

National Credit Union Administration
SUPPORTING STATEMENT

Investment and Deposit Activities, 12 CFR Part 703
OMB No. 3133-0133

A. JUSTIFICATION

1. Circumstances that make the collection of information necessary.

Subpart A

The Federal Credit Union Act (Act) provides FCUs with the authority to invest in certain securities, obligations, and accounts (12 U.S.C. 1757(7) and (15)). The National Credit Union Administration (NCUA) Board has regulations in place to enforce Sections 107(7), 107(8), and 107(15) of the Federal Credit Union Act, 12 U.S.C. 1757(7), 1757(8), 1757(15), which list those securities, deposits, and other obligations in which a Federal Credit Union (FCU) may invest. The regulations related to these areas are contained in Part 703 and Section 721.3 (Incidental Powers) of NCUA's Rules and Regulations.

Subpart B

In January 2014, the NCUA Board approved a new regulation permitting federal credit unions (FCUs) to engage in limited derivatives activities for the purpose of mitigating interest rate risk (Final Rule, Derivatives Authority, 79 FR 5228, January 31, 2014). The Rule is codified at 12 CFR Part 703 Subpart B (sections 703.100 – 703.114 and an Appendix)

Before the Rule was issued in January 2014, derivatives (with certain exceptions) were among the investments specifically prohibited by NCUA (12 CFR. 703.16(a) (2014)). The Rule applies only to FCUs, except for one provision that requires any federally insured, state-chartered credit union (FISCU) to notify NCUA before it begins engaging in derivatives transactions (12 CFR 741.219(b)).

The Rule addresses permissible derivatives and characteristics, limits on derivatives, operational requirements, counterparty and margining requirements, and the procedures a credit union must follow to request derivatives authority.

2. Purpose and use of the information collection.

NCUA uses this information to ensure compliance under 12 U.S.C. 1757a of the Federal Credit Union and NCUA's Rules and Regulations. Additionally, the information is used to limit and monitor the level of risk that exists within a credit union, the actions taken by the credit union to mitigate such risk, and helps prevent losses to FCUs and the National Credit Union Share Insurance Fund (NCUSIF).

Credit unions use this information to engage in a sound investment program. Credit unions use the information to engage in a sound derivatives program as a tool to mitigate

interest rate risk and to evidence compliance with the Rule and safety and soundness requirements.

3. Use of Information Technology

Credit unions may submit and retain the information collections in a number of ways, including electronically.

4. Duplication

The rule requires credit unions engaging in derivatives activities to obtain an annual financial statement audit performed by a certified public accountant. Section 715.5(a) of NCUA's Regulations already requires FCUs with assets of \$500 million or greater to obtain an annual financial statement audit. 12 CFR. 715.5(a). However, FCUs that already obtain an annual financial statement audit under section 715.5(a) may use that audit to satisfy the requirement of the rule, thereby eliminating duplication. Otherwise, the information collections are unique to each credit union and are not duplicated elsewhere.

5. Effects to reduce burden on Small Entities

The type of policies will vary depending on the complexity of the credit union's investment program. Therefore, small entities with simple and low-risk investment programs can develop and maintain basic investment policies. Most collections are required only if the credit union elects to invest in higher-risk investment activities. NCUA estimates that very few small credit unions purchase the types of investments that are subject to the increased monitoring and reporting requirements.

While small credit unions may request to apply for derivative authority, NCUA anticipates that the majority of credit unions engaging in derivatives activity will have over \$250 million in assets.

6. Consequences of Not Conducting Collection

Investment markets change rapidly and FCUs without adequate information cannot take advantage of market movements. The monthly report of investments, trading activity, monthly review of the fair value of each security, and the quarterly report of shares and deposits at banks, other financial institutions, and credit unions 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 conduct annual due diligence on broker-dealers and safekeepers and 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 parties

they are doing business with are acceptable of that a price quoted is realistic.

The collection of information described in the regulations are necessary to prevent losses to FCUs and the NCUSIF.

The information provided in an FCU's application to engage in derivatives activity is necessary to assist NCUA is determining if the FCU is capable of developing and implementing a sound derivatives program. The additional reporting and recordkeeping requirements are used to monitor and assess an FCU's derivatives program. Failure to collect this information would result in inconsistent determinations of individual derivative programs and lead to an FCU engaging in an activity that is excessively risky in relation to that FCUs financial and operational condition.

- 7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)**
FCUs are required to retain investment purchase information for each investment transaction for as long as it holds the investment and until the documentation has been audited in accordance with §715.4 and examined by NCUA.
- 8. Consultations Outside the Agency**
A 60-day notice was publish in the *Federal Register* on June 17, 2019, at 84 FR 28101, soliciting comments from the public on this collection of information and no comments were received.
- 9. Payment or Gift**
No payment or gift is given in conjunction with this collection.
- 10. Confidentiality**
There is no assurance of confidentiality other than that provided by law.
- 11. Sensitive Questions**
No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information (PII).
- 12. Burden of Information Collection**

Line Item	12 CFR	Information Collection	Type of Burden	# Respondents	# Responses Per Respondent	# Annual Responses	Hours Per Response	Total Annual Reporting Burden
Subpart A - General Investment and Deposit Activities								
1	703.3	Investment policies. A FCU's board of directors must establish written investment policies consistent with the Act,	Record-keeping	5	1	5	0.50	3
2	703.4(b)	Recordkeeping and documentation requirements. (b) A FCU must maintain documentation for each investment transaction for as long as it holds the investment and until the documentation has been audited in accordance with § 715.4 of this chapter and examined by NCUA.	Record-keeping	3,350	20	67,000	0.25	16,750
3	703.4(c)	(c) A FCU must maintain documentation its board of directors used to approve a brokerdealer or a safekeeper for as long as the broker-dealer or safekeeper is approved and until the documentation has been audited in accordance with § 715.4 of this chapter and examined by NCUA.	Record-keeping	300	2	600	0.50	300
4	703.4(d)	(d) A FCU must obtain an individual confirmation statement from each broker-dealer for each investment purchased or sold.	Record-keeping	3,350	20	67,000	0.25	16,750
5	703.5(b)(2)	Discretionary control over investments and investment advisers. (2) At least annually, the FCU must adjust the amount of funds held under discretionary control to comply with the 100 % of net worth cap. The FCU's board of directors must receive notice as soon as possible, but no later than the next regularly scheduled board meeting, of the amount exceeding the net worth cap and notify in writing NCUA within 5 days after the board meeting.	Reporting	50	1	50	2.00	100
6	703.6	Credit analysis. A FCU must conduct and document a credit analysis on an investment and the issuing entity before purchasing it, except for investments issued or fully guaranteed as to principal and interest by the U.S. government or its agencies, enterprises, or corporations or fully insured (including accumulated interest) by the NCUA or the FDIC. A FCU must update this analysis at least annually for as long as it holds the investment.	Record-keeping	850	10	8,500	0.50	4,250
7	703.7	Notice of non-compliance investments. The FCU must notify in writing the appropriate regional director of an investment that has failed a requirement of this part within 5 days after the board meeting.	Reporting	5	0	0	0.00	0.00
8	703.9(a)	Safekeeping of investments. (a) A FCU's purchased investments and repurchase collateral must be in the FCU's possession, recorded as owned by the FC union through the FRB-Entry System, or held by a board-approved safekeeper under a written custodial agreement that requires the safekeeper to exercise, at least, ordinary care.	Record-keeping	2,000	1	2,000	0.25	500
9	703.10(a)	Monitoring non-security investments. (a) At least quarterly, a FCU must prepare a written report listing all of its shares and deposits in banks, credit unions, and other depository institutions.	Record-keeping	2,600	4	10,400	0.50	5,200
10	721.3(b)(2)(iv)	Annually review charitable donation account policy. (iv) Account documentation and other written requirements. The parties to the CDA, typically the funding credit union and trustee or other manager of the account, must document the terms and conditions controlling the account in a written agreement. The terms of the agreement must be consistent with this section. Your board of directors must adopt written policies governing the creation, funding, and management of a CDA that are consistent with this section, must review the policies annually, and may amend them from time to time.	Record-keeping	100	1	100	0.50	50
11	703.12(a)	Monitoring securities. (a) At least monthly, a FCU must prepare a written report setting forth, for each security held, the fair value and dollar change since the prior month-end, with summary information for the entire portfolio.	Record-keeping	1,200	12	14,400	0.50	7,200
12	703.12(b)	(b) At least quarterly, a FCU must prepare a written report setting forth the sum of the fair values of all fixed and variable rate securities held.	Record-keeping	1200	4	4,800	0.50	2,400

	12 CFR	Information Collection	Type of Burden	# Respon- dents	# Responses Per Respondent	# Annual Responses	Hours Per Response	Total Annual Reporting Burden
13	703.13(c)(2)	Permissible investment activities. (c) Investment repurchase transaction. A FCU may enter into a investment repurchase transaction so long as: (2) The FCU has entered into a signed contracts with all approved counterparties.	Record-keeping	5	1	10	0.50	5
14	703.13(e)(1) and (4); (f)(2)	(e) <i>Securities lending transaction</i> . A FCU may enter into a securities lending transaction so long as: (1) The FCU receives written confirmation of the loan; (4) The FCU has executed a written loan and security agreement with the borrower. (f)(1) Trading securities. (2) A FCU must record any security it purchases or sells for trading purposes at fair value on the trade date.	Record-keeping	5	1	10	0.00	0
15	703.13(f)(3)	(3) At least monthly, the FCU must give its board of directors or investment-related committee a written report listing all purchase and sale transactions of trading securities and the resulting gain or loss on an individual basis.	Record-keeping	5	5	25	0.25	6
16	703.14(e)	Permissible investments. (e) Municipal security. A FCU may purchase and hold a municipal security only if it conducts and documents an analysis that reasonably concludes the security is at least investment grade.	Record-keeping	50	5	250	0.50	125.00
17	703.14(j)(1)	(j) Commercial mortgage related security (CMRS). A FCU may purchase a CMRS provided: (1) The FCU conducts and documents a credit analysis that reasonably concludes the CMRS is at least investment grade.	Record-keeping	10	2	20	0.50	10
18	703.19(b)	Investment pilot program. (b) Before a FCU may engage in additional activities it must obtain written approval from NCUA. To obtain approval, a FCU must submit a request to its regional director.	Reporting	1	0	0	0.00	0
19	703.19(c)	(c) A third-party seeking approval of an investment pilot program must submit a request to the Director of the Office of Capital Markets and Planning.	Reporting	1	0	0	0.00	0
20	702.20(b)	(b) Written request. A FCU desiring additional authority above the prescribed limits must submit a written request to the NCUA regional office.	Reporting	5	1	5	3.00	15
21	702.20(d)	(d) Appeal to NCUA Board. A FCU may request the regional director to reconsider any part of the determination made under paragraph (c) of this section and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.	Reporting	Burden covered under 3133-0198				0
				3,350	,	175,175	,	53,664
Burden Requested - Subpart A								53,664
Previously Approved Burden								204,816
Adjustment								-151,153

	12 CFR	Information Collection	Type of Burden	# Respon- dents	# Responses Per Respondent	# Annual Responses	Hours Per Response	Total Annual Reporting Burden
Subpart B - Derivatives Authority								
22	703.106(a)(1)	(a) Operational support requirements. The FCU must maintain evidence of this training, in accordance with its document retention policy, until its next NCUA examination.	Record-keeping	26	0.67	17.42	1.00	17.42
23	703.106(b)(1)	(1) Transaction support. Before executing any derivatives transaction, a FCU must identify and document the circumstances that lead to the decision to hedge, specify the derivatives strategy the FCU will employ, and demonstrate the economic effectiveness of the hedge;	Record-keeping	26	1	26	0.50	13
24	703.106(b)(4)	(4) Process and responsibility framework. A FCU must maintain a written and schematic description (e.g., flow chart or organizational chart) of the derivatives management process in its derivatives policies and procedures.	Record-keeping	43	1	43	0.50	21.5
25	703.106(b)(1)	(1) Transaction support. Before executing any derivatives transaction, a FCU must identify and document the circumstances that lead to the decision to hedge, specify the derivatives strategy the FCU will employ, and demonstrate the economic effectiveness of the hedge (Pre-execution analysis).	Record-keeping	26	1	26	0.50	13
26	703.106(d)	(d) Policies and procedures. A FCU credit union with derivatives authority must operate according to comprehensive written policies and procedures for control, measurement, and management of derivatives transactions.	Record-keeping	43	1	43	0.50	22
27	703.107(a)(3)	External service providers. (3) The FCU documents the specific uses of external service providers in its process and responsibility framework, as described in § 703.106(b)(1) of this subpart and the application. [Only for newly applying FCUs.]	Record-keeping	4	1	4	0.3	1.2
28	703.109	Applying for derivatives authority. An eligible FCU must receive written approval to use derivatives by submitting a detailed application, consistent with this subpart and any guidance issued by NCUA. A FCU must submit its application to the applicable field director. [One-time application for approval to engage in derivatives activity.]	Reporting	4	1	4	50.00	200
29	703.111(b)	(b) Notice of readiness. A Federal credit union approved under paragraph (a) of this section must provide written notification to NCUA when it is ready to begin using derivatives. [Only for newly applying FCUs]	Reporting	4	1	4	1	4
30	703.111(c)	NCUA will notify the FCU in writing if granted final approval and the FCU may begin entering into derivatives transactions. If applicable, the notification will include the reason(s) for any denial. At NCUA's discretion a FCU may reapply under this subsection if NCUA has demonstrated compliance with this subpart and its application. [Only for newly applying FCUs.]	Reporting	4	1	4	0.25	1
31	703.111(d)	(d) Right to appeal. A Federal credit union may request the field director to reconsider a determination made under paragraph (a) or (c) of this section and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.	Reporting	Burden covered under 3133-0198				0
32	703.112(a) corrected	Applying for additional products or characteristics. (a) A FCU with derivatives authority may subsequently apply for approval to use additional products and characteristics, described in § 703.102 of this subpart, that it did not request in its initial application. [Only for newly applying FCUs.]	Reporting	0	0	0	0	0
33	703.112(c)	(c) A FCU may request the regional director to reconsider a denial of an application for additional products or characteristics and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.	Reporting	Burden covered under 3133-0198				0
	12 CFR	Information Collection	Type of Burden	# Respon- dents	# Responses Per Respondent	# Annual Responses	Hours Per Response	Total Annual Reporting Burden

34	741.219(b)	(b) Any credit union which is insured pursuant to title II of the Act must notify the applicable NCUA Regional Director in writing at least 30 days before it begins engaging in derivatives. (at time of initially entering into derivatives activities)	Reporting	4	1	4	0.5	2
35	703.113(b)(a)	Pilot program participants with active derivatives positions. (2) Within 30 days, present a corrective action plan to NCUA describing how the FCU will cure any deficiencies or wind down its derivatives program.	Reporting	1	0	0	0	0
36	703.114(a)(2)	Regulatory violation. (2) Within 3 business days from the regulatory violation, provide NCUA notification of the regulatory violation, which must include a description of the violation and the immediate corrective action the FCU is taking; and	Reporting	1	0	0	0	0
37	703.114(a)(3)	Regulatory violation. (3) Within 15 business days after notifying NCUA, submit a written corrective action plan to the appropriate field director.	Reporting	1	0	0	0	0
38	703.114(c)	(c) A FCU may request NCUA to reconsider a revocation of derivatives authority or an order to terminate existing derivatives positions and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.	Reporting	Burden covered under 3133-0198				0
			Part A	3350		175,175		53,664
			Part B	43		175.42		295
			ALL	3393	51.68005	175,350	0.30772	53,959
			Burden Requested - Subpart B					295
			Previously Approved Burden					7,119
			Adjustment					-6,824
			Total Burden - Part 703					53,958

Based on the labor rate of \$35 per hour, the total cost to respondents is \$1,888,530.

13. Capital start-up or on-going operation and maintenance costs.

There are no capital start-up or maintenance costs.

14. Costs to Federal Government

Most items are reviewed by an NCUA examiner as part of the normal examination process. However, additional costs for Subpart A and B is estimated at \$283,444.

15. Changes in Burden

The number of respondents have decreased due to an adjustment in the number of FCUs, decreasing the total burden and increases in the number of responses are attributed to adjustments to reflect actual program activity. A total of 53,959 burden hours requested.

16. Information Collection Planned for Statistical Purposes

The information collection is not used for statistical purposes.

17. Approval to Omit OMB Expiration Date

The OMB control number and expiration date associated with this PRA submission will be displayed on the Federal government's electronic PRA docket at www.reginfo.gov.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

This collection complies with the requirements in 5 CFR 1320.9.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not involve statistical methods.