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[redacted]

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
[redacted]

Re: Interagency Guidance on Funding and Liquidity Risk Management

Dear Ms. Rupp:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on the proposed interagency guidance issued jointly by the National Credit Union Administration (NCUA), Office of the Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation, and Office of Thrift Supervision (the agencies). The proposed guidance is intended to clarify and summarize the principles of sound liquidity risk management previously issued by the agencies. This letter was developed under the auspices of CUNA's Examination and Supervision Subcommittee and CUNA's CFO Council. By way of background, CUNA is the largest credit union trade organization in the country, representing approximately 90 percent of our nation's nearly 8,000 state and federal credit unions, which serve approximately 91 million members.

Summary of CUNA's Views

- CUNA supports robust, ongoing liquidity risk management at all credit unions.
- However, CUNA does not support the adoption of the proposed interagency guidance on liquidity risk management for natural person credit unions at this time, particularly in light of the level of share growth that most credit unions are experiencing.
- Regarding corporate credit unions, NCUA is in the process of reviewing the structure of the corporate credit union system, and any additional requirements for corporate credit unions in this area should be addressed in the context of that review.

- The proposed guidance would impose new requirements on federal credit unions. NCUA has not provided sufficient rationale for such requirements.
- Further, NCUA has not explained why its current natural person credit union Asset Liability Management – Liquidity Risk guidance, found in the agency's Examiner's Guide, is insufficient to address the proper scope of credit union policies and procedures for maintaining adequate liquidity and managing risks when liquidity is inadequate.
- The proposed guidance attempts to impose uniform liquidity risk management procedures on all financial institutions, regardless of their size or charter type. We do not believe credit unions should be subjected to more onerous, additional liquidity risk management procedures as a result of problems within the banking system.
- The proposed guidance seems more appropriate for very large banks, particularly since it was drawn from recommendations by international bank supervisory groups such as the Basel Committee, the Senior Supervisors Group, and Financial Stability Forum.
- In light of the varied and burdensome regulatory requirements that credit unions already face, we urge the agency to reconsider the necessity of this guidance and refrain from adopting it for credit unions.

Discussion of CUNA's Views

CUNA Supports Strong Liquidity Risk Management at Credit Unions

While the proposed Interagency Guidance – Funding and Liquidity Risk Management may be a necessary step for banking organizations, particularly large ones, CUNA does not support the adoption of the guidance for credit unions for a number of reasons, which are discussed below.

Before addressing our concerns with the guidance, we want to emphasize our opposition to the proposal is not the result of support for lax liquidity risk management at any credit union. We strongly maintain that credit unions of all sizes, and whether state or federally chartered, should have comprehensive policies and procedures for developing and maintaining sound liquidity and liquidity risk management programs.

However, in light of the strong share growth at most natural person credit unions today, we question the need to apply this guidance to credit unions. Of note, the proposal is unclear as to whether it is intended to apply to federal credit unions only or all federally insured credit unions. As addressed below, the proposed guidance states that it provides expectations for "all domestic financial institutions." If the guidance is intended to apply to state chartered, federally insured credit unions, as well as federal credit unions, NCUA should have spelled this out. Also, NCUA should have coordinated with the state regulators on the development of the guidance; whether NCUA did coordinate with the state regulators is not addressed in the proposal.

Concerning corporate credit unions, the agency is in the process of considering comments received from the credit union system on the future of those institutions. We urge the agency to address issues regarding liquidity policies, practices and procedures among the corporates as part of the agency's overall review of the corporate credit union system, rather than imposing this new guidance on them now.

Liquidity Risk Management is Already Addressed in NCUA's *Examiner's Guide*

One of the reasons we are opposed to the new guidance is that the necessary elements for sound liquidity risk management policies and processes are already well delineated in the agency's *Examiner's Guide*, "Chapter 13- Part 3, ALM-Liquidity Risk." This section details the steps credit unions should take to manage liquidity risk, the elements that liquidity risk policies should include, the responsibilities of the credit union's board and management for reporting and monitoring liquidity, and a range of other relevant issues. If federal credit unions are not following these procedures, they are subject to examiner directives and sanctions to bring their operations into compliance. Because NCUA has not identified liquidity problems, including for natural person credit unions, in the proposal, there is no rational basis for concluding additional requirements in this area are necessary for credit unions at this time.

Additional Directives under the Proposed Guidance Are Redundant and Burdensome

In preparing this comment letter, we compared the proposed guidance with NCUA's current examination procedures on liquidity and liquidity risk management. All of the key components of the guidance are addressed sufficiently in the examination procedures, including adequate sources of liquidity, contingency planning in the event of liquidity problems, monitoring and reporting on liquidity.

However, the proposed guidance would impose a number of new requirements on credit unions such as more frequent and detailed liquidity reporting and relevant stress testing, which can be costly and time consuming. Further, a number of the proposed requirements, such as internal controls, appropriate corporate governance strategies, and stress testing, are already important elements of credit union board and management responsibilities, and the guidance would result in redundant steps from credit unions in order to satisfy its directives regarding liquidity.

The "Guidance" Will Likely Become Requirements

While the proposal is labeled "guidance," the *Federal Register* notice makes it clear that examiners will expect credit unions to follow these procedures – which as discussed elsewhere in this letter, we believe are unnecessary and not well-tailored to credit union operations. Thus, we believe to have entitled this document, "guidance," is inaccurate and misleading, particularly in light of the statement in the *Federal Register* notice "the proposed guidance emphasizes supervisory expectations for all domestic financial institutions including banks, thrifts and credit unions."

Further, while the *Federal Register* notice states that all financial institutions will be expected to "manage liquidity risk using processes and systems that are commensurate with the institutions' complexity, risk profile, and scope of operations," there is real concern among credit unions that examiners will develop a checklist based on the guidance that will be applied to the review of a credit union's liquidity management programs, regardless of the credit union's size, complexity, and level of risk associated with its activities.

The Guidance Was Developed for the Big Banks

The proposed guidance attempts to impose uniform liquidity risk management procedures on all types of financial institutions. The proposed guidance seems more appropriate for very large banks, and we do not believe credit unions should be subjected to more onerous, additional liquidity risk management procedures as a result of problems within the banking system, particularly at the largest institutions. The guidance was drawn from recommendations from bank supervisory groups such as the Basel Committee, the Senior Supervisors Group, and Financial Stability Forum, which are comprised of bank regulators from around the world, focusing on the problems of complex financial institutions. Also, as the Supplementary Information in the proposal explains, the guidance is designed to bring liquidity issues into conformance with the international guidance issued by the Basel Committee on Banking Supervision and notes that federal credit unions are not subject to such Basel standards. Thus, we believe the Supplementary Information reinforces that these standards should not apply to credit unions.

Costs and Burdens Associated with the Proposed Guidance

The proposed guidance requests responses to several specific questions, which we would like to address. The first is whether the collection of the information in the guidance is necessary for the performance of the regulators' functions. In the case of credit unions, we do not agree additional information required of credit unions is needed, if examiners and credit unions follow the agency's current procedures addressed in NCUA's *Examiners' Guide*. No historic or trend information, or statistical data is provided in the proposed guidance to support a different conclusion.

Comment is also sought on the accuracy of the estimates of the burden of the information collection. We question the cost and time estimates for compliance by credit unions, as NCUA has provided no information on how the estimates have been derived. NCUA's estimates are further questionable since they seem to be based on estimates provided by the bank regulators.

The remaining questions in the proposal seek input on institutions' costs and ways to minimize the burdens of the guidance. While the credit unions we spoke with regarding the proposal did not have precise cost estimates, they did state that the proposal would be more costly to implement than current procedures, and noted the funds would be better spent helping their members. Regarding how to minimize the burdens associated with the guidance, the best way to accomplish that would be to refrain from adopting the proposal for credit unions and continue to hold credit unions to the standards laid out in the *Examiners' Guide.*

In sum, CUNA is strongly opposed to the proposed guidance on liquidity management. We urge the agency to consider the significant regulatory and examination burdens credit unions are already facing and not proceed with the adoption of the proposed guidance at this time. If NCUA feels it necessary to address liquidity risk management issues for natural person credit unions, the agency should develop a letter to credit unions that focuses on specific problems and the steps credit unions should take to address those concerns, under the agency's current liquidity risk management requirements.

If you have questions or comments about our letter, please contact me. Thank you for the opportunity to comment on the proposal.

Sincerely,

Mary Mitchell Dunn

Mary Mitchell Dunn
CUNA SVP & Deputy General Counsel