

December 19, 2011

Ms. Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Ave., NW  
Washington, DC 20551

Re: Docket No. R-1433 and RIN No. 7100 AD 83: Proposed amendments to Regulation D: Reserve Requirements of Depository Institutions: Reserves Simplification and Private Sector Adjustment Factor

Dear Ms. Johnson,

This letter represents the views of the Credit Union National Association (CUNA) regarding the Federal Reserve Board's (the "Board") request for comments regarding its proposed amendments to Regulation D: Reserve Requirements of Depository Institutions: Reserves Simplification and Private Sector Adjustment Factor. CUNA appreciates the opportunity to comment on these proposed amendments. By way of background, CUNA is the nation's largest credit union trade organization, representing approximately 90 percent of our nation's 7,300 state and federal credit unions, which serve approximately 92 million members.

CUNA generally supports the proposed amendments to Regulation D (Reg D), even though we question the value of certain provisions in Reg D, such as limiting transfers from savings to transaction accounts, in influencing monetary policy. The proposed amendments are intended to simplify the administration of reserve requirements, and CUNA encourages further efforts to reduce regulatory burdens on credit unions, including those under Reg D. Additionally, because the Federal Reserve now pays interest on depository institutions' balances maintained to satisfy reserve requirements, the proposed amendments are appropriate to bring these aspects of Reg D in line with this authority.

We understand that the four proposed amendments would require little or no operational change for credit unions, and are not likely to impose burdensome costs. We agree that creating a common two-week maintenance period, while maintaining the flexibility to report weekly or quarterly, would simplify depository institutions' operational burden by eliminating the requirement that the institution move between a one- and two-week maintenance period depending on the level of its reservable liabilities.

We also support creating a penalty-free band around reserve balance requirements in place of carryover and routine penalty waivers. We support this amendment as proposed, provided that the Federal Reserve does indeed pay interest on the current balance held at the end of each maintenance period – rather than continuing the current practice of delaying the payment of interest for at least one maintenance period. CUNA supports maintaining the top of the penalty-free band at least as high as that proposed by the Board (the greater of \$50,000 or 10% of a depository institution’s reserve balance requirement) and for the Federal Reserve to pay interest on balances up to the top of the penalty-free band at the same interest rate as that paid on balances maintained to satisfy the reserve balance requirement.

Regarding discontinuing as-of adjustments related to deposit revisions and replacing all other as-of adjustments with direct compensation, CUNA agrees that these changes will help to relieve the operational burden on credit unions. Because the Federal Reserve now pays interest on reserve balances, the need for an as-of adjustment for deposit revisions is eliminated. Additionally, replacing all other as-of adjustments with direct compensation brings Federal Reserve practice in line with traditional business accounting practices (by instead applying debits and credits to the account). CUNA agrees that the federal funds rate should be used for the calculation of direct compensation to remain consistent with the Federal Reserve’s practices in other areas where direct compensation is used.

Finally, CUNA agrees with the Board’s proposal to eliminate the contractual clearing balance program since the payment of interest on balances maintained to satisfy reserve balance requirements eliminates the opportunity cost of holding these funds at the Federal Reserve Banks.

While CUNA supports these revisions and in general foresees few compliance issues with the substance of the changes, we are concerned about their timing, given the number of other regulatory requirements credit unions are facing. In that connection, we urge the Board to allow depository institutions sufficient time to implement these changes. Requiring depository institutions to put into operation any of the proposed changes in the first quarter of 2012 may prove unduly burdensome to depository institutions, particularly for smaller credit unions. Credit unions and other depository institutions are currently working hard to implement many of the new regulations imposed as a result of the Dodd-Frank Act and other regulatory initiatives. CUNA requests that the Board give depository institutions ample time, at least nine months, to implement the proposed changes and that it stagger the effective dates for each proposed amendment.

We would also like to take this opportunity to urge the Board to reconsider its Reg D six transfer/withdrawal limit on savings deposit accounts. Reg D (§204.2(d)(1)) currently limits the number of “convenient” transfers and withdrawals to no more than six per calendar month or statement period.

While we recognize that the Monetary Control Act required depository institutions to comply with Reg D limits on transfers between savings and transaction accounts, we urge the Board, if it feels it cannot remove the limits, to increase the number of such transfers allowable per month. We also urge the Board to work with Congress to revise the Act to remove compliance burdens institutions must meet in distinguishing between savings and transaction accounts.

CUNA and its members do not believe that the current limits are necessary as it is not clear that they affect the Federal Reserve's ability to conduct monetary policy in any way, and they impose an undue compliance burden on financial institutions and consumers. Reg D recognizes that consumer transactions at ATMs typically involve transfers among that consumer's own accounts, and therefore exempts ATM transactions from the six transfer limit. Similarly, preauthorized transfers from a consumer's savings deposit account to their own loan account are not limited.

However, due to technological advances, consumers can now make payments and transfers online, via telephone, at point-of-sale terminals, and via Automated Clearing House (ACH) transactions. The increased use of electronic channels has enabled financial institutions to deliver financial services to consumers conveniently and at lower costs. For this reason, the six transfer limitation unreasonably restricts consumers from being able to easily access their own funds for their own use. It imposes unnecessary financial costs on both financial institutions and consumers. It also places an undue compliance burden on financial institutions by requiring institutions to continuously track the precise method by which consumers initiate transfers between their own accounts.

CUNA urges the Board to consider raising or even removing the six transfer limitation on internal transfers (payments and deposits) made by consumers *among their own accounts within the same* financial institution. Transfers or payments to third parties would still be included within the limited transaction rule.

Thank you for the opportunity to comment on the proposed amendments to Reg D. If you have any questions concerning our letter, please feel free to contact CUNA's Senior Vice President and Deputy General Counsel Mary Dunn or me at (202) 508-6776.

Sincerely,



Kristina A. Del Vecchio  
Counsel for Special Projects