From: Marv.Elenbaas@dfcufinancial.com
To: _Regulatory Comments
Subject: Comments on Proposed Rule - Derivatives
Date: Thursday, July 25, 2013 9:41:39 AM

Thank you for the opportunity to respond to your Proposed Rule - Derivatives. DFCU is a $3.5 billion state chartered, federally insured credit union, in the State of Michigan.

Overall, we believe that the proposed rules are too limiting, too prescriptive, and too costly. As written, the proposed rule will discourage, rather than encourage credit unions from using derivatives to manage risk. With the inevitability of rising interest rates, we would like to have interest rate derivatives in our arsenal of tools to manage interest risk. But to extend the effort and cost to add this tool to our arsenal now, when we do not know when, or if, it will be needed, is not a cost-effective way to run an efficient credit union.

Limitations on managing risk
Limitations on the notional value and type of derivatives could prevent a credit union from fully managing its interest rate risk. Limits should be framed according to the interest rate risk of an institution, not its capital. Derivatives that qualify for hedge accounting should be permissible, since accounting rules around hedge qualification are sufficiently restrictive. While conceptually concurring that types of derivatives be limited, we have seen examples of other types of derivatives (not overly complex or levered) that should be allowed, since these derivatives hedge interest rate risk. Rather than be prescriptive on the types, we believe the prerequisite that a derivative qualify for hedge accounting is sufficiently limiting.

Regulatory burden
The list of rules is so numerous and so specific that the regulatory burden of compliance may cause credit unions to accept risk, rather than manage risk. For example, Board required oversight and reporting is very prescriptive. Board oversight of derivatives should be no different than Board oversight of other credit union activities. That oversight should include policy approval and periodic reporting from Management, with the option of using outside experts, if the Board needs assistance in fulfilling those duties.

Costs of implementation
And the costs of implementation, from duplicative staff needs to unnecessary application fees, may result in a decision to accept the risk, rather than incur the burdensome costs. A review of direct costs would include third party providers, regulatory application fees, potentially 3 experienced full-time derivative employees, and annual audit costs. I have previous experience with derivatives at a $60 billion bank, and it is my opinion that the in-house skills used to manage our $2 billion investment portfolio are sufficient to assess, manage and account for a derivatives portfolio, with some limited training. Certain technical tasks will need to be performed by third party providers, but that is also the case with our current investment portfolio. While in-house skills may not be in place in smaller credit unions, those skills reside in larger credit unions.

We also believe that this derivative rule, as proposed, will put credit unions at a competitive disadvantage to similarly sized banks, since we do not see similar bank regulation and costs compared to those proposed for credit unions.

Thank you for asking for our views, and considering our thoughts.

Marvin J. Elenbaas
Executive Vice President, Chief Financial Officer
DFCU Financial
