**Section 1075.565 Financial Futures**

a) Definitions as used in this Section apply unless the context otherwise requires.

"Financial Futures Transaction" means the purchase or sale of a financial futures contract.

"Forward Commitment" means a written commitment to make, purchase or issue mortgage loans or mortgage-related securities at a price and on or before a date specified in the commitment.

"Long Position" means the purchase of a financial futures contract to take delivery of a financial instrument.

"Mortgage-Related Securities" means securities based on and backed by mortgages, including mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA's), Mortgage Participation Certificates of the Federal Home Loan Mortgage Corporation, and similar obligations issued by a private issuer or in which the savings bank shall invest.

"Offset" means to cancel an obligation to make or take delivery of securities under a financial instrument under a financial futures contract. A futures contract to purchase a financial instrument is offset by a futures contract to sell a financial instrument of the same type for the same delivery month. A futures contract to sell a financial instrument is offset by a futures contract to purchase a financial instrument of the same type for the same delivery month.

"Short Position" means the holding of a financial futures contract to make delivery of a financial instrument.

b) Permitted Transactions – to the extent that it has legal power to do so, a savings bank may engage in interest rate futures transactions to reduce its net interest rate risk exposure as provided in this subsection. For purposes of this Section, net interest rate risk exposure is the volatility in a savings bank's earnings that can arise from the mismatching of the maturities of assets and liabilities. A savings bank may enter into short positions that are appropriate for reducing its net interest-risk exposure. A savings bank may enter into long positions, other than those that offset short positions, only under the following conditions.

1) The futures position must be matched against a firm forward commitment to sell mortgages not yet originated or to issue mortgage-related securities to be based on mortgages not yet originated. For purposes of subsection (b), a firm forward commitment is a written commitment obligating the seller to make delivery, and the buyer to take delivery of mortgage loans not yet originated or mortgage-related securities to be based on mortgages not yet originated, at a price and on or before a date specified in the commitment.

2) The futures position may be entered into and maintained only to the extent that the savings bank's firm forward commitments exceed 10% of long-term assets with fixed interest rates. For purposes of this Section, long-term assets are those having remaining terms to maturity in excess of 5 years.

c) Authorized Contracts – savings banks may engage in interest rate futures transactions using any interest rate futures contracts designated by the Commodity Futures Trading Commission (CFTC) and based upon a financial instrument in which the savings bank has authority to invest or to issue.

d) Board of Directors' Authorization – before engaging in interest rate futures transactions, a savings bank's board of directors must authorize such activity. In authorizing futures trading, the board of directors shall consider any plan to engage in financial futures transactions, shall endorse specific written policies, and shall require the establishment of internal control procedures. Policy objectives must be specific enough to outline permissible contract strategies, taking into account price and yield correlations between assets or liabilities and the financial futures contracts with which they are matched; the relationship of the strategies to the savings bank's operations; and how such strategies reduce the savings bank's net interest rate risk exposure. Internal control procedures shall include, at a minimum, periodic reports to management, segregation of duties and internal review procedures. In addition, the minutes of the meeting of the board of directors shall set forth limits applicable to futures transactions, identify personnel authorized to engage in futures transactions, and set forth the duties, responsibilities and limits of authority of such personnel. The board of directors shall review the position limit, all outstanding positions, and the unrelated gains or losses on those positions at each regular meeting of the board.

e) Notification – a savings bank engaging in financial futures transactions shall notify the Director that it is engaging in those transactions. The savings bank shall report its gross outstanding long and short financial futures positions on its monthly report.

f) Record Keeping Requirements – a savings bank engaging in financial futures transactions shall maintain records of those transactions sufficient to document how the transactions reduce the net interest rate risk exposure of the savings bank in accordance with the following requirements.

1) Contract Register – the savings bank shall maintain a contract register adequate to identify and control all financial futures contracts and including, at a minimum, the type and amount of each contract, the maturity date of each contract, the cost of each contract, the dollar amount and description of the asset or liability with which the futures contract is matched, and the date and manner in which a contract is closed out. The register shall be prepared in a manner sufficient to indicate at any time the savings bank's total outstanding long and short financial futures positions.

2) Other Documentation – the savings bank shall maintain, as part of the documentation of its financial futures strategy, a schedule of the assets and the liabilities for which net interest rate risk exposure is being reduced and the purpose of each contract entered.

3) Maintenance of Records – the records designated in this subsection (f) shall be maintained for all futures transactions closed-out during the preceding 2 years.

(Source: Amended at 30 Ill. Reg. 19068, effective December 1, 2006)