

**Supporting Statement for Paperwork Reduction Act Submission  
3133-0133  
12 C.F.R. 703 Investment and Deposit Activities  
September 2007**

**A. Justification**

1. *Explain the circumstances that make the collection of information necessary. Identify any legal or administrative requirements that necessitate the collection. Attach a copy of the appropriate section of each statute and regulation mandating or authorizing the collection of information.*

It has been NCUA's long-standing position that each federal credit union's (FCU's) board of directors should develop written investment policies to carry out its responsibilities under Section 113 of the Federal Credit Union Act, 12 U.S.C. §1761b. Although NCUA's position has been communicated to FCUs through various NCUA Letters to Credit Unions and the Federal Credit Union Handbook, some boards of directors have failed to develop such policies. In some cases, a board's failure to establish written investment policies has resulted in an FCU making illegal or unsuitable investments that have caused it losses. NCUA believes that these problems can be avoided if boards of directors develop written investment policies to control the investment of surplus funds.

FCUs are permitted to make deposits in financial institutions described in Section 107(8) of the Federal Credit Union Act, 12 U.S.C. §1757(8), without regard to whether any or all of the funds are federally insured. NCUA has required FCUs to analyze the credit quality of an institution prior to making a deposit and to record their credit decisions where any portion of a deposit is not federally insured. NCUA believes that losses may be avoided if an FCU is required to assure itself of the safety of an institution before placing uninsured funds there. The requirement will allow NCUA to monitor FCU exposure to potentially risky investments.

FCUs are permitted to invest in certain securities under Sections 107(7) and 107(15) of the Federal Credit Union Act, 12 U.S.C. §§1757(7)(E) and 1757(15)(B). Any FCU wishing to purchase such securities must have a monitoring and reporting system in place that provides the documentation necessary to ensure the board can fully analyze the risks of its investment portfolio.

The other items listed in this collection of information are necessary for NCUA examiners to fully analyze the risk exposure in the FCU's investment portfolio and to ensure that each FCU's board of directors is fully aware and knowledgeable of those risks. Losses in the investment portfolio can be

substantial as investments can comprise 40 percent or more of an FCU's assets.

*2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.*

NCUA examines each FCU annually. Written investment policies, written reports of investments, valuations of securities prior to purchase or sale and monthly while held in the portfolio, recorded credit decisions and documented analysis of investments help examiners determine the safety and soundness of FCUs and help prevent losses to FCUs and the National Credit Union Share Insurance Fund (NCUSIF).

*3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration of using information technology to reduce burden.*

Not applicable.

*4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.*

The information collection is unique to the FCU and is not duplicated anywhere.

*5. If the collection of information impacts small business or other small entities (Item 5 of OMB Ford 83-1), describe any methods used to minimize burden.*

Sound business practice dictates that FCUs have in place the policies and procedures governing their investment practices, even without a regulation. Some of the monitoring and reporting systems required to analyze certain investments are somewhat burdensome; however, the burden is justified by the higher risk those investments present. The rule was written to minimize the burden on smaller credit unions that keep their investment portfolios in less risky instruments. In any event, few small credit unions purchase the

types of investments that are subject to the increased monitoring and reporting requirements.

*6. Describe the consequence to Federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.*

The written investment policy need only be established once; an annual review of the policy is required since investment policies change with the ever-evolving investment market, and NCUA examiners must keep apprised of FCUs' current investment policies.

The notification to the FCU's board of directors of investments that do not fall within the guidelines of the established policy is done on an occurrence basis only. The FCU's board must be made aware of investments that do not meet their criteria so that decisions may be made regarding the investment or the policy. The FCU staff must operate within the board's policies.

Investment markets change rapidly and FCUs without adequate information can not take advantage of market movements. The monthly report of investments, trading activity, and the monthly review of the fair value of each security are vital tools to provide necessary information to the FCU upon which they may base decisions. Any less frequently, and the information would be outdated and useless.

The requirement to obtain at least two price quotes on securities prior to purchase or sale is for the protection of the FCU. If the FCU does not get this information, there is no assurance that the price quoted is realistic. The FCU may be overcharged for a security.

The credit decision regarding an uninsured deposit must be recorded at the time the investment is made, and NCUA recommends that the initial analysis be updated no less than annually. In light of the danger uninsured deposits present, that frequency is necessary to prevent losses to the FCUs and the National Credit Union Share Insurance Fund (NCUSIF).

The collection of information described in the proposed rule is necessary to prevent losses to FCUs and the NCUSIF.

*7. Explain any special circumstances that would cause an information collection to be conducted in a manner:*

- *requiring respondents to report information to the agency more often than quarterly;*
- *requiring respondents to prepare a written response to a collection of information in fewer than 30 days after receipt of it;*
- *requiring respondents to submit more than an original and two copies of any document;*
- *requiring respondents to retain records, other than health, medical, government contract, grant-in-aid, or tax records for more than three years;*
- *in connection with a statistical survey, that is not designed to produce valid and reliable results than can be generalized to the universe of study;*
- *requiring the use of a statistical data classification that has not be reviewed and approved by OMB;*
- *that includes a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use; or*
- *requiring respondents to submit proprietary trade secret, or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.*

None. The collection is conducted within OMB's guidelines. Certain information is required to be collected and maintained on a monthly basis, however, this information is not required to be reported to the agency. The information is reviewed by NCUA examiners during the normal course of the annual examination.

8. *If applicable, provide a copy and identify the date and page number of publication in the Federal Register of the agency's notice, required by 5 CFR 1320.8(d), soliciting comments on the information collection prior to submission to OMB. Summarize public comments received in response to that notice and describe actions taken by the agency in response to these comments. Specifically address comments received on cost and hour burden.*

*Describe efforts to consult with persons outside the agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported.*

*Consultation with representatives of those from whom information is to be obtained or those who must compile records should occur at least once every 3 years - even if the collection of information activity is the same as in prior periods. There may be circumstances that may preclude consultation in a specific situation. These circumstances should be explained.*

Notice of the proposed information collection extension has been published in the Federal Register with a 60 day comment period. The NCUA will carefully consider all comments it receives regarding the proposal.

9. *Explain any decision to provide any payment or gift to respondents, other than reenumeration of contractors or grantees.*

There is no decision to provide any payment or gift to respondents.

10. *Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy.*

Credit union examination reports and documents related thereto are not released to the public. They are exempt from disclosure under the Freedom of Information Act under Exemption 8, 5 U.S.C. §522(b)(8).

11. *Provide additional justification for any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private. This justification should include the reasons why the agency considers the questions necessary, the specific uses to made of the information, the explanation to be given to persons from whom the information is requested, and any steps to be taken to obtain their consent.*

There are no questions of a sensitive nature.

12. *Provide estimates of the hour burden of the collection of information. The statement should:*

- *Indicate the number of respondents, frequency of response, annual hour burden, and an explanation of how the burden was estimated.*

*Unless directed to do so, agencies should not conduct special surveys to obtain information on which to base hour burden estimates. Consultation with a sample (fewer than 10) of potential respondents is desirable. If the hour burden on respondents is expected to vary widely because of differences in activity, size, or complexity, show the range of estimated hour burden, and explain the reasons for the variance. Generally, estimates should not include burden hours for customary and usual business practices.*

- *If this request for approval covers more than one form, provide separate hour burden estimates for each form and aggregate the hour burdens in Item 13 of OMB Form 83-I.*
- *Provide estimates of annualized cost to respondents for the hour burdens for collections of information, identifying and using appropriate wage rate categories. The cost of contracting or paying outside parties for information collection activities should not be included here. Instead, this cost should be included in Item 14.*

There are 5,732 federal credit unions that will be subject to all, or parts of the paperwork burden contained in the draft proposed rule. When a range of burden hours is noted, the disparity is due to the difference in investment needs in various size credit unions. Very small credit unions will generally have simple investment portfolios for which parts of the draft proposed rule will not apply. Larger credit unions with complex investment portfolios will need to address many areas of the proposed rule.

**a. Establish a written investment policy.**

Establishing a written investment policy by a financial institution is a usual and customary business practice, therefore, no new or additional burden is added with this requirement.

**b. Perform an annual review of the written investment policy.**

Number of respondents -	5,732
Frequency of Response -	annually (1 time per year)
Annual Hour Burden	2.5 hours (It is estimated to take between 15 minutes and 4 hours for this review.)

$$(5,732 \times 1) \times 2.5 = 14,330 \text{ hours}$$

**c. Obtain and review reports from outside investment advisors.**

Number of respondents -	720
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Frequency of Response - monthly (12 times per year)  
Annual Hour Burden 2 hours

$$(720 \times 12) \times 2 = 17,280 \text{ hours}$$

**d. Prepare a written report of investments.**

Number of respondents - 5,732  
Frequency of Response - monthly (12 times per year)  
Annual Hour Burden 2 hours (It is estimated to take between 1 and 3 hours)

$$(5,732 \times 12) \times 2 = 137,568 \text{ hours}$$

**e. Obtain price quotes on securities prior to purchase or sale.**

Number of respondents - 5,500 (not all credit unions invest in securities)  
Frequency of Response - 10 (an average of 10 purchases or sales per year)  
Annual Hour Burden 12 minutes each (or 0.2 of an hour)

$$(5,500 \times 10) \times .2 = 11,000 \text{ hours}$$

**f. Complete and document a monthly review of the fair value of each security.**

Number of respondents - 5,500  
Frequency of Response - monthly (12 times per year)  
Annual Hour Burden 1 hour (It is estimated to take between 10 minutes and 2 hours)

$$(5,500 \times 12) \times 1 = 66,000 \text{ hours}$$

**g. Complete a credit analysis of the issuing entity.**

Number of respondents - 705  
Frequency of Response - annually (1 time per year)  
Annual Hour Burden 12.5 hours

$$(705 \times 1) \times 12.5 = 8,813 \text{ hours}$$

**h. Obtain individual confirmation statements for each investment purchased or sold**

Obtaining individual confirmation statements for each investment purchased or sold by a financial institution is a usual and customary business practice of FCUs and broker/dealers, therefore, no new or additional burden is added with this requirement.

**i. Obtain and reconcile a monthly statement of investments held in safekeeping.**

Obtaining and reconciling a monthly statement of investments held in safekeeping by a financial institution is a usual and customary business practice, therefore, no new or additional burden is added with this requirement.

**j. Prepare a monthly written report of the fair value and/or total return of all trading securities and purchase and sale transactions and the resulting gain or loss on an individual basis.**

Number of respondents - 74  
Frequency of Response - monthly (12 times per year)  
Annual Hour Burden 1 hour

$$(74 \times 12) \times 1 = 888 \text{ hours}$$

**k. Obtain and annually analyze background information on broker/dealers used.**

Number of respondents - 3,500  
Frequency of Response - annually (1 time per year)  
Annual Hour Burden 2 hours

$$(3,500 \times 1) \times 2 = 7,000 \text{ hours}$$

**l. Request participation in the investment pilot program.**

Number of respondents - 5  
Frequency of Response - 1 (on occasion)  
Annual Hour Burden 50 hours

$$(5 \times 1) \times 50 = 250 \text{ hours}$$

**m. Obtain written custodial agreement for safekeeping activities by third parties.**

Number of respondents - 3,500  
Frequency of Response - 1 time per year  
Annual Hour Burden 15 minutes



$$(3,500 \times 1) \times .4 = 1,400 \text{ hours}$$

The estimated total burden is 264,529 hours.

13. *Provide an estimate of the total annual cost burden to respondents or record keepers resulting from the collection of information. (Do not include the cost of any hour burden shown in Items 12 and 14).*

- *The cost estimate should be split into two components: (a) a total capital and start-up cost component (annualized over its expected useful life); and (b) a total operation and maintenance and purchase of services component. The estimates should take into account costs associated with generating, maintaining, and disclosing or providing the information. Include descriptions of methods used to estimate major cost factors including system and technology acquisition, expected useful life of capital equipment, the discount rate(s), and the time period over which costs will be incurred. Capital and start-up costs include, among other items, preparations for collecting information such as purchasing computers and software; monitoring, sampling, drilling and testing equipment, and record storage facilities.*
- *If cost estimates are expected to vary widely, agencies should present ranges of cost burdens and explain the reasons for the variance. The cost of purchasing or contracting out information collection services should be a part of this cost burden estimate. In developing cost burden estimates, agencies may consult with a sample of respondents (fewer than 10), utilize the 60-day pre-OMB submission public comment process and use existing economic or regulatory impact analysis associated with the rulemaking containing the information collection, as appropriate.*
- *Generally, estimates should not include purchases of equipment or services, or portions thereof, made: (1) prior to October 1, 1995, (2) to achieve regulatory compliance with requirements not associated with the information collection, (3) for reasons other than to provide information or to keep records for the government, or (4) as part of customary and usual business or private practices.*

The costs associated with the paperwork burden are estimated in hours and are shown under item 12 above.

14. *Provide estimates of annualized cost to the Federal government. Also, provide a description of the method used to estimate cost, which should*

*include quantification of hours, operational expenses (such as equipment, overhead, printing, and support staff), and any other expense that would not have been incurred without this collection of information. Agencies also may aggregate cost estimates from Items 12, 13, and 14 in a single table.*

The majority of items listed in this collection of information are reviewed by examiners during the normal course of the annual examination of the FCU, therefore, additional costs are not incurred.

*15. Explain the reasons for any program changes or adjustments reported in Items 13 or 14 of the OMB Form 83-I.*

There are no program changes or adjustments.

*16. For collections of information whose results will be published, outline plans for tabulation, and any publication. Address any complex analytical techniques that will be used. Provide the time schedule for the entire project, including beginning and ending dates of the collection of information, completion of report, publication dates, and other actions.*

There are no plans for publication of the results.

*17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.*

NCUA is not seeking approval to not display the expiration date for OMB approval of the information collection.

*18. Explain each exception to the certification statement identified in Item 19, "Certification for Paperwork Reduction Act Submissions," of OMB Form 83-I.*

There are no exceptions to the certification statement.