



December 12, 2007

Jennifer J. Johnson, Secretary,
Board of Governors of the Federal
Reserve System, 20th Street and
Constitution Avenue, NW
Washington, DC 20551

Re: Docket Number R-1298

Dear Ms. Johnson:

I am writing on behalf of the State Department Federal Credit Union (SDFCU) in response to the Federal Reserve Board's (the Board) request for comment regarding the proposed joint rule (the Rule) to implement the *Unlawful Internet Gambling Enforcement Act of 2006* (the Act). We offer no opinion on the validity or effectiveness of the Act; however, we are concerned that the implementation of the Act will create an undue burden on financial intuitions and slow the pace of innovation in the financial services industry by effectively making the financial services industry the Internet gambling police.

The proposed rule currently exempts Originating Depository Financial Institutions (ODFI) from implementing policies and procedures that would require credit unions to identify Internet gambling transactions and businesses. We support this exemption because it minimizes the overall impact of the Act on SDFCU and other credit unions. Nonetheless, we are concerned that this requirement could have an adverse impact on Automated Clearing House (ACH) and other automated payment systems, which would indirectly impact all financial institutions by adding inefficiencies to the automated payment process. Additionally, SDFCU believes that there should be no future requirements placed on ODFIs because of the limited value and huge regulatory burden that would be created.

SFCU supports the exemptions in Section 5, which requires all non-exempt participants in the payment systems to implement policies to prevent and block prohibited transactions. Section 5 allows a participant in a designated payment system to be in compliance if the payment system in which it participates is in compliance with the Rules. This section appears to allow credit unions and similar financial institutions to rely on the policies and procedure of the designated payment systems for compliance with the Rules. We are concerned that there could be a compliance risk if a non-exempt institution fails to

implement its policies properly, but with proper due diligence this section should minimize credit unions' regulatory burden.

SDFCU's last concern is due diligence provisions that could add additional requirements to a financial institution's account opening process. Requiring due diligence during the account opening process is feasible and would not present an undue burden to most financial institutions. However, an ongoing due diligence requirement could prove to be burdensome because unlike the Bank Secrecy Act's ongoing due diligence requirements, this would require a financial institution to actively seek information from consumers instead of checking consumers' names against a government produced list.

SDFCU appreciates this opportunity to comment on this important topic. The Rules represent an ambitious undertaking and have many provisions that minimize the regulatory burden for credit unions. We encourage that the final rules address our concerns without adding additional regulatory requirements.

Best regards,

J. Lance Noggle, Esq.,
Regulatory Compliance Counsel