



National Association of Federal Credit Unions

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September 1, 2004

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 5th Street, N.W.
Washington, D.C. 20549-0609

Re: File No. S7-26-04

Dear Mr. Katz:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I am responding to the Securities and Exchange Commission's proposed rule implementing the exemptions from the definitions of "broker" and "dealer" under section 3(a) of the Securities Exchange Act of 1934 ("Exchange Act") as amended by the Gramm-Leach-Bliley Act ("GLBA").

Sections 201 and 202 of the Gramm-Leach-Bliley Act of 1999 created specific exemptions from broker-dealer registration requirements of the Exchange Act for certain bank securities activities. In 2001, the Securities and Exchange Commission (Commission) issued Interim Rules expanding on these exemptions and soliciting comments on all aspects of the rule. The Commission temporarily suspended the implementation of the Interim Rules, and after reviewing the comments and discussing the application of the rules with industry participants and other parties, the Commission proposes new rules as Regulation B.

Among the changes in proposed Regulation B are new exemptions for credit unions from the Exchange Act's definitions of "broker" and "dealer." Specifically, the SEC is extending three of the bank exemptions in the Exchange Act for securities activities: the networking (third-party brokerage arrangements) exemption in section 3(a)(4)(B)(i); the sweep account exemption in section 3(a)(4)(B)(v); and the trust and fiduciary activities exemption in section 3(a)(5)(C)(ii). Credit unions utilizing these exemptions would be subject to all of the conditions and definitions that are applicable to banks in the Exchange Act and proposed Regulation B.

NAFCU fully supports the extension of these exemptions to credit unions and believes such extension is appropriate in the public interest and consistent with the need for protection of

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investors. NAFCU commends the Commission for addressing the need for extension of these exemptions to credit unions' securities activities.

Exchange Act Section 3(a)(4)(B)(viii) provides banks with an exemption from the definition of broker for certain safekeeping and custodial activities. Federal credit unions are authorized by NCUA to engage in limited safekeeping and custody services pursuant to part 724 of NCUA's Rules and Regulations. However, because the Commission has no evidence that credit unions currently engage in safekeeping and custodial services, the Commission has decided not to include an exemption for credit unions in proposed Regulation B.

NAFCU does not support the Commission's decision not to propose an extension of this exemption to credit unions, and NAFCU is concerned about the impact of this legal uncertainty on federal credit unions if the exemption is not extended to them. Should a federal credit union choose to offer a service that falls under this exemption, that credit union will be placed at a competitive disadvantage with other institutions subject to the exemption. A federal credit union should not be forced to register as a broker-dealer in order to offer a service it is otherwise legally permitted to offer and that other institutions may offer without being subject to registration requirements. NAFCU believes such a result is unnecessary and potentially problematic for consumers wishing to obtain services from a credit union. Therefore, NAFCU urges the Commission to extend the safekeeping and custody exemption to credit unions.

NAFCU would like to thank you for this opportunity to share its views on proposed Regulation B. Should you have any questions or require additional information, please call me or Gwen Baker, NAFCU's Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 266.

Sincerely,



Fred R. Becker, Jr.
President/CEO

FRB/glb