



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

Via E-mail: regcomments@ncua.gov

Re: Proposal on Audit Requirement for Credit Union Service Organizations (CUSOs)

Dear Ms. Rupp,

The Credit Union National Association (CUNA) is pleased to provide comments on the agency's proposal amending its credit union service organization (CUSO) regulation applicable to a wholly-owned CUSO of a federal credit union (FCU). Under the revised proposal, the CUSO would not be required to obtain a separate financial statement audit from a certified public accountant (CPA) provided the CUSO's statement is included in the consolidated financial statement of the parent federal credit union (FCU). By way of background, CUNA is the largest credit union trade association, representing approximately 90% of our nation's nearly 9,300 state and federal credit unions. This letter was prepared under the auspices of CUNA's Accounting Task Force, Examination and Supervision Subcommittee, and Federal Credit Union Subcommittee.

NCUA's CUSO rule states that prior to investing in or lending to a CUSO, an FCU must obtain a written commitment from the CUSO that states the CUSO will: (1) account for all its transactions in accordance with generally accepted accounting principles (GAAP); (2) prepare quarterly financial statements and obtain an annual opinion audit by a licensed CPA in accordance with generally accepted auditing standards (GAAS); and (3) provide NCUA with complete access to any of its books and records. In the case in which an FCU owns one hundred percent of the voting shares of the CUSO, GAAP requires preparation of a consolidated financial statement. This rule revision would allow a wholly-owned CUSO to avoid the requirement to obtain a separate CPA audit if the parent FCU has a CPA audit on the consolidated statement.



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One of NCUA's stated reasons for this change is to conform the rule to agency practice. Since 1997, NCUA has considered wholly-owned CUSOs to be in compliance with the rule's audit provision if the parent FCU has obtained a CPA audit on consolidated statements. We agree that, in general, consolidated statements provide a fairer picture of financial condition of the group. Moreover, a consolidated audit would assist an FCU that owns one or more CUSOs by decreasing the number of audit firms the FCU must engage, leading to more accurate and consistent reporting.

We commend this NCUA's ongoing efforts to reduce regulatory burden for credit unions and CUSOs, while preserving safety and soundness. Codification of agency acceptance of this practice could certainly help reduce the regulatory burden for those of the 588 wholly-owned CUSOs (as of the June 30, 2004 Call Report) that consolidate their financial statements with their wholly owned parent FCUs and still procure their own CPA opinion audit. Specifically, the ability of the CUSO to wrap its audit into the consolidated statement audit obtained by the FCU could be a material cost savings for the CUSO. This proposed rule would allow CUSOs the flexibility to make a business decision as to the cost-benefit of obtaining a separate audit of the individual entity. Obtaining a separate audit would continue to be an option based on the CUSO's business needs. Further, this rule could provide relief to FCUs that receive a consolidated financial statement audit. Currently, such an audit is required of credit unions with \$500 million or more in assets, although many credit unions with assets under that amount are audited annually by an independent CPA firm. We hope that state regulators follow suit to provide similar regulatory relief to CUSOs owned by state-chartered credit unions.

While CUNA strongly supports the proposal, we urge NCUA to reconsider one aspect of the proposed rule. As NCUA indicates in the proposal, GAAP (Accounting Research Bulletin 51, Consolidated Financial Statements) would also allow a credit union that is the majority owner of a CUSO to procure a consolidated audit. Yet NCUA is limiting the proposed amendment to wholly-owned CUSOs. The agency's reasoning is that this step will help ensure that full disclosure of potential risks is available to prospective minority investors in the CUSO. Under GAAP, subsidiaries generally are fully consolidated if the parent institution holds more than 50 percent of the subsidiary. We feel that this standard is the proper one to apply in the context of this rule. Therefore, in the final rule, CUNA encourages NCUA to permit a consolidated audit for a majority-owned CUSO if the CUSO so chooses.

Thank you for the opportunity to comment. If you have any questions about this letter, please contact me by phone at (202) 508-6743 or by e-mail at corr@cuna.com.

Sincerely,



Catherine Orr
Senior Regulatory Counsel
Credit Union National Association