



May 23, 2005

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

RE: Comments on Proposed Rule 712, CUSO Audit Requirements

Dear Ms. Rupp:

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 (FCUs), I am responding to the National Credit Union Administration's (NCUA) request for comment on proposed amendments to 12 C.F.R. part 712. The proposed rulemaking provides that a wholly-owned credit union service organization (CUSO) need not obtain its own annual financial statement audit from a certified public accountant if it is included in the financial statement audit of the parent federal credit union.

12 C.F.R. § 712 (d) provides that in order for a FCU to invest in a CUSO, it must obtain a written agreement that the CUSO will obtain an annual opinion audit by a licensed certified public accountant on its financial statements in accordance with "generally accepted auditing standards." Since 1997, NCUA has viewed FCUs with wholly-owned CUSOs as in compliance with the rule if the parent FCU has obtained an annual financial statement audit on a consolidated basis. This practice is in accordance with "generally accepted accounting principles" or "GAAP." Consolidated financial statements present the results of operations, financial position, and cash flows of a parent and its subsidiaries as if the group were a single enterprise. Under GAAP, consolidated financial statements generally include enterprises in which the parent has a controlling financial interest, usually, a majority voting interest.

NAFCU supports the proposed rule that implements the current NCUA practice of permitting consolidated statements for wholly owned CUSOs. NAFCU believes that consolidated statements are more meaningful than separate statements and are necessary

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for a fair presentation of the financial health of an enterprise when one of the enterprises in a group directly or indirectly has a controlling financial interest in another.

NAFCU also notes that under GAAP, NCUA could have extended the practice to include CUSOs in which the parent credit union is the majority owner, but declined to do so. NAFCU urges NCUA to consider expanding the rule to permit consolidated audits in the case of a majority owner. While NAFCU agrees that it is important to ensure that the interest of the minority is protected, NAFCU believes that a credit union with a minority interest may choose to require an independent audit as a condition of participation. Thus, NAFCU believes that the decision to require an independent audit is best left as a business decision and not one requiring regulatory oversight.

NAFCU would like to thank you for this opportunity to share its views on this proposed rule. Should you have any questions or require additional information please call me or Carrie Hunt, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 234.

Sincerely,

A handwritten signature in cursive script, reading "Fred R. Becker, Jr.", positioned to the left of a vertical red line.

Fred R. Becker, Jr.
President/CEO

FRB/crh