



October 31, 2012

Treasury Inflation Protected Securities (TIPS)

Executive Summary

- The National Credit Union Administration (NCUA) has issued a proposed rule that would allow federal credit unions (FCUs) to purchase Treasury Inflation Protected Securities (TIPS) as a permissible investment.¹
- NCUA believes that TIPS are an appropriate investment for FCUs and can be a valuable portfolio management tool when there are inflationary risks in the economy. The agency has monitored FCU usage of TIPS through a pilot program that permitted a limited number of FCUs to make certain investments, including TIPS. The agency also recognizes that FCUs now have greater access to advanced asset-liability management tools that can identify, measure, and manage basis risk associated with investing in TIPS.
- Currently, NCUA does not permit credit unions to purchase TIPS as a permissible investment because TIPS reprice their value based on changes in the Consumer Price Index, which is currently a prohibited index for variable rate instruments. The agency currently permits FCUs to invest in variable rate instruments that are tied to a domestic interest rate, such as the Fed Funds, Treasury, and LIBOR rates, because a domestic interest rate reduces the basis risk between the interest earned on assets and dividends paid on shares.
- TIPS would not add credit risk and also allows FCUs the option of minimizing the need for accurate inflation forecasting as a way to maintain the real value of their investment portfolios.
- This proposal would only provide authority for FCUs to invest in TIPS, and does not include other similar securities based on current or future inflation indices.
- Comments for the proposal are due to NCUA by November 26, 2012; **please submit your comments to CUNA by November 16**. Comment letters may be filed with NCUA via email at regcomments@ncua.gov. If commenting directly to the agency, please include “[Your name] Comments on Proposed Rule 703, Investment and Deposit Activities” in the e-mail subject line.
- For more information from CUNA, contact Regulatory Counsel Dennis Tsang at dtsang@cuna.coop and Deputy General Counsel Mary Dunn at mdunn@cuna.coop.

¹ Further information about TIPS is available at the U.S. Department of the Treasury, Bureau of Public Debt, website at: http://www.treasurydirect.gov/indiv/research/indepth/tips/res_tips.htm

- For further details, please click [here](#) for the proposal in the Federal Register.

Questions to Consider regarding the Proposed Rule

1. Does your credit union support the proposal that would allow federal credit unions (FCUs) to purchase TIPS as a permissible investment? _____
2. Do you plan to invest in TIPS? Why or why not? _____
3. Also, do you have any comments regarding asset-liability management or risk management on TIPS? _____
4. Other general suggestions or comments? _____

Thank you for your comments.