

National Credit Union Administration

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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 § 701.14 of this chapter apply to corporate credit unions, except that where "Regional Director" is used, read "NCUA Board."

§ 704.15 Audit requirements.

(a) *External audit.* The corporate credit union supervisory committee shall cause an annual opinion audit of the financial statements to be made. The audit must be performed in accordance with generally accepted auditing standards and the audited financial statements must be prepared consistent with GAAP, except where law or regulation has provided for a departure from GAAP. The supervisory committee shall submit the audit report to the board of directors. A copy of the audit report, and copies of all communications that are provided to the corporate credit union by the external auditor, shall be submitted to NCUA within 30 calendar days after receipt by the board of directors. If requested by NCUA, the external auditor's workpapers shall be made available, at the auditor's office or elsewhere, for NCUA's review. The corporate credit union shall submit a summary of the audit report to the membership at the next annual meeting.

(b) *Internal audit.* A corporate credit union with average daily assets in excess of \$400 million for the preceding calendar year, or as ordered by NCUA, must employ or contract, on a full- or part-time basis, the services of an internal auditor. The internal auditor's responsibilities will, at a minimum, comply with the Standards and Professional Practices of Internal Auditing, as established by the Institute of Internal Auditors. The internal auditor will report directly to the chair of the corporate credit union's supervisory committee, who may delegate supervision of the internal auditor's daily activities to the chief executive officer of the corporate credit union. The internal

auditor's reports, findings, and recommendations will be in writing and presented to the supervisory committee no less than quarterly, and will be provided upon request to the external auditor and NCUA.

§ 704.16 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.

§ 704.17 State-chartered corporate credit unions.

(a) This part does not expand the powers and authorities of any state-chartered corporate credit union, beyond those powers and authorities provided under the laws of the state in which it was chartered.

(b) A state-chartered corporate credit union that is not insured by the NCUSIF, but that receives funds from federally insured credit unions, is considered an "institution-affiliated party" within the meaning of Section 206(r) of the Federal Credit Union Act, 12 U.S.C. 1786(r).

(c) NCUA will notify, consult with, and provide explanation to the appropriate state supervisory authority before taking administrative action against a state-chartered corporate credit union.

§ 704.18 Fidelity bond coverage.

(a) *Scope.* This section provides the fidelity bond requirements for employees and officials in corporate credit unions.

(b) *Review of coverage.* The board of directors of each corporate credit union shall, at least annually, carefully review the bond coverage in force to determine its adequacy in relation to risk exposure and to the minimum requirements in this section.

(c) *Minimum coverage; approved forms.* Every corporate credit union will maintain bond coverage with a company holding a certificate of authority from the Secretary of the Treasury. All bond forms, and any riders and endorsements which limit the coverage provided by approved bond forms, must

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receive the prior written approval of NCUA. Fidelity bonds must provide coverage for the fraud and dishonesty of all employees, directors, officers, and supervisory and credit committee members. Notwithstanding the foregoing, all bonds must include a provision, in a form approved by NCUA, requiring written notification by surety to NCUA:

(1) When the bond of a credit union is terminated in its entirety;

(2) When bond coverage is terminated, by issuance of a written notice, on an employee, director, officer, supervisory or credit committee member; or

(3) When a deductible is increased above permissible limits. Said notification shall be sent to NCUA and shall include a brief statement of cause for termination or increase.

(d) *Minimum coverage amounts.* (1) The minimum amount of bond coverage will be computed based on the corporate credit union's daily average net assets for the preceding calendar year.

| Reserve ratio | Maximum deductible |
|---------------------------------|---|
| Less than 1.0 percent | 7.5 percent of the sum of reserves and undivided earnings and paid-in capital. |
| 1.0–1.74 percent | 10.0 percent of the sum of reserves and undivided earnings and paid-in capital. |
| 1.75–2.24 percent | 12.0 percent of the sum of reserves and undivided earnings and paid-in capital. |
| Greater than 2.25 percent | 15.0 percent of the sum of reserves and undivided earnings and paid-in capital. |

(2) A deductible may be applied separately to one or more insuring clauses in a blanket bond. Deductibles in excess of those showing in this section must have the written approval of NCUA at least 30 calendar days prior to the effective date of the deductibles.

(f) *Additional coverage.* NCUA may require additional coverage for any corporate credit union when, in the opinion of NCUA, current coverage is insufficient. The board of directors of the corporate credit union must obtain additional coverage within 30 calendar days after the date of written notice from NCUA.

§ 704.19 Wholesale corporate credit unions.

(a) *General.* Wholesale corporate credit unions are subject to the preceding requirements of this part, except as set forth in this section.

The following table lists the minimum requirements:

| Daily average net assets | Minimum bond (million) |
|-------------------------------|------------------------|
| Less than \$50 million | \$1.0 |
| \$50–\$99 million | 2.0 |
| \$100–\$499 million | 4.0 |
| \$500–\$999 million | 6.0 |
| \$1.0–\$1.999 billion | 8.0 |
| \$2.0–\$4.999 billion | 10.0 |
| \$5.0–\$9.999 billion | 15.0 |
| \$10.0–\$24.999 billion | 20.0 |
| \$25.0 billion plus | 25.0 |

(2) It is the duty of the board of directors of each corporate credit union to provide adequate protection to meet its unique circumstances by obtaining, when necessary, bond coverage in excess of the minimums in the table in paragraph (d)(1) of this section.

(e) *Deductibles.* (1) The maximum amount of deductibles allowed are based on the corporate credit union's reserve ratio. The following table sets out the maximum deductibles, except that in each category the maximum deductible shall be \$5 million:

(b) *Capital.* (1) A wholesale corporate credit union will maintain a minimum capital ratio of 5 percent.

(2) A wholesale corporate credit union shall make reserve transfers at the lower of .10 percent of its moving daily average net assets or the amount that would be required under § 704.3(c).

(i) Required transfers are to be made from earnings in either the prior calendar month or prior twelve-month period. Transfers made during the prior twelve-month period must be greater than or equal to the aggregate amount of required reserve transfers for each of the months in that twelve-month period.

(ii) NCUA and, in the case of state-chartered wholesale corporate credit unions, the state supervisory authority, must be notified within 30 calendar days of the close of any calendar month in which a wholesale corporate