

NSPM Chapter 6, Section 13: Derivatives Authority

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1. Derivatives Authority

NCUA rules and regulations Part 703, Subpart B, allows federal credit unions to enter into certain derivatives transactions exclusively for the purpose of reducing interest rate risk. Section 741.219(b) requires federally insured state chartered credit unions to notify NCUA 30 days before engaging in derivatives transactions or planning for additional transactions, if already approved to use derivatives.

The standards in this section ensure NCUA maintains consistent documentation for the administrative record. The following templates related to derivatives are provided in this section:

- [Appendix 6-ZZ](#) - Derivatives Information Administration Log (DIAL)
- [Appendix 6-AAA](#) - Acknowledgement of Interim Derivatives Application
- [Appendix 6-BBB](#) - Acknowledgement of Final Derivatives Application (Notification of Readiness)
- [Appendix 6-CCC](#) - Derivatives Application Qualitative Review Checklist
- [Appendix 6-DDD](#) - Notice of Denied Derivatives Application
- [Appendix 6-EEE](#) - Notice of Incomplete Derivatives Application
- [Appendix 6-FFF](#) - Notice of Interim Derivatives Authority Approval
- [Appendix 6-GGG](#) - Notice of Final Derivatives Authority Approval
- [Appendix 6-HHH](#) - Acknowledgement of Derivatives Appeal
- [Appendix 6-III](#) - Notice of Denied Derivatives Authority Appeal
- [Appendix 6-JJJ](#) - Notification of FISCU Derivatives Activity (FISCU only)

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A. Roles and Responsibilities

NCUA staff will perform the following responsibilities with regard to the standards established in this section, ensuring the quality and consistency of the agency's approval of derivative applications. Administrative records and documents related to applications and notifications for all federal and federally insured, state-chartered credit unions will be maintained in the *Derivatives Information Administration Log (DIAL)* ([Appendix ZZ](#)), which is maintained on SharePoint.

i. Field Office Responsibilities

- Ensure credit union applications are processed in accordance with the provisions set forth in this section.
- Update and maintain the *Derivatives Information Administration Log (DIAL)* ([Appendix ZZ](#)) using the standards set forth in this section, to ensure DIAL reflects accurate information for all:
 - Applications and appeals received from **federal credit unions**
 - Notifications of derivative activity received from **federally insured, state-chartered credit unions (FISCU)**
 - NCUA derivatives approvals granted, revoked, or denied
 - Supporting documentation for approvals and denials
- Acknowledge all credit union applications and appeals submitted to NCUA.
- Evaluate eligibility of federal credit unions that apply for derivatives per §703.108 using the *Derivatives Application Qualitative Review Checklist* ([Appendix CCC](#)).
- Assign staff to determine the eligibility and completeness of derivatives applications.
- Assign staff to evaluate the safety and soundness of federal credit unions that apply for derivatives authority.
- Notify federal credit unions of incomplete or ineligible applications.
- Notify federal credit unions of application approvals (field director).
- Assign a Regional Capital Markets Specialist (RCMS) or Capital Markets Specialist (ONES) to a derivatives application review panel for each application.
- Ensure systems and controls are in place to meet the standards of this section.

ii. E&I Responsibilities

- Assign a Senior Capital Markets Specialist (SCMS) to the review panel for each derivatives application from a federal credit union.
- Monitor periodic reports to review trends and issues related to derivatives.
- Track regional and national trends for consistency and to support the development of future policy.

iii. Review Panel Responsibilities (Regional Capital Market Specialist, ONES Capital Markets Specialist, E&I Senior Capital Market Specialist)

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- Conduct a qualitative review of each assigned derivatives application in collaboration with other panel members.
- Document the review using the *Derivatives Application Qualitative Review Checklist* ([Appendix CCC](#)).
- Recommend assigned derivatives application be approved, in part or in whole, or denied.
- Coordinate with field office upon completion of the review to direct the panel's recommendation to the field office director.

iv. Field Office Director Responsibilities

- Approve only those applications for derivatives authority for federal credit unions that demonstrate they have established sound systems, processes, and personnel to manage such a program effectively and in compliance with NCUA rules and regulations.
- Act on credit union applications in accordance with the policies and procedures set out in related supervisory guidance and in this section.

B. Derivative Application Review Procedures (applies only to federal credit unions)

A federal credit union may seek *interim* approval to engage in derivatives before it invests in all the systems and requirements that will ultimately be necessary. A credit union that has been granted interim approval must submit a written notice of readiness to NCUA requesting *final* approval before it can start using derivatives. There is no timeframe for a credit union to submit a *final* application to the agency; a credit union may submit a notice of readiness concurrently requesting final approval.

NCUA processes both interim and final applications for derivatives authority as described below. The field office will consult with the appropriate field staff (District Examiner, Problem Case Officer, National Credit Union Examiner, and/or specialized examiner) as necessary to process an application for derivatives authority.

	Application / Notice of Readiness Processing Workflow	Primary Owner(s)
1.	Log and acknowledge the derivatives application.	Field Office
2.	Confirm credit union eligibility, safety and soundness.	
3.	Establish a review panel and assign the application for review.	Field Office and E&I Director
4.	Review the credit union's derivatives program and make a written recommendation to the field office director.	Review Panel
5.	Approve or deny requested derivatives authority and notify credit union.	Field Office Director

These steps are described in detail below.

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i. Log and Acknowledge the Derivatives Application (Field Office)

Upon receipt of an application for derivatives authority, the field office will create and maintain an electronic log of the application. See *Derivatives Information Administration Log (DIAL)* ([Appendix ZZ](#)).

Once an application has been logged, the field office will send a letter to the credit union to acknowledge the application. The field office will acknowledge an application for interim approval with the *Acknowledgement of Interim Derivatives Application* ([Appendix 6-AAA](#)), or the *Acknowledgement of Final Derivatives Application (Notification of Readiness)* ([Appendix 6-BBB](#)) to acknowledge an application for final derivatives authority.

The field office will deliver the acknowledgement using the region's or ONES preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
- Assigned RCMS or ONES CMS

The director of the field office will coordinate with E&I to establish a derivatives application review panel, made up of:

- One RCMS or ONES CMS (appointed by the field office)
- One SCMS (appointed by E&I)

ii. Confirm Credit Union Eligibility, Safety and Soundness (Field Office)

Within ten (10) calendar days of receiving an application for derivatives authority, the field office will determine if the applying federal credit union meets the eligibility requirements using the *Derivatives Application Qualitative Review Checklist* ([Appendix CCC](#)). A credit union that has less than \$250 million in assets (as of its most recent call report) must provide written documentation that a field director has granted it permission to apply (see §703.108 (b)).

The field office will also evaluate the applying federal credit union's safety and soundness using the *Derivatives Application Qualitative Review Checklist* ([Appendix CCC](#)).

If a credit union has submitted an incomplete package, the field office will send it a letter indicating what item(s) is missing from the application (see *Notice of Incomplete Derivatives Application*, [Appendix 6-EEE](#)).

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If a credit union fails to meet the regulatory eligibility requirements or fails to meet the regulatory requirements for safety and soundness, the field office will deny the application and notify the credit union (see *Notice of Denied Derivatives Application*, [Appendix 6-DDD](#)). This notice will indicate the specific requirement(s) the credit union failed to meet.

The field director will deliver the appropriate notice using the region or ONES' preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
- Assigned RCMS or ONES CMS

iii. Establish Review Panel and Assign Application for Review (Field Office)

For each application submitted by a federal credit union that meets the eligibility criteria, the field office will coordinate with E&I to establish a review panel, and forward the application materials for review. The review panel consists of two members:

Employee	Role	Assigned by
Regional Capital Markets Specialist (RCMS) or Capital Markets Specialist (ONES)	Conducts qualitative review of each assigned derivatives application and makes joint recommendation to approve or deny derivatives authority	Field Office or ONES
Senior Capital Markets Specialist (SCMS)		E&I

The field office will provide the review panel with a *Derivatives Application Qualitative Review Checklist* ([Appendix CCC](#)) that reflects the completed eligibility review and safety and soundness evaluation.

Upon assigning an application for evaluation by the review panel, the field office will notify the following by email:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
- Assigned RCMS or ONES CMS

iv. Review the Derivatives Application (Review Panel)

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The review panel will complete its review of a credit union's application for derivatives authority using an electronic copy of the *Derivatives Application Qualitative Review Checklist* ([Appendix CCC](#)), which it will maintain on the derivatives SharePoint site. All reviews must be accompanied by a completed checklist that supports the panel's recommendation to approve or deny the requested derivatives authority. At a minimum, the panel must assess all the elements required by regulation in accordance with the provisions set forth in this section. The review panel may conduct an on-site visit as a component of an application for final derivatives authority.

The panel may contact the credit union directly to request additional material(s) as necessary for review. If the application is substantively incomplete, the panel is unable to contact the credit union directly, or a credit union is unable to provide requested materials, the panel will coordinate with the field office to send the credit union a notice that the application is incomplete. This notice will list the additional document(s) and/or information required to complete the material for consideration (see *Notice of Incomplete Derivatives Application*, [Appendix 6-EEE](#)).

The field office will deliver this notice using the office's preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
- Assigned RCMS or ONES CMS

Each panel member will document his or her review and recommendation to approve or deny the application using the *Derivatives Application Qualitative Review Checklist* ([Appendix CCC](#)). Once completed, the panel will coordinate their joint recommendation with the field supervisor and submit it to the field office director. The field office director makes the final determination to approve or deny each application for derivatives authority, in part or in whole.

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The timelines for completing the review vary based on the type and complexity of the application a credit union has submitted:

Activity	Application Time Allotment, in Calendar Days		
	Interim Authority	Final Authority following Interim Authority	Final Authority with no Interim Authority
Confirm credit union eligibility and review credit union's safety and soundness (field office)	10 days	10 days	10 days
Conduct and document qualitative review of application; document and route panel recommendation to approve or deny application to field director (review panel)	40 days	40 days	100 days
Make final determination of application approval or denial and notify credit union (field director)	10 days	10 days	10 days
TOTAL	<i>Up to 60 days</i>	<i>Up to 60 days</i>	<i>Up to 120 days</i>

If the review panel determines that additional time is necessary, it will notify the field office. The field office will then provide the credit union the expected completion timeframe.

When reviewing an application for final derivatives authority, the review panel must consider any significant changes between the credit union's operational setup as reported in the interim application and in the final application. When a credit union submits an application for final derivatives authority without first requesting interim authority, the review panel must carefully evaluate the readiness of the credit union.

v. Approve or Deny Application and Notify Credit Union (Field Office Director)

After evaluating the recommendation of the review panel, the field director will decide whether to approve or deny a credit union's application for derivatives authority. **The field office will notify a credit union of the agency's interim and/or final approval or denial for derivatives authority within 10 calendar days of receiving a recommendation from the review panel.**

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The field office director will send the appropriate notice listed below using the field office's preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
- Assigned RCMS or ONES CMS

a. NCUA issues interim approval

The field office director will send the credit union a letter indicating that NCUA has granted interim derivatives authority (see *Notice of Interim Derivatives Authority Approval*, [Appendix 6-FFF](#)). This notice must:

- Indicate which derivatives product(s) and/or product characteristic(s) have been approved.
- Emphasize that the credit union may not enter into any derivatives transactions until it receives final written approval from an NCUA field director.

b. NCUA issues final approval

The field office director will send the credit union a letter indicating that NCUA has granted final derivatives authority (see *Notice of Final Derivatives Authority Approval*, [Appendix 6-GGG](#)). This notice must indicate which derivatives product(s) and/or product characteristic(s) have been approved.

c. NCUA issues denial

The field director will send the credit union a letter indicating that NCUA has denied the application for derivatives authority (see *Notice of Denied Derivatives Application*, [Appendix 6-DDD](#)). This notice must indicate the reason(s) for the denial and inform the credit union of the option to appeal the denial directly to the NCUA Board.

C. Derivatives Application Appeal Process

A federal credit union may submit an appeal to the NCUA Board within 60 calendar days of receiving notification that NCUA has denied derivatives authority. The denial letter provided by NCUA will inform the credit union of its right to appeal the decision directly to the NCUA Board. NCUA staff will not discourage a credit union from filing an appeal.

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A credit union must submit an appeal in writing. The request for appeal should address the specific reason(s) NCUA should reconsider its decision, and must include any relevant material previously submitted. Section 703.111(d) of NCUA rules and regulations provides guidance for the appeal.

The field office will create and maintain an electronic log (see *Derivatives Information Administration Log (DIAL)* ([Appendix ZZ](#)) of all appeals to maintain accurate records that reflect the actions described in this section.

Once an appeal is logged, the field office will send a letter to the credit union to acknowledge the appeal (see *Derivatives Appeal Acknowledgement*, [Appendix 6-HHH](#)) and provide a status update.

The Field Director will provide the Board an analysis of each appeal and recommend a disposition. The NCUA Board will evaluate each appeal and determine the appropriate action. The Board may request an analysis and recommendation regarding the appeal from E&I, review documentation previously provided by a credit union during the application process, and/or consult with staff when reviewing an appeal. Upon determining the appropriate action, the Board will notify the field office director of its decision.

The field director will send the credit union a notice indicating the NCUA Board's decision. For a denial, the field office will send the credit union a letter indicating that the appeal has been denied (see *Notice of Denied Derivatives Authority Appeal*, [Appendix 6-III](#)). This notice must indicate the reason(s) for the denial.

The field office will send the notice using the field office's preferred expedited mail delivery, and will provide a copy to:

- E&I (SCMS)
- Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
- Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
- Assigned RCMS or ONES CMS

D. Derivative Notification Procedures (applies only to FISCUs)

NCUA's derivative rule applies specifically to **federal credit unions**. The process for a federally insured, state-chartered credit union (FISCU) to receive authority to use derivatives varies by state. A FISCU may have derivatives authority under a state parity provision¹ or by following applicable state regulation with permission from the applicable state supervisory authority.

¹ State parity provisions are reflected in state regulation or statute, and generally permit a FISCU to operate under the same authority as federally chartered credit unions.

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A FISCU must notify NCUA in writing at least 30 days before it begins engaging in derivatives transactions. [Appendix 6-JJJ](#), *NCUA Notification of FISCU Derivatives Activity (FISCU only)*, outlines the information a FISCU must report in the notification.

A FISCU can submit the required notification electronically or by hard copy. The director of the applicable field office (typically the Division of Supervision) will coordinate the receipt and processing of notifications of derivatives activity received from a FISCU.

NCUA will log and track each notification it receives from a FISCU. Upon receipt, each notification will be entered into the *Derivatives Information Administration Log (DIAL)* ([Appendix ZZ](#)) and assigned a number. The official log will be maintained on SharePoint and organized separately for each field office.

The information reflected in DIAL is NCUA's official record of the FISCUs that have notified NCUA of their intent to engage in derivatives.

E. Derivatives Monitoring and Controls

i. Field Office Reporting Responsibilities

- Maintain a list of the derivatives authorities granted, revoked, and denied for federal credit unions on SharePoint in the *Derivatives Information Administration Log (DIAL)* ([Appendix ZZ](#)). Notifications received from FISCUs will also be logged and maintained in the DIAL on SharePoint.
- Maintain electronic supporting documentation for each approval/denial of derivatives authority and provide reports that track all derivatives authorities as needed.
 - Records must be updated on a monthly basis.

ii. E&I Reporting Responsibilities

- Track national trends each quarter for consistency and to support the development of future policy
- Issue a semi-annual report to field directors of national trends that reflects an analysis of the field office reports
- Conduct quality control by periodically sampling actions taken under this section

Appendix 6-ZZ: Derivatives Information Administration Log (DIAL)

Field offices will log and track each application or notification received from a federal credit union or federally insured, state-chartered credit union. Upon receipt, the field office will assign each application or notification a number and enter it in DIAL. Each application and notification will be entered in a separate column.

The official log will be maintained on SharePoint. Access will be granted to the regional owners of data that is entered into the log. Maintaining the log relieves field offices from reporting derivatives data separately to E&I.

E&I will monitor the log on a regular basis, and discuss progress on log activity with regional contacts. E&I will also assist with resourcing and technical issues associated with the log. Data in the log will be used to develop monthly metrics and reporting to management, developed by E&I. DIAL is the official source for tracking credit union derivatives authority.

A sample of the log appears below. E&I will assess the log and make process improvements in consultation with field offices.

Derivatives Information Administration Log ("DIAL")			
Office	Category	Data Element	Sample Entry
Field Office	Credit Union Data	Credit union name	ABC
Field Office		Credit union charter number	1234576
Field Office		Federal Credit Union (FCU) Application or FISCO Notification	FCU Application
Field Office		Derivative log number	Example #1
Field Office	Regional Log Information	Region number or ONES	Region #1
Field Office		Field staff that received the documentation	Abraham Lincoln
Field Office		Date FCU application or FISCO notification received	2/1/14
Field Office		FCU application received for which approval	Interim Approval
Field Office		Date due back to FCU (60 or 120 days)	4/1/14
Field Office		Is this the FCU's first application for derivative authority	YES
Field Office		Date of previous application, if previously declined	N/A
Field Office		Is this an application for additional products	NO
Field Office		Is credit union a pilot program member	NO
Field Office		For FISCO, is this new activity or already approved to use derivatives	New Authority

Field Office	FCU Complete-ness	Field office application reviewer:	Mary Todd Lincoln
Field Office		Date field office eligibility review completed (safety and soundness)	2/6/14
Field Office		If final application, is application a follow-up to interim approval	N/A
Field Office		Date of interim approval, if previously approved (if applicable)	N/A
Field Office		Completeness review deadline (10 days)	2/11/14
Field Office		Outcome of field office assessment for eligibility and safety and soundness	Complete - moving to CMSs
Field Office		If incomplete application, date of notification back to credit union	

Field Office	Products Requested	Interest rate swaps	YES
Field Office		Basis swaps	YES
Field Office		Interest rate caps	YES
Field Office		Interest rate floors	YES
Field Office		Interest rate futures	YES
Field Office		Notional amortizations	YES
Field Office		Swap forward start dates	NO

Field Office	CMS Process	RCMS staff assigned (name)	George Washington
Field Office		Date RCMS assigned	2/8/14
E&I		SCMS staff assigned (name)	James Monroe
E&I		Date SCMS assigned (name)	2/8/14
E&I		On-site review date (if applicable)	N/A
Review Panel		Deadline for Review back to FD (60 or 120 days from receipt)	4/1/14
Review Panel		Date review completed and communicated to field director	3/31/14
Review Panel		CMS recommendation	Approved - recommendation

Field Office	Documentation Archive	Folder on SharePoint for credit union setup	(Subfolder Name)
Field Office		FCU application documents	(Subfolder Name)
Field Office		FISCU Notification Documents	(Subfolder Name)
Field Office		FCU Field Office Completeness Review	(Subfolder Name)
Field Office		Derivatives Interim Application Acknowledgment	(Subfolder Name)
Field Office		Derivatives Final Application Acknowledgment	(Subfolder Name)
Field Office		Notice of Incomplete Derivatives Application	(Subfolder Name)
Field Office		Notice of Denied Derivatives Application	(Subfolder Name)
Review Panel		FCU CMS Review	(Subfolder Name)
Review Panel		Memo from CMS to field director with recommendation	(Subfolder Name)
Field Office		Field director memo to credit union - notice of interim derivatives approval	(Subfolder Name)
Field Office		Field director memo to credit union - notice of final derivatives approval	(Subfolder Name)
Field Office		Memo to credit union - acknowledgement of derivatives appeal	(Subfolder Name)
Varies		Other documents	(Subfolder Name)

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Appendix 6-AAA: Acknowledgement of Interim Derivatives Application

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

I received your application for interim approval of derivatives authority for [CU NAME] on [date], and am writing to notify you that your application is currently being reviewed. We will contact you directly if we need additional information to complete your application, and estimate that the review may take up to 60 days.

If you have any questions, please contact Regional Capital Markets Specialist [RCMS Name] at [PHONE NUMBER].

Sincerely,

[DIRECTOR NAME]
Director of Supervision

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

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Appendix 6-BBB: Acknowledgement of Final Derivatives Application (Notification of Readiness)

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

I have received your notification of readiness on [date], indicating that [CU NAME] is requesting final approval of derivatives authority. Your application is currently being reviewed, and we estimate that the review may take up to 60 days [if following a previous interim approval] / 120 days [if this is a first-time application, with no previous interim approval].

We will contact you directly if we need additional information to complete our review. If we determine that an on-site visit is necessary as part of the review, we will contact you to coordinate as soon as possible.

If you have any questions, please contact your Regional Capital Markets Specialist [RCMS name] at [phone number].

Sincerely,

[DIRECTOR NAME]
Director of Supervision

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

Appendix 6-CCC: Derivatives Application Qualitative Review Checklist

Federal Credit Union Information																	
Credit union name																	
Charter number																	
Assets ² (enter whole dollar number from the most recent quarterly call report)	\$,	2	5	0	,	0	0	0	,	0	0	0
CAMEL code (composite) (check the number from most recent exam)	<input type="checkbox"/> 1				<input type="checkbox"/> 2				<input type="checkbox"/> 3								
CAMEL code (management) (check the number from most recent exam)	<input type="checkbox"/> 1				<input type="checkbox"/> 2				-N/A-								
Contact Information																	
Contact name																	
Title																	
Email / Phone																	
Requested Approval	Interim Approval <input type="checkbox"/>				Final Approval <input type="checkbox"/>												
<i>Indicate each product / characteristic the credit union has requested approval to use with a checkmark</i>																	
Interest rate swaps	<input type="checkbox"/>																
Basis swaps	<input type="checkbox"/>																
Interest rate caps	<input type="checkbox"/>																
Interest rate floors	<input type="checkbox"/>																
U.S. Treasury note futures	<input type="checkbox"/>																
Amortizing notional	<input type="checkbox"/>																
Forward start swaps	<input type="checkbox"/>																
NCUA USE ONLY																	
Date application received											REGION/ONES						
Review completed by (name)																	
Credit union eligibility (check one)	<input type="checkbox"/> Eligible (standard)				<input type="checkbox"/> Eligible (FD approved) ²				<input type="checkbox"/> Ineligible								
Limits (check one)	<input type="checkbox"/> Entry limits										<input type="checkbox"/> Standard limits						

² If credit union has less than \$250 million in assets, it must submit documentation supporting the Field Director's approval as part of its application for derivatives authority.

After the field office determines if an application is complete and evaluated the safety and soundness of the credit union, the application will be reviewed by a panel from a qualitative perspective. Each member of the panel must complete their respective comment boxes to provide support for the overall assessment of the application.

Derivatives Application Qualitative Review (Interim Approval)			
As part of the initial application process, after regions have determined completeness of the package submitted, a secondary review is to be done from a qualitative perspective. All members of the panel (Field staff, Field CMS, and SCMS) will complete their respective comment boxes to provide support for their overall assessment.			
Interim Application Review			
	Field Staff Comments	Field CMS Comments	SCMS Comments
#	Safety and Soundness (Field Staff Only) A credit union that plans to engage in derivatives activity is expected to be operated in a safe and sound manner. A preliminary review of the credit union's examination and supervision history and an evaluation of the status of any outstanding material supervisory concerns is essential to determining whether a credit union should be granted derivatives authority.		
1	Does the credit union's asset size and CAMEL code meet the minimum qualifications to apply for derivative authority?		
2	Review current FPR and discuss the strength of the current financial condition and trends.		
3	Review most recent examination and/or supervision contact reports; discuss current CAMEL code, risk ratings and any outstanding material DOR or examiners findings.		
4	Review most recent Quality Control Review, Supervisory Evaluation Form and RATE review. Discuss any material issues identified in these reviews.		

Derivative Transaction and Limit Compliance Understanding what products and hedging strategies to be implemented by the credit union is a critical part of the application. The credit union must demonstrate what products and characteristics are being used in the application. Product descriptions should be clear and referenced to the permissible derivatives subsection of the rule 703.102. The application should articulate what the hedging strategy will be in mitigating interest rate risks and how they will measure and monitor the positions against the prescribed limits.			
5	Products (§703.102) Application indicates what products the credit union plans on using and what the hedging objectives are. This should include what balance sheet characteristics are contributing to the interest rate risk, and how derivatives will reduce this risk.		
6	Transaction Characteristics (§703.102) If applicable, application indicates if credit union will use notational amortization or forward start date features, and what the credit union's hedging objectives are.		
7	Limits Authority (§703.103) Credit union recognizes the risk limits associated with the program and indicates how it will comply with them. This is required whether credit union applies with or without prior derivatives experience.		
External Service Providers (including trade counterparties) External Service Providers (ESPs), including transaction counterparties, are a critical component of operating a derivatives program. For transactions; the execution of transactions, the servicing of margin calls, the custodial duties of managing collateral, and in most cases providing current valuations of the transactions. For <i>operational support functions</i> , ESPs are a source of generic ALM functions used at many credit unions. For <i>transactions</i> , the type of agreement needed will vary based on the products the credit union has applied for and whether the credit union will use exchanges or use bilateral agreements will determine. For each product, the application should indicate the credit union's approach is and how it plans on supporting the agreement. For <i>support functions</i> , the application should be clear on what functions will be supported by an ESP, how each function will integrate back into the credit unions' operations, and how the credit union will control this process.			
8	Trade Counterparties (§703.104) Application includes a list of counterparties the credit union plans on using and indicates whether transactions will be cleared, non-cleared, or exchange cleared.		

9	<i>Collateral and Margining (§703.104)</i> Application indicates how credit union will support the collateral and margining requirements detailed in the rule.			
10	<i>Support Functions (§703.107)</i> Application indicates which ESP(s) credit union will use to support derivatives, what functions the ESP(s) will perform, and how supported functions will be integrated into the credit union's operations.			
11	<i>Support Functions (§703.107)</i> Credit union must demonstrate how it will support the ALM and liquidity management functions internally and independently.			
12	<i>Legal Documents (§703.106)</i> Depending on the approach to ESPs, credit union has indicated what contractual agreements it plans on executing.			
Management Reporting Ensuring that a credit union's business plan supports its interest rate risk mitigation plans is a critical part of ALM. Similar to the topics above, the credit union's understanding of the hedging strategy as part of its overall balance sheet management should be documented. For internal management reporting, the credit union should have the relevant reporting to indicate the current risks, positions and hedge effectiveness.				
13	<i>Risk Mitigation Plan (§703.110)</i> Application includes plan on how credit union will monitor interest rate risk using derivatives, and analysis of using other balance sheet options, and how new instruments will be incorporated into existing risk reporting.			
14	<i>Risk Mitigation Plan (§703.110)</i> Credit union indicates what analytical modeling it has done to understand the risk sensitivity of the proposed derivative positions and how effective the hedge will be.			
15	<i>Internal Reporting (§703.105)</i> Application describes how the credit union will modify or develop internal reporting to include derivatives, and report to the Board and senior executive officers as required by the rule.			

Operational Requirements How a credit union supports and monitors the oversight of a hedging program is critical to its success. The governance and management of ALM activities, including derivatives, requires a greater level of sophistication. In this section, assess how management is conducting activities to support a hedging program and how the internal control framework is supporting those activities. Proper separation of duties, a robust internal control framework and the compliance with GAAP for accounting results are the core attributes for this section.			
16	<i>Board Resolution (§703.106)</i> Application includes a resolution from the credit union board of directors or approval in board minutes.		
17	<i>Senior Executive Officer Oversight (§703.106)</i> Application describes how the executive officers will oversee the safety and soundness of the derivatives program.		
18	<i>ALM Oversight (§703.106)</i> Application details what procedures or plans the credit union will develop or amend on how it will conduct risk oversight of derivatives and integrate derivatives into the overall ALM framework.		
19	<i>Accounting (§703.106)</i> Credit union indicates what accounting designation it plans on using and how it will comply with GAAP, as part of the execution strategy.		
20	<i>Financial Statement Audit (§703.106)</i> Application acknowledges that the credit union is planning to contract with an independent auditor for a year-end financial statement audit.		
21	<i>Internal Controls (§703.106)</i> Application acknowledges that an independent (external or internal) review of derivative internal controls for the first two years of the program.		
22	<i>Process Framework (§703.106)</i> Application indicates that a documented plan on the process flow will be produced for the final review; the plan should include roles and responsibilities for each of the major functions in supporting derivatives.		
23	<i>Separation of Duties (§703.106)</i> Process framework indicates how the credit union will comply with the required separation of duties.		

Application Assessment Conclusion and Recommendation (Interim Approval)			
24	Is the application content and business plans sufficient enough to make an assessment?		
25	What part(s) of the application would need more information if the credit union pursues final" derivatives authority?		
26	Given the information that has been presented to me, and in consultation with the other panel member and field office staff, I recommend to approve/decline this application.		
27	Joint panel recommendation for interim authority (approve or decline)		

Derivatives Application Qualitative Review (Final Approval)			
As part of the initial application process, after regions have determined completeness of the package submitted, a secondary review is to be done from a qualitative perspective. All members of the panel (Field staff, Field CMS, and SCMS) will complete their respective comment boxes to provide support for their overall assessment.			
Final Application Review			
	Field Staff Comments	Field CMS Comments	SCMS Comments
#	Safety and Soundness (Field Staff Only) A credit union that plans to engage in derivatives activity is expected to be operated in a safe and sound manner. A preliminary review of the credit union's examination and supervision history and an evaluation of the status of any outstanding material supervisory concerns is essential to determining whether a credit union should be granted derivatives authority.		
1	Does the credit union's asset size and CAMEL code still meet the minimum qualifications to apply for derivative authority?		
2	If a new call report cycle has closed since the interim approval, review the FPR. Discuss any changes to financial condition or trends since interim approval, if applicable.		
3	If a supervision or examination report has been uploaded since the interim review, evaluate if any changes were identified or material issues have emerged, if applicable.		

4	If a new Quality Control Review, Supervisory Evaluation Form, or RATE has been approved since the interim approval, review and comment on any material issues, if applicable.			
Derivative Transaction and Limit Compliance Understanding what products and hedging strategies to be implemented by the credit union is a critical part of the application. The credit union must demonstrate what products and characteristics are being used in the application. Product descriptions should be clear and referenced to the permissible derivatives subsection of the rule 703.102. The application should articulate what the hedging strategy will be in mitigating interest rate risks and how they will measure and monitor the positions against the prescribed limits. For the final review assessment, the credit union must include a document of policies and procedures to support the limits monitoring.				
5	<i>Products (§703.102)</i> If following up on an interim approval, product strategy is consistent and use strategy is very clear on how credit union will use products.			
6	<i>Products (§703.102)</i> Application demonstrates the benefit and goal of using each product and what interest rate hedging objectives are being met.			
7	<i>Transaction Characteristics (§703.102)</i> Requests for product characteristics are consistent with application for interim approval, if applicable.			
8	<i>Transaction Characteristics (§703.102)</i> Application demonstrates the benefit and goal of using each characteristic and what interest rate hedging objectives are being met.			
9	<i>Limits Authority (§703.103)</i> Credit union acknowledges the rule limits, the calculations as per the rule, and identifies what processes and reporting have been developed to monitor the limits.			
10	<i>Limits Authority (§703.103)</i> Credit union has provided report prototypes that demonstrate how it will monitor limits.			
11	<i>Limits Authority (§703.103)</i> Credit union has provided procedures which will ensure that valuations and positions are reconciled with the counterpart, and that the fair value limit is consistent with this.			

12	<p><i>Limits Authority (§703.103)</i> Determine whether program qualifies for <i>entry</i> or <i>standard</i> limits using the rule requirements.</p>			
<p>External Service Providers (including trade counterparties) External Service Providers (ESPs), including transaction counterparties, are a critical component of operating a derivatives program. For transactions; the execution of transactions, the servicing of margin calls, the custodial duties of managing collateral, and in most cases providing current valuations of the transactions. For <i>operational support functions</i>, ESPs are a source of generic ALM functions used at many credit unions. For <i>transactions</i>, the type of agreement needed will vary based on the products the credit union has applied for and whether the credit union will use exchanges or use bilateral agreements will determine. For each product, the application should indicate the credit union's approach is and how it plans on supporting the agreement. For <i>support functions</i>, the application should be clear on what functions will be supported by an ESP, how each function will integrate back into the credit unions' operations, and how the credit union will control this process. Policies and procedures must be included for the final review assessment.</p>				
13	<p><i>Trade Counterparties (§703.104)</i> Application details what counterparties the credit union will use to execute transactions.</p>			
14	<p><i>Trade Counterparties (§703.104)</i> Application details what swap dealer, futures commission merchants (FCM), or introducing brokers have been contracted and whether they are clearing or using a bilateral agreement. Contract discloses that only certain contracts can be done, consistent with the application of products.</p>			
15	<p><i>Collateral and Margining (§703.104)</i> Assess the qualifications of the staff that will be supporting this function.</p>			
16	<p><i>Collateral and Margining (§703.104)</i> Guidelines in the counterparty agreement(s) detail the eligible collateral and margining requirements are compliant with the rule.</p>			
17	<p><i>Collateral and Margining (§703.104)</i> Evidence that the credit union has the systems, procedures and trigger notifications to support margin calls.</p>			
18	<p><i>Collateral and Margining (§703.104)</i> Review the reporting that shows the counterparty risk and how the credit union is compliant with the minimum transfer or FCM margin requirements.</p>			

19	<i>Support Functions (§703.107)</i> Review documents on what ESP(s) the credit union is using to support or integrate derivatives, and in what capacity they are being used.			
20	<i>Support Functions (§703.107)</i> Application contains reports that will be used for risk, position, and fair value gain (loss).			
21	<i>Support Functions (§703.107)</i> Confirm that service providers for support functions are not derivative counterparties (which is not allowed by the rule).			
22	<i>Support Functions (§703.107)</i> Credit union has demonstrated that it is capable of overseeing and managing an ESP, and has the resources to do so, where the ESP is providing interest rate risk measurement models and/or liquidity measurement and support functions.			
23	<i>Support Functions (§703.107)</i> Credit union has documented how it is controlling the data and process flow integration points using a service provider.			
24	<i>Legal Documents (§703.106)</i> Credit union has provided signed agreements with all service providers to execute transactions, support margining, and all other operational support.			
Management Reporting Ensuring that a credit union's business plan supports its interest rate risk mitigation plans is a critical part of ALM. Similar to the topics above, the credit union's understanding of the hedging strategy as part of its overall balance sheet management should be documented. For internal management reporting, the credit union should have the relevant reporting to indicate the current risks, positions and hedge effectiveness. Policies and procedures must be included for final review assessment.				
25	<i>Risk Mitigation Plan (§703.110)</i> Credit union has provided a detailed plan on the hedging objectives using derivatives, how other interest rate options were considered, and what the economic benefits will be and how the program is reducing or has the potential to reduce interest rate risk.			

26	<i>Risk Mitigation Plan (§703.110)</i> Credit union's risk mitigation plan considers how derivatives can be an alternative to other interest rate mitigation strategies; credit union demonstrates that it has done a cost/benefit analysis.			
27	<i>Risk Mitigation Plan (§703.110)</i> Credit union outlines what analytical modeling was done to understand the risk sensitivity of the derivative positions and how effective the hedge will be. Check for improvements or changes to the material provided for interim review, if applicable.			
28	<i>Risk Mitigation Plan (§703.110)</i> Credit union uses the forward interest rate curve to estimate its cost of funds over the next five years.			
29	<i>Risk Mitigation Plan (§703.110)</i> Credit union reports NEV and income simulations with and without derivatives.			
30	<i>Risk Mitigation Plan (§703.110)</i> Credit union includes both parallel and non-parallel changes in rates over the maturity spectrum (both flattening and steepening of the yield curve).			
31	<i>Internal Reporting (§703.105)</i> Ensure the proposed reporting complies with the requirements for a comprehensive derivatives report outlined in the rule.			
32	<i>Internal Reporting (§703.105)</i> Confirm the distribution and frequency of internal reporting.			
Operational Requirements How a credit union supports and monitors the oversight of a hedging program is critical to its success. The governance and management of ALM activities, including derivatives, requires a greater level of sophistication. In this section, assess how management is conducting activities to support a hedging program and how the internal control framework is supporting those activities. Proper separation of duties, a robust internal control framework and the compliance with GAAP for accounting results are the core attributes for this section.				
33	<i>Board Resolution (§703.106)</i> Review and confirm the board's approval to use derivatives to hedge interest rate risk.			

34	<i>Board Resolution (§703.106)</i> Confirm the approach and method to how both the board and senior executives will receive training.			
35	<i>Senior Executive Officer Oversight (§703.106)</i> Credit union has provided documentation that the senior executive officers will oversee with roles and functional responsibilities in supporting all derivative activities.			
36	<i>ALM Oversight (§703.106)</i> Credit union demonstrates how transactions will be monitored and how the effectiveness of derivative activities is mitigating interest rate risk. Credit union clearly indicates what reporting, systems and functions are being performed, and what sensitivity analysis is being performed, not only for derivatives, but in the context of the overall ALM. Credit union has clearly demonstrated the quality of the reporting and personnel who support these activities.			
37	<i>ALM Oversight (§703.106)</i> Assess the qualifications of the staff that will be supporting derivatives.			
38	<i>ALM Oversight (§703.106)</i> Credit union indicates what reporting and functions are being performed, and what systems are being used.			
39	<i>ALM Oversight (§703.106)</i> Credit union indicates what sensitivity analysis is being performed, not only for derivatives, but in the context of the overall ALM. Assess the quality of the reporting and personnel who support ALM activities.			
40	<i>Accounting (§703.106)</i> Credit union demonstrates what accounting approach it will use and how it will monitor results over the life of the transactions.			
41	<i>Accounting (§703.106)</i> Assess the qualifications of the staff what will be supporting this function.			

42	<i>Accounting (§703.106)</i> Credit union demonstrates that hedge accounting results will be continually tested for effectiveness, secure required documentation, and record appropriate accounting using an approach that is consistent with its hedging strategy. Review the policies and procedures for this.			
43	<i>Accounting (§703.106)</i> Review the policies and procedures provided by the credit union to confirm that the suggested accounting approach is consistent with the hedging strategy.			
44	<i>Financial Statement Audit (§703.106)</i> Credit union demonstrates that a year-end financial statement audit will be performed inclusive of all derivatives activities.			
45	<i>Internal Controls (§703.106)</i> Credit union confirms that an independent assessment of internal controls will be conducted for the first two years of the program, and provides a confirmation from the internal audit group or auditors.			
46	<i>Process Framework (§703.106)</i> Credit union's internal control framework documents the roles and responsibilities for all the activities needed to support derivative activities, including the separation of duties.			
47	<i>Process Framework (§703.106)</i> Analyze the depth and robustness of the roles, personnel and controls as the focus of this review.			
48	<i>Separation of Duties (§703.106)</i> Credit union's internal control framework documents the roles and responsibilities for all the activities needed to support derivative activities, including the separation of duties.			
Application Assessment Conclusion and Recommendation (Final Approval)				
49	Is the application content and business plan sufficient enough to determine that the credit union could control a derivatives program?			

50	Given the information that has been presented to me, and in consultation with the other panel member and field office staff, I recommend to approve/decline this application.			
51	Joint panel recommendation for final authority (approve or decline)			

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Appendix 6-DDD: Notice of Denied Derivatives Application

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

I am writing to notify you that I have reviewed CREDIT UNION's request for derivatives authority pursuant to Part 703, Subpart B of NCUA rules and regulations. Based on a review of the application and supporting documentation provided, CREDIT UNION has not been approved for derivatives authority. Specifically:

- Indicate reason(s) for denial (ineligible, safety and soundness, etc.)
- Describe reasons in full

We recognize CREDIT UNION's commitment to reducing interest rate risk, and commend your efforts in developing a strategic plan to enter into the derivatives market. However, your goals and objectives must be supported by reasonable assumptions, projections, and data.

You may appeal this decision to the NCUA Board through this office. If you choose to appeal, you must submit a request, in writing, within 60 days. Your appeal should address the above items. Please see Section 703.111(d) of the regulations for details about the appeals process, or contact examiner [EXAMINER NAME] at [PHONE NUMBER].

Sincerely,

[Field DIRECTOR NAME]
Field Director

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

[Return to beginning of Chapter 6, Section 13](#)

Appendix 6-EEE: Notice of Incomplete Derivatives Application

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

We have reviewed your request for derivatives authority pursuant to Part 703, Subpart B of NCUA's rules and regulations. I am writing to inform you that the documentation we received on Month XX, 20XX is not sufficient to perform an adequate review and make an informed decision.

We have deferred your request for derivatives authority pending a complete application. You can complete your application by submitting the following items:

1. Item (describe each item in full)
2. Item (add lines as needed)

Please contact Regional Capital Markets Specialist [RCMS name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]
Field Director

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

[Return to beginning of Chapter 6, Section 13](#)

Appendix 6-FFF: Notice of Interim Derivatives Authority Approval

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

I am writing to notify you that CREDIT UNION's request for interim derivatives authority has been approved.

- List each approved derivatives product and/or product characteristic

CREDIT UNION may not enter into derivatives transactions until it has received final authority from NCUA.

To request final derivatives authority, please refer to §703.111 (b)(c), which indicates what information you must provide to NCUA. You can contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]
Field Director

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

Appendix 6-GGG: Notice of Final Derivatives Authority Approval

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

I am writing to notify you that CREDIT UNION's request for derivatives authority has been formally approved. CREDIT UNION may immediately enter into the following derivatives transactions:

- List each approved derivative authority

Your derivatives activities must be within the approved authority limits (INDICATE LIMITS), and the regulatory requirements detailed in Part 703, Subpart B for derivatives.

Please contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]
Field Director

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

Appendix 6-HHH: Acknowledgement of Derivatives Appeal

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

The NCUA board has received your appeal of DESCRIBE, which is being reviewed now. We will contact you directly if we need additional information, and will respond to your request as soon as possible.

If you have any questions, please contact examiner [examiner name] at [phone number].

Sincerely,

[DIRECTOR NAME]
Director of Supervision

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

[Return to beginning of Chapter 6, Section 13](#)

Appendix 6-III: Notice of Denied Derivatives Authority Appeal

Date

SENT VIA [PREFERRED DELIVERY SERVICE] – SIGNATURE REQUIRED

Mr. John Doe
Board Chairperson
ABC Federal Credit Union
Address
City, State Zip Code

Dear Mr. Doe:

On behalf of the NCUA board we are notifying you that I have reviewed CREDIT UNION's appeal of DESCRIBE. Based upon a review of the application and supporting documentation provided, NCUA is maintaining denial for derivatives authority at this time.

We recognize CREDIT UNION's commitment to reducing interest rate risk, and commend your efforts in developing a strategic plan to enter into the derivatives market. However, your goals and objectives must be supported by reasonable assumptions, projections, and data.

You can contact examiner [examiner name] at [phone number] with any questions.

Sincerely,

[Field DIRECTOR NAME]
Field Director

[Office]/[WRITER'S INITIALS]
SSIC XXXX
Charter #

cc: E&I (Assigned SCMS)
Field supervisor (supervisory examiner, national field supervisor, or Director of Special Actions)
Field staff (district examiner, problem case officer, National Credit Union examiner, or specialized examiner)
Assigned RCMS

Appendix 6-JJJ: NCUA Notification of FISCU Derivatives Activity (FISCUs only)

Federally Insured, State-Chartered Credit Union (FISCU) Information			
Credit union name			
Charter number			
Contact Information			
Contact name			
Title			
Email / Phone			
Derivative Products FISCU intends to use / already uses (optional)			
Interest rate swaps		<input type="checkbox"/>	
Basis swaps		<input type="checkbox"/>	
Interest rate caps		<input type="checkbox"/>	
Interest rate floors		<input type="checkbox"/>	
U.S. Treasury note futures		<input type="checkbox"/>	
Amortizing notional		<input type="checkbox"/>	
Forward start swaps		<input type="checkbox"/>	
Other (List) _____		<input type="checkbox"/>	
NCUA USE ONLY			
Date notification received		REGION	
Notification received by (<i>name</i>)			
Derivative program use	<input type="checkbox"/> New activity	<input type="checkbox"/> Existing activity	

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