



NRL Federal Credit Union  
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JUL 21 '05 PM 1:55 BOARD

July 19, 2005

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

**RE: Proposed Interpretive Ruling and Policy Statement No. 05-1**

Dear Ms. Rupp:

NRL Federal Credit Union understands that the National Credit Union Administration ("NCUA") is proposing to adopt an Interpretive Ruling and Policy Statement ("IRPS") regarding Sales of Nondeposit Investments, which will replace the NCUA Letter to Credit Unions No. 150. We are writing to provide general comments on the IRPS as follows:

**1. Regulatory Flexibility Act**

According to the NCUA, the IRPS will not have a significant economic impact on the small credit union. We disagree based on the following.

The IRPS states that a credit union's independent compliance program should contact investment clients, monitor customer complaints, review accounts for churning and suitability and ensure that the broker's supervisory personnel made scheduled examinations. This would require most credit unions to hire additional staff with the requisite securities knowledge/experience/licenses to effectively conduct these specific compliance functions. However, since only NASD registered broker/dealers can hold an individual's securities licenses, credit unions are unable to maintain such licensing for employees.

Given the complexity and progression of securities regulations, credit unions would be required to create costly surveillance systems in order to conduct the specific reviews as proposed in the IRPS.

The additional cost for the credit union's compliance surveillance as proposed in the IRPS is unwarranted given the duplication of efforts since brokerage firms already have a compliance system in place which is subject to oversight by multiple securities regulators (SEC, NASD).

## **2. Paperwork Reduction Act**

According to the NCUA, the IRPS will not increase paperwork requirements. We disagree. As discussed above, the IRPS is proposing that credit union's independent compliance program contact investment clients, monitor customer complaints, review accounts for churning and suitability and ensure that the broker's supervisory personnel made scheduled examinations. Inevitably, such compliance functions involve extensive paperwork including, but not limited to surveillance reports, trade reviews, audits, and correspondence with clients and regulators. The paperwork required would be duplicated by the brokerage firm compliance department and therefore unnecessary.

## **3. Proposed Contract Provisions**

The below proposed contract provisions may negatively affect and/or are not practical for credit unions as follows.

One of the IRPS proposed provisions for contracts between a credit union and a broker/dealer would require the credit union to identify and analyze the products that the broker may offer. Deciding what products to offer should be left with the experienced broker/dealer. If the decision is left up to the credit union, ultimately, the client may be harmed if products are limited.

An additional proposed contract provision states that the brokerage firm should allow the credit union the right to check for compliance and access member brokerage accounts for oversight. As discussed above the brokerage firm and not the credit union is in the best position to evaluate securities and ensure compliance. There may be no qualified credit union employees to monitor compliance. Secondly, allowing the credit union to access client brokerage accounts may violate state and internal privacy policies.

With respect to the proposed indemnity clause, we have no objection to including improper sales practices provided that the indemnity is mutual.

## **4. Compliance with the requirements of the IRPS and applicable law and regulation.**

The below proposed compliance requirements may negatively affect and/or are not practical for credit unions as follows.

As discussed above, the IRPS proposes that the compliance staff contact credit union members that have purchased nondeposit investments to

ensure that the member received and understood the required disclosures. We believe client contact for the purpose of discussing investments with credit union personnel who are independent from the investment sales program may potentially confuse clients by blurring the required distinction between credit union deposit and nondeposit functions. Our concern is the ability of the credit union employee to understand and competently discuss required disclosures or ably respond to clients' investment inquiries.

In addition to contacting clients, the IRPS proposes that the independent compliance staff monitor customer complaints, review accounts for churning and suitability and ensure that the broker's supervisory personnel made scheduled examinations. These reviews are already conducted by the brokerage firms' OSJ's (Office of Supervisory Jurisdiction) and compliance departments and subject to oversight by the SEC, NASD, Self Regulatory Agencies and the individual state securities regulators. The employees of the brokerage firm with the requisite licensing, knowledge and experience are responsible for compliance functions. There may be no employee at the credit union with qualifications required to conduct these functions. The financial burden on the credit union is obvious. To impose this requirement on the credit union is redundant.

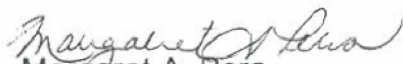
**5. Non Deposit Sales to Nonmembers**

We disagree with the IRPS proposal on sales to non-members based on the following.

We understand the need to limit business to credit union members only, but in order to facilitate the practical reality of a representative servicing his/her prior book of business (which in a new program, may be 100% of revenue), we suggest that the credit union be allowed to receive reimbursement for the credit unions direct and indirect expenses (which includes compensation to the representative in a dual employee program and program management expenses) related to this business.

In summary, we believe that NCUA should reconsider the proposed IRPS-Sales of Non Deposit Investments in light of the significant procedural and financial burden placed on credit unions.

Sincerely,

  
Margaret A. Pera  
President/CEO