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January 24, 2002

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

Re: National Credit Union Administration; Investment and Deposit Activities;
12 CFR Part 703; 66 Federal Register 54168, October 26, 2001

Dear Ms. Baker:

The National Credit Union Administration ("NCUA") has issued an advance notice of proposed rulemaking ("ANPR") governing federal credit union investment authorities and practices. The American Bankers Association's comments are directed at section 703.50 dealing with *Broker Requirements*.

The American Bankers Association brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership--which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks--makes ABA the largest banking trade association in the country.

According to current NCUA regulations, section 703.50(a) states:

"[e]xcept as provided in paragraph (c) of this section, you (a federal credit union) may use a third-party entity to purchase and sell investments (a "broker-dealer") as long as the broker-dealer either is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) or is a depository institution whose broker-dealer activities are regulated by a federal regulatory agency."

The National Credit Union Administration's ANPR proposes setting standards applicable for federal credit unions ("FCUs") to all broker-dealer or depository institutions that transact purchases or sales of securities with an FCU. Specifically, with respect to broker-dealers the NCUA has proposed that the brokerage firm have at least one General Securities Principal ("Series 24 license") registered with the National Association of Securities Dealers ("NASD") and that the individual broker who conducts business with the FCU must be registered with the NASD as a General Securities Representative ("Series 7 license"). With respect to depository institutions, the NCUA has proposed that the brokerage activities of the depository institution must be regulated by a federal or state regulatory agency. In addition, the individual broker employed by the depository institution and doing business with the FCU must also hold a Series 7 license.

Banks are permitted to engage within the institution in certain brokerage activities, including activities involving U.S. government and agency securities, municipal securities, and

collective investment funds. Those activities are regulated by the appropriate federal and state banking regulators. See e.g., Interagency Statement on the Sale of Nondeposit Investment Products, February 15, 1994; 12 CFR Parts 10, 12 and 13, 12 CFR 208.34, 208.37 and 208.101. Bank employees engaged in securities brokerage activities are generally not permitted, however, to take securities licensing exams. Specifically, in order to take a securities licensing exam, NASD rules require that the employee be sponsored by an NASD member firm that has the intent to employ that person. See NASD Rule 1031. NASD By-laws do not permit banks to become members of the NASD. See Article I of the NASD By-laws. Consequently, no bank employees would be able to satisfy the proposed NASD Series 7 registration requirement unless, of course, they had acquired the Series 7 license prior to becoming employed by the bank. Even in the limited circumstances where an employee had acquired the Series 7 designation prior to coming to work for the bank, it is our understanding that the employee could not hold him or herself out as being Series 7 registered with NASD.

Therefore, NCUA's proposal would discriminate against banks currently offering investment services to federal credit unions. Additionally, this will restrict the options of federal credit unions to using the services of only broker-dealers. With fewer choices, this could hamper the ability of federal credit unions to get investments at the best price possible.

The ABA suggests that the NCUA amend the proposal to provide that the employee must be adequately trained to engage in securities brokerage activities. The Interagency Statement noted above and issued by all the banking regulators requires that depository institution personnel authorized to sell nondeposit investment products must be "adequately trained with regard to the specific products being sold or recommended." In addition, the training must be the "substantive equivalent of that required for personnel qualified to sell securities as registered representatives." In addition, bank employees involved in municipal securities dealer activities do sit for the Series 52, 53, and 54 exams. Inclusion of such language would ensure that depository institution personnel are adequately qualified to sell investment products to FCUs.

In conclusion, the ABA believes that NCUA's ANPR, as currently crafted, will negatively affect federal credit unions and their ability to receive investment services from banks by restricting federal credit unions' choices to broker dealers. If you have any questions regarding ABA's comment letter, please direct your inquiries to Sarah Miller (202) 663-5325, John Rasmus (202) 663-5333, or the undersigned.

Sincerely,



Keith Leggett