

July 21, 2005

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-348

RE: Proposed Interpretive Ruling and Policy Statement No. 05-1

Dear Ms. Rupp:

I am writing to provide comments on the IRPS. I am president of Wescom Financial Services, LLC ("WFS") a full service broker dealer and wholly owned subsidiary of Wescom Credit Union. I have been with WFS for three and a half years. I have 22 of experience years in the financial services industry, 19 of which have been with securities brokerage and investment services firms affiliated with financial institutions. Wescom has offered investment programs to its members for over 15 years. Wescom's programs have evolved from self-directed discount brokerage, to a managed program through a third party, to a dual employee program, to a registered brokerage firm with its own employees.

I agree with the statement in the IRPS that the SEC's regulatory requirements are primarily intended to protect the customer. I would add that the NASD further supports investor protection. I also agree that the risks to credit unions listed in the IRPS are primarily related to "abusive sales practices". I would submit that the rules and regulations set forth by the SEC and NASD directly address sales practices and therefore the risks associated with non-deposit investment activities. I question how some of the policies and procedures proposed in the IRPS would add more protection or go further to improve the safety and soundness of credit unions involved in these activities.

I strongly disagree with the statement that the brokerage firm may have less incentive to supervise non-deposit sales activities properly when conducted by a dual employee. There is certainly no basis for this statement among regulators. When conducting examinations regulators are no less diligent in reviewing the activities of dual employees. All registered employees are under the same level of scrutiny.

The IRPS recommends that credit unions establish independent compliance programs to contact investment clients, review investment accounts for suitability and inappropriate transaction activity, and ensure that the broker dealer's supervisory personnel make scheduled examinations. The IRPS suggests that periodic random samplings of account activity would be an effective way to find evidence of abuse. Broker dealer compliance personnel are required to review all activity on an ongoing basis to identify patterns, trends and concentrations. It is unlikely that additional random checks and reviews by credit union personnel would add a meaningful layer of protection. In fact, by holding credit union management accountable for some elements of compliance with securities regulations, the IRPS could increase the risks to credit unions.

The proposed policies and procedures would significantly increase the costs for credit unions. Most credit unions are far from having the personnel qualified to take on these responsibilities and would therefore have to hire expensive, highly trained, experienced personnel to "look over the shoulders" of the broker dealers they have engaged to provide the investment services. In fact, the only practical way these individuals could obtain the necessary training, knowledge and

experience would be through the NASD licensing and continuing education process. However, that would mean these individual would be by definition dual employees and thereby fail to meet the IRPS guidelines for independence.

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Another recommendation of particular concern is product line evaluation. One of the most basic tenants of sound portfolio management is diversification. The risks and volatility associated with a particular asset class or investment should not be evaluated individually. For a relevant risk assessment, investments must be evaluated as part of a portfolio. Furthermore, selective omissions of individual funds within mutual fund families could force clients to use several mutual fund companies to reach the optimum level of diversification. This would limit opportunities for investors to enjoy expense reductions which would raise serious issues with securities regulators. It therefore does not make sense to hold credit union management responsible for product review and selection.

There may be opportunities within the contract to establish appropriate guidelines, restrictions or limitations for products and services that are rarely if ever made available through credit union programs such as unregistered securities, hedge funds, discretionary accounts and recommendations on individual equities. It is appropriate for credit union management to review contracts to make sure they contain provisions that protect the organization. Among these provisions would be an appropriate level of indemnification, commitments from the broker dealer to comply with all rules and regulations, to promptly notify the credit union of any complaints received from members and provide general standards for registered representatives that will be serving the credit union's members. I also agree that credit unions should conduct due diligence on their third party brokerage firms. Credit union staff could also review materials associated with non-deposit products to ensure the proper disclosures are displayed.

I disagree with the IRPS statement that a dual employee should not have management or policy setting responsibilities within the credit unions related to non-deposit investments. The well established best practice in the industry is for the credit union's investment program manager to be a registered securities principal and thereby a dual employee. In addition, many financial institutions, including credit unions, have established Platform Programs whereby branch platform employees have securities and insurance licenses and offer a limited range of non-deposit products to clients. These programs are prevalent in major banks and thrifts. The proposed restrictions on the activities that can be performed by dual employees would put credit unions at a significant disadvantage relative to other financial institutions.

Regarding the IRPS recommendations for sales of non-deposit investments to non-members, one of the situations referenced involves representatives that bring with them a stream of trailer income when they join the brokerage firm engaged by the credit union. Since this trailing income is the result of a sale that happened before the representative joined the credit union program, it does not involve sales by the credit union program to non-members and therefore should not be an issue. Tracking and reporting this revenue would add unnecessary expense.

In summary, the IRPS would impose a significant burden on the credit unions without providing more protection. The IRPS would subject credit unions to requirements not imposed on banks or thrifts putting them at a competitive disadvantage.

If you have any questions, please feel free to give me a call at (888) 493-7266 extension 8610.

Sincerely,



Keith Pipes  
President  
Wescom Financial Services, LLC