National Credit Union Administration
SUPPORTING STATEMENT

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

Summary of Rulemaking Action:

The NCUA is amending the NCUA's Derivatives rule in Subpart B to part 703. This rule will modernize the NCUA's Derivatives rule and make it more principles-based, while retaining key safety and soundness components. The changes will provide more flexibility for federal credit unions (FCUs) to manage their interest rate risk (IRR) through the use of Derivatives.

The NCUA anticipates more FCUs to engage in derivatives, which would increase the recordkeeping requirement associated with reports made to the FCU board and senior executive officers under §703.105. This would increase the number of respondents from 20 to 50. The rule would also increase the number of FCUs that would be required to maintain the policies and procedures annually under §703.106(c) from 43 to 50 respondents. These policies and procedures would also include the specific uses of external service providers and eliminates the recordkeeping requirement of §703.107(a)(3) in the current rule. Section 703.108(a) provides for FCUs the meet certain requirements to provide notification of its readiness to engage in derivatives in lieu of an application. The annual increase is estimated in the number of FCUs that would engage in derivatives from 4 to 15. The NCUA does not anticipate any change in the number of FCUs that will require an application under §703.108(b). Information collection requirements previously identified under §§703.112 through 703.114 are being removed due to obsolete reporting.

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

Before finalization of the current derivatives rule, FCUs could only use derivatives to hedge real estate loans produced for sale on the secondary market; hedge interest rate lock or forward sales commitments for loans that the FCU originated; fund dividend payments on member share certificates where the share certificate rate was tied to an equity index: or engage in derivatives to manage interest rate if approved to participate in a derivative Pilot Program.

The scope of the 2014 final rule was intentionally prescriptive, given most FCUs' lack of experience using derivatives for IRR management and the NCUA's need to increase its specialized expertise to manage and supervise the use of such instruments and the accompanying application process included in the rule. The prescriptiveness of the final rule enabled the Board to safely expand derivatives authority while also ensuring that FCUs which engaged in derivatives did not pose an undue safety and soundness risk to themselves, the broader credit union industry, or the National Credit Union Share Insurance Fund (the Fund). As such, the 2014 final rule included a number of restrictions on derivative authorities. These included, but were not limited to, discrete limits on the types of derivative products an FCU could purchase; requiring FCUs to receive NCUA preapproval before engaging in derivatives; and regulatory limits on the amounts of derivatives an FCU could hold relative to its net worth.

Given the observable safe and effective management of derivatives by credit unions since the 2014 final rule, the Board modernize the derivatives rule to expand the derivatives authority for FCUs and shift the regulation toward a more principles-based approach. NCUA remains committed to the principle that any authorized derivative activity should be limited to the purpose of managing IRR within a discreet hedging strategy, and may not be used to increase risks deliberately or conduct any otherwise speculative transactions. The rule continues to authorize derivative activity by FCUs that demonstrate risk characteristics highly correlated to the FCU's assets and liabilities, such that derivatives would be an efficient and effective risk mitigation tool.

The rule addresses permissible derivatives and characteristics, limits on derivative use, 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 derivative program. Credit unions use the information to engage is 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 several ways, including electronically.

4. Duplication of information.

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.

This collection does not have a significant impact on a substantial number of small credit unions.

6. Consequences of not conducting the collection.

The information collection requirements are necessary to allow the NCUA to supervise federal credit unions for compliance with the Federal Credit Union Act (FCU Act) and serves to protect the federal credit union from risk exposure and promotes a safe and sound credit union system.

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. Efforts to consult with persons outside the agency.

A Paperwork Reduction Act (PRA) notice was published in the preamble of the proposed rulemaking on October 29, 2020, at 85 FR 68487, providing an opportunity for the public to comment on the information collection requirements prescribed by this rule.

There were no direct comments received in response to the PRA notice; but comments were received in response to the proposed rule. The comments addressing the information collection requirements of Subpart B of Part 703 are discussed in the preamble of the final rule and are set out below. All public comments can be found at www.regulations.gov under Docket No. NCUA-2020-0107-0001.

Requirement to submit an application: Asset Threshold. Three commenters disagreed with the proposed $500 million asset size threshold required to qualify for an exemption from the requirement to submit an application for Derivatives authority and argued that an asset threshold is an arbitrary number that does not accurately reflect an FCU's ability to safely engage in Derivatives. One commenter stated that it is possible that FCUs below the NCUA's proposed threshold may have the requisite infrastructure to safely engage in Derivatives. Two of the commenters sought an outright removal of the proposed asset threshold; the third commenter sought removal or a reduction of the amount of the threshold.

The Board is not making any changes to the requirements related to the asset threshold that determines which FCUs must submit an application for Derivatives authority. As stated in the proposal, the asset threshold aligns with the definition of "complex credit union" in the NCUA's risk-based capital (RBC) rule.[1] The Board chose an asset threshold of $500 million for the RBC rule after careful consideration of the activities and volume of activities of credit unions at certain asset thresholds. As such, the Board believes the RBC asset threshold is a valuable demarcation line above which it is reasonable to expect FCUs will have the required infrastructure to safely engage in Derivatives. This is further supported by the Board's experience in reviewing FCU applications since the inception of the current Derivatives rule. A review of Derivatives applications under the current rule confirms that FCUs greater than $500 million in assets generally possess the management expertise and required infrastructure to support a Derivatives program.

The Board notes that it did receive a small number of applications, under the current rule, from FCUs with assets under $500 million. While these FCUs met the requirements of the current rule, the Board believes this small group of FCUs may not be representative of the capabilities of all FCU's under $500 million in assets. As such, the Board does not believe this small number of FCUs supports lowering the $500 million threshold. In addition, the Board notes that this final rule does not bar FCUs under the asset threshold from receiving Derivatives authority. As discussed in the next paragraph, such an FCU may receive Derivatives authority after completing an application that demonstrates it can safely manage a Derivatives program.

As commenters stated, it is possible that an FCU under $500 million may have the requisite infrastructure to safely engage in Derivatives. While the Board agrees with the commenters that an FCU with total assets under $500 million may have the requisite infrastructure to support Derivatives, those FCUs may not be representative of all FCUs with total assets under $500 million. However, this final rule provides all FCUs with total assets under $500 million the ability to use Derivatives by retaining the provisions of the proposed rule, which require that these FCUs apply for Derivatives authority consistent with § 703.108(b) and demonstrate the requisite infrastructure to safely engage in Derivatives.

[1] 83 FR 55467 (Nov. 6, 2018).

Change in condition: A commenter raised a concern and a question with the proposed requirement that an FCU have a management component of 1 or 2 in its most recent composite CAMEL rating to forego submitting an application for Derivatives authority. The concern and question focused on a scenario where an FCU receives approval for Derivatives authority, but its management component later falls below the required management rating. Specifically, the commenter stated that it:

> …disagrees with the proposal to require that a credit union, previously meeting the requirements to engage in derivatives, cease entering into new derivatives in the event the Management CAMEL component rating is downgraded below 2. The Management CAMEL component rating can be downgraded for reasons not related to the credit union's management of its derivative program. Prohibiting the use of an effective tool to manage interest rate risk would have a destabilizing impact to the credit union especially when the derivative activity is subject to the existing derivative restrictions ensuring safety and soundness.

Separately, but related, this commenter also questioned how the aforementioned scenario would be applied in the case of an FCU that received approval under the current Derivatives rule and is grandfathered under this final rule (Grandfathered FCU). Specifically, this commenter asked:

> Is the NCUA's intent that said credit unions, if downgraded to a Management CAMEL component rating below 2, are also required to cease further derivative transactions until receiving approval to a newly submitted application? Said credit unions have already taken the step of demonstrating the quality of their derivative programs, and those programs are reviewed on a regular basis by the NCUA.

The Board appreciates these comments and in the following part of this document will clarify several different scenarios related to an FCU failing to comply with the requirements to forgo an initial application. In addition to the ensuing clarifying discussion, the Board, as discussed later in this section, is also making editorial changes to § 703.108(d) of this final rule to ensure the regulatory text is clear and transparent.

As discussed in the preamble to the proposed rule and the accompanying rule text, § 703.108(a) states that an FCU is not required to apply for Derivatives authority if it has assets of at least $500 million and its most recent management rating is a 1 or 2. The Board believes clarification is warranted on how these requirements relate to § 703.108(d). Specifically, § 703.108(d) requires an FCU to immediately cease entering into any new Derivatives and contact the applicable Regional Director if the FCU experiences a negative change in condition such that it no longer meets the requirements discussed above or, if applicable, renders its approved application inaccurate.

The Board notes that in any instance in which an FCU, not subject to an active application under § 703.108(b), no longer meets the requirements in § 703.108(a), such FCU would need to immediately cease entering into new Derivatives transactions and notify the applicable Regional Director. An FCU required to cease entering into Derivatives may not continue entering into Derivatives transactions until it receives written notification from the applicable Regional Director that it is permitted to do so. For clarification, the cessation and notification discussed in the prior sentences would apply in any of the following circumstances:

1. A Grandfathered FCU's management component drops below a 2 or is below a 2 as of the effective date of this final rule; and/or the FCU's assets drop below $500 million or are below $500 million as of the effective date of this final rule;

2. An FCU that was not required to submit an application for Derivatives authority under this final rule, and no longer meets either or both of the requirements in §703.108(a); and

3. An FCU that was required to submit an application under § 701.108(b), but later meets the requirements in § 703.108(a) and then subsequently fails to meet the requirements in § 703.108(a).

Under the first scenario above, a Grandfathered FCU would, under the current Derivatives rule, already be prohibited from entering into new Derivatives transactions if its management rating had dropped below a 2. Under this final rule, such FCU would be remain prohibited from entering into new Derivatives transactions. Unlike the current rule, however, such FCU would not be automatically barred from continuing to use Derivatives until its management rating met the regulatory standard. Rather, this final rule provides the Regional Director with discretion to evaluate the reasons for the lower management rating and determine if the FCU can safely continue to use Derivatives. The Board notes that this flexibility will aid FCUs that have a Management CAMEL component rating of 3, 4, or 5 for reasons unrelated to the FCU's ability to safely use Derivatives.

Scenario one, described above, would also apply to any Grandfathered FCU that, as of the effective date of this final rule, has asset below the $500 million threshold required in § 703.108(a) of this final rule.

Under scenario two above, any FCU that obtains Derivatives authority without applying, because the FCU met the requirement in § 703.108(a), would be required to cease entering into new Derivatives transactions and notify the applicable Regional Director if such FCU ever failed to continue meeting the aforementioned requirements. The required cease and notify procedures would apply to any instance in which the FCU fails to meet the requirements of § 703.108(a), including a situation where the FCU fails to meet one or both requirements, subsequently meets those requirements, and later falls out of compliance again. The Board notes that the cease and notify procedures in § 703.108(d) are not an absolute bar to continuation of Derivatives transactions. Rather,

the procedures provide an opportunity for the Regional Director to evaluate the condition of the FCU and determine if it is safe and sound for the FCU to continue using Derivatives. To that end, the Board notes that this final rule provides for more flexibility than the current rule.

Finally, in scenario three the Board seeks to clarify two distinct points:

- First, an FCU that is required to apply for Derivatives authority under this final rule that subsequently meets the requirements of § 703.108(a) will, as of the date of meeting such requirements, no longer be bound by the terms of its application. Instead, such FCU will be subject only to the terms of this final rule and any future amendments made thereto. To ensure the final rule reflects this clarification, as further discussed later in this section, the Board is making minor clarifications in the final rule regulatory text.

- Second, the Board notes that such FCU, discussed in the preceding sentences, that fails to continue to meet the requirements in § 703.108(a) will be required to undertake the same cease and notify procedures as outlined above. Such FCUs will not automatically be required to reapply. However, as for all three scenarios, the Regional Director may exercise any remedy he or she sees fit for an FCU that is no longer in compliance with § 703.108(a) or its approved and still in force application. Such action could include, but is not limited to, revocation of authority or a required application for continued authority.

To effectuate the clarifications discussed in this section of the preamble, the Board has reorganized and amended the rule text in §703.108(d). Specifically, the Board has divided this section into two types of changes in condition: (1) a negative change in condition that may require remedial action by the applicable Regional Director; and (2) a positive change in condition such that an FCU that applied for Derivatives authority is no longer subject to such application. The Board believes this reorganization will make this section of the rule clearer and more user friendly without introducing any substantive amendments. In addition, the Board is also clarifying when, after a negative change in condition, an FCU may begin entering into Derivatives transactions again. Specifically, as discussed earlier in this section of the preamble, this change will clarify that an FCU may not continue entering into Derivatives transactions until notified in writing by the applicable Regional Director. In the proposed rule, the Board stated that an FCU subject to these cease and notify procedures could choose to apply for Derivatives authority under 703.108(b). While the Board was clear that applying was something an FCU *could* do, the Board intended this to be but one option for the continued use of Derivatives. The Board's intention in the proposed rule was that if an FCU chose not to apply for Derivatives authority, after being subject to the cease and notify procedures, such FCU would not be permitted to resume using Derivatives until notified by its Regional Director. This is further supported by the notion that the cease and notify procedures also apply to an FCU that is in violation of its approved application, and the fact that the proposed rule provided the Regional Director with remedial actions. As such, it was always the Board's intention that there would be notification back to an FCU subject to

the cease and notify procedures. The Board, however, believes it could have been clearer with respect to this notification from the Regional Director. As such, the Board is taking this opportunity to be more clear and fully transparent. Such change is not intended to be substantive in any way.

Timing of notification. Two commenters addressed the proposed requirement for a credit union to submit notification to the NCUA within five days of entering into its first Derivatives transaction. One commenter requested an extension of the time-period to submit notification from 5 days to 7-10 days. This commenter stated that a longer notification period would provide flexibility for uncontrollable and unforeseen operational or marketplace delays. The other commenter requested that the NCUA not apply the notification requirement to federally insured, state-chartered credit unions (FISCUs) that are chartered in states that require preapproval by or notification to the state regulator. This commenter stated that requiring notification to the NCUA for these FISCUs would create an inefficient redundancy. To further streamline the application process, this commenter requested an exemption from the notification requirement for the aforementioned FISCUs.

The Board believes that replacing the application requirements for a qualified FCU with a required notification within five days after entering into its first Derivative transaction is a reasonable compromise. Derivatives can be complex and risky transactions, and a prompt notification will allow the applicable Regional Director to efficiently manage examination resources.

The Board also believes that the current burden to a FISCU is unchanged as the FISCU is only notifying the applicable Regional Director after entering into its first Derivative transaction compared to the current requirement of notifying the Regional Director at least 30 days before it begins engaging in Derivatives.

The Board therefore is retaining the provisions of the proposed rule for the timing of notification to five days after entering into its first Derivative transaction.

Monthly reporting. Three commenters addressed the requirement that an FCU engaging in Derivatives submit monthly reports to the FCU's senior management and, if applicable, asset liability committee. One commenter requested clarification on the level of specificity in the required reporting. Two other commenters recommended that the NCUA explore the sufficiency of less frequent reporting.

As stated in the preamble to the proposed rule, the Board believes that retaining these reporting requirements is essential to FCUs maintaining strong internal controls related to Derivatives, given the principles-based approach of this proposed rule. The Board also believes that the proposed reporting requirements are less burdensome to FCUs, because they are less prescriptive, while ensuring the proper FCU officials receive reports that are necessary to oversee an FCU's Derivatives program. Therefore, the Board is retaining the reporting requirements included in the proposed rule.

9. Payment or gifts to respondents.

No payment or gift is given in conjunction with this collection.

10. Assurance of confidentiality.

There is no assurance of confidentiality other than that provided by law.

11. Questions of a sensitive nature.

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	# Respon-dents	# 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 broker-dealer 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) *Securities lending transaction*. 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
		TOTAL – Subpart A		3,350	,	175,175	,	53,664

Subpart B – Derivatives Authority											
Line Item	12 CFR	Information Collection	Type of Burden	# Respon-dents	# Responses Per Respondent	# Annual Responses	Hours Per Response	Total Annual Reporting Burden	Previously Approved	Due to **Adjustment**	Due to **Program Change**
1	703.104(a)	Have an executed Master Services Agreement with a Domestic Counterparty.	Record keeping	5	2	10	0.50	5	0	5	0
2	703.105(a)	Board reporting. At least quarterly, a FCU's Senior Executive Officers must deliver a comprehensive Derivatives report to the FCU's board of directors.	Record keeping	50	4	200	0.50	100	0	40	60
3	703.105(b)	At least monthly, FCU staff must deliver a comprehensive Derivatives report to the FCU's Senior Executive Officers and, if applicable, the FCU's asset liability or similarly functioning committee.	Record keeping	50	12	600	0.50	300	0	120	180
4	703.106 (a)(1)(i)	Before entering into the initial Derivative transaction, a FCU board member must receive training that provides a general understanding of the Derivative transactions.	Record keeping	15	0.67	10.05	1.00	10.05	17.42	-7.37	0
5		Duplicate of 703.106(b)(1)		0	0	0	0.00	0	13	-13	0
6	703.106(b)(1)	Transaction review. Before executing any transaction, a FCU must identify and document the circumstances that lead to the decision to execute the Derivatives transaction, specify the strategy the FCU will employ, and demonstrate the economic effectiveness of the transaction.	Record keeping	50	4	200	0.50	100	13	87	0
7	703.106(b)(2)	A FCU must have an internal controls review.	Record keeping	15	1	15	1.00	15	0	15	0
8	703.106(b)(3)	Financial statement audit. Any FCU engaging in derivatives transactions pursuant to this subpart must obtain an annual financial statement audit.	Record keeping	50	1	50	1.00	50	0	50	0
9	703.106(b)(4)	Collateral management review. Before executing its first Derivative transaction, the FCU must establish a collateral management process that monitors the FCU's collateral and margining requirements.	Record keeping	15	1	15	0.50	7.5	21.5	-14	0
10	703.106(b)(5)	A FCU must establish a liquidity review process to analyze and measure potential liquidity needs related to its Derivatives program and the additional collateral requirements due to changes in interest rates.	Record keeping	15	1	15	0.50	7.5	0	7.5	0
11	703.106(c)	A FCU using Derivatives must operate according to comprehensive written policies and procedures for control, measurement, and management of Derivative transactions. A FCU's board of directors must review the policies and procedures at least annually and update them when necessary.	Record keeping	50	1	50	0.50	25	22	0	3
12		Document uses in its process and responsibility framework prescribed in 703.106(c) - above. (no additional burden)	Record keeping	0	0	0	0	0	1.2	0	-1.2
13	703.108(a) *[741.219(b)]*	A FCU must notify the applicable Regional Director in writing or via electronic mail within five business days after entering into it first Derivatives transaction.	Reporting	15	1	15	1	15	4	0	11

Line Item	12 CFR	Information Collection	Type of Burden	# Respon-dents	# Responses Per Respondent	# Annual Responses	Hours Per Response	Total Annual Reporting Burden	Previously Approved	Due to **Adjustment**	Due to **Program Change**
14	703.108(b)	Application – A FCU that does not meet the requirements of 703.108(a)(1) and/or (2) must obtain approval before engaging in Derivatives from its applicable Regional Director by submitting an application.	Reporting	4	1	4	50.00	200	200	0	0
15	703.108(c)(1)	A FCU may not enter into any Derivative transactions under this subpart until it receives approval from the applicable Regional Director. At a Regional director's discretion, a FCU may reapply.	Reporting	4	1	4	0.25	1	1	0	0
16	703.108(c)(2)	A FCU that receives a denial of its application may appeal such decision in accordance with Part 746 of the NCUA's regulations.	Reporting	Burden covered under 3133-0198				0			
17	703.108(d)(1)(ii)	Change in condition. A FCU that no longer meets the requirements of this subpart or, if applicable, fails to comply with its approved application, must provide NCUA with notification once the FCU is back in compliance with this subpart or, if applicable, its approved application if its initial application is denied.	Reporting	1	1	1	1	1	0	0	1
18	703.109(c)	A FCU that receives written notice of a regulatory violation or a notice of prohibition under this section may appeal such determination in accordance with Part 746 of the NCUA's regulations.	Reporting	Burden covered under 3133-0198				0			
19	741.219(b)	*[Duplicate of §703.108(a). This burden is accounted for under this section and has been removed as a separate line item]*	Reporting	0	0	0	0	0	2	-2	0
			TOTAL – Subpart B	50	23.781	1189.05	0.70397	**837**	295.12	288.13	253.80

	Total Annual Response	**Total Annual Burden**
Subpart A	175,175	53,664
Subpart B	1,189	837
Total Burden Part 703	**176,364**	**54,501**

Based on the labor rate of $35 per hour, the total cost to respondents is $1,907,535.

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 NCUA anticipates more FCUs to engage in derivatives, which would increase the recordkeeping requirement associated with reports made to the FCU board and senior executive officers under §703.105. This would increase the number of respondents from 20 to 50. The rule estimates an increase in the number of FCUs that would be required to maintain the policies and procedures annually under §703.106(c) from 43 to 50 respondents. These policies and procedures would also include the process and responsibility framework requirements of external service providers, eliminating separate recordkeeping requirement of §703.107(a)(3). Section 703.108(a) provides for FCUs the meet certain requirements to provide notification of its readiness to engage in derivatives in lieu of an application. An increase is estimated in the number of FCUs that would engage in derivatives from 4 to 15. The NCUA does not anticipate any change in the number of FCUs that will require an application under §703.108(b). Information collection requirements previously identified under §§703.112 through 703.114 are being removed due to obsolete reporting. Burden under these sections had previously been reported as zero hours. It is estimated that program changes to the information collection requirements associated with this rule increases the burden by 254 hours.

Adjustments to the information collection burden is also being made to include information collection requirements not previously captured, remove duplicate burden, and update respondents and response times to reflect a more accurate and up-to-date accounting of the burden. Adjustments to the information collection requirements will increase the burden by 288 hours.

16. Information Collection Planned for Statistical Purposes.

The information collection is not used for statistical purposes.

17. Approval to Omit OMB Expiration Date.

The "application" prescribed by §703.108(b) is a collection of reports and plan and is not a traditional form. The OMB control number and expiration date associated with this PRA submission will be displayed on the Federal government's electronic PRA docket website 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.