May 23, 2005

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Michigan Credit Union League's Comments on Proposed Rule 712, CUSO Audit Requirements

Dear Ms. Rupp,

The Michigan Credit Union League (MCUL) appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) concerning the proposed changes to the CUSO audit requirements. The MCUL is a trade association representing over 90% of state and federally chartered credit unions in the state of Michigan. This comment letter was drafted in consultation with the MCUL Government Affairs Committee, which is comprised of Michigan credit union staff and officials.

MCUL strongly supports the proposed changes with regards to no longer requiring a CUSO that is wholly owned to secure its own public accounting firm financial statement audit if it is included on a consolidated basis in the audit of the FCU. We believe that the changes proposed by the NCUA make sense and will ease the financial burden of unnecessary audits on credit unions that wholly own their own CUSOs. In addition, we believe that CUSOs that are majority owned by one credit union should also be allowed to forego a separate audit if the CUSO audit is included in the consolidated audit of the credit union, <u>and</u> all of the minority owners agree to a consolidated audit.

<u>Summary of Comments</u>

- MCUL strongly supports the proposed amendment that would allow a wholly owned CUSO to avoid the requirement to obtain a separate financial statement audit from a certified public accountant (CPA), as long as the CUSO's statement is included in the consolidated financial statement of the parent federal credit union.
- MCUL also supports a change to allow CUSOs that are majority owned by one credit union to forego a separate audit if the CUSO audit is included in the consolidated audit of the credit union, <u>and</u> all of the minority owners agree to a consolidated audit.

Discussion

Consolidated Audits for Wholly-Owned CUSOs. The NCUA Board's proposal is to amend its credit union service organization (CUSO) regulation to allow a wholly owned CUSO to avoid the requirement to obtain a separate financial statement audit from a certified public accountant (CPA), as long as the CUSO's statement is included in the consolidated financial statement of the parent federal credit union. Consolidated financial statements must show the results of operations, financial position, and cash flows from a parent and its subsidiaries as if the group were a single enterprise. Currently, the NCUA's rule states that prior to investing in or lending to a CUSO, an FCU must obtain a written commitment from the CUSO that the CUSO will secure an annual opinion audit of its financial statements from a CPA in accordance with generally accepted accounting principles (GAAP).

MCUL strongly supports the proposed changes. It is logical that a CUSO that is wholly owned by a credit union should be allowed to be included in a consolidated audit of the credit union. Obtaining a separate audit may be unnecessarily expensive and an undue burden to credit unions, whose members end of paying for it in the end.

Consolidated Audits for Majority-Owned CUSOs. GAAP allows a credit union that is the majority owner of a CUSO to procure a consolidated audit, however NCUA is limiting the proposed amendment to wholly-owned CUSOs. Its reasoning is that this step will help ensure that full disclosure of potential risks is available to prospective minority investors in the CUSO.

MCUL understands the NCUA's justification for limiting the changes to CUSOs wholly-owned by a single credit union. Allowing CUSOs that are majority owned by one credit union to procure a consolidated audit would open up the possibility that minority owners may not receive full disclosure. Acknowledging this possible limitation, MCUL believes that NCUA should allow the possibility of consolidated audits for majority-owned CUSOs if all owners agree to the provision. GAAP allows for the option, which would indicate that they do not see it as necessarily problematic. Also, if all credit unions agree to a consolidated audit, then it would be much more cost effective as indicated before. In addition, NCUA examiners would still be able to monitor the safety and soundness of the CUSO through the consolidated audit, thus protecting the interests of the minority owners. Again, the MCUL would only support this provision provided that all of the interested parties agreed to a consolidated audit.

We appreciate the opportunity to comment.

Sincerely,

Matthew O. Beard

Matthew Beard
Regulatory Specialist
Michigan Credit Union League

cc: Credit Union National Association, Inc.