



United Nations Federal Credit Union

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Via Email

Board of Governors of the Federal Reserve System
Attention: Jennifer J. Johnson, Secretary
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Docket No. R-1419 (RIN 7100-AD 76)

Dear Ms. Johnson:

On behalf of the United Nations Federal Credit Union (UNFCU), I would like to thank the Board of Governors of the Federal Reserve System (the Board) for inviting comments on the above referenced item. We believe the current version of the proposed regulatory requirements pertaining to consumer-requested international remittance transfers severely threatens UNFCU's ability to continue to support the needs of our membership. As a natural person credit union serving the geographically dispersed and highly mobile UN community, UNFCU's ability to facilitate the global movement of funds is paramount to its ability to fulfill its stated mission, "Serving the People Who Serve the World." As currently written, the practical implications of the Federal Reserve Board's pending rules pertaining to international remittance transfers under the Dodd-Frank Act threaten UNFCU's ability to continue to provide international payment services to its membership.

On an annual basis, UNFCU processes over 120,000 international wire transfers on behalf of its members into approximately 200 countries and into potentially thousands of financial institutions around the world. The overwhelming majority of these requests are submitted electronically without interaction between the consumer and a UNFCU employee. We facilitate account-to-account international wire transfers in both USD (which may or may not be converted to a local currency by the beneficiary financial institution) and in approximately 65 currencies through a series of correspondent bank relationships for global routing of transfers. We also partner with a commercial bank for foreign currency contracts and settlement via wire.

Below are specific components of the Federal Reserve Board's proposal whose application to the day-to-day business of UNFCU are of particular concern due to their anticipated financial impact to UNFCU and/or to the anticipated ability of UNFCU to remain compliant with requirements :

1. **Disclosure requirements to Consumers:** The proposed requirements for the remittance provider to provide in writing to the consumer includes detailed information about exchange rates, handling fees deducted and/or charged beyond the service provider's control, and any taxes that will be deducted and/or charged beyond the service provider's control. The requirement to disclose this information at the time of a transfer request, even after application of the provisions for estimated information, and the implications for the provider on the ultimate amount received by the beneficiary are estimated to have significant financial impact on UNFCU as error claims are made by consumers. Further, because the majority of international transfer requests are submitted electronically, the various methods of retrieving and supplying estimated information about a transaction do not apply.
 - a. **Exchange rates on wires sent in currency:** Like many institutions of its size, UNFCU does not perform currency conversion in-house. In order to allow our membership the most competitive exchange rates available, we do not have a static rate arrangement with our currency provider. Static rate arrangements, while providing a consistent rate for an agreed period of time, typically incorporate additional margin into the rate to protect the contracting entity from currency fluctuation for the period the rate is valid. UNFCU works with our currency provider in real-time to contract rates. The rate that will be applied is only known at the time the contract is accepted.
 - b. **Exchange rates on wires sent in USD:** When a member requests an international wire sent in USD, UNFCU does not know if the beneficiary account is denominated in USD or in another currency. It is possible for a USD account to be held by a consumer outside the US, and many of our members hold such accounts in a location where that is advisable. Other members request USD transfers to their foreign accounts and have arrangements with the beneficiary bank to convert to the currency of the account at the spot rate available at the time the account is credited and/or at a pre-arranged contract rate agreed between the consumer and his/her bank. In any of those situations, and given the number of beneficiary banks to which UNFCU members send funds, providing even an estimated exchange rate at the time of the request would present an extremely challenging position.
 - c. **External fees:** In our experience, the same international wire transfer may be routed to the final beneficiary bank a different way each time it is requested by a member. UNFCU, as is every institution handling the transfer, is able to control delivery only to the next institution. Banks in the US and outside the US are not required to publish or otherwise disclose their normal handling fees and/or any repair fees or their clearing/settlement arrangements. An exemption to this requirement for service providers who utilise correspondent services for delivery of all international transactions or transactions to specific locations should be considered.

- d. **Taxes:** The addition of a requirement to provide tax deduction/charge information in a written disclosure is especially problematic for UNFCU. Tax schemes vary not only by country but by the specific tax status of the sender and receiver (resident vs. non-resident, consumer vs. business), by currency (local currency or major global currency), by account type (interest bearing vs. investment account), by the type of financial institution (offshore entity, brokerage, insurance company) receiving the funds, or even by the stated purpose of the transaction in a free text field. In the case of our specific field of membership, individuals may have diplomatic or expatriate privileges that warrant a tax-exempt status in specific situations. It is expected that, especially in the case of international payments to a third-party receiver, the majority of consumers do not know the particulars of these details that will ultimately determine the taxation obligation. Further, there is no comprehensive guide to potential transactional tax information by country for reference, even when the attributes may be known by the consumer and/or its US-based service provider. This additional requirement of the proposal should be removed.

2. **Error resolution obligations of the US-based service provider:** It is admirable to offer consumers a level of protection from excessive charges, especially when those charges represent a large percentage of the amount of a low-value transfer. However, placing the financial responsibility for any errors involved in the final delivery of an international transaction solely upon the US-based service provider places undue financial burden on service providers like UNFCU that do not control a transaction end-to-end through its own network. The requirements as currently outlined to fully refund consumers in specific situations for the full amount of a request plus any fees collected externally when applied to UNFCU's 2010 international wires represent an estimated loss of 60% of fee income generated by all wire transfer volume. As a not-for-profit financial institution, fees are charged to cover the cost of supporting service, and we would be unable to justify offering international payment service to our membership.

3. **Inclusion of consumer-requested wire transfers under Electronic Funds Transfer Act (EFTA):** The EFTA's primary purpose is to offer consumer protection. However, another benefit of the EFTA is that it establishes a fairly level set of expectations for all parties involved in handling a transaction. Each party understands what to reasonably expect any other party's rights, obligations, and behavior to be. Because each party knows what can or cannot be done under EFTA, it is possible to provide consumers with the protections afforded without undue, unmitigated financial exposure. Because every party involved in handling a consumer-requested international wire transfer is not subject to EFTA and is beyond jurisdiction of the United States Treasury and the Federal Reserve Bank, there is no reasonable expectation of the behavior of any other party involved in the handling of any international transaction. Placing consumer international wire transfers under the guidelines of the EFTA places undue regulatory and financial burden on only a single entity involved in the transaction. There is no recourse for the US-based provider in a situation where lost funds cannot be recouped, and the financial impact of losses experienced as a result of errors or

negligence by any other party could be significant enough to an organisation like UNFCU that it is necessary to exit the international wire business. Any provisions that the EFTA would render to the service provider of an international wire transfer are irrelevant once the funds settle across the first border beyond the United States.

4. **Possible exemptions:**

- a. **International ACH transactions:** A permanent exemption for international ACH transactions will be helpful, but only for those transactions that are destined for receipt in a country that the Federal Reserve Bank's ACH program can reach. Major expansion of the ACH program into the remaining continents and into additional countries prior to the effective date of the regulation will be necessary in order for this exemption to meet UNFCU's specific needs. Further, a provision should be considered to exempt transfers to countries that do not have an ACH infrastructure and/or that cannot be reached via ACH from the US.
- b. **A transaction limit of \$500:** The proposed transaction limit set forth by the Clearing House would ensure that the initial intent to protect consumers sending low value transfers abroad would be retained and would reduce the potential negative financial impact of the current proposal on credit unions and smaller service providers, allowing them to remain in the business of consumer international payments. UNFCU is in favor of this transaction limit being included in the final regulation.
- c. **Provision for a consumer's transfer to his/her own account:** The Federal Reserve Board's inclusion of a provision to exempt a consumer's transfer to his/her own foreign account or any other arrangement where the requesting consumer is also the beneficiary of funds is acknowledged by UNFCU as offering relief from the proposed requirements. However, there is a concern that this exemption may decline in importance as consumers learn to circumvent this provision over time in order to maximize their right to refund by the service provider.

On behalf of UNFCU, I appreciate the opportunity to comment on the Federal Reserve Board's proposal.

Very truly yours,

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