OHIO CREDIT
UNION LEAGUE

December 19, 2011

Via email to: regs.comments@federalreserve.gov

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th 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,

The Ohio Credit Union League (OCUL) appreciates the opportunity to comment on the Federal Reserve Board's proposed changes to Regulation D.

The comments reflected in this letter represent the recommendations of the Ohio Credit Union League. The Ohio Credit Union League (OCUL) is the trade association for credit unions in Ohio and advocates on behalf of 382 credit unions serving 2.7 million members in the state of Ohio. We appreciate the opportunity to provide suggestions and feedback to the Federal Reserve Board (FRB) prior to adoption of any rules as proposed.

Background

Regulation D imposes reserve requirements on certain deposits and other liabilities of depository institutions for the purpose of implementing monetary policy. The Federal Reserve Board (the Board) has proposed four simplifications to reduce the administrative and operational costs associated with these reserve requirements.

The simplifications would: 1) create a common two-week maintenance period for all depository institutions; 2) create a penalty-free band around reserve requirements in place of using carryover and routine penalty waivers (routine penalty waivers are used to eliminate charges for small or infrequent reserve deficiencies); 3) discontinue as-of adjustments related to deposit revisions and replace all other as-of adjustments with direct compensation; and 4) eliminate the contractual clearing balance program.

Analysis & Commentary

OCUL generally supports the proposed amendments to Regulation D. The proposed amendments are intended to simplify the administration of reserve requirements, and in light of the current compliance and regulatory burdens placed on smaller depository institutions, OCUL encourages such efforts by the Board to reduce those regulatory burdens, including those under Regulation D.

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OCUL agrees that the four proposed simplifications would require little to no operational changes for credit unions, and are not likely to impose burdensome costs to implement. However, given the rapid pace at which other regulations have been imposed on credit unions and other depository institutions, OCUL urges that the Board consider delaying the effective date of these proposals to allow depository institutions ample time, at least nine months, to implement the proposed changes and that it stagger the effective dates for each proposed amendment.

Proposed Simplifications

OCUL believes that the creation of a common two-week maintenance period will have the effect of simplifying 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. OCUL fully supports implementation of this simplification to Regulation D.

OCUL also supports creation of a penalty-free band around reserve requirements in place of using carryover and routine penalty waivers. Currently, the FRB pays interest on the balances held, however delaying this payment until the end of the next maintenance period. OCUL recommends that the FRB modify this practice to pay interest on the balances held at the end of each maintenance period in order to more accurately reflect balances held by each depository institution.

OCUL further supports (1) the discontinuation of as-of adjustments related to deposit revisions and (2) replacement of all other as-of adjustments. These changes will have the effect of relieving the operational burden on credit unions. The need for as-of adjustments for deposit revisions has been eliminated by the payment of interest on balances held at the Federal Reserve Banks. The replacement of other as-of adjustments with direct compensation would bring current Federal Reserve practice in line with current accounting practices by use of debits and credits to make adjustments to the account.

Finally, OCUL 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.

Modification of the Limits on Transfers from Non-Transaction Accounts

OCUL applauds the simplifications to Regulation D contained in the current proposal as significant modifications, stemming from the Federal Reserve Banks' improvements in the movement of funds. However, OCUL urges that the Board reconsider the limits placed on transfers and withdrawals placed on savings deposit accounts, currently limited to six (6) such transactions in a month.

OCUL and its members do not believe that the current limits are necessary as they impose an undue compliance burden on financial institutions and consumers while it is not clear that they affect the Federal Reserve's ability to conduct monetary policy in any way. Further, Regulation D recognizes that consumer transactions at ATMs typically involve transfers among a 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.

Technological changes have increased the ease and speed of movement of funds by introducing a number of other methods of making payments and transfers of funds by consumers, beyond the use of an ATM or movement of funds from a deposit account to a loan account at the same institution. The proliferation of these channels has enabled financial institutions to deliver financial services to consumers at lower costs and with increased convenience. 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 by making distinctions between types of transactions that no longer reflect the wide variety of methods which may be used to transfer funds.

OCUL 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. OCUL believes that each financial institution should be able to establish its own policies and limitations in regard to its members/customers ability to transfer funds between their own accounts. Transfers or payments to third parties would still be included within the limited transaction rule.

Conclusion

OCUL supports the proposed simplifications to Regulation D. The changes would better coordinate the administration of reserve requirements for depository institutions, and better reflect the current accounting practices used by the Federal Reserve Banks.

However, OCUL urges that the Board consider an additional simplification of Regulation D by removing the artificial distinctions made between permissible and impermissible types of transfers or withdrawals from non-transaction accounts. In particular, OCUL recommends that the six transfer limitation be removed for internal transfers among the accounts of an individual consumer or joint consumers within the same financial institution.

OCUL appreciates the opportunity to present comments on behalf of Ohio's credit unions regarding the Federal Reserve Board's proposed changes to Regulation J. Thank you for your consideration of the comments presented. If you have any questions, please contact me at (614)923-9766 or jkozlowski@ohiocul.org

Sincerely,

John F. Kozlowski

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cc: Mary Dunn, SVP and Deputy General Counsel, CUNA
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