



July 25, 2013

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

Sent via E-mail to: regcomments@ncua.gov

Re: Cornerstone League Comments on Proposed Rule - Derivatives

Dear Ms. Rupp:

This letter represents the views of the Cornerstone Credit Union League ["the League"] regarding NCUA's proposal on derivatives. The League is the official trade association serving approximately 575 federal and state credit unions in Arkansas, Oklahoma, and Texas combined, and more than 8.4 million credit union members. The League appreciates the opportunity to comment on this very important issue.

The League supports authority for credit unions to engage in derivatives transactions as a means to hedge against interest rate risk. The authority will permit credit unions to better manage risk, ultimately benefiting the credit union movement by reducing risk to the National Credit Union Share Insurance Fund.

Although we generally support authority for derivatives, we object to many of the proposed limitations and requirements.

Cost and Fees

The League is concerned with the overall cost for credit unions to obtain derivatives authority under the proposal.

The rule as proposed would require substantial up-front costs before a credit union is even granted authority. Front loading the expense would create a huge start-up cost before approval, which could result in a loss of funds if the credit union is denied. This is not a wise use of credit union member funds.

Because the derivatives program will actually minimize risk to the share insurance fund, credit unions should be encouraged to participate rather than discouraged from the program due to cost. As a result, we object to the imposition of any application or supervision fees and request that the final rule eliminate such a requirement.

Eligibility for Derivatives Authority

The proposal would limit derivatives authority to credit unions of \$250 million or more in assets. The League opposes such a restriction and requests that such a restriction be removed from the final rule. Asset size is not an appropriate indicator of a credit union's ability to engage in derivatives authority.

Collateral Requirements

The League believes the proposed collateral requirements are not broad enough. Acceptable collateral should also include mortgage-backed pass-through securities.

Requirement of Qualified Derivatives Personnel

The League believes the qualifications and experience needed to oversee the program can be achieved by third party consultants. Hiring internal staff with over three years' direct transactional experience would be difficult and costly; on the other hand, outsourcing is a reasonable alternative. Therefore, we request that the final rule delete the requirement that credit unions employ internal experts.

Investment Limits

The League urges NCUA to provide more flexibility for credit unions to use derivatives, including establishing a meaningful and timely waiver process for credit unions that need authority over the established investment limit.

Audit Requirement

The League opposes the proposed requirement for an internal controls audit. This requirement is costly, excessive and unnecessary.

Reporting

The proposed rule creates reporting requirements for credit unions that would require expensive infrastructure and personal skill to maintain. The need for this has not been justified by NCUA. Therefore, the League requests that NCUA permit credit unions to outsource reporting requirements.

External Service Providers

All CUSOs should be permitted to perform functions required by the rule, not just wholly owned CUSOs as proposed. Also, the final rule should eliminate restrictions on activities of external service providers for Level II credit unions.

Legal Review

The proposed legal review requirement is too restrictive and is not necessary. Credit unions should be permitted to determine by board policy how they will implement legal review.

Pilot Program

Credit unions currently participating in NCUA's pilot program for derivatives should be allowed to continue their derivatives program without having to reapply to NCUA.

Thank you for considering our comments. If you have any questions, please feel free to contact me at syashewski@cornerstoneleague.coop or via telephone at (512) 853-8516.

Sincerely,

A handwritten signature in blue ink that reads "Suzanne Yashewski". The signature is written in a cursive style.

Suzanne Yashewski
SVP Regulatory Compliance Counsel
Cornerstone Credit Union League
(512) 853-8516