PART 702—PROMPT CORRECTIVE ACTION

1. The authority citation for part 702 continues to read as follows:

Authority: 12 U.S.C. 1766(a), 1790d.

2. Section 702.103 is amended by:

a. Removing ''ten'' in paragraph (a) and replacing it with ''thirty''.

b. Removing ''($10,000,000)'' in paragraph (a) and replacing it with ''($30,000,000)''.

PART 741—REQUIREMENTS FOR INSURANCE

3. The authority for part 741 continues to read as follows:

Authority: 12 U.S.C. 1757, 1766(a), 1781–1790 and 1790d; 31 U.S.C. 3717.

§ 741.3 [Amended]

4. Section 741.3 is amended by removing the number ''10'' and replacing it with ''30'' wherever it appears in paragraph (b)(5)(i).

PART 791—RULES OF NCUA BOARD PROCEDURES; PROMULGATION OF NCUA RULES AND REGULATIONS; PUBLIC OBSERVATION OF NCUA BOARD MEETINGS

5. The authority for part 791 continues to read as follows:

Authority: 12 U.S.C. 1766, 1789 and 5 U.S.C. 552b.

§ 791.8 [Amended]

6. Section 791.8 paragraph (a) is revised to read as follows:

NCUA's procedures for developing regulations are governed by the Administrative Procedure Act (5 U.S.C. 551 et seq.), the Regulatory Flexibility Act (5 U.S.C. 601 et seq.), and NCUA's policies for the promulgation of rules and regulations as set forth in its Interpretive Ruling and Policy Statement 87–2 as amended by Interpretive Ruling and Policy Statements 03–2 and 12–2.

[FR Doc. 2012–23662 Filed 9–25–12; 8:45 am]

BILLING CODE 7535–01–P

NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Part 703

RIN 3133–AE06

Investment and Deposit Activities

AGENCY: National Credit Union Administration (NCUA).

ACTION: Proposed rule with request for comments.

SUMMARY: The NCUA Board (Board) proposes to amend its investment regulation to allow federal credit unions (FCUs) to purchase Treasury Inflation Protected Securities (TIPS). This proposed amendment adds TIPS to the list of permissible investments for FCUs in part 703. The Board believes TIPS will provide FCUs with an additional investment portfolio risk management tool that can be useful in an inflationary economic environment.

DATES: Comments must be received on or before November 26, 2012.

ADDRESSES: You may submit comments by any of the following methods (Please send comments by one method only):

- *Federal eRulemaking Portal: http://www.regulations.gov.* Follow the instructions for submitting comments.
- *NCUA Web Site: http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx.* Follow the instructions for submitting comments.
- *Email:* Address to *regcomments@ncua.gov.* Include ''[Your name] Comments on Proposed Rule 703, Investment and Deposit Activities'' in the email subject line.
- *Fax:* (703) 518–6319. Use the subject line described above for email.
- *Mail:* Address to Mary Rupp, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314–3428.
- *Hand Delivery/Courier:* Same as mail address.

Public Inspection: You may view all public comments on NCUA's Web site at *http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx* as submitted, except for those we cannot post for technical reasons. NCUA will not edit or remove any identifying or contact information from the public comments submitted. You may inspect paper copies of comments in NCUA's law library at 1775 Duke Street, Alexandria, Virginia 22314, by appointment weekdays between 9:00 a.m. and 3:00 p.m. To make an appointment, call (703) 518–6546 or send an email to *OGCMail@ncua.gov.*

FOR FURTHER INFORMATION CONTACT: Frank Kressman, Associate General Counsel, Office of General Counsel, at the above address or telephone (703) 518–6540, or J. Owen Cole, Jr., Director, Division of Capital Markets, Office of Examination and Insurance, at the above address or telephone (703) 518–6360.

SUPPLEMENTARY INFORMATION:

I. Background

A. Why is the NCUA Board proposing this rule?

The Board is proposing this rule because, after extensive research and analysis as discussed more fully below, it believes TIPS can be a valuable risk management tool for FCUs. The Board also believes FCUs have the ability to manage the risks associated with TIPS and can benefit from including them in their overall investment portfolio. In addition to analyzing the nature and performance of TIPS in the marketplace, NCUA has monitored FCU usage of TIPS through a long-term investment pilot program. The results of the pilot program are consistent with the Board's opinion that TIPS are an appropriate investment for FCUs and can be a valuable portfolio management tool when there are inflationary risks in the economy.

Accordingly, for the reasons discussed above, NCUA proposes to make TIPS permissible under part 703.

B. What is a TIPS?

TIPS [1] is a security issued by the U.S. Department of the Treasury, Bureau of Public Debt, which is readily available to investors. TIPS differ from other securities by providing protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Bureau of Labor Statistic's Consumer Price Index (CPI).[2] When a TIPS matures, the holder is paid the adjusted principal or original principal, whichever is greater. TIPS pay interest twice a year at a fixed rate. The rate is applied to the adjusted principal, so, like the principal, interest payments rise with inflation and fall with deflation. In a deflationary period, it is possible to experience a contractual decline in the principal balance, which is not an event of default.

C. Analysis of TIPS and Part 703

Overview

TIPS are currently a prohibited investment under part 703 because they reprice their value in response to changes in the CPI, and the CPI is a prohibited index for variable rate

[1] To learn more about TIPS, see the U.S. Department of the Treasury, Bureau of Public Debt Web site at: *http://www.treasurydirect.gov/indiv/research/indepth/tips/res_tips.htm.*

[2] The CPI program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services. To learn more about how the CPI is produced, see the Bureau of Labor Statistics ''Frequently Asked Questions'' on CPI, found at: *http://www.bls.gov/cpi/cpifaq.htm.*

instruments. Under § 703.14(a), an FCU is permitted to invest in a variable rate instrument as long as the rate is tied to a domestic interest rate.[3] 12 CFR 703.14(a).

The purpose of this provision is to reduce the basis risk between the interest earned on assets and the dividends paid on shares.[4] Generally, deposit/share rates for financial institutions, including credit unions, are responsive to market interest rates. As market rates change, so do the deposit/share rates. Thus, if an FCU invests in a variable rate instrument with an index tied to market rates, the spread between the asset's income stream and the share dividends paid should remain relatively constant. This protects the FCU's earnings in times of rate volatility, especially in periods of rising rates.

However, there is not always a perfect correlation between market interest rates and deposit/share rates. This can result in greater volatility for an FCU if it does not take action to manage this basis risk.

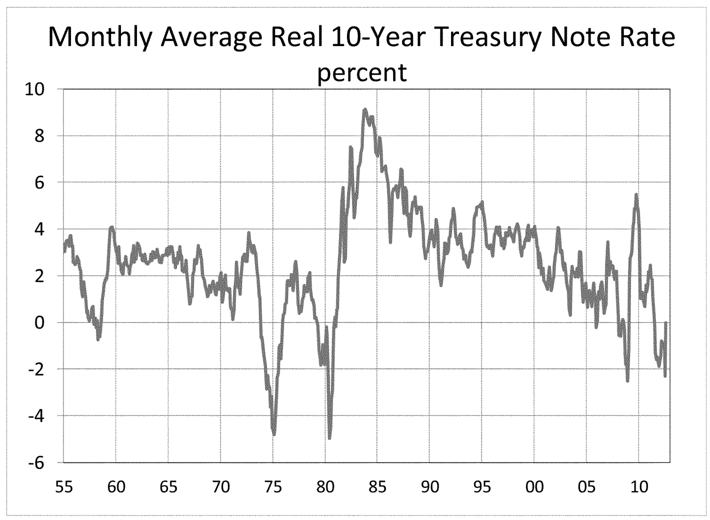
Why TIPS Should Be Permissible

As noted, FCUs are permitted to invest in variable rate instruments where the index is tied to a domestic interest rate. Common domestic interest rates include the Fed Funds rate, Treasury rates, and LIBOR. Despite the common label ''domestic interest rate,'' each of these rates is not perfectly correlated with the others. There is certainly some measure of correlation, but an FCU can be exposed to earnings variability if it invests in variable rate assets tied to one rate, LIBOR rates for example, and prices its shares on another, Treasury rates for example.

Historically, the Board has prohibited variable rate instruments tied to non-domestic rate indices because of the basis risk for FCUs. While the Board remains concerned about basis risk, it recognizes that FCUs now have greater access to advanced asset-liability management tools that can identify and measure basis risk, and are therefore better equipped to manage such risk associated with adding CPI as a permissible index.

- The adjacent graph shows that the "ex-post" real interest rate – the nominal 10-year Treasury rate less the 1-year inflation rate – turned sharply negative in the mid-1970s and the late 1970s/early 1980s.

- These periods coincide with an unexpected acceleration of inflation.



- The negative real interest signals that someone holding a 10-year Treasury during that period was losing real purchasing power, as a result of not being able to forecast inflation accurately.

Allowing FCUs to hold TIPS in their investment portfolios adds no credit risk and allows them the option of minimizing the need for accurate inflation forecasting as a way to maintain the real value of their investment portfolios.

D. Caution in Investing in TIPS

The Board believes the authority to invest in TIPS for the purpose of protecting against inflation risk can be a valuable part of an effective risk management program for FCUs that understand the risks. TIPS may not be appropriate for all FCUs. As with any investment, the decision to purchase TIPS should be based upon sound due diligence and a demonstrated effectiveness in managing risk. This proposal authorizes FCUs to purchase TIPS only. Other similar securities based on inflation indices currently available or available in the future that are not issued by the United States Treasury Department are not authorized by this rule. The current TIPS pilot program will expire in the event this proposal is eventually finalized by the Board.

II. Regulatory Procedures

Regulatory Flexibility Act

The Regulatory Flexibility Act requires NCUA to prepare an analysis to describe any significant economic impact a proposed rule may have on a substantial number of small entities (primarily those under ten million dollars in assets). This proposed rule reduces compliance burden and extends regulatory relief while maintaining existing safety and soundness standards. NCUA has determined this proposed rule will not have a significant economic impact on a substantial number of small credit unions.

[3] (a) *Variable rate investment.* A Federal credit union may invest in a variable rate investment, as long as the index is tied to domestic interest rates and not, for example, to foreign currencies, foreign interest rates, or domestic or foreign commodity prices, equity prices, or inflation rates. For purposes of this part, the U.S. dollar-denominated London Interbank Offered Rate (LIBOR) is a domestic interest rate.

[4] Basis risk is a common form of risk incurred by financial institutions, including credit unions. Basis risk is the variability between two or more indices (*e.g.,* equity barometers such as the S&P 500, and interest rate indices such as the 1-year Treasury rate) that serve as benchmarks for valuing financial institution assets and liabilities.

Paperwork Reduction Act

NCUA has determined that the requirements of this rule do not increase the paperwork requirements under the Paperwork Reduction Act of 1995 and regulations of the Office of Management and Budget.

Executive Order 13132

Executive Order 13132 encourages independent regulatory agencies to consider the impact of their actions on state and local interests. NCUA, an independent regulatory agency as defined in 44 U.S.C. 3502(5), voluntarily complies with the executive order to adhere to fundamental federalism principles. This proposed rule would not have a substantial direct effect on the states, on the relationship between the national government and the states, or on the distribution of power and responsibilities among the various levels of government. NCUA has determined that this proposed rule does not constitute a policy that has federalism implications for purposes of the executive order.

List of Subjects

12 CFR Part 703

Credit unions, Investments.

By the National Credit Union Administration Board on September 20, 2012.

Mary Rupp,

Secretary of the Board.

For the reasons discussed above, NCUA proposes to amend 12 CFR part 703 as follows:

PART 703—INVESTMENT AND DEPOSIT ACTIVITES

1. The authority citation for part 703 continues to read as follows:

Authority: 12 U.S.C. 1757(7), 1757(8), 1757(15).

2. Revise § 703.14(a) to read as follows:

§ 703.14 Permissible investments.

(a) Variable rate investment. A federal credit union may invest in a variable rate investment, as long as the index is tied to domestic interest rates and not, for example, to foreign currencies, foreign interest rates, or domestic or foreign commodity prices, equity prices, or inflation rates with the exception of Treasury Inflation Protected Securities. For purposes of this part, the U.S. dollar-denominated London Interbank Offered Rate (LIBOR) is a domestic interest rate.

[FR Doc. 2012–23644 Filed 9–25–12; 8:45 am]

BILLING CODE 7535–01–P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. FAA–2012–1001; Directorate Identifier 2012–NM–020–AD]

RIN 2120–AA64

Airworthiness Directives; Cessna Aircraft Company Airplanes

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Notice of proposed rulemaking (NPRM).

SUMMARY: We propose to adopt a new airworthiness directive (AD) for certain Cessna Aircraft Company Model 500, 501, 550, 551, S550, 560, 560XL, and 650 airplanes. This proposed AD was prompted by multiple reports of smoke and/or fire in the tailcone caused by sparking due to excessive wear of the brushes in the air conditioning (A/C) motor. This proposed AD would require an inspection to determine the accumulated hours on certain A/C drive motor assemblies; repetitive replacement of the brushes in the drive motor assembly, or as an option to the brush replacement, deactivation of the air conditioner; and return of replaced brushes to Cessna. We are proposing this AD to prevent the brushes in the A/C motor from wearing down beyond their limits, which could result in the rivet in the brush contacting the commutator causing sparks and consequent fire and/or smoke in the tailcone with no means to detect or extinguish the fire and/or smoke.

DATES: We must receive comments on this proposed AD by November 13, 2012.

ADDRESSES: You may send comments, using the procedures found in 14 CFR 11.43 and 11.45, by any of the following methods:

- *Federal eRulemaking Portal:* Go to *http://www.regulations.gov.* Follow the instructions for submitting comments.
- *Fax:* 202–493–2251.
- *Mail:* U.S. Department of Transportation, Docket Operations, M–30, West Building Ground Floor, Room W12–140, 1200 New Jersey Avenue SE., Washington, DC 20590.
- *Hand Delivery:* Deliver to Mail address above between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays.

For service information identified in this proposed AD, contact Cessna Aircraft Co., P.O. Box 7706, Wichita, KS 67277; telephone 316–517–6215; fax 316–517–5802; email *citationpubs@cessna.textron.com;* Internet *https://www.cessnasupport.com/newlogin.html.* You may review copies of the referenced service information at the FAA, Transport Airplane Directorate, 1601 Lind Avenue SW., Renton, WA. For information on the availability of this material at the FAA, call 425–227–1221.

Examining the AD Docket

You may examine the AD docket on the Internet at *http://www.regulations.gov;* or in person at the Docket Management Facility between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays. The AD docket contains this proposed AD, the regulatory evaluation, any comments received, and other information. The street address for the Docket Office (phone: 800–647–5527) is in the **ADDRESSES** section. Comments will be available in the AD docket shortly after receipt.

FOR FURTHER INFORMATION CONTACT: Christine Abraham, Aerospace Engineer, Electrical Systems and Avionics, ACE–119W, FAA, Wichita Aircraft Certification Office (ACO), 1801 Airport Road, Room 100, Mid-Continent Airport, Wichita, Kansas 67209; phone: 316–946–4165; fax: 316–946–4107; email: *wichita-cos@faa.gov.*

SUPPLEMENTARY INFORMATION:

Comments Invited

We invite you to send any written relevant data, views, or arguments about this proposal. Send your comments to an address listed under the **ADDRESSES** section. Include ''Docket No. FAA–2012–1001; Directorate Identifier 2012–NM–020–AD'' at the beginning of your comments. We specifically invite comments on the overall regulatory, economic, environmental, and energy aspects of this proposed AD. We will consider all comments received by the closing date and may amend this proposed AD because of those comments.

We will post all comments we receive, without change, to *http://www.regulations.gov,* including any personal information you provide. We will also post a report summarizing each substantive verbal contact we receive about this proposed AD.

Discussion

We have received more than 10 reports of smoke/fire (three reports of fire) in the tailcone of Cessna Aircraft Company Model 525, 550, and 560 airplanes, where investigation revealed brushes had worn beyond their limits on the part number (P/N) 1134104–1 A/