



## EM-61.3

**Category:** Sensitivity  
**Topic:** Derivatives  
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### Overview

*This section contains FCA's standard procedures for examining Derivatives; however, the guidance for each procedure is currently under development. In the interim, the following link provides related guidance that was contained in the old FCA Examination Manual: [EM- 425 Interest Rate Risk Measurement and Management](#)*

### Examination Procedures and Guidance

#### Derivatives Risk

##### **1. Portfolio Characteristics & Trends:**

Evaluate characteristics and trends in financial derivatives contracts, including size, composition, purposes, positions taken, and impact on financial performance.

Guidance:

##### **2. Risk Exposure:**

Evaluate risks from derivative contracts.

Guidance:

### Examination Procedures and Guidance

#### Derivatives Management

##### **1. Policy & Procedures:**

Determine if policies and procedures addressing derivative contracts provide adequate guidance and risk parameters.

Guidance:

**2. Derivatives Strategies:**

Determine if derivative strategies and purposes are appropriate and consistent with risk management objectives.

Guidance:

**3. Risk Management:**

Evaluate processes for measuring and managing risks in derivative contracts.

Guidance:

**4. Monitoring & Controls:**

Evaluate internal controls in derivative operations, with a focus on reporting, oversight and approval processes, separation of duties, and staffing.

Guidance:

**5. Accounting:**

Evaluate support for the accounting treatment of derivatives, including processes for updating reported market valuations.

Guidance:

**6. Audit:**

Determine if the institution conducts an effective audit (scope, reporting, and followup) of derivative operations.

Guidance:

**7. Transaction Testing:**

Examine a sample of derivative contracts, with a focus on risk identification, suitability, and documentation of due diligence.

Guidance: