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	<b>10405</b>
<b>INVESTMENTS</b>	<b>EFFECTIVE DATE</b>
	<b>11/01/2018</b>
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## I. PURPOSE

The Board of Directors is responsible for identifying appropriate risk exposure levels and ensuring proper management of those risks within the institution. Examiners must evaluate the Board of Director's understanding of the risk characteristics of each investment, ensure policies and procedures accurately reflect the institution's investment activity and compliance with all applicable rules and regulations. Management must demonstrate sufficient expertise to manage risks while balancing safety, liquidity, and yield. Appropriate due diligence must be performed in selecting, reviewing, and monitoring broker-dealers and/or safekeeping entities.


## II. PRIMARY REFERENCES / RELATED REGULATIONS

1. [Michigan Credit Union Act, Section 342](#) – Board Responsibility to Establish Policy
2. [Michigan Credit Union Act, Section 431](#) – Permissible Investments and Activities
3. [NCUA Rules and Regulations Part 741.3\(a\)\(2\)](#) – Reserve for Non-Conforming Investments
4. [NCUA Rules and Regulations Part 741.219](#) – Investment Requirements
5. ASC 320 – Accounting for Investments

## III. MINIMUM PROCEDURES

### 1. Reconciling General Ledger Balances:


- a. Investments must be reconciled to the broker statements or other credible sources.
  - i. Verify the principal balances and fair values of the investment securities in the portfolio and verify the accuracy of the reported Unrealized Gains/Losses.
    - (1) The Unrealized Gain/Loss on Available-for-Sale (AFS) securities is recorded as a contra-asset account under investments and as an equity account.
    - (2) The Unrealized Loss on Held-to-Maturity (HTM) investments that are non-conforming (impermissible for federal credit unions) are recorded as a segregation of Undivided Earnings.

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- ii. Verify the investment book balances and, at a minimum, test to ensure that premiums and discounts are being calculated and recorded correctly.
  - (1) Securities purchased at discounts or premiums are ordinarily amortized over the life of the investment.
  - (2) If the security is callable, then the premium is amortized to the call date.
- iii. Verify purchased interest and accrued interest earned on investments are calculated and posted correctly.
- iv. Verify the reported maturities of investments on the credit union's call report.
- b. Ensure the credit union is reporting their investments in accordance with ASC 320 (HTM, AFS, or Trading), if applicable.
- c. Ensure pertinent Call Report sections accurately state investments by type, maturity structure, and any related interest, accruals and unrealized gains or losses.

**2. Investment Review:**

- a. To demonstrate prudent business judgment, fiduciary responsibility, and the application of safe and sound principles in conducting investment activities, each Board of Directors must develop a clear, concise, written investment policy in accordance with Section 342(3)(h) of the Michigan Credit Union Act. The investment policy must address all investment activities engaged in by the credit union, and must include all of the following:
  - i. Purpose and objectives of the investment activities.
  - ii. Person(s) or position(s) granted investment authority, including knowledge and experience requirements and appropriate authority limits.
  - iii. Authorized investments, including a list of allowable investment types, issuers, and investment characteristics.
  - iv. Approved broker-dealers and safekeeping entities, including limits on amounts and types of investments authorized with each.
  - v. Criteria and procedures to identify and manage credit, interest rate, liquidity, market, prepayment and extension (amortizing investments) and concentration risks for individual investments and the investment portfolio as a whole.
  - vi. Investment officer's written monthly report to the Board of Directors detailing all investment transaction activity, complete


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portfolio composition, book and market value comparisons, and other information critical to sound portfolio management.

- vii. Procedures and required documentation necessary to properly evaluate broker-dealers, safekeeping entities, financial institutions, and other third-party investment vendors at least annually.
- viii. Ongoing risk monitoring and documented analysis of all investments.
- ix. Procedures to follow for any investment that does not satisfactorily meet all approved criteria after purchase.

**b. Investment File Review:**

- i. Review investments purchased, sold, or matured between examination dates to compare with the broker confirmations or other sales records to verify the credit union actually has ownership of the investment and that the proper accounting entries were made.
  - (1) Review the trade date, and purchase date.
  - (2) Review the written custodial agreement and determine if the investment is held in the credit union’s legal name or “street” name.
  - (3) Review the characteristics of the investment to ensure that no discrepancies exist between the investment files and the broker statements.
  - (4) Review the confirmation receipts and trade tickets.
  - (5) Review purchases to ensure management has sufficient controls in place to ensure competitive pricing is being received (i.e. multiple broker bids for negotiable securities).
  - (6) Review the description of the security from an industry recognized information provider (i.e. Bloomberg, TRA, DES screens etc.) and any other relevant disclosure documents (i.e. prospectus).
  - (7) Review any shock analysis.
- ii. Review the due diligence performed prior to purchase of an investment.
  - (1) Ascertain management’s understanding of the investment and its associated risks
  - (2) Review management’s analysis of the investment instrument and issuer, etc.

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- iii. Ensure all investment activity is approved by the Executive Committee or Investment Officer appointed by the Board of Directors, and in compliance with the Board approved policy.
  - c. **Review Investment Officer's Report:**
    - i. The Investment Officer's report must contain all investment transaction activity, complete portfolio composition, book and market value comparisons, and any other pertinent information.
    - ii. Ensure the Investment Officer's report provides sufficient information for the Board of Directors to make informed decisions regarding the institution's investment activities and investment strategies.