

187—2.11(524) Futures, forward, and standby contracts.**2.11(1) Scope.**

a. Futures contracts are defined as standardized contracts traded on and guaranteed by organized exchanges to purchase or sell a specified security or a bank certificate of deposit on a future date at a specified price. Forward contracts are defined as over-the-counter contracts for forward placement or delayed delivery of securities in which one party agrees to purchase and another to sell a specified security at a specified price for future delivery. Contracts specifying settlement in excess of 30 days following the trade date are deemed to be forward contracts. Standby contracts are defined as optional forward contracts. For example, the buyer of a standby contract (put option) pays a fee for the right or option to sell securities to the other party at a stated price at a future time. The seller of a standby contract receives the fee and must stand ready to buy the securities at the other party's option.

b. Futures contracts, forward contracts, and standby contracts may be used by state banks to reduce their existing interest rate risk exposure resulting from their overall investment activities and as a general hedge against interest rate exposure associated with undesired mismatches in interest-sensitive assets and liabilities. At no time shall futures, forward, and standby contracts be used to speculate on future interest rate movements.

c. State banks may, without the prior approval of the superintendent, purchase shares in permissible investment companies, up to a maximum of 15 percent of aggregate capital, which use futures contracts, forward contracts, and standby contracts, as well as repurchase agreements and securities lending arrangements as a part of their portfolio management strategies. It remains the responsibility of the board of directors making these purchases to ensure that a particular investment company is a proper holding for the state bank's investment portfolio.

2.11(2) Application. An application by a state bank to engage in futures contracts, forward contracts, and standby contracts shall be in letter form and contain, at a minimum, the following information:

a. A description of the type(s) of contracts the state bank proposes to purchase and sell.

b. A copy of the board of directors' resolution authorizing the specific type(s) of contracts proposed to be purchased and sold.

c. A copy of the policy adopted by the state bank's board of directors that shall include specific policy objectives that outline permissible contract strategies and their relationship to overall investment activities and asset-liability management; the names, responsibilities, and authority limits of the personnel authorized to engage in futures, forward, and standby contracts; limitations applicable to futures, forward, and standby contract positions; the personnel to be used to review at least monthly the state bank's contract positions to ascertain compliance with such limits; the exchanges and firms through which authorized personnel may conduct futures, forward, and standby contracts; and the dollar limit on transactions with each firm.

d. A representation that the state bank has sufficient managerial resources to engage in futures, forward, and standby contracts.

2.11(3) Revocation. The superintendent may revoke the approval of the state bank to engage in futures, forward and standby contracts, pursuant to the contested case provisions of Iowa Code chapter 17A, if any of the following occur.

a. The financial condition of the state bank has significantly deteriorated.

b. The superintendent determines the futures, forward, or standby contract activities are being conducted unlawfully or in an unsafe or unsound manner.

c. Other relevant factors exist that the superintendent may determine are grounds for a revocation of the activities.

This rule is intended to implement Iowa Code section 524.901.

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