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: