



**State of Wisconsin**  
*Department of Financial Institutions*

Scott Walker, Governor

Peter Bildsten, Secretary

April 9, 2014

**GENERAL LETTER CU 2-14**  
**DERIVATIVES AUTHORITY**

**TO ALL CREDIT UNIONS:**

In March 2014, the National Credit Union Administration (NCUA) allowed federal credit unions to apply for and use derivatives to reduce interest rate risk. Wisconsin Statutes do not address derivatives authority but authority can be issued under Chapter 186.11(e). In addition, Wisconsin Administrative Code DFI-CU 68 permits Wisconsin-chartered credit unions to have investment authority parity with federal credit unions.

Wisconsin credit unions that seek derivatives authority must apply and obtain written approval from the Office of Credit Unions (OCU). Credit unions may only engage in products and transactions that are allowed for federal credit unions and derivative limits may not exceed those of NCUA under Part 703 of NCUA Rules and Regulations.

The process for applying for derivatives authority is as follows:

- Credit unions must be familiar with and follow the guidance in NCUA Letter to Credit Unions No. 14-CU-04, *Derivatives Applications Open March 3*, and related Supervisory Letter No. 14-02, *Derivatives Examination Guidance*.
- Any credit union requesting derivative authority must apply to the Office of Credit Unions. While there is no formal application, credit unions should use Appendix A of NCUA Supervisory Letter No. 14-02 as the basis of the application. The application should also include the following items:
  - Narrative of reasons for request.
  - Listing of specific products that will be used and what the hedging objectives are.
  - Investment policy including written and/or schematic descriptions of the derivatives management processes.
  - List of external service providers (ESPs) including counterparties the credit unions plans on using. Description of due diligence done on ESPs.
  - Examples of derivative reports that comply with Part 703.105 and description of derivatives reporting to ALCO and board of directors
  - Verification of training to board members on derivatives
  - Resumes of staff responsible for the derivatives activities execution and oversight; accounting and financial reporting; asset liability management; and liquidity. It is expected that subject matter expertise be resident at the credit union at the inception of the program.

*Office of Credit Unions*

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- Any derivatives and/or vendor contracts; legal review of contracts must be done and evidence provided of contract review.
  - Plan for having an *independent review* of the derivatives program for the first two years after commencing an active derivatives program.
  - Risk assessment analysis of the products and risks. Assessment should notate the risk limits associated with the program and how the credit union will comply with them. See Appendix B of NCUA Supervisory Letter No. 14-02 for calculating derivative limits.
  - Any other items that the OCU may determine are necessary to process and review the application and materials.
- Credit union must have assets over \$250 million and must have a CAMEL rating of “1”, “2” or “3”.
  - Credit unions must use Appendix C of NCUA Supervisory Letter No. 14-02 or similar format to notify NCUA, in writing, at least 30 days before the credit union uses derivatives. Copy of the notification should be sent to the Office of Credit Unions. ***NCUA must not be notified until the OCU approves the application.***

If you have any questions, please contact the Office of Credit Unions at (608) 261-9543.

Sincerely,



Kim Santos  
Director  
OFFICE OF CREDIT UNIONS