



May 8, 2017

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Mr. Poliquin:

Re: Comments on Proposed Rule: Alternative Capital; RIN 3133-AE66

Alaska USA Federal Credit Union (Alaska USA) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) proposed rulemaking for alternative capital. Alaska USA is a federally chartered credit union with \$6.8 billion in assets, serving over 615,000 members.

Alaska USA supports the development of a supplemental capital framework for credit unions that is flexible, cost effective, and does not expose the share insurance fund to undue risk. Alaska USA fully supports the ability of low-income designated credit unions to issue secondary capital, and we believe those credit unions are in the best position to comment on the questions related to secondary capital. Therefore, we have limited our comments to those questions posed under the supplemental capital sections.

Supplemental Capital:

1. *If credit unions that are not designated as low-income were to issue supplemental capital, would that affect the availability of secondary capital for low-income designated credit union?*

Alaska USA believes that while there could exist some overlap in the investors that would consider both supplemental and secondary capital offerings in a specific community or area, low-income designated credit unions should not be at a disadvantage in raising secondary capital as their investors would likely have strong affiliations with those credit unions.

2. *Identify any other provisions of the Act that could provide alternative authority for federal credit unions to issue supplemental capital instruments other than as subordinate debt.*

Alaska USA did not identify any other existing provisions of the Act that could provide alternative authority for federal credit unions to issue supplemental capital instruments other than as subordinate debt.

3. *Should the Board promulgate a more comprehensive borrowing rule as part of any authorization of supplemental capital, and what should the rule address?*

Alaska USA believes the Board should approve written clarification or an expansion of current regulations concerning a natural person credit union's ability to borrow from institutional investors as well as natural persons. This clarification would provide enhanced certainty to potential institutional investors.

4. *Should the Board entertain removing the limit of aggregate borrowed funds contained within the Act from the current 50 percent of paid-in and unimpaired capital and surplus for federally insured state chartered credit unions?*

Alaska USA believes that the waiver process already established within §741.2 of NCUA's rules and regulations provides an appropriate avenue for federally insured state chartered credit unions to apply for increases in borrowing capacity up to those allowed under state law.

5. *What is the possible impact a supplemental capital rule may have on the federal credit union tax exemption?*

Alaska USA has not employed counsel or tax expertise to provide an opinion on this matter.

6. *Should the NCUA limit the types of instruments issued by federally insured state chartered credit unions to those that would clearly not meet the definition of capital stock?*

Alaska USA believes that the NCUA must limit the types of instruments issued by federally insured credit unions to those that would clearly not meet the definition of capital stock. The presence of capital stock on a federally insured credit union's balance sheet could call into question the basis for the credit union tax exemption.

7. *What is the potential effect that supplemental capital may have on the mutual ownership structure and governance of credit unions?*

Alaska USA believes that if supplemental capital is appropriately designed, such as in the form of subordinate debt, the credit union industry's mutual ownership and governance structure will remain intact. However, if supplemental capital contains capital stock-like components, the fundamental nature of the industry's mutual ownership and governance could be called into question.

8. *Should the Board require credit unions issuing alternative capital to register with the NCUA?*

Alaska USA believes that the NCUA should revise the 5300 (Call Report) to gather information about alternative capital issuances as an alternative to requiring registration. In that regard it is recommended that the Equity Section on Page 4 of the NCUA 5300 (Call Report) be expanded to include line items titled "Supplemental Capital" and "Secondary Capital". Additionally, a new line item should be included immediately following number 9 on Page 6 that reads "Uninsured Supplemental Capital" that captures the same information as the Uninsured Secondary Capital. Should the NCUA ultimately decide that credit unions issuing alternative capital must register with the agency, Alaska USA believes the registration process should mirror the process established by the Office of the Comptroller of the Currency (OCC).

9. *How could the NCUA protect the Share Insurance Fund against potential anti-fraud claims that could impair the alternative capital's ability to cover losses?*

Alaska USA believes that the NCUA should mandate disclosures similar to those required by the OCC as they closely mirror those required by the Securities and Exchange Commission (SEC). By requiring similar disclosures of both the OCC and SEC, the NCUA would likely avoid investor lawsuits targeting credit union nonconformance with "industry standard" disclosures, and leverage years of disclosure experienced by two agencies who regulate institutions of varying size and complexity.

10. *Should the Board mandate disclosures all credit unions issuing alternative capital must provide to investors?*

Alaska USA believes that Board should mandate disclosures that all credit unions issuing capital must provide to investors. These mandated disclosures will provide a roadmap for all credit unions to follow, and provide standardization that will help establish investor expectations as the universe of market participants grows.

11. *If the Board should mandate disclosures, should it base them on the SEC's, the OCC's, or create a unique set of disclosures for credit union?*

Alaska USA strongly believes that the NCUA should mandate disclosures similar to those required by the OCC as they closely mirror those established by the SEC.

12. *If the Board creates a unique set of disclosures, what should it include in those disclosures?*

Alaska USA does not believe that the Board should create unique disclosures, but should instead require disclosures that mirror those issued by the OCC.

13. *Should the level of disclosures vary based on the level of investor (institutional, accredited, natural person)?*

Alaska USA believes that Supplemental Capital should only be sold to institutional investors and the level of disclosure should be consistent across all issuances.

14. *Should the Board require credit unions to develop policies and procedures to ensure ongoing compliance with anti-fraud requirements before it begins issuing alternative capital?*

Alaska USA believes that the Board should require credit unions to develop specific policies and procedures associated with the issuance of alternative capital to ensure ongoing compliance with anti-fraud requirements. This requirement aligns with existing safety and soundness processes and helps ensure adequate processes have been established to combat fraudulent activity.

15. *How can the Board ensure that a credit union has determined if it or its employees are require to register as a broker-dealer or investment advisor and comply with any applicable state laws?*

Alaska USA believes that the Board should require a credit union to demonstrate that they have completed a full evaluation of the registration process and have obtained the appropriate broker-dealer registration (if state laws allow), or has completed due diligence and outsourced the marketing activities to a registered broker-dealer (for all federal credit unions). Further, the evaluation should also include a section demonstrating that the credit union's employees do not trigger investment advisor registration requirements and are in compliance with any applicable state laws.

16. *Should the Board mandate that credit unions certify that they have evaluated their Director and Officer Liability insurance policies and have sufficient coverage before beginning supplemental capital activities?*

Alaska USA believes that the Board should mandate that credit unions certify that they have evaluated their Director and Officer Liability insurance policies and they have sufficient coverage prior to the issuance date of any supplemental capital instrument.

17. Should the Board mandate comprehensive policies addressing compliance with investment contracts, communications, and information sharing? If so, what specific details should be in the policies and should the policies be a prerequisite to engaging in supplemental capital activities?

Alaska USA believes that the Board should mandate policies addressing investment contracts, communications, and information sharing. We do not have any specific recommendations regarding the contents of the policies as each institution would likely require unique considerations given their size, complexity, and organizational structure.

18. If the Board were to allow credit unions to sell alternative capital to non-accredited investors, should there be limits on the amount individual investors can purchase? Also, should there be conditions on how the sale to non-accredited investors must be handled to minimize potential confusion about its lack of federal insurance?

Alaska USA believes that Supplemental Capital should only be sold to institutional investors. Limiting sales to this class of investor would diminish the need to limit the amount investment and avoid confusion about the absence of federal insurance.

19. Should the Board allow credit unions to sell alternative capital with equity like characteristics to nonmembers, and if so, what controls are necessary to preserve the mutual ownership structure and democratic governance of the credit unions, including the mutability and members' rights to govern the affairs of the institution?

Alaska USA believes that Supplemental Capital should only be sold to institutional investors. In order to expand the pool of eligible investors, these products should be eligible to nonmembers of the credit union. However, in order to preserve the mutual ownership structure and democratic governance of credit unions, Supplemental Capital should be limited to subordinate debt structures that do not resemble capital stock.

Summary:

The credit union industry has long sought additional avenues to expand its potential sources of capital beyond retained earnings, and expanding the ability to issue alternative capital to credit unions not designated as low-income would provide that additional option. Although Supplemental Capital will not be included in the Net Worth Ratio calculation, it could assist with credit union product diversification, geographic expansion, and merger activities through strategic balance sheet positioning due to its inclusion in the risk-based net worth requirement. This would allow the industry to strategically plan for future periods while enhancing membership offerings.

Thank you for the opportunity to comment. If you have any questions, please feel free to contact me at c.schwab@alaskausa.org or (907) 222-8985.

Sincerely,



Cory Schwab
Chief Risk Officer