



*Filed Electronically*

July 29, 2013

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

Regarding: Comments on Proposed Rule – Derivatives RIN 3133-AD90

Dear Secretary Rupp,

This comment letter is being submitted pursuant to RIN 3133-AD90: Derivatives (“Proposed Rule”). We appreciate the opportunity to comment on the Proposed Rule and offer some suggestions for your consideration.

By way of background, FTN Financial Capital Markets (“FTN”) is a bank dealer and a division of First Tennessee Bank National Association (“FTB”). FTB, as one of the oldest chartered national banks in the country, is in its 150<sup>th</sup> year of existence and has assets of over \$25 billion. FTN is an industry leader in fixed income sales, trading and strategies for institutional clients, including credit unions, in the U.S. and abroad. We have over 6,000 customers, including over 300 credit unions. In addition to our fixed income business, we also provide interest rate derivative products to our domestic depository institution customers to help them manage interest rate risk.

The Proposed Rule specifies that credit unions with authority to engage in derivatives transactions are only able to do so with counterparties who are Swap Dealers or Major Swap Participants as defined by the Commodity Futures Trading Commission (“CFTC”). FTN is not a Swap Dealer or a Major Swap Participant because the size of our derivatives activities falls below the CFTC’s thresholds for those designations.

Therefore, under the Proposed Rule, FTN and other similarly situated providers of derivatives products would be prohibited from being counterparties on derivatives transactions with credit unions. We believe that including only Swap Dealers and Major Swap Participants as acceptable counterparties unnecessarily limits competition and the range of options available to credit unions for their interest rate risk management

FTN Financial Group | 845 Crossover Lane, Suite 150, Memphis, TN 38117 | 800.456.5460 | [www.ftnfinancial.com](http://www.ftnfinancial.com)

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activities. Furthermore, it denies access by credit unions to firms like FTN who provide a “high-touch” approach to service and support of our customers both pre and post transaction.

The Proposed Rule states that the purpose of allowing only Swap Dealers and Major Swap Participants as acceptable counterparties is to reduce counterparty risk to credit unions. However, given that the CFTC criteria for being designated a Swap Dealer or Major Swap Participant relates solely to the volume of an entity’s derivatives activities, we do not believe that there is any correlation between the proposed restriction on acceptable counterparties and risk reduction; a counterparty is not less risky simply because their transaction volume is greater. Rather, we believe that counterparty risk is properly mitigated through practices such as regular credit risk analysis and mutual collateral margining of interest rate derivative exposures. Additionally, as a \$25 billion national bank, our activities are subject to extensive regulation, including our interest rate derivatives business which is subject to much of the same CFTC regulation as Swap Dealers and Major Swap Participants.

We recommend including smaller providers of derivatives products as permissible counterparties to provide credit unions with broader access to the interest rate derivatives market. In addition to promoting greater competition, it would increase the number of creditworthy counterparties to meet the interest rate risk management needs of credit unions. It would also make available to credit unions specialized expertise, service and support that they may not always receive from larger Swap Dealers and Major Swap Participants.

We thank you again for the opportunity to comment on the Proposed Rule and appreciate your willingness to consider our suggestions.

Sincerely,



Leo P. Pylypec  
Managing Director