than 5.25 percent and less than 5.75 percent or the capital to risk-weighted assets ratio is greater than 14.0 percent and less than 17.0 percent.

(4) Category 4 requires a corporate reserve transfer percentage of 5 basis points of average daily assets when either the primary capital ratio is greater than 5.75 percent and less than 6.0 percent or the capital to risk-weighted assets ratio percentage is greater than 17.0 percent and less than 20.0 percent.

(5) Category 5 requires a corporate reserve transfer percentage of 0 basis points when the primary capital ratio is greater than 6.0 percent and the capital to risk-weighted assets ratio percentage is greater than 20.0 percent.

(k) *Full and fair disclosure.* Corporate credit unions must provide reserves necessary for full and fair disclosure as specified in § 702.3 of this chapter.

§704.13 Representation.

(a) *Board representation.* The board shall be determined as stipulated in the standard corporate federal credit union bylaws governing election procedures, provided that:

(1) The chair of the board may not serve simultaneously as an officer, director, or employee of a credit union trade association;

(2) A majority of directors may not serve simultaneously as officers, directors, or employees of the same credit union trade association or its affiliates (not including chapters or other subunits of a state trade association); and

(3) For purposes of meeting the requirements of paragraphs (a)(2) and (a)(3) of this section, an individual may not serve as a director or chair of the board if that individual holds a subordinate employment relationship to another employee who serves as an officer, director, or employee of a credit union trade association.

(b) *Representatives of member credit unions.* (1) A member credit union may appoint one of its members or officials as a representative to the corporate credit union. The representative shall be empowered to attend membership meetings, to vote, and to stand for election on behalf of the member. Only a member credit union representative is eligible to vote and to stand for election. No individual may serve as the representative of more than one member credit union in the same corporate credit union.

(2) Any vacancy on the board of a corporate credit union caused by a representative being unable to complete his or her term shall be filled by the board of the corporate credit union according to its bylaws governing the filling of board vacancies.

(c) *Recusal provision.* (1) No director, committee member, officer, or employee of a corporate credit union shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his or her pecuniary interest or the pecuniary interest of any entity (other than the corporate credit union) in which he or she is interested, except if the matter involves general policy applicable to all members, such as setting dividend or loan rates or fees for services.

(2) An individual is "interested" in an entity if he or she:

 (i) Serves as a director, officer, or employee of the entity;

(ii) Has a business, ownership, or deposit relationship with the entity; or

(iii) Has a business, financial, or familial relationship with an individual whom he or she knows has a pecuniary interest in the entity.

(3) In the event of the disqualification of any directors, by operation of paragraph (c)(1) of this section, the remaining qualified directors present at the meeting, if constituting a quorum with the disqualified directors, may exercise, by majority vote, all the powers of the board with respect to the matter under consideration. Where all of the directors are disqualified, the matter must be decided by the members of the corporate credit union.

(4) In the event of the disqualification of any committee member by operation of paragraph (c)(1) of this section, the remaining qualified committee members, if constituting a quorum with the disqualified committee members, may exercise, by majority vote, all the powers of the committee with respect to the matter under consideration. Where all of the committee members are disqualified, the matter shall be decided by the board of directors.

(d) Administration. (1) A corporate credit union shall be under the direction and control of its board of directors. While the board may delegate the performance of administrative duties, the board is not relieved of its responsibility for their performance. The board may employ a chief executive officer who shall have such authority and such powers as delegated by the board to conduct business from day to day. Such chief executive officer must answer solely to the board of the corporate credit union, and may not be an employee of a credit union trade association.

(2) The provisions of \S 701.14 of this chapter apply to corporate credit unions, except that where reference is

made to "Regional Director," substitute "NCUA."

§704.14 Audit requirements.

(a) Annual audit. (1) The corporate credit union supervisory committee shall cause an annual opinion audit, which shall include a reportable conditions letter (i.e. management letter) to be made by an independent, duly licensed certified public account (CPA) and shall submit the audit report to the board of directors. A summary of the audit report shall be submitted to the membership at the next annual meeting.

(2) The CPA's audit workpapers shall be provided upon request to NCUA.

(3) A copy of the audit report and reportable conditions letter (i.e. management letter) shall be submitted to NCUA, within 30 days after receipt by the board of directors.

(b) Internal auditor function. (1) A corporate credit union with net assets in excess of \$100 million as of the preceding December 31, or as ordered by NCUA, will be required to employ or contract the services of an internal auditor.

(2) The internal auditor will report directly to the chairperson of the corporate credit union's supervisory committee.

(3) The internal auditor's responsibilities will include, but are not limited to, the review of ongoing compliance with statutory and regulatory requirements, adherence to the corporate credit union's own policies and procedures, testing of the accuracy and completeness of recordkeeping and operation functions, ensuring adequate control measures are in place, apprising the supervisory committee of all findings, and providing appropriate recommendations to address concerns and deficiencies relating to the condition or operations of the corporate credit union.

(4) The internal auditor's reports, findings, and recommendations will be in writing. Oral presentations by the internal auditor to the supervisory committee will be documented in the supervisory committee minutes. All documentation relating to the work of the internal auditor will be provided upon request to the external auditor and NCUA.

§704.15 Contracts/written agreements.

Services, facilities, personnel, or equipment shared with any party shall be supported by a written contract, with the duties and responsibilities of each party specified and the allocation of service fee/expenses fully supported and documented.