discretion to assign a more severe classification than assigned by the ICERC when appropriate, but cannot assign a less severe classification. The ICERC also prepares the ROE write-ups supporting the adverse transfer risk classifications. Adverse transfer risk classifications used by ICERC are Substandard, Value Impaired, or Loss. For additional information on the committee's policies, practices, and procedures, refer to the most recent Guide to the ICERC Process (www.fdic.gov/regulations/safety/guide/Icerc.pdf). For assistance, contact the International Affairs Branch of the Division of Insurance and Research.

Write-ups are available through the FDIC representative to ICERC and generally should be included in the ROE. Include a paragraph detailing the composition of the institution's claims subject to transfer risk. Report exposures alphabetically by country and total each classification category. Examiners should follow the same instructions contained in the Items Subject to Adverse Classification page as a guide to determine when the transfer risk write-ups can be omitted from the ROE. If transfer risk write-ups are omitted from the ROE, examiners should provide the write-ups to bank management during the examination.

Some or all of the assets adversely classified for transfer risk may also be adversely classified for credit risk. Duplicate classifications should be eliminated on an asset-by-asset basis, or through a single line item at the end of page(s) detailing the adverse classifications. In all cases, the most severe criticism should prevail. For example, if an asset is classified Doubtful for credit risk and Substandard for transfer risk, make the adjustment for the duplication before calculating a total for adverse classification due to transfer risk. Apply the same procedure if both transfer risk and credit risk bear the same adverse classification. For example:

TRANSFER RISK	SUB STANDARD	VALUE IMPAIRED	LOSS
Subtotal assets classified due to transfer risk	5,000,000		
Less-amount classified due to commercial credit risk	500,000		
Total adversely classified assets due to transfer risk	4,500,000		

On the other hand, if the transfer risk classification is more severe, eliminate the amount classified for transfer risk from the Items Subject to Adverse Classification page(s) where credit classifications are calculated, and list the amount classified for transfer risk on this page. In addition, examiners should reduce the amount extended for classification by the amount of the allocated transfer risk reserve (ATRR). *Note: Manual adjustments to automated examination tools may be necessary to net the ATRR from the amount extended for adverse classification.* Exposures adversely classified due to transfer risk (less duplication adjustments) are included in the Asset Quality section of the Examination Data and Ratios page, under a separate line item, Other Transfer Risk.

When evaluating an institution's asset quality and other measures of financial soundness, including capital adequacy and ALLL sufficiency, examiners should combine classified credits with exposures that have been adversely classified due to transfer risk. Certain types of exposures in a given country (e.g. trade credit) may not be rated or adversely classified, while other portions (e.g. term loans) might warrant adverse classification. To facilitate uniform treatment, ICERC has defined *short-term credit* as credits maturing within one year, and *trade credit* as credit extensions that are directly related to imports and exports and will be liquidated through the proceeds of international trade (e.g. commercial letters of credit, acceptances, etc.). Past due or extended acceptances are considered loans.

Report split designations under the proper columns. Extend for adverse classification, all contingent liabilities subject to transfer risk (including commercial and standby letters of credit, as well as loan commitments) that will result in a concomitant increase in an institution's assets if the contingencies convert into an actual liability. Classify contingent liabilities extended for adverse classification according to the type and tenor of the asset that would result from conversion of the contingency into an actual liability. For example, classify commercial import/export letters of credit the same as trade credit, and classify commitments to fund long-term project loans the same as long-term loans. In cases where the type or tenor is not easily discernible and exposure is accorded a split classification, the more severe classification should prevail.

Commitments include the institution's obligations to participate in debt facilities (e.g., underwriting bonds) and syndicated credits that are managed by other institutions. Commitments should only include those for which a legally binding commitment exists, a commitment fee charged, or other consideration given. Adversely classified underwriting commitments should be shown net of firm third-party commitments to purchase the assets without recourse within a short period. Similarly, when adversely classifying syndicated loan commitments, extend only the institution's proportional share of the commitment.

(Continued on next Page)

Allocated Transfer Risk Reserve

Pursuant to the International Lending Supervision Act (ILSA), the federal banking agencies require institutions to establish and maintain a special reserve when:

- (1) The value of international loans has been impaired by the protracted inability of the borrowers in a country to make payments on external indebtedness, or
- (2) No definite prospects exist for orderly restoration of debt service.

In either case, these assets are typically classified as Value Impaired. Determination of the level of the special reserve, known as the Allocated Transfer Risk Reserve (ATRR), is the responsibility of the ICERC.

The ATRR is a contra-asset to the international asset, and must be established by a charge to current income and segregated from the institution's general allowance for possible loan losses. The ATRR should be netted from amounts extended for adverse classifications. Do not include the ATRR as a part of bank capital. The institution has the option to charge off the required amount rather than set up the ATRR. Examiners should ascertain whether the appropriate percentage ATRR, or charge-off, of outstanding Value Impaired exposures has been made. The amount of charge-off or ATRR required is the amount equal to the appropriate percentage of outstanding exposures, as illustrated in the following examples:

	EXPOSURE TO COUNTRY X	EXPOSURE TO COUNTRY Y
Outstanding Balance	1,000,000	3,000,000
Previous ATRR (ICERC set a 15% requirement for Country X)	150,000 (ATRR or Charge-off)	
New ATRR (ICERC sets a 10% requirement for Country Y)		300,000
New ATRR (ICERC increases ATRR requirement for Country X to 20%)	50,000 (ATRR or Charge-off)	
Final ATRR (These are the only amounts that should be reflected in the ROE)	200,000 (ATRR or Charge-off)	300,000 (ATRR or Charge-off)

If an ATRR or charge-off for the required amount has not been established by the bank, the amount should be deducted on the Capital Calculations page. This deficiency should be addressed on the Examination Conclusions and Comments page and cited on the Violations of Laws and Regulations page (refer to Part 347 of the FDIC Rules and Regulations).

The required ATRR or charge-off is based on the original amount of exposure to a country less payments received. Loans extended after the initial amount, as determined for ATRR purposes, are generally not subject to an ATRR or charge-off if the new money was extended pursuant to economic reforms and if the credits are performing.

INTERNATIONAL REPORT PAGE**ANALYSIS OF THE COUNTRY EXPOSURE MANAGEMENT SYSTEM**

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Purpose

The purpose of this schedule is to present analysis of the institution's system for monitoring and controlling country exposure.

When to Include

Complete this schedule when the institution has material cross-border exposures and examiners conduct an analysis of its country risk management systems. Guidelines for conducting such analysis are incorporated in the RMS Manual, Section 11.1, International Banking. Also, the joint Statement on Sound Risk Management Practices (FIL 23-2002), describes the elements of an effective country risk management process and the leading factors affecting country risk.

General

The analysis should include evaluations of the institution's:

- Procedures for measuring exposure,
- System for establishing country lending limits,
- Ability to analyze country risk, and
- Adherence to internal policies in this area.

The evaluation of the institution's international loan portfolio (including loans made to domestic borrowers to facilitate international transactions) and the institution's country exposure management program may warrant commentary on the Examination Conclusions and Comments page. Examples might include excessive concentrations of transfer risk in one or more countries, concentrations in certain classes of countries, such as emerging economies, large amounts of assets classified because of transfer risk, or an ineffective country exposure management system.

INTERNATIONAL REPORT PAGE**SELECTED CONCENTRATIONS OF COUNTRY EXPOSURES**

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Purpose

The purpose of this schedule is to present concentrations in crossborder exposures that are considered large relative to the institution's capital, or of special interest in terms of the economic, social, political, or geographical circumstances. The latter may include countries experiencing adverse events, countries with developing economies, countries with membership in troubled monetary unions or economic blocks, countries located within a region of special interest, etc.

When to Include

Use this schedule when the institution's exposure in any given country exceeds 25 percent of Tier 1 Capital. Examiners should also consider listing any countries of significance or special interest where exposures exceed 5 percent of Tier 1 Capital. In addition, list all exposures to adversely classified countries regardless of the percentage of Tier 1 Capital.

General

Schedule the exposures by country in alphabetical order and add any necessary explanatory remarks, including the percentage of Tier 1 Capital, reason for presenting the concentration, and any concerns regarding individual country risks or circumstances.

The Country Exposure Report (FFIEC 009), which is filed quarterly, provides detailed information on the bank's exposures by individual country. If the institution is required to prepare the report, obtain the information from the most recently filed report. Compiling the required data as of the examination start date is unnecessary unless the institution's exposure has changed materially since the last quarterly report. Examiners may wish to verify the accuracy of the report against internal bank records by sampling the data provided for one or more of the countries reported by the bank.

Some banks have significant country exposures but are not required to submit the FFIEC 009 report because the institution does not maintain a foreign office (i.e. branch, subsidiary, Edge Act or Agreement subsidiary, international banking facility, etc.). However, institutions are required to file monthly reports with the U.S. Treasury, under the Treasury International Capital System, if they have international claims to one country in excess of \$25 million, or aggregate claims in excess of \$50 million to all countries. These reports may be useful when determining the volume of foreign lending activity and concentrations of country exposures.

Examiners should describe concentrations of country exposure and assess related risk management practices on the Examination Conclusions and Comments page. The placement and length of comments should be commensurate with level of exposure(s) and any related examination recommendations. Also, examiners should include concentrations of country exposure on the appropriate lines of the Summary Analysis of Examination Report (SAER) page.

INTERNATIONAL REPORT PAGE

PARALLEL-OWNED BANKING ORGANIZATIONS

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Purpose

The purpose of this schedule is to detail the information used in ascertaining whether a parallel-owned banking organization (PBO) exists and to document any concerns noted with the organization or commonly controlled foreign institutions. The fundamental risk presented by these organizations is that they may be acting in a de facto organizational structure that, because it is not formalized, is not subject to comprehensive consolidated supervision.

When to Include

Complete this schedule when the institution and at least one foreign bank appear to be controlled either directly or indirectly by the same person or group of people and the organizations are not subject to comprehensive consolidated supervision. Examiners should consider whether a person or group of people control an institution if the person or group controls 10 percent or more of any class of voting shares of the depository institution.¹ (Refer to the International Banking section of the RMS Manual and the Joint Agency Statement on Parallel-Owned Banking Institutions (FIL-35-2002) for additional information.) This schedule must be included in the ROE if control equals or exceeds 25 percent of any class of voting stock. In situations where control is rebuttable, inclusion of this schedule is discretionary; however, if the examiner concludes that a PBO does not exist, this page should be maintained in the examination workpapers to document the basis of that conclusion.

General

The FDIC does not typically request or review information on foreign banks or foreign bank holding companies during the examination process. However, examiners should consider all of the issues detailed in the Parallel-Owned Banking Organizations page when determining if a PBO exists. If a PBO relationship is suspected, the examiner should request and review information to ensure they understand the ownership/control structure of any foreign entities. The requested information about foreign banks or foreign bank holding companies may include, but is not limited to:

- Shareholder list of the foreign bank(s) and any of the companies that own/control it,
- Minutes of the most recent shareholder meeting(s),
- Annual reports,
- Composition of the board(s) of directors and executive management,
- Organizational charts,
- Website addresses,
- Policies that the bank in the U.S. has been instructed to follow,
- Products or services that the bank in the U.S. has been instructed to offer, and
- Cross-border transactions or services.

Bank And/Or Bank Holding Company Information

The first section of this schedule instructs examiners to list the bank(s) and bank holding company(s) within the PBO. Information for U.S. bank(s) should be listed first and then the foreign entities in the PBO. The examiner may add rows to the table to accommodate the requested information. Alternatively, the examiner may limit the list to key organizations; however, examiners must footnote the schedule with the basis of any omissions. For example,

¹ Note: PBOs do not include structures in which one depository institution is a subsidiary of the other, or the organization is controlled by a company subject to the Bank Holding Company Act.

examiners may include a footnote for organizations that regularly engage in transactions with the U.S. bank and list the name, city, and country of those entities. The examiner may also footnote the schedule for any bank or bank holding companies that are wholly owned subsidiaries.

Stock Ownership

Detail the stock ownership of the bank(s) and bank holding company(s) in the U.S. and foreign country that provide the primary connection for the PBO. Since the connection may contain more than one bank or bank holding company, the examiner may need to add rows to the table. To the right of the labels *U.S. Name* and *Foreign Name*, list the name of the entity for which information on beneficial ownership is being provided. To the right of the *Beneficial Owner* label, list the owner's name and corresponding ownership information (number of shares owned, percentage of ownership, and type of control). Footnote any pertinent information, for example, indirect control of ownership shares.

Factors Considered

Comment on each of the factors or attributes that are listed on the PBO page. These factors, in addition to common stock ownership, help the examiner determine if sufficient control is exercised to conclude that a PBO relationship exists. If items are not applicable, so state.

Summarize The Examination's Findings

Detail any affiliate or insider relationships (as defined by Section 23A of the Federal Reserve Act and Regulation O). Cross-reference any concerns or criticisms here and on the appropriate ROE page(s). Additionally, discuss the availability and quality of financial information for the other parallel-owned banks and note any apparent concerns with their financial condition. Refer to the International Banking section of the RMS Manual for additional information.

Confidential Information

The examiner should use discretion in detailing information on this page. If the information provided is of a sensitive nature, or obtained through confidential sources (e.g., foreign regulators), the information should not be included in the open section of the ROE.

INTERNATIONAL WORKPAPERS

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The **optional** workpapers discussed below may assist examiners in forming conclusions about the institution's international activities. If used, the workpapers should be retained, but not included in the Report of Examination. Address any material issues identified on the ECC, RMA, or other appropriate ROE page(s).

- International Loans, Acceptances, and Letters of Credit - Distribution
- International Loans, Acceptances, and Letters of Credit - Questionnaire
- Eurocurrency Operations
- Foreign Exchange Activities
- Position Analysis - Major Currency Positions
- Position Analysis - Other Currencies
- Maturity Distribution (GAP) Analysis
- Revaluation and Income/Loss Analysis
- Income Loss Schedule
- Policy and Procedures
- Audit and Internal Controls - Audit
- Audit and Internal Controls - Internal Controls

INTERNATIONAL WORKPAPER

INTERNATIONAL LOANS, ACCEPTANCES, AND LETTERS OF CREDIT-
DISTRIBUTION

This schedule is intended to help the examiner identify the level of lending, letters of credit, and acceptance financing between the institution and obligors and/or guarantors living outside the U.S., its territories, and possessions. The inclusion of obligations guaranteed by foreign-domiciled individuals or entities in this definition is based on the concept that ultimate liability for repayment rests with the guarantor. Therefore, the basic objective is to designate transactions where repayment channels cross international boundaries. This approach is consistent with the method used in the Country Exposure Report (FFIEC 009) to reallocate claims to the country of the individual or entity ultimately liable for repayment.

For this schedule, guaranteed instruments are those for which a third party legally obligates itself to repay the institution's claim on the direct obligor if the latter fails to do so. Documents such as *comfort letters* or *letters of awareness* or *intent* are not considered guarantees for this schedule. The term *guaranteed* covers collateralized instruments if the collateral meets the following requirements:

- The collateral is liquid and readily realizable, and
- Realizable outside of the country of residence of the borrower.

Using the foregoing guidelines, include in the schedule obligations of residents or entities domiciled in the U.S. bearing a guarantee from a resident or entity in a foreign country. Similarly, exclude from the schedule direct obligations of foreign residents or entities with guarantees from domestically domiciled residents or entities.

Loans:

Base the distribution of loans in this schedule on the nature of the direct obligor on the indebtedness.

Mortgage loans include liens or deeds of trust on real property, aircraft, or ships. Shipping loans included in this category will be secured by first or second preferred-ship mortgages. Exclude loans collateralized solely by bareboat, time, or consecutive charter agreements, which are more properly shown in the *Loans to commercial, industrial, and agricultural interests* category.

Other Loans (Describe) should include credits not properly categorized in the five preceding captions in the workpapers that are made to obligors with similar characteristics and represent a material percentage of total international loans (approximately 10 percent of international loans is a reasonable criteria).

Use the footnote "Loans to U.S. subsidiaries of foreign corporations not included above." to show the aggregate of loans to borrowers that are not shown in categories above in the Distribution schedule.

Other:

Syndication and consortium financing should include the institution's investment in syndicated credits. These loans differ from the customary participation loan as multiple institutions participate at the outset and are known to the borrower. As such, the loan must be structured to meet both the requirements of the participating institutions and the needs of the borrowing entity. The function of packaging the credit to satisfy the needs of all parties to the transaction is the responsibility of the syndicate leader.

Other (Describe) is for special types of international lending or financing activity deemed worthy of separate listing. For example, a separate listing of the aggregate volume of syndicated loans originated by the institution as syndicate leader or loans in certain geographic areas may be warranted.

INTERNATIONAL WORKPAPER**INTERNATIONAL LOANS, ACCEPTANCES, AND LETTERS OF CREDIT-
QUESTIONNAIRE**

The questions in this workpaper are intended to assist examiners with identifying risk management weaknesses in a bank's international operations. Significant concerns should be addressed on the ECC, RMA, or other appropriate ROE page (e.g. the Analysis of the Country Exposure Management System page).

INTERNATIONAL WORKPAPER**EUROCURRENCY OPERATIONS**

The questions in this workpaper are intended to assist the examiner with identifying risk management weaknesses in the bank's international operations. Significant concerns should be addressed in the ECC, RMA, or other appropriate ROE page (e.g. the Analysis of the Country Exposure Management System page).

INTERNATIONAL WORKPAPER**FOREIGN EXCHANGE ACTIVITIES**

This workpaper should be used in conjunction with other workpapers that address risks associated with foreign exchange activities. Other workpapers might include Position Analysis - Major Currency Positions, Position Analysis - Other Currencies, Maturity Distribution (GAP) Analysis, Revaluation and Income/Loss Analysis, and the Income/Loss Schedule. Significant concerns should be addressed in the ECC, RMA, or other appropriate ROE page(s).

INTERNATIONAL WORKPAPER



POSITION ANALYSIS - MAJOR CURRENCY POSITIONS

This worksheet may be useful for determining the institution's position in various currencies, calculating unrealized profits or loss, and assessing foreign exchange policies and risk management practices. Significant concerns should be brought forward as needed to the ECC, RMA, or other appropriate ROE page.

Position Analysis

If an institution has assets or liabilities denominated in a foreign currency, or the institution has commitments to purchase or sell foreign exchange with a future delivery date, a net position for each foreign currency must be calculated. This calculation facilitates the analysis of exposure to fluctuations in exchange rates and aids in determining unrealized profits or loss. Further, the position analysis enables examiners to ascertain the institution's practice of periodically adjusting U. S. dollar equivalents of foreign currency accounts.

To analyze the position on each foreign currency, make a trial balance of each asset and liability account denominated in a foreign currency. Asset accounts (long position) include, but are not limited to, foreign currency on hand, due from bank accounts (nostro), demand and time loans, investments, accrued interest receivable, and commitments to purchase exchange on a spot or future basis. Liabilities (short position) include due to accounts (vostro) with other institutions (including nostro overdrafts), demand and time deposits, cash collateral, accrued interest payable, accounts payable, and commitments to sell exchange on a spot or future basis. These accounts or subsidiary records will normally contain both the amount of foreign currency and an equivalent amount expressed in U.S. dollars. The examiner's trial balance of foreign currency should prove to the institution's position sheet, and dollar equivalents should correspond to the general ledger. Certain transactions, such as the previous day's spot or future exchange transactions may not have been recorded on the institution's books. Obtain these *holdover items* from the foreign exchange trader, and include them in the calculation of the currency position.

Major Currency Position

This schedule is reserved primarily for the currency posing the greatest exposure to the institution's total capital and reserves. If the institution maintains substantial positions in several currencies, the schedule should be completed separately for each currency.

Derive the entries for foreign currency and dollar equivalents for each asset and liability category from the institution's records (using the examination as of date). **Do not revalue these accounts at current exchange rates.** Deduct the lesser of long/short position from the larger figure to arrive at the net position in foreign currency and dollar equivalent. The net-position dollar equivalent should be evaluated in comparison to capital and reserve levels.

INTERNATIONAL WORKPAPER**POSITION ANALYSIS - OTHER CURRENCIES**

This worksheet may be useful for determining the institution's position in various currencies, calculating unrealized profits or loss, and assessing foreign exchange policies and risk management practices. Significant concerns should be addressed as needed to the ECC, RMA, or other appropriate ROE page.

Position Analysis

If an institution has assets or liabilities denominated in a foreign currency, or the institution has commitments to purchase or sell foreign exchange with a future delivery date, a net position for each foreign currency must be calculated. This calculation facilitates the analysis of exposure to fluctuations in exchange rates and aids in determining unrealized profits or loss. Further, the position analysis enables examiners to ascertain the institution's practice of periodically adjusting U. S. dollar equivalents of foreign currency accounts.

To analyze the position on each foreign currency, prepare a trial balance (using the examination as of date) of each asset and liability account denominated in a foreign currency. Asset accounts (long position) include, but are not limited to, foreign currency on hand, due from bank accounts (nostro), demand and time loans, investments, accrued interest receivable, and commitments to purchase exchange on a spot or future basis. Liabilities (short position) include due to accounts (vostro) with other institutions (including nostro overdrafts), demand and time deposits cash collateral, accrued interest payable, accounts payable, and commitments to sell exchange on a spot or future basis. These accounts or subsidiary records will normally contain both the amount of foreign currency and an equivalent amount expressed in U.S. dollars. The examiner's trial balance of foreign currency should prove to the institution's position sheet, and dollar equivalents should correspond to the general ledger. Certain transactions, such as the previous day's spot or future exchange transactions may not have been recorded on the institution's books. Obtain these *holdover items* from the foreign exchange trader, and include them in the calculation of the currency position.

Other Currencies

For each currency, aggregate the assets and purchase commitments (long position) and the liabilities and sale commitments (short position) and deduct the smaller figure to arrive at the net position for each currency. The net dollar equivalent should be evaluated in comparison to capital and reserve levels.

If the foreign currency total is net long and the U.S. dollar equivalent is net short, a split position exists. This so-called split position usually results from a heavy volume of activity flowing through the institution's nostro accounts, which will subsequently require adjustment to restore balance to the relationship between the foreign currency and U.S. dollar equivalent.

In calculating the aggregate position (U.S.) for all currencies, add all U.S. equivalent figures regardless of sign (that is, short positions are added to long positions as a positive number).

QUESTIONS 1a. and 1b.

These questions help determine whether the institution's net position appears unwarranted, excessive, or speculative. The following criteria may be used in evaluating the institution's position:

- Competency of the trading and executive officers,
- Purpose of the position,
- Volatility of the individual currencies,
- Volume of business in the country, and
- Size of the institution.

Negative responses to these questions may suggest the need for commentary in the ROE.

INTERNATIONAL WORKPAPER**MATURITY DISTRIBUTION (GAP) ANALYSIS**

When using this worksheet, examiners should complete a maturity distribution for all major currencies outlined in the Position Analysis - Major Currency Positions worksheet. At the discretion of the examiner, material currency positions enumerated in the Position Analysis - Other Currencies worksheet may be detailed. Show each currency on a separate form. Question No. 2 at the bottom of this Maturity Distribution worksheet applies to all currencies listed.

In arranging the maturity distribution, it is recommended that at least the first two weeks of activity subsequent to the examination start date be detailed on a daily basis. (In active departments, a daily enumeration for the first month following the examination start date may be appropriate). Thereafter, semi-monthly or monthly intervals may be used depending on the institution's method of pricing forward commitments and the volume of activity. Longer-range maturities may be grouped by years.

The preparation of this schedule requires the inclusion of all currency ledger accounts. Show ledger accounts not bearing a maturity date in the first day's maturities. Show spot contracts as of the date the settlement is expected to occur. The total of assets and purchases (long), liabilities and sales (short), and the net amount of these two columns should correspond to the foreign currency amounts shown in the position sheet. Compare the net gap for each period to limits imposed by institution management. Further, review the cumulative gap position (the addition of gaps for each time interval) for conformance to policy and the incidence of excessive periods of positive or negative gaps. Such events may require comment if potential exposures appear excessive in relation to liquidity, earnings, or capital.

It is normally unnecessary to complete a profit and loss revaluation on this worksheet (in the right three columns) unless a position results in a material profit or loss. Refer to the example in the Revaluation and Income/Loss Analysis worksheet instructions. Price future contracts at the given premium or discount rate. Price spot contracts and ledger accounts at the spot rate. When one or more rates are used to price a position at a point in time, type *various* in the Spot Rate column. All swap contracts should be removed before valuing the position since the profit/loss is fixed at the time of the transaction and reflected in the return on the asset for which the swap was effected. In any event, the schedule can be used as a workpaper to calculate the future profit/loss adjustment in the Revaluation and Income/Loss Analysis worksheet.

INTERNATIONAL WORKPAPER**REVALUATION AND INCOME/LOSS ANALYSIS**

The purpose of this worksheet is to determine the unrealized profit or loss for the institution in connection with positions undertaken in foreign currency. The computation is based on the assumption that the entire position will be liquidated (that is, all long foreign currency positions will be sold and all short positions will be covered).

The primary input for this schedule comes from the Position Analysis - Other Currencies schedule. List each currency under the Monetary Unit column. Insert in the Book Value column the institution's net position in the foreign currency amount and U.S. dollar equivalent less any swap contracts included in the position. (Refer to the following paragraph for an explanation of these transactions). Obtain the spot exchange rate from the Wall Street Journal or similar publications containing foreign exchange rates. Express the exchange rates in terms of the U.S. dollar cost per unit of foreign currency (for example, one Euro sells for \$x.xxxx) with the values carried to four decimal places or four-digit level of significance (i.e., one Japanese yen equals \$.004560). Multiply the net amount of foreign currency by the spot rate to arrive at the current market value of the position. Apply the following rules when determining the spot rate profit or loss on each position:

1. Long foreign currency position combined with long U.S. dollar equivalent: profit is excess of market value over book value; loss is the excess of book over market.
2. Long foreign currency position combined with short U.S. dollar equivalent: profit is the current market value plus the short U.S. dollar book value.
3. Short foreign currency position combined with short U.S. dollar equivalent: profit is the excess of book value over current market value; loss is the excess of market value over book value.
4. Short foreign currency position combined with long U.S. dollar equivalent: loss is the current market value plus the long U.S. dollar book value.

Rules No. 2 and No. 4 refer to split positions discussed in the Position Analysis - Other Currencies worksheet instructions for calculating the net open position. In rule No. 2, the position can only result in a profit. In rule No. 4, the position can only result in a loss.

A financial swap combines a spot purchase or sale of a foreign currency and a forward sale or purchase of the currency. Through this arrangement, the institution effectively locks in the potential gain or loss by entering into a transaction involving the temporary movement of funds into another currency and back again. For example, the institution has an investment opportunity to lend 1,000,000 pounds sterling for three months. The institution will purchase necessary exchange spot for \$1.8660 per pound sterling (\$1,866,000) to make the loan. Simultaneously, the institution will enter into a forward exchange contract to sell 1,000,000 pounds sterling at the anticipated maturity date for \$1.8690 per pound sterling (\$1,869,000). Customarily, the institution will sell forward the expected interest income as well. Accordingly, the institution has realized a \$3,000 profit on the transaction at the inception of the loan. Customarily, the profit (or alternatively cost) is applied to the rate of interest on the loan to determine the true yield on the investment. The profit (or loss) is accrued to income and expenses monthly. In these circumstances, it is inappropriate to allocate the profit to the exchange function. A review of the institution's records will facilitate the identification of swap transactions and, as previously stated, these amounts should not be included in the revaluation schedule.

Adjust the spot-rate profit (loss) for discounts or premiums on forward exchange contracts, which are included in the net currency position. A discount is a rate of exchange lower than the spot rate expressed in terms of percentage per annum or points on which a dealer buys or sells foreign exchange for forward delivery. For example, if a dealer quotes \$186 and \$191 (bid and asked) for spot sterling, and the discounts for six-month forward exchange contracts are .0300 and .0275, the forward quotes would be modified to \$183 and \$1.8825. In most cases, the discount reflects an interest rate differential in the U.S. vis-à-vis the U.K., although in periods of downward market pressure on a currency a discount may indicate market anticipation of a lower price for the currency. A premium is a rate of exchange higher than the spot rate. Again, interest rate trends and upward market pressure will play a role in this situation. The premium situation works exactly opposite to the discount example. That is, premium quotes are added to the applicable spot rates quoted.

The calculation of future profit (loss) adjustments will require the listing of all contracts by maturity or value dates from near-term to longer-term. Certain contracts are made on an option basis because of uncertainty as to the date when foreign currency will be received or needed. In option contracts involving the purchase of exchange, list contracts with premiums at the earliest date and contracts with discounts as of the latest date. Conversely, show contracts involving the sale of exchange at premiums at the latest date and those at a discount at the earliest date. The format of the maturity distribution will depend on the system used by the institution in providing future rates. A summary of contracts on a monthly basis can be prepared provided the rates supplied by the institution are based on a monthly scale. If rates are on a semi-monthly basis, prepare the summary figures by the first and second halves of the month. To calculate the profit and loss on futures, the following rules apply:

1. A long position at a discount reflects a loss.
2. A short position at a discount reflects a profit.
3. A long position at a premium reflects a profit.
4. A short position at a premium reflects a loss.

In the absence of a significant profit or loss from the revaluation of the foreign currencies, it is not necessary to adjust book capital.

Question 3 - Significance Of Profit Or Loss

In weighing the significance of profit or loss from foreign exchange operations, it is important to consider the amount in relation to the capital account of the institution, the volume of exchange activity, and the institution's history in sustaining profits and/or losses. The criteria enumerated as guidance in responding to questions 1a and 1b of the Position Analysis - Other Currencies worksheet would also warrant consideration.

INTERNATIONAL WORKPAPER**INCOME/LOSS SCHEDULE**

This worksheet is self-explanatory. Information required to complete the worksheet should be readily available from the bank's financial records.

INTERNATIONAL WORKPAPER**POLICIES AND PROCEDURES**

These nine questions discuss the institution's policies, reporting mechanisms, and procedures in relation to foreign exchange activities. Significant concerns should be addressed as needed on the ECC, RMA, or other appropriate ROE page.

INTERNATIONAL WORKPAPER**AUDIT AND INTERNAL CONTROLS-AUDIT**

This section of the workpaper is primarily designed to assist examiners evaluate the institution's audit function. The questionnaire is designed for use at institutions with relatively sophisticated trading operations.

Examiners should consider an institution's risk profile, size, and complexity when assessing the overall adequacy of audit programs. Additionally, examiners should consider the cost and effectiveness of an audit or control feature before making recommendations to add or improve features, especially at institutions with less complex trading operations.

Nevertheless, all institutions should implement appropriate audit programs and internal controls to prevent, identify, and/or report irregularities. Basically, all of the audit and control standards and procedures used in domestic departments apply to the foreign exchange function. Examiners should bring forward address any significant concerns with the institution's international audit program on the ECC, RMA, or other appropriate ROE page.

Reference: Manual Section 4.2, Internal Routine and Controls

INTERNATIONAL WORKPAPER**AUDIT AND INTERNAL CONTROLS-INTERNAL CONTROLS**

This section of the workpaper is primarily designed to assist examiners evaluate the institution's internal controls. The questionnaire is designed for use at institutions with relatively sophisticated trading operations.

Examiners should consider an institution's risk profile, size, and complexity when assessing the overall adequacy of internal control programs. Additionally, examiners should consider the cost and effectiveness of controls before making recommendations to add or improve controls, especially at institutions with less complex trading operations.

Nevertheless, all institutions should implement appropriate internal controls to prevent, identify, and/or report irregularities. Basically, all of the control standards and procedures used in domestic departments apply to the foreign exchange function. Examiners should address any significant concerns with internal controls on the ECC, RMA, or other appropriate ROE page.

Reference: Manual Section 4.2, Internal Routine and Controls

INTERNATIONAL WORKPAPER**PRE-EXAMINATION QUESTIONNAIRE**

Examiners can use this optional questionnaire, in whole or part, during the pre-examination to facilitate their preliminary risk assessment. This workpaper includes a list of questions that examiners can ask management to help identify international activities, develop document request lists, and scope examination activities.

Briefly summarize significant discussion topics in the pre-examination planning memorandum. Summarize items such as material changes since the prior examination, economic conditions in the institution's area of operation, new products or services, and areas of perceived risk. Include any other information useful for allocating examination resources. Document the name and title of any officer with whom discussion(s) were held, and note the discussion date(s).