

or U.S. government-sponsored enterprises; or

(B) Fully insured (including accumulated interest) by the National Credit Union Administration or the Federal Deposit Insurance Corporation.

(7) *Securities broker-dealers.* (i) A federal credit union may transact business with a securities broker-dealer provided that such broker-dealer either is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) or is a bank whose broker-dealer activities are regulated by a federal financial institution regulatory agency.

(ii) In determining whether to transact business with a securities broker-dealer, a federal credit union must consider the following factors:

(A) The ability of the broker-dealer and its subsidiaries or affiliates to fulfill commitments as evidenced by capital strength, liquidity, and operating results. This evidence should be gathered from current financial data, annual reports, credit reports, and other sources of financial information.

(B) The broker-dealer's general reputation for financial stability and fair and honest dealings with customers. Other depository institutions that are past or current customers of the broker-dealer should be contacted.

(C) Information available from state or federal securities regulators and securities industry self-regulatory organizations, such as the National Association of Securities Dealers, about any formal enforcement actions against the broker-dealer, its affiliates, or associated personnel.

(D) The background of any broker-dealer's sales representative upon whose advice the credit union may rely to determine his or her experience or expertise.

(iii) A federal credit union must review the audited financial condition of approved broker-dealers at least annually.

(8) *Control of investments.* (i) A federal credit union's purchased investments and repurchase collateral must be in the credit union's possession, recorded as owned by the credit union through the Federal Reserve Book-Entry System, or held by a board-approved safekeeper under a written custodial agreement.

(ii) A federal credit union must obtain an individual confirmation statement for each investment purchased or sold.

(iii) A federal credit union may not leave purchased investments and repurchase collateral in safekeeping with the selling broker-dealer, except that where the broker-dealer is a bank or

corporate credit union, the investments or collateral may be safekept in a separately identifiable department or division of the bank or corporate credit union.

(iv) A credit union must receive a safekeeping receipt for each investment held in safekeeping. An investment may be held in street name, provided that the credit union and/or the safekeeper maintain documentation establishing that the credit union is the beneficial owner of the investment.

(v) A federal credit union must obtain and reconcile monthly a statement of purchased investments and repurchase collateral held in safekeeping and must review the financial condition of approved safekeepers at least annually.

(vi) All purchases and sales of investments must be delivery versus payment.

(9) *Trading.* (i) Any federal credit union engaging in trading must be able to demonstrate that it has sufficient resources, knowledge, systems, and procedures to handle the risks of such activity.

(ii) At least monthly, the board of directors or board-appointed investment committee must be provided a written report setting forth 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.

(iii) Any security purchased for trading purposes must be recorded at fair value on the trade date.

(10) *Documentation.* Documentation regarding an investment transaction must be maintained as long as the investment is held and until the documentation has been both audited and examined. At a minimum, documentation should include, where appropriate, credit ratings, bids and prices for periodic updates, a prospectus or description of the security from an industry-recognized information provider, and all the tests and reports required by the federal credit union's investment policy and this part. Documentation used in approving a broker-dealer or safekeeper must be maintained as long as the broker-dealer or safekeeper is on a federal credit union's approved list and until it has been both audited and examined.

§ 703.4 Authorized activities.

(a) *Contracting for securities.* A federal credit union may contract for the purchase or sale of a security provided that the delivery of the security is by regular-way settlement.

(b) *Repurchase transactions.* A federal credit union may enter into a repurchase transaction provided the

collateral securing the transaction is a permissible investment for federal credit unions and the transaction is priced to reflect accrued interest, the risk of the securities, and the term of the transaction.

(c) *Federal funds transactions.* A federal credit union may sell federal funds to Section 107(8) institutions and credit unions, provided that the interest or other consideration received from the financial institution is at the market rate for federal funds transactions.

(d) *Investment companies.* (1) A federal credit union may invest in an investment company, such as a mutual fund or unit investment trust, which is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. 80a), provided that the portfolio of such management company is restricted by its investment policy, changeable only if authorized by shareholder vote, solely to investments and investment transactions that are permissible for federal credit unions.

(2) An investment company's investment policy is established by its prospectus and any statement of additional information incorporated therein.

(3) For the purposes of this part, an investment company's portfolio is deemed to be restricted solely to investments and investment transactions that are permissible for federal credit unions when its investment policy states that the investments and investment transactions of the company are limited to those authorized for federal credit unions under the Federal Credit Union Act and National Credit Union Administration Rules, Regulations, and Interpretive Ruling and Policy Statements.

(4) The federal credit union must, periodically, obtain a summary of the portfolio of the investment company to ensure consistency with the Federal Credit Union Act and this part.

(5) The aggregate of a federal credit union's investment in investment companies, under this paragraph (d), and delegation of investment control, under § 703.3(b)(2), is limited to 100 percent of capital at time of purchase and/or delegation.

(e) *CMOs/REMICs.* (1) A federal credit union may invest in or hold a fixed or variable rate CMO/REMIC only if it meets all of the following tests:

(i) *Average life test.* The CMO/REMIC has an estimated average life of 10 years or less.

(ii) *Average life sensitivity test.* The estimated average life of the CMO/REMIC extends by 4 years or less,