

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10460
INVESTMENTS	EFFECTIVE DATE
	11/01/2018
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I. PURPOSE

Investments in mutual funds are reviewed to determine compliance with state and federal regulations as well as the adequacy of investment policies, procedures, and controls. Management’s ability to manage the risks in the investment portfolio, balance, safety, liquidity and yield and understand how market value and realized and unrealized gains or losses in this portfolio could impact the credit union’s financial position must be evaluated.

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 741.219](#): Investment Requirements
4. Accounting Standards Codification (ASC) 320: Accounting for Investments

III. MINIMUM PROCEDURES

1. Request and review all documentation regarding mutual funds, such as broker statements, trade tickets, confirmation receipts, prospectus, etc.
2. Verify mutual fund meets the requirements of Section 431(1)(e) of the MCUA which requires:
 - a. That not less than 90% of the funds’ assets consist of and are limited to securities in which a domestic credit union may invest directly;
 - b. The domestic credit union has an equitable and undivided interest in the underlying assets of the fund;
 - c. The domestic credit union is not liable for acts or obligations of the fund; and
 - d. The domestic credit union’s investment in any one fund does not exceed the amount of its net worth.
3. Evaluate management’s understanding of the investment(s).
4. Review the mix for each mutual fund and the exposure to each type of fund. Identify and evaluate the potential impact of concentration risk.
5. Verify that a load fund’s sales charge or fee is written off at the time of acquisition and not deferred. (Note: A load fund is a mutual fund that comes

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with a sales charge or commission. The fund investor pays the load, which compensates a sales intermediary, such as a broker, financial planner, investment advisor, etc.)

6. Verify the classification of the mutual fund according to ASC 320 which requires mutual funds to be classified as either Available for Sale or Trading (Note: Trading is speculative in nature and is an impermissible investment activity).