

of the Federal Credit Union Act and subject to all of the enforcement provisions of the Act.

#### *Section 704.17—Fidelity Bond Coverage*

The Board is proposing only minor changes to this Section. Section 704.17(d) would be amended to clarify that the minimum bond coverage is based on a corporate credit union's average daily assets as of the preceding December 31. The Board notes that in current § 704.17(f), the deductibles are based on a corporate credit union's primary capital to risk asset ratio. Since the proposed regulation eliminates this ratio, another one must be used. The Board is proposing that it be the primary capital ratio and specifically requests comments on this issue.

#### *Section 704.18—Effective Date*

The Board is proposing to make any final regulation on these matters effective January 1, 1996. However, although not stated in the proposed regulation itself, the Board is also considering requiring compliance with § 704.5, governing investments, 30 days after the final rule is published in the **Federal Register**. Investments purchased before that date would be governed by the regulation in effect at the time of purchase. The Board is proposing to make the investment provisions applicable before the remainder of the regulation to deter corporate credit unions from "loading up" on investments that would no longer be permissible after January 1, 1996. All investments, regardless of when acquired, would be subject to the asset-liability provisions of proposed Section 704.4. In order to accomplish this objective, it may be necessary for the Board to issue a final rule in two separate stages with different effective dates, or to issue one rule with a 30 day effective date, but with a delayed compliance date for all sections other than §§ 704.2, Definitions, and 704.5, Investments.

#### **Appendix A—Summary of Risk Weights and Risk Categories for Corporate Credit Unions**

The major focus of the Board's proposed amendments to the risk weight schedule is the risk weighting of certain mortgage-backed securities. The current regulation weights CMOs based on their response to the interest-rate sensitivity test, and the Board has determined that this is inappropriate in a scheme designed to address credit risk. In the proposed rule, mortgage-backed securities, including pass throughs and certain CMOs (but not stripped mortgage backed securities), that are issued or guaranteed by a U.S. Government agency or U.S. Government-sponsored enterprise are assigned to the risk

weight category appropriate to the issuer or guarantor. Generally, a privately-issued mortgage backed security meeting certain criteria, as set forth in the proposed regulation, is treated as essentially an indirect holding of the underlying assets, and assigned to the same risk category as the underlying assets. Privately-issued mortgage backed securities whose structures do not qualify them to be regarded as indirect holdings of the underlying assets are assigned to the 100 percent risk category.

While the risk category to which mortgage backed securities is assigned will generally be based upon the issuer or guarantor or, in the case of privately-issued mortgage backed securities, the assets underlying the security, any class of a mortgage backed security that can absorb more than its pro rata share of loss without the whole issue being in default, is assigned to the 100 percent risk category.

The specific changes being proposed are as follows. In Category 1, the Board is proposing to delete item (g), claims on or unconditionally guaranteed by sovereign central governments of "AAA" rated countries. Its inclusion in the current rule was inadvertent, as such investments are not permissible for corporate credit unions.

In Category 2, 20 percent risk weight, the Board is proposing to delete the material at the end of Category 2, addressing bank ratings. Proposed Section 704.5 sets forth the minimum ratings for deposits in banks. The Board is also proposing to delete items (j) and (k), which are certain types of repurchase transactions. Such transactions should be risk weighted according to the type of collateral involved. Item (m), CMOs/REMICs that pass the interest rate sensitivity test, would also be deleted from the regulation. As noted above, the proposed rule risk weights CMOs based on the issuer, guarantor, or assets underlying the security. Finally, the Board is proposing to change the risk weighting of claims on foreign banks from 20 percent to 50 percent.

In Category 3, 50 percent risk weight, the Board is proposing to delete item (b), CMOs that pass the interest rate sensitivity test, and replace it with privately-issued mortgage backed securities that meet certain criteria relating to credit risk. Claims on foreign banks would be added to this category.

In Category 4, 100 percent risk weight, the Board is proposing to delete investments in CUSOs from item (a), as corporate credit unions would not be permitted to hold such investments from the effective date of this regulation. The proposed rule would add item (b), loans to and investments in CSOs, and replace item (e), membership capital share deposits, with permanent and secondary capital share accounts. The Board is also proposing to delete item (d), hold-in-custody repurchase agreements, as the risk weighting of such agreements should be based on the underlying collateral. The Board is proposing to delete item (f), stripped mortgage backed securities and item (g), residual interests of CMOs/REMICs. Under the proposed rule, these investments would not be permissible for corporate credit unions. In this category, the Board is also proposing to add an item for other claims on private obligors, to make it clear that unless

a claim on a private obligor is guaranteed or insured by a U.S. Government agency or enterprise, is collateralized by such a claim, or is secured or collateralized by highly liquid and reliable collateral, it is risk-weighted at 100 percent.

#### **Appendix C—Model Forms**

As noted earlier, the Board is proposing to delete the current Appendix C as unnecessary and potentially confusing. The proposed rule contains a new Appendix C, which features model disclosure forms for permanent and secondary capital share accounts. Corporate credit unions that use these forms will be deemed to be in compliance with the proposed disclosure requirements of § 704.2.

#### *Section 741.3—Other Requirements*

The Board is proposing to amend § 741.3 of the NCUA Rules and Regulations, governing requirements for insured credit unions, to prohibit federally insured credit unions from transacting business with corporate credit unions that do not comply with Part 704 and are not examined by NCUA.

#### **Regulatory Procedures**

##### *Regulatory Flexibility Act*

The NCUA Board certifies that the proposed rule, if made final, will not have a significant economic impact on small credit unions (those under \$1 million in assets). The rule applies only to corporate credit unions, all of which have assets well in excess of \$1 million. Accordingly, a Regulatory Flexibility Analysis is not required.

##### *Paperwork Reduction Act*

The proposed rule contains a requirement for the collection of additional information and a maintenance of documentation by a corporate credit union. The proposed rule requires that each corporate credit union develop and implement certain policies and plans and document compliance with such policies and plans. The proposed rule also requires that certain information regarding asset-liability management and investments be sent to NCUA or maintained in the records of the corporate credit union.

The paperwork requirements will be submitted to the Office of Management and Budget (OMB) for review under the Paperwork Reduction Act. Written comments on the paperwork requirements should be forwarded directly to the OMB Desk Officer indicated below at the following address: OMB Reports Management Branch, New Executive Office Building, Room 10202, Washington, DC 20530. Attn: Milo Sunderhauf. NCUA will publish a notice in the **Federal Register**