§704.4 Asset/liability management.

- (a) Matching. All shares and deposits. exclusive of permanent capital share accounts and secondary capital share accounts, whether fixed or variable rate, must be identically matched to a corresponding asset. An identical match means that any factor which impacts the cash flows of an asset must be identically replicated in the corresponding liability. The corporate's capital is exempt from the matching requirement. The overnight shares of a corporate credit union are subject to the matching requirement with the following exception: Up to, but no more than, 25 percent of a corporate credit union's overnight shares and deposits (based on the average daily overnight balance for the preceding calendar year) can be matched against variable rate securities with a final maturity of three years or less provided that the following provisions are met: the security coupon reprices at least monthly, the coupon formula is tied to an appropriate market index (such as LIBOR, PRIME, Fed funds and Treasury Bills) not a lagging indicator (such as COFI); the change in coupon formula is not inverse to or a multiple of the change in the market index, and, if the asset is a marketable security, is classified as "available for sale".
- (b) Unmatched embedded option limitation. A corporate credit union is limited to an aggregate amount of instruments that possess unmatched embedded options of no more than capital.
- (c) Penalty for early withdrawal. All shares and deposits must either be non redeemable or include a fair value penalty for early withdrawal as defined in 8 704 2
- (d) Portfolio pricing. The fair value of all investment securities, regardless of classification, must be calculated and documented on a monthly basis using reliable market price indicators. Such documentation shall be provided upon request to the auditor, supervisory committee, and NCUA.
- (e) Maximum unrealized loss on "available-for-sale" assets. The aggregate loss in the accumulated unrealized gains/losses on "available-for-sale" assets, net of any unrealized gains/losses on the corresponding source of funds, may not exceed 15 percent of primary capital excluding accumulated unrealized gains/losses on available for sale securities. Any violation of this limit must be addressed with a corrective action that reduces the loss below the maximum allowed within 10 days.
- (f) Rate shock analysis. A corporate credit union must perform a monthly

- "shock test" calculation to show the impact upon its net interest income and market value of portfolio equity (MVPE) for an immediate and sustained tandem shift in interest rates of plus and minus 300 basis points. The MVPE cannot change by more than plus or minus 25 percent for a plus or minus 300 basis point rate shock. The documentation for these calculations must include the balance sheet categories, interest rates, and other assumptions used. This information must be presented to a senior committee that includes board membership and provided upon request to the auditor, supervisory committee
- (g) Risk analysis. A corporate credit union must identify and list all risks associated with an asset or source of funds prior to purchase or issuance. Where applicable, the risk analysis must include, at a minimum, liquidity, market, credit, legal, systems/operations, sovereign, exchange, and management risks. The risk analysis shall be maintained with other supporting documentation in a permanent record, which shall be provided upon request to the auditor, supervisory committee, and NCUA.
- (h) Risk supervision. A corporate credit union must identify, measure, and document the risks associated with all assets. The measure of risk exposure and a comparison of such exposure to board policy limits must be reported in writing on a quarterly basis. Such reports shall be provided upon request to the auditor, supervisory committee, and NCUA.
- (i) Risk compliance. A corporate credit union must review all investment assets on a monthly basis for compliance with NCUA Rules and Regulations and board of director policies to determine whether any such assets require divestiture. The results and analysis shall be provided upon request to the auditor, supervisory committee, and NCUA.
- (j) Contingency funding. A corporate credit union must develop a contingency funding plan that ranks, in order of priority, all sources of liquidity, by category and amount, that are available to service an immediate outflow of member funds. The plan must analyze the impact that potential changes in fair value will have on the disposition of assets in a variety of interest rate scenarios and be reviewed by a committee of the board no less frequently than annually or as market and business conditions dictate. The plan and annual review shall be provided upon request to the auditor, supervisory committee, and NCUA.

- (k) *Policies.* Corporate credit unions must develop and implement comprehensive written policies, which shall be reviewed annually and provided upon request to the auditor, supervisory committee, and NCUA. The policies must address, at a minimum, the following:
- (1) Diversification of assets by issuer, type and risk;
- (2) Approved issuers, instruments, and broker-dealers;
- (3) Liabilities, including pricing strategies, diversification and penalties for early withdrawal:
- (4) Limits on the maximum permitted change in net interest income as calculated for a plus and minus 300 basis point rate shock;
 - (5) Acceptable credit risk;
- (6) Authorization of and limitations on persons/committees involved with asset/liability management.

§ 704.5 Investments.

- (a) A corporate credit union may invest in those securities, deposits, and obligations set forth in Sections 107(7), 107(8), and 107(15)(B) of the Federal Credit Union Act (12 U.S.C. 1757(7), 1757(8), and 1757(15)(B)), except as provided in this section. Any asset that has the potential to be divested must be classified as available-for-sale. An asset downgraded by the same rating agency used when the investment was purchased must be divested within 10 business days of the downgrade. Other than investments in wholesale corporate credit unions, CSOs, and repurchase transactions, the aggregate of a corporate credit union's investments in any one institution, issuer, or trust is limited to 25 percent of the corporate credit union's primary capital at the time of purchase.
- (b) A corporate credit union may invest in CSOs, as defined in $\S\,704.2$ and subject to the limitations of $\S\,704.7$.
- (c) A corporate credit union may invest in deposits in, the sale of Federal Funds to, and debt obligations of wholesale corporate credit unions.
- (d)(1) A corporate credit union may invest in deposits in, the sale of Federal Funds to, and debt obligations of Section 107(8) institutions subject to the following requirements:
- (i) The institution must have assets of at least US \$5 billion and an entity rating no lower than B (or equivalent);
- (ii) The investment must be rated no lower than A-1 (or equivalent) for short-term investments and no lower than AA (or equivalent) for long-term investments; and
- (iii) The investment must be denominated in United States dollars.
- (2) A written evaluation of lines of exposure to all Section 107(8)