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April 3, 2012

Via E-Mail
regcomments@ncua.gov

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Advance Notice of Proposed Rulemaking 3133-AD90 (77 FR 5416) - Financial Derivatives Transactions to Offset Interest Rate Risk

Dear Ms. Rupp:

In the Advance Notice of Proposed Rulemaking issued for comment in June 2011 (76 FR 37030) ("ANPR I"), the National Credit Union Administration ("NCUA") requested comment on whether and how to modify its rule on investment and deposit activities to permit a natural person credit union to engage in the purchase and sale of financial derivatives for the purpose of offsetting interest rate risk ("IRR"). In the above-referenced Advance Notice of Proposed Rulemaking issued for comment in January 2012 (the "ANPR"), the NCUA has requested additional comments to identify the conditions under which federal credit unions may independently engage in certain derivative transactions for the purpose of offsetting IRR.

This letter is submitted by the Board of Trustees of Trust for Credit Unions ("TCU"). As noted in our letter dated August 23, 2011 submitted in response to ANPR I (the "2011 Comment Letter"), TCU is an open-end diversified management investment company registered under the Investment Company Act of 1940 (the "1940 Act") and the Securities Act of 1933. The TCU portfolios are offered only to FCUs and state chartered credit unions. Shares of each of the TCU investment portfolios (the "TCU portfolios") are designed to qualify as eligible investments for FCUs pursuant to Sections 107(7), 107(8) and 107(15) of the Federal Credit Union Act ("FCUA"), Part 703 of the NCUA Rules and Regulations and NCUA Letter Number 155, and may or may not qualify as eligible investments for particular state chartered credit unions. Each investment practice and technique that may be used by the TCU portfolios is permitted by the 1940 Act but utilized only to the extent permitted by NCUA Rules and Regulations. Goldman Sachs Asset Management, L.P. ("GSAM") is the investment adviser for the TCU portfolios. Callahan Credit Union Financial Services, LLLP ("CUFSLP"), a Delaware limited liability limited partnership in which 37 credit unions are limited partners, acts as the administrator of the TCU portfolios. For twenty-four years TCU has helped its credit union shareholders invest excess member deposits and provide an investment alternative intended to enhance the credit unions' cash management. Section §703.14(c) provides that an FCU may invest in a registered investment company or collective investment fund, as long as the prospectus of the company or fund restricts the investment portfolio to investments and investment transactions that are permissible for FCUs.

As noted in the 2011 Comment Letter, we believe that derivatives can increase the management efficiency of a portfolio and, when used properly for hedging purposes, can provide effective IRR management. The use of derivatives, either as a direct investment or as an indirect investment through a registered investment company, such as TCU, could help FCUs more effectively manage balance sheet loan assets and investments. We believe this in turn could help enhance the safety and soundness of FCUs.

The Board of Trustees of TCU submits this comment letter with respect to the following questions set forth in the ANPR:

Question 3: What is the minimum kind and amount of derivatives experience and expertise that an FCU's staff should demonstrate before the FCU receives independent derivatives authority? For example, if an FCU has a less complex balance sheet, is it sufficient for that FCU's staff to demonstrate a minimum of three years transacting derivatives? Should NCUA require additional kinds and amounts of experience when there is more complexity in the FCU's balance sheet (e.g., prepayments and call options)?

To what extent should an FCU seeking independent derivatives authority be allowed to rely on an outside party to fulfill an experience and expertise requirement?

Comment: As noted in the 2011 Comment Letter, TCU anticipates that it would be approved as a third party through which FCUs may engage in derivatives transactions. While we understand that the NCUA is considering a rule that would permit FCUs to independently engage in derivatives transactions for the purpose of offsetting IRR, we continue to believe that a professionally managed registered investment company, such as TCU, may be a more prudent alternative to the extent that the investment company is managed by a professional SEC-registered investment adviser with both expertise in the use of derivatives for this purpose and a rigorous risk management framework. As we indicated in the 2011 Comment Letter, a registered investment company is subject to all of the restrictions and limitations contained in the 1940 Act and its regulations as well as to other requirements under the 1940 Act, other federal securities laws and related regulations and the Internal Revenue Code of 1986, as amended (the "Code"). For example, each of the TCU portfolios is "diversified" and as such is subject to limitations imposed by both the 1940 Act and the Code as to the amount of its assets that may be invested in the securities of any one issuer (with certain exceptions). Likewise, each

TCU portfolio is subject to certain concentration limitations imposed by the 1940 Act as to the amount of its assets that may be invested in the securities of issuers in a particular industry (with certain exceptions). Most importantly and as noted in the 2011 Comment Letter, registered investment companies are required to have a board of directors or trustees to oversee the operations of the investment company and generally at least a majority of the members of such board must consist of independent outside directors or trustees, technically referred to as persons who are not "interested persons" of the investment company (in the case of TCU, all of the members of the Board of Trustees are considered independent Trustees). The board of directors or trustees of a registered investment company receives reports at least quarterly from the investment company's investment advisor, Chief Compliance Officer and other service providers as to the operations of the investment company, including, if applicable, reports on derivatives holdings. For these reasons, we continue to believe that it should not be necessary for individual FCUs to obtain NCUA approval before investing in an investment company, such as TCU, that has been approved as a third party through which FCUs may engage in derivatives transactions. This is similar to the procedure currently in place for FCUs investing in derivatives through third party pilot programs, which the NCUA has permitted since 1988.

In addition, investing in an investment company, such as TCU, for a period of time prior to investing directly in derivatives may assist an FCU in gaining experience and expertise in the proper use of derivatives for hedging purposes and provide exposure to the issues associated with derivatives transactions, such as valuation, asset segregation and counterparty risk management. We believe that this approach enhances the safety and soundness of FCUs and is a better approach than permitting an FCU to invest directly in derivatives while relying on an outside party to fulfill experience and expertise requirements.

Question 4: Should FCUs be limited to using interest rate swaps and interest rate caps to offset and manage IRR? Should interest rate swaps be limited to pay-fixed/receive-floating instruments? What other limits should be established to ensure that an FCU does not transact interest rate derivatives in an amount greater than the level of its IRR exposure?

Comment: We believe that in addition to interest rate swaps and interest rate caps, FCUs should also be permitted to invest in interest rate futures to help offset and manage IRR. As noted in the 2011 Comment Letter, interest rate futures are exchange-traded instruments that tend to be highly liquid, are most commonly cash-settled and are highly regulated by the U.S. government through the Commodity Futures Trading Commission. Like interest rate swaps and interest rate caps, interest rate futures can be appropriate for FCUs and present risk-reducing benefits, such as mitigating counter party risk, when used properly.

Pay-fixed/receive-floating is the most common type of interest rate swap in which one counterparty pays a fixed rate (the swap rate) to another counterparty, which receives a floating rate indexed to a reference rate. We believe that limiting FCUs to using pay-fixed/receive-floating instruments to help mitigate interest rate risk is reasonable.

Another limit that could be used to ensure that an FCU does not enter into interest rate derivatives transactions in an amount greater than the level of its IRR exposure is placing limits on the contribution to overall portfolio duration from interest rate derivatives.

We believe that the use of interest rate swaps, interest rate caps and interest rate futures can enhance the safety and soundness of FCUs by providing proven, well-documented and easy to monitor risk management tools. Without the ability to utilize such tools, TCU and FCUs are handicapped in their ability to manage and limit risk.

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Thank you for the opportunity to comment on the ANPR. If you have any questions concerning our letter, please feel free to contact me at 757-259-2104 or counsel to TCU, Mary Jo Reilly, at 215-988-1137.

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