



December 19, 2011

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

Re: Reserve Simplification and Private Sector Adjustment Factor Proposal
Docket No. R-1433 / RIN 7100 AD 83

Dear Ms Johnson,

On behalf of the League of Southeastern Credit Unions (LSCU), representing approximately 300 state and federal credit unions and the 6 million consumers and small businesses they serve, I appreciate the opportunity to comment on the proposed revisions to reserve requirements found in Regulation D.

The Federal Reserve Board's (Board's) proposal seeks to revise Regulation D to decrease administrative and operational expense associated with reserve requirements for credit unions and the Federal Reserve. LSCU views the proposal as being consistent with Federal Reserve efforts in reducing onerous statutory requirements. If adopted, we expect the revision to ultimately facilitate greater credit union compliance with Regulation D. However, we urge the Board to consider delaying the effective date of mandatory compliance of the regulation until June 2012 at the earliest. This date adjustment would serve to minimize compliance costs and burdens related to the implementation of this amendment as well as numerous other regulatory changes due to take effect in 2012.

Summary of LSCU Views

- LSCU supports the proposal to create a two-week maintenance period for credit unions and other depository institutions.
- Given the complexity of determining proper reserve levels and the need for revised regulation in this area, LSCU supports the creation of a penalty-free band around reserve balance requirements replacing the current carryover method and routine penalty waivers.

- The proposed guidance will, if adopted in its present form, eliminate as-of adjustments that are related to deposit revisions. LSCU views this step as a reasonable approach to simplifying the process.
- LSCU supports the replacement of other as-of adjustments with direct compensation and the elimination of the contractual clearing balance program.

Discussion of LSCU Views

LSCU supports the creation of a common two-week maintenance period for all credit unions. The creation of the two-week maintenance period provides greater flexibility to credit unions now satisfying reserve balance requirements over a one-week maintenance period and greatly reduces the complexity present in the current maintenance period structure. It is our belief that both administrative and operational costs will decrease for credit unions that have revised their maintenance periods due to changes in deposit reporting requirements.

LSCU views the cost and benefits associated with the proposal as an improvement over the previous method applied by credit unions. We do not believe there is a distinct advantage of a one-week common maintenance period over the proposed two-week common period due to the advancement of operating systems now in use at credit unions. The technology used by credit unions today have the capability to track and report data as never before. Therefore, this revision should not stress the technical capabilities of institutions adjusting their maintenance programs. We are concerned however; that the early 2012 implementation date may be too aggressive for the industry following the past two years of almost continuous regulatory changes. For smaller institutions, the possibilities of some operational difficulties involved in transitioning to a two-week maintenance period from a one-week maintenance period remain a concern. With this in mind, I again urge the adoption of an effective implementation date of June of 2012 or later.

LSCU supports the creation of a penalty-free band around reserve balance requirements in place of carryover and routine penalty waivers. LSCU supports the Board's proposal to create a penalty-free band around each depository institution's reserve balance requirements and to eliminate the carryover and routine waiver provisions of Regulation D. The penalty-free band, an amount equal to a credit union's reserve balance requirement plus or minus a dollar amount, appears to be a workable solution and establishes balances unique to each institution. The proposal to set the dollar amount of the top and bottom of the penalty-free band at the greater of \$50,000 or 10% of a depository institution's reserve balance requirement is less complex and more efficient than the current method. We would however prefer to see the percentage figure of a depository institution's reserve balance requirement used reduced to 6% rather than the proposed 10% amount. We believe this to be a more reasonable amount for use by all institutions in determining the penalty-free band parameters.

In the proposal, credit unions would be remunerated at the interest rate paid on balances maintained to satisfy the reserve balance requirement, even if the institution maintains excess balances within the prescribed band. LSCU supports this measure.

The proposal will eliminate the use of the “carryover” method of satisfying deficient reserve balances. LSCU supports this revision within the proposal. The use of the “carryover” method unfortunately links one maintenance period to the next and forces the Federal Reserve to delay the payment of interest on eligible credit unions’ balances for at least one maintenance period in order to accurately calculate the amount and type of institution balances on which to pay interest. Currently, Regulation D also allows the Federal Reserve to assess penalty charges against credit unions that fail to satisfy their reserve balance requirements, and to waive these charges in certain circumstances. This assessment and subsequent waiver is unproductive and we favor discontinuing the practice. LSCU considers the removal of “carryover” beneficial to credit unions based on the expectation that those receiving interest on balances would receive those funds at the close of the maintenance period with no delay for further Fed analysis of past periods. LSCU also favors the use of a dollar amount to determine the appropriate size of the penalty-free band around a reserve balance requirement as the most efficient for credit unions. The revision or simplification of the previous method of reserve management is a more direct and reasonable approach for credit unions to follow as they determine their reserve obligations. We fully support this effort.

LSCU supports the discontinuation of “as-of” adjustments related to credit union deposit revisions. The elimination of “as-of” adjustments related to credit union deposit revisions will streamline the deposit report correction process. Under the proposal, credit unions will continue to submit revisions to previous reports in response to data errors. However, when those revisions result in a change in the institution’s reserve balance requirement, a penalty should not be assessed if the balance is within the penalty-free band established for that credit union. Reports of deposits will continue to be used for calculating and publishing monthly aggregates and revisions to deposit reports will still be required for credit unions to correct errors. LSCU believes this amendment is beneficial to credit unions and will serve to further reduce the regulatory burden each credit union must currently address.

LSCU is in favor of replacing all other as-of adjustments with direct compensation. The proposed elimination of other as-of adjustments such as transaction error correction, float recovery, or reserve deficiency penalties is preferable when replaced with direct compensation. The use of a debit or credit process to an account to offset the effect of a transaction error is superior to the as-of adjustments used in the past. All recovery float payments stemming from the temporary closings of credit unions due to holidays or weekends, will be obtained through a billing charge as opposed to an as-of adjustment. This is a simpler process for rectifying errors or recovering payments. We agree with this approach which applies the use of direct compensation to credit unions in these situations. The use of the Fed funds rate for calculating direct compensation appears to be the most appropriate rate for use by the Board for calculation purposes.

LSCU supports the elimination of the contractual clearing balance program.

The Board's proposal to eliminate the contractual clearing balance program is a logical step to take in view of the adoption of a debits and credits approach to compensation. The revised methodology proposed to determine costs for Federal Reserve services appears more inline with practices already in use at credit unions across the country.

Now under the contractual clearing program, a credit union can voluntarily allow the Federal Reserve to maintain balances in excess of its reserve balance requirement, which generates earnings credits. These earnings credits are not considered interest but they can be used to pay for Federal Reserve priced services. These credits can be used only to offset Federal Reserve priced services fees. Since the Federal Reserve will pay interest on reserve balance requirements, the interest paid on such balances is higher than the earnings credits, thereby eliminating the need for the contractual clearing program.

LSCU agrees that the elimination of the contractual clearing balance program will improve the Federal Reserve's ability to carry out monetary policy by eliminating the complexities associated with maintaining different balance requirements for different types of balances and allowing the interest earned to be applied more broadly. The difficulties associated with managing different interest rate levels associated with different types of balances will be removed thereby improving the process. However, we are concerned of the negative effect such a revision will have on some credit unions. A revision such as this could be problematic for some small credit unions in that their internal budgeting procedures could be impacted because they would be required to begin paying explicitly for Federal Reserve priced services rather than implicitly by using credits. We urge the Board to take possibility into consideration when final adjustments to the proposal are being discussed. Our goal here is to ensure the final rule does not negatively affect credit unions attempting to meet the requirements of the act.

I know credit unions and leagues from around the country have submitted comments for your consideration. In view of these responses to your call for comment, I urge you to strongly consider them as you work toward adopting a final rule. It's important that the Federal Reserve take note of the concerns of those speaking out and consider their views.

If you have any questions, please feel free to contact me directly.

Sincerely,



Patrick La Pine