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InvestmentCentre

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July 20, 2005

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

Re: Comment Letter to Proposed Interpretative Ruling and Policy Statement No. 05-1
Sales of Nondeposit Investment Products

Dear Mrs. Rupp,

First and foremost, the United Nations Federal Credit Union ("UNFCU") wishes to applaud the National Credit Union Administration ("NCUA") for its continued efforts in keeping the regulatory framework up-to-date, and enabling the nation's credit unions to best serve its members while maintaining the highest levels of safety and soundness. On behalf of UNFCU, please allow this correspondence to serve as our response to a request for comments from NCUA on the proposed Interpretive Ruling and Policy Statement that would replace Letter Number 150. I believe that the proposed IRPS places undue hardships on credit unions, places significant liability on a credit union, and does not consider the implications this ruling could have.

The brokerage industry is a highly regulated environment that has a rigorous system of training, licensing, audits and enforcement. Any reputable broker-dealer has a comprehensive compliance staff, legal department, regulatory advisory personnel, internal audit department, surveillance personnel and procedures and policies that meet the requirements of their regulators. Indeed, the staffs of today's broker-dealers in the compliance and legal area is the fastest growing employment segment of the securities industry. The fact that these areas are growing, while there are fewer registered representatives and fewer firms (due to robust consolidation) point to "More Compliance" for "Less Business". This is driven by a regulatory environment that is not only the most vigilant it's ever been, but is one that is to get even tougher.

The applicable policies and procedures must be adhered to, or affiliated and registered persons are subject to severe repercussions, including dismissal, fines, censures, suspension, prosecution and other penalties. In addition, branch offices must have oversight by an experienced office of supervisory jurisdiction ("OSJ"), otherwise known as a Registered Principal or Branch Office Manager. This person has direct responsibility for registered persons and is held accountable to the compliance office of the broker-dealer. Finally, there is oversight in place by the NASD, SEC, NYSE, and the state regulators. To suggest that there isn't already in place an effective and comprehensive oversight process ignores the entire regulatory and compliance oversight



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structure that is functioning well at the broker-dealers. In addition, the broker-dealers, in their capacity as "Members" of the NASD and the NYSE, are the most qualified to understand and administer what is required in terms of effective compliance.

There is no question that credit unions must be actively involved but this must fall within their range of expertise and nothing more. Complaints received by a credit union should be forwarded to the branch OSJ and subsequently followed up to ensure the member complaint has been satisfactorily resolved. Unresolved issues must be addressed with the broker-dealer and if a credit union is not satisfied with the responses, the credit union should change broker-dealers.

However, placing a credit union in a position of direct oversight responsibility results in several serious repercussions. First, I find it unlikely that a credit union staff member would be willing to place themselves in a position that could involve some significant potential personal liability. Second, even if there exists a person willing to accept such responsibility, it's unlikely that such a person would be currently employed at a credit union. Recruiting and compensating this position would result in a credit union incurring significant expense. The expense impact cannot be overestimated. Today in the securities industry, payouts at firms are moving lower to meet additional compliance costs at a time where technology is saving money in other areas of those firms. To expect any credit union to take on those growing costs would have permanent, far reaching damages on the ability to provide traditional credit union products at a reasonable cost to our Membership. Equally important, the only person that would qualify is someone that has been trained and licensed. In this instance that person would have to be registered with the broker-dealer, thus defeating the purpose. Finally, since banks do not have to provide this oversight, credit unions would be placed at a competitive disadvantage. The IRPS proposal will place a credit union in the position of sharing liability with broker-dealers when the NASD and the SEC already insist that the broker-dealer is exclusively responsible for securities law compliance. This potentially places risk on the Share Insurance Fund. Also, the NCUA would have to train its examiners in securities law compliance. Again, all of this seems unnecessary when there already exists an intense level of oversight by the broker-dealer, NASD, and the SEC.

With regards to the proposed percentage limitation on non-member business, once again credit unions will be placed in a significantly less competitive position than banks. The recruitment of talented financial advisors/consultants is very challenging when the enormity of the staffing needs of brokerage and banking firms is considered. Credit unions are attempting to recruit the best of the breed to ensure that our program staff



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has a history of working with the public in the most professional, compliant manner. Invariably, these financial professionals have "books" of business that they have cultivated at significant time, effort and expense. It is highly unlikely that they will sever these relationships to work for a credit union. Therefore, it is not practical to place a limitation on our recruitment efforts to offer members the best in the profession.

For this reason, the proposed percentage cap on non-member business is not practical nor is it in the best interest of the NCUA, a credit union, and most importantly, the members we serve. A more effective solution would be to implement a cost accounting method that could be utilized to insure that a credit union identifies the costs of facilitating non-member business and therefore is only reimbursed for the associated costs. Credit unions would have no incentive to develop non-member business since it would not receive any income from these activities. However, we could compete with banks and brokerages to recruit the best financial advisors and consultants, which would in turn benefit our Membership as a whole.

I believe that the NCUA should monitor what many may consider a very complicated and compliance sensitive component of a credit union's service and product delivery model. However, with a deeper understanding of the issues outlined above, it is clear that the IRPS will not offer an additional safety net for members and could in fact impose significant liability to both credit unions and their staff. Additionally, compliance with the IRPS will impose undue expenses on credit unions and places them at a competitive disadvantage to banks.

UNFCU greatly appreciates having had the opportunity to comment on this proposed regulation. I encourage you to continue to monitor this situation but at the present time there is no need for additional measures to be taken. If you have any questions or require further clarification please do not hesitate to contact me.

Regards,

Stephen J. Ryerson