



DCU BULLETIN

Division of Credit Unions

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Guidance on Additional Investment Authorities

The purpose of this bulletin is to provide guidance on the additional investment authorities, which were granted to Washington State-chartered credit unions (“state credit unions”) with the approval of House Bill 1247 on July 28, 2019. When using the expanded investment authorities, credit unions must ensure they are compliant with the additional investment requirements, which are addressed in this Bulletin.

House Bill 1247 included the following two additions to investment authorities granted to state credit unions under [RCW 31.12.436](#):

- (l) For any credit unions that are approved public depositories, any securities listed in [RCW 39.58.050](#) as eligible collateral for public deposits; and
- (m) Investment of the type in which the state treasurer may invest state funds pursuant to RCW 43.84.080.

[RCW 39.58.050\(5\) & \(6\)](#) list the eligible securities in which an approved public depository may invest. As of September 30, 2020, there were sixteen state chartered and five federal chartered credit unions that had been approved as a public depository. This listing is straightforward and does not need additional clarification.

[RCW 43.84.080](#) lists the types of investments in which the State Treasurer may invest the State’s funds. With the enactment of House Bill 1247, state credit unions are permitted to invest in the investments listed in [RCW 43.84.080](#). This listing is straightforward except for the following areas, which need clarification as follows:

- **Definition of Supranational Institution** - [RCW 43.84.080](#)(1) declares in part, “. . . or other obligations that are issued or guaranteed by *supranational institutions*, provided at the time of investment, the institution has the United States government as its largest shareholder.” [Emphasis added.] “Supranatural organization”

generally means “a multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members. . . . [M]ember states share in decision making on matters that will affect each country's citizens. The EU, United Nations and the World Trade Organization (WTO) are all supranational groups, to one degree or another.”¹

- **Commercial Paper** – [RCW 43.84.080\(5\)](#) declares: “Commercial paper purchased on the secondary market, provided the state treasurer adheres to the investment policies and procedures adopted by the state investment board.” State credit unions investing in commercial paper must only purchase secondary market commercial paper and must adhere to the Washington State Investment Board (SIB) policies and procedures regarding purchasing commercial paper. As of October 9, 2020, Washington SIB Policy 2.05.500 states:

WA State Investment Board Commercial Paper Portfolio Guidelines – Policy 2.05.500

1. Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Ratings Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of them.
 2. Commercial paper holdings may not have maturities exceeding 270 days.
 3. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term senior unsecured credit rating at the time of purchase in one of the three highest rating categories of an NRSRO.
 4. The percentage of commercial paper that may be purchased from any single issuer is 3 percent of the assets of the total portfolio.²
 5. Commercial paper must be purchased in the secondary market and not directly from the issuers.
- **Corporate Notes** – [RCW 43.84.080\(7\)](#) declares: “Corporate notes purchased on the secondary market, provided that the state treasurer adheres to the investment policies and procedures adopted by the state investment board.” State credit unions investing in corporate notes must adhere to the Washington SIB policies and procedures regarding purchasing commercial paper. Washington SIB Policy 2.05.500 states:

¹ See <https://www.investopedia.com/terms/s/supranational.asp>.

² In the case of a state credit union, this will be 3% of the entire assets of the state credit union.

“WA State Investment Board Corporate Notes Portfolio Guidelines – Policy 2.05.500

1. Corporate notes are defined as debt securities issued by corporations.
2. Corporate notes must be rated at least weak single-A or better by all of the major rating agencies that rate the note at the time of purchase for inclusion in the corporate notes portfolio.
3. Corporate notes must meet the following maturity and duration limits:
 - a. The maturity of the corporate notes shall be 5.5 years or less at the time of purchase.
 - b. The maximum duration of the corporate notes portfolio shall not exceed 3 years.
4. No corporate fixed-income issue may exceed 3 percent of the cost or 6 percent of the market value of the assets of the total portfolio.³
5. The percentage of corporate notes that may be purchased from any single issuer rated AA or better by all major rating agencies that rate the note is 3 percent of the assets of the total portfolio.”⁴
6. The percentage of corporate notes that may be purchased from any single issuer rated in the broad single-A category from all the major rating agencies that rate the security, is 2 percent of the total portfolio.⁵
7. Corporate notes must be purchased on the secondary market and not directly from the issuers.
8. Securities rated in the broad single-A category with a negative outlook may not be purchased. Portfolio holdings of corporate notes downgraded to below single A and portfolio holdings of securities rated single A with their outlooks changed to negative may continue to be held. No additional purchases are permitted.

If you have any questions about this Bulletin, please contact Doug Lacy-Roberts, Program Manager, at Doug.Lacy-Roberts@dfi.wa.gov or (360) 902-8753.

³ In the case of a state credit union, six percent of the market value of the assets of the total portfolio means 6% of the aggregate market value of the entire assets of the state credit union.

⁴ In the case of a state credit union, this will be 3% of the entire assets of the state credit union.

⁵ In the case of a state credit union, this will be 2% of the entire assets of the state credit union.