

# NCUA BULLETIN

**NO. 4011B**

**DATE: March 31, 2014**

**SUBJECT:** Application Process for Credit Union Derivatives Authority Added to NSPM

**TO:** All NCUA Staff

**REF:** NCUA Instruction 4010 (Rev. 2), National Supervision Policy Manual (NSPM)<sup>1</sup>

**ENCL:** Chapter 6, Section 13 of the NSPM

1. **PURPOSE.** This NCUA bulletin provides policies and procedures to be incorporated into Chapter 6 of the National Supervision Policy Manual (NSPM), *Regulatory Waivers, Changes of Officials, and other Regulatory Actions*. Section 13, *Derivatives Authority*, describes procedures for reviewing applications for derivative authority received by NCUA.
2. **BACKGROUND.** NCUA issued a final rule on the use of derivative products for the limited purpose of mitigating interest rate risk in January 2014. The rule applies specifically to **federal credit unions**, which must meet eligibility requirements (**assets of at least \$250 million and a composite CAMEL rating of 1, 2, or 3**) in order to apply to use derivatives.<sup>2</sup> An NCUA field director may permit selected federal credit unions with assets of less than \$250 million to apply as well.

A federal credit union must apply for and receive final approval from NCUA before it uses derivatives to reduce exposure to interest rate risk. Prior to the release of the final rule on derivatives, federal credit unions were able to use derivatives as part of a pilot program. Credit unions that participated in the pilot program must apply for derivatives authority under the new rule by March 3, 2015 (within 12 months of the effective date of the final rule). A federally insured, state-chartered credit union (FISCU) must notify NCUA in writing at least 30 days before it begins engaging in derivatives transactions.

The responsible NCUA field director<sup>3</sup> must act on a request from an eligible federal credit union. The attached section will be added to Chapter 6 of the NSPM to clarify roles and responsibilities and prescribe processing procedures to ensure that federal credit union

<sup>1</sup> NCUA Instruction 4010 (Rev. 2) was released February 26, 2014.

<sup>2</sup> The Board action adjusted Part 741 of NCUA's rules and regulations to require federally insured, state-chartered credit unions to notify NCUA at least 30 days in advance of engaging in derivatives.

<sup>3</sup> "Field director" includes regional directors and the director of the Office of National Examination and Supervision (ONES).

applications for derivatives authority are reviewed consistently. Standardized correspondence templates and a qualitative application review checklist are included as appendices to the new section.

3. **POLICY.** Attached are the new procedures and templates that will serve as agency policy until incorporated into the NSPM.
4. **EFFECTIVE DATE.** This bulletin is effective immediately and will remain in effect until the corresponding changes are incorporated into the NSPM at its next update.

/s/

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