POL – 002 – 12
EFFECTIVE 1-21-13

POLICY REGARDING THE ABILITY OF STATE-CHARTERED DEPOSITORY INSTITUTIONS TO ENGAGE IN DERIVATIVE TRANSACTIONS

Consistent with § 611 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"), and Ind. Code §§ 28-1-13-1.5(c), 28-6.1-9-5(c), 28-7-1-39(a), and 28-15-6-1(b), the Board of Members of the Indiana Department of Financial Institutions ("DFI") hereby establishes the following guidelines to enable and condition the engagement by state-chartered depository institutions ("SCDI") in derivative transactions and certain securities financing transactions. SCDIs' authority to engage in these transactions is conditioned upon satisfaction of the provisions of this policy statement.

1. In order to engage in derivative transactions or certain securities financing transactions, a SCDI must consider the credit exposure of these transactions when calculating and ensuring compliance with the legal lending limit.
2. The definition of "total loans and extensions of credit" included in 12 CFR 32, as amended, will apply in the implementation of this Policy.
3. Dodd-Frank, and the resulting federal regulations, expanded the definition of "total loans and extensions of credit" to include any credit exposure arising from a derivative transaction or a securities financing transaction, both as defined.
4. The term "derivative transaction" includes any transaction that is a contract, agreement, swap, warrant, note, or option that is based, in whole or in part, on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities, securities, currencies, interest or other rates, indices, or other assets.
5. The term "securities financing transaction" means a repurchase agreement, reverse repurchase agreement, securities lending transaction, or securities borrowing transaction. Consistent with 12 CFR 32, credit exposure related to certain government securities, listed below, does not need to be considered in complying with this Policy:
    a. Obligations of the United States;
    b. Obligations issued, insured, or guaranteed by a department or an agency of the United States Government, if the obligation, insurance, or guarantee commits the full faith and credit of the United States for the repayment of the obligation;
    c. Obligations issued by a department or agency of the United States, or an agency or political subdivision of a State of the United States, that represent an interest in a loan or a pool of loans made to third parties, if the full faith and credit of the United States has been validly pledged for the full and timely payment of interest

on, and principal of, the loans in the event of non-payment by the third party obligor(s); and

  d. General obligations of a State of the United States or any political subdivision thereof; and municipal bonds if the SCDI is well capitalized as defined in applicable state or federal law.

6. The SCDI does not need to include intraday credit exposures arising from a derivative transaction or securities financing transaction in its lending limit determination.
7. Consistent with 12 CFR 32, in complying with this Policy, a SCDI may generally use any of three options to calculate its exposure to derivative transactions:
   a. Internal Model Method;
   b. Conversion Factor Matrix Method; or
   c. Remaining Maturity Method.
8. Consistent with 12 CFR 32, in complying with this Policy, a SCDI may generally choose between two options to calculate its exposure to securities borrowing transactions:
   a. Internal Model Method; or
   b. Non-Model Method.
9. A SCDI must consistently apply its chosen method of measuring exposure to particular types of both derivative transactions and securities financing transactions. E.g., a SCDI must use the same measuring method for all interest rate swaps, but not necessarily for other types of derivative transactions.
10. The Director of the DFI reserves the right to require a SCDI to use particular methods to measure credit exposure to derivative transactions and securities borrowing transactions when the Director determines this requirement to be warranted by safety and soundness concerns related to the institution.

This policy was formally adopted by the Members of the Department of Financial Institutions on December 13, 2012.

Mark A. Schroeder

Mark A. Schroeder, Vice Chairman