

small credit unions (those under \$1 million in assets).

Such credit unions generally do not purchase potentially risky investments and hence would not be subject to the majority of the policy and reporting requirements of the proposed rule. Accordingly, a regulatory flexibility analysis is not required.

Paperwork Reduction Act

NCUA has determined that several requirements of the proposed rule constitute collections of information under the Paperwork Reduction Act. The requirements are: (1) To establish a written investment policy; (2) to perform an annual review of the written investment policy; (3) to provide notification to the federal credit union's board of directors of investments that do not fall within the guidelines of the established policy; (4) to prepare a written report of investments monthly; (5) to obtain price quotes on securities prior to purchase or sale; (6) to complete and document a monthly review of the fair value of each security; (7) to obtain a semiannual independent assessment of the fair value of securities held; (8) to complete a credit analysis of the issuing entity prior to purchasing an investment if the principal and interest is not fully guaranteed by the U.S. government, its agencies, or enterprises or is not fully insured by NCUA or the FDIC; (9) to obtain individual confirmation statements for each investment purchased or sold; (10) to obtain and reconcile a monthly statement of investments held in safekeeping; (11) to prepare a monthly written report of the fair value and/or total return at the trade date of all trading securities and purchase and sale transactions and the resulting gain or loss on an individual basis; (12) to complete and document the retesting of CMOs on a quarterly basis; (13) to provide written notice to the Regional Director of CMOs that fail the High Risk Security Test; and (14) to prepare and provide to the Regional Director a written divestiture plan if the federal credit union does not immediately sell the failed CMO.

It is NCUA's view that the time a federal credit union spends developing a responsible and reasonable policy, notifying the federal credit union's board of directors of investments that do not fall within the guidelines of the established policy, obtaining individual confirmation statements for each investment purchased or sold, and obtaining and reconciling a monthly statement of investments held in safekeeping are not burdens created by this regulation, but rather are usual and customary practices in the normal

operations of a federal credit union. The paperwork burdens created by this rule are the remaining requirements outlined above.

NCUA estimates that it should take an average of 2.5 hours to review the investment policy annually and 2 hours per month to prepare the written report of investments. Since this requirement applies to all 7,400 federal credit unions, 196,100 burden hours would be required to comply with these two requirements. NCUA estimates that 370 federal credit unions would have to comply with the requirement to report investments that fall outside board policy after purchase. It is expected that this would take 15 minutes per year, resulting in a total of 92.5 burden hours. NCUA estimates that 5,624 federal credit unions would be required to obtain price quotes prior to the purchase or sale of securities, projected to take 2 hours per year, to review the fair value of each security monthly, projected to take 12 hours per year, and to independently assess the fair value of its securities semiannually, projected to take 2 hours per year. The burden for these requirements totals 89,984 hours. NCUA estimates that 705 federal credit unions would be required to complete a credit analysis. It is estimated that this analysis would take 25 hours, resulting in a total of 17,625 burden hours. NCUA estimates that 74 federal credit unions would be required to prepare a written report of the trading account activity, an activity that is expected to take 12 hours per year, imposing a total burden of 888 hours. NCUA estimates that 1,850 federal credit unions would have to comply with the quarterly retesting of CMOs. It is projected that this requirement would take a credit union 2 hours per year to perform, making to total burden 3,700 hours. NCUA estimates that 370 federal credit unions would be required to prepare written notices and divestiture plans regarding downgraded or failed investments. It is expected that a notice and plan would take 3 hours, making a total burden of 1,110 hours. In total, the burden created by the proposed rule is 309,499.5 hours. A significant portion of the paperwork required by the proposed rule is already being completed by credit unions. It is NCUA's view that the additional requirements are necessary in order for a credit union to understand the risks presented by a substantial portion of its balance sheet.

The Paperwork Reduction Act of 1995 and regulations of the Office of Management and Budget (OMB) require that the public be provided an opportunity to comment on information collection requirements, including an

agency's estimate of the burden of the collection of information.

The NCUA Board invites comment on: (1) Whether the collection of the information is necessary for the proper performance of the functions of NCUA, including whether the information will have practical utility; (2) the accuracy of NCUA's estimate of the burden of the collection of information; (3) ways to enhance the quality, utility, and clarity of the information to be collected; and (4) ways to minimize the burden of collection of information. Send comments to Attn: Milo Sunderhauf, OMB Reports Management Branch, New Executive Office Building, Rm. 10202, Washington, DC 20530. Comments should be postmarked by January 29, 1996.

Executive Order 12612

Executive Order 12612 requires NCUA to consider the effect of its actions on state interests. Since the proposed rule applies only to federal credit unions, it has no effect on state interests.

List of Subjects in 12 CFR Part 703

Credit unions, Investments.

By the National Credit Union Administration Board on November 16, 1995.
Becky Baker,
Secretary of the Board.

For the reasons set forth in the preamble, NCUA proposes to revise 12 CFR Part 703 to read as follows:

PART 703—INVESTMENT AND DEPOSIT ACTIVITIES

Sec.

- 703.1 Scope.
- 703.2 Definitions.
- 703.3 Investment policies and practices.
- 703.4 Authorized activities.
- 703.5 Prohibitions.
- 703.6 Pledging securities.
- 703.7 Divestiture requirements.
- 703.8 Prohibited fees.
- 703.9 Grandfather provisions.

Authority: 12 U.S.C. 1757(7), 1757(8), 1757(15).

§ 703.1 Scope.

Sections 107(7), 107(8) and 107(15) of the Federal Credit Union Act ("Act"), 12 U.S.C. 1757(7), 1757(8), 1757(15), set forth those securities, deposits, and other obligations in which federal credit unions may invest. This part interprets several of the provisions of Sections 107(7), 107(8), and 107(15)(B) and (C). This part does not apply to: investments in loans to members and related activities, which are governed by §§ 701.21, 701.22, and 701.23 of this chapter; the purchase of real estate-secured loans pursuant to Section