SUMMARY OF SELECTED PROVISIONS OF THE SARBANES-OXLEY ACT OF 2002 AND RELATED SOUND CORPORATE GOVERNANCE PRACTICES FOR FCUS

Summary of Selected Section of Sarbanes-Oxley Act and Implementing Regulation[1]	Related Federal Law, Regulations, and Issuances for FCUs	Consider Appropriateness of Sound Corporate Governance Practices
Title I – Public Company Accounting Oversight Board		
Section 102. Registration with the Board. Only an accounting firm or an accountant that has registered with the Public Company Accounting Oversight Board, i.e., a "registered public accounting firm," can audit the financial statements of a public company. This requirement is scheduled to take effect no later than October 23, 2003.	NCUA Rules and Regulations §§ 715.5-715.7 describe the acceptable alternatives a credit union supervisory committee has for achieving the annual audit provisions of the Federal Credit Union Act: a financial statement audit; a balance sheet-only audit; an examination of internal controls over call reporting; or a supervisory committee audit. The first three types of audits must be performed by an independent state-licensed person.	When an FCU is selecting an independent state-licensed person to meet its annual audit requirement, the FCU's supervisory committee may wish to weigh the cost/benefit of using an accounting firm that is a "registered public accounting firm."
Title II – Auditor Independence On January 22, 2003, the SEC adopted final rules implementing the auditor independence provisions of Sections 201, 202, 203, and 206 of Title II of the Sarbanes-Oxley Act and the auditor reporting requirements of Section 204 of Title II.[2]		
Section 201. Services Outside the Scope of Practice of Auditors, and Section 202. Preapproval Requirements. To be considered independent, a registered public accounting firm that audits a public company's financial statements would not be permitted to *(continued to next page)*	NCUA Rules and Regulations require independence for state-licensed accountants in terms consistent with existing generally accepted auditing standards.	Many FCUs have determined that the benefits of having a full-time internal auditor do not exceed the costs of such an arrangement. In addition, a FCU may find that hiring separate firms to perform internal and external audit work is not cost-effective. In this regard, for a *(continued to next page)*

[1] Summaries provided under this heading derived from the Federal Deposit Insurance Corporation's Financial Institution Letter (FIL) FIL-17-2003 dated March 5, 2003.
[2] The SEC's final rule can be accessed at http://www.sec.gov/rules/final/33-8183.htm.

Summary of Selected Section of Sarbanes-Oxley and Implementing Regulation[3]	Related Federal Law, Regulations, and Issuances for FCUs	Consider Appropriateness of Sound Corporate Governance Practices
(continued from previous page) provide, contemporaneously with the audit, any of the non-audit services listed in Section 201 or any other service the oversight Board determines by regulation to be impermissible. Prohibited services include: • Bookkeeping or other services related to the accounting records or financial statements of the audit client; • Financial information systems design and implementation; • Appraisal or valuation services, fairness opinions, or contribution-in-kind reports; • Actuarial services; • Internal audit outsourcing services; • Management functions or human resources; • Broker or dealer, investment adviser, or investment banking services; and • Legal services and expert services unrelated to the audit. In general, a registered independent public accountant can provide non-audit services that are not otherwise prohibited, including tax services, to a public company audit client only if the activity is approved in advance by the company's audit committee. Similarly, the audit *(continued to next page)*		*(continued from previous page)* FCU with less complex operations and limited staff, the use of the independent public accountant to perform both an external audit and some or all of the FCU's internal audit activities may be necessary. If a FCU is considering engaging an external auditor to perform both the internal and external auditing services, the FCU's supervisory committee and the external auditor should preserve the independence of both the internal and external audit functions. The supervisory committee should consider the independence guidance contained in the AICPA's *Code of Professional Conduct* and the broad principles that the auditor should not perform management functions or act as an advocate for the client. The supervisory committee should also consider how the FCU will oversee the external auditor's performance under the internal audit outsourcing contract. This oversight should be provided by an employee who has no managerial responsibility for the areas being audited under the outsourcing contract and who reports directly to the supervisory committee concerning internal audit issues. In addition, if a FCU is considering having its external auditor perform any of the other non-audit services described in Section 201 of the Sarbanes-Oxley Act as prohibited services, NCUA encourages the FCU's supervisory committee to consider the implications of the performance of these services on the auditor's independence.

[3] Summaries provided under this heading derived from the Federal Deposit Insurance Corporation's Financial Institution Letter (FIL) FIL-17-2003 dated March 5, 2003.

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(continued from previous page) committee of a public company generally must pre-approve all audit and permissible non-audit services to be provided by the company's external auditor.		
Section 203. Audit Partner Rotation. A registered public accounting firm would not be considered independent of a public company audit client if the lead audit partner having primary responsibility for the audit, or the concurring audit partner responsible for reviewing the audit, has performed in this capacity for the audit client for five consecutive years. The SEC's final rule on auditor independence requires the lead and concurring partners to rotate after five years and, upon rotation, to be subject to a five-year "time out" period. In addition, the SEC's final rule imposes a seven-year rotation requirement on certain other audit partners on the audit client's engagement team followed by a two-year "time out" period. These partner rotation rules are intended to strike a balance between the need to bring a fresh look to the audit engagement and the need to maintain continuity and audit quality. The SEC's final rules also contain an exemption from the rotation requirements for small accounting firms, i.e., firms with fewer than five public company audit clients and fewer than ten audit partners, provided an audit quality review condition is met.	NCUA has no auditor rotation requirements.	Each FCU may consider voluntary compliance with these auditor reporting practices by incorporating them into its engagement letter with the auditor. NCUA recognizes that effective communication between an external auditor and a FCU's supervisory committee will assist the supervisory committee in carrying out its responsibilities. Even if the FCU is voluntarily complying, it and its independent accountants might fall within the SEC's exemption from rotation for small accounting firms if the accounting firm has fewer than five public company audit clients and fewer than ten audit partners, provided an audit quality review condition is met.
Section 206. Conflicts of Interest. A registered public accounting firm would not be considered independent of a public company audit client if the client's chief executive officer, controller, chief financial officer, chief accounting officer or equivalent officer was employed by the accounting firm and participated in the audit of the client during the one-year period before the beginning of the current audit.		Each FCU and its external auditing firm may consider voluntary compliance with this "conflicts of interest" requirement, whenever possible.

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Title III – Corporate Responsibility		
Section 301. Public Company Audit Committees. The audit committee of each public company listed on a securities exchange or NASDAQ would be responsible for the appointment, compensation, and oversight of the work of a registered public accounting firm related to issuing audit reports. Each member of such an audit committee must be a member of the board of directors and shall otherwise be independent. In addition, the audit committee member cannot accept any consulting, advisory, or compensatory fee from the public company, other than fees for serving as a board or committee member, or be affiliated with the company or a subsidiary of the company. The audit committee must establish procedures for processing complaints and processing confidential, anonymous submissions by employees regarding accounting, internal control and auditing matters.	The Federal Credit Union Act provides in § 1761(b) that "The supervisory committee shall be appointed by the board of directors and shall consist of not less than three members nor more than five members, one of whom may be a director other than a compensated officer of the board." The Act at § 1761(c) also provides that "No member of the board or of any other committee, shall, as such, be compensated . . . ". Supervisory Committee complaint processing is discussed in Paragraph 4.12 in Chapter 4 of the *Supervisory Committee Guide*.	It is a sound corporate governance practice for an FCU to establish procedures for processing confidential, anonymous submissions by employees, regarding accounting, internal control and auditing matters and member complaints. . Accordingly, each FCU's supervisory committee should establish a mechanism, appropriate to the size and complexity of the FCU, for employees to submit concerns, confidentially and anonymously, to the committee about questionable accounting, internal accounting control or auditing matters. The supervisory committee also should set up procedures for the timely investigation of member complaints and the retention for a reasonable time period of documentation concerning the complaint and its subsequent resolution.
Section 302. Corporate Responsibility for Financial Reports. A public company's principal executive officer and principal financial officer must include a certification in each quarterly and annual report filed under the Securities Exchange Act of 1934. According to the SEC's final rule implementing Section 302,[4] which became effective on August 29, 2002, these officers each must certify that: *(continued to next page)*	The NCUA Call Report includes a signature page (page 8) in which the preparer and the certifying official sign and date the report filing.	FCUs that issue audited financial statements or periodically post financial statements to their members and others may also want to consider including with the financial statements a certification by the FCU's principal executive officer and principal financial officer. The certification would state that the officers have reviewed the financial statements and, based on *(continued to next page)*

[4] The SEC's final rule can be accessed at http://www.sec.gov/rules/final/33-8124.htm.

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(continued from previous page) • He or she has reviewed the quarterly or annual report; • Based on his or her knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact; and • Based on his or her knowledge, the financial statements and other financial information included in the report fairly present in all material respects the public company's financial condition, results of operations, and cash flows. The officers' certifications also must address matters pertaining to disclosure controls and procedures and internal control.		*(continued from previous page)* their knowledge, the statements are true and fairly present in all material respects the FCU's financial condition, results of operations, and cash flows.
Section 303. Improper Influence on Conduct of Audits. No officer or director of a public company or anyone acting under their direction can mislead, coerce, manipulate, or fraudulently influence a registered independent public accounting firm preparing an audit report for the purpose of rendering it materially misleading.		NCUA recommends compliance with Section 303 regardless of the type of external auditing program a FCU has implemented. NCUA may deem improper influence over external auditing work as an unsafe and unsound practice.

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Title IV – Enhanced Financial Disclosures		
Section 401. Disclosures in Periodic Reports. Financial reports filed with the SEC must reflect material correcting adjustments identified by a registered public accounting firm. The reports shall disclose all material off-balance sheet transactions, arrangements, obligations, and relationships that may have a material current or future effect on the company.[5]		NCUA encourages FCUs to make all material correcting adjustments identified by external auditors regardless of the type of external auditing program the FCU has implemented. If the FCU issues audited financial statements, NCUA encourages disclosure of material off-balance sheet transactions to ensure that examiners and other users of the financial statements are informed and can include them in their evaluation of the condition and risk profile of the FCU.
Section 402. Enhanced Conflict of Interest Provisions. Public companies are prohibited from extending credit in the form of a loan to any director or executive officer. Certain consumer loans are permitted if made in the ordinary course of the consumer credit business of the company, are generally available to the public, and made on market terms. This provision does not apply to any loan made by an insured depository institution if the loan is subject to the insider lending restrictions under section 22(h) of the Federal Reserve Regulation O.	Sections 107(5)(A)(iv) and (v) of the Federal Credit Union Act require the approval of the board of directors of the FCU in any case where the aggregate of loans to an official and loans on which that official serves as endorser or guarantor exceeds $20,000 plus pledged shares. Section 701.21(d)(5) of NCUA Rules and Regulations provides that the rates, terms and conditions on any loan to a credit union official or immediate family member shall not be more favorable than the rates, terms and conditions for comparable loans to the CU members.	Sound practices are addressed in the FCU Act and NCUA's Rules and Regulations.

[5] The SEC's final rule on disclosure about off-balance sheet arrangements, which was adopted on January 22, 2203, can be accessed at http://www.sec.gov/rules/final/33-8182.htm.

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Section 404. Management Assessment of Internal Controls. In their annual reports, public companies must include an internal control report that states that management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. The report must also contain an assessment, as of the end of the most recent fiscal year, of the effectiveness of the company's internal control structure and procedures for financial reporting. The company's registered public accounting firm must attest to and report on management's assessment.	NCUA Rules and Regulations § 715.7 identifies an alternative engagement: a *Report on Examination of Internal Controls over Call Reporting*, i.e., an independent accountant's attestation on managements' written assertions with regard to internal controls. Such an engagement is one of several acceptable, alternative, external auditing engagements for a FCU that chooses not to have an audit of its financial statements.	When a FCU chooses to have a financial statement audit as its external auditing program, the FCU may also wish to consider the benefits and costs of supplementing the audit with a *Report on Examination of Internal Controls over Call Reporting* performed by an independent accountant.
Section 406. Code of Ethics for Senior Financial Officers. Each public company must disclose in financial reports filed under the Securities Exchange Act of 1934 whether the company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer, and controller. If not, the company must disclose the reasons why. Disclosure on a current basis is also required on amendments to and waivers from the company's ethics code for senior financial officers. In a final rule adopted on January 15, 2003,[6] the SEC defined the term "code of ethics" to mean written standards that are reasonably designed to deter wrongdoing and to promote: *(continued to next page)*		NCUA encourages each FCU to consider adopting a written code of ethics for its chief executive officer and senior financial officers.

[6] The SEC's final rule can be accessed at http://www.sec.gov/rules/final/33-8177.htm. This final rule implements both Sections 406 and 407 of the Sarbanes-Oxley Act.

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(continued from previous page) • Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; • Full, fair, accurate, timely, and understandable disclosure in reports and documents the public company files under the federal securities laws and in other public communications the company makes; • Compliance with applicable rules and regulations; • Prompt internal reporting to an appropriate person of violations of the code; and • Accountability for adherence to the code.		
Section 407. Disclosure of Audit Committee Financial Expert. Each public company must disclose whether the audit committee is comprised of at least one member who is an "audit committee financial expert". If not, the company must disclose the reasons why. In a final rule adopted January 15, 2003, the SEC defined the term "audit committee financial expert" as a person who: • Understands generally accepted accounting principles (GAAP) and financial statements; • Is able to assess the general application of GAAP in connection with the accounting for estimates, accruals, and reserves; • Has experience in preparing, auditing, analyzing, or evaluating financial statements of a breadth and complexity comparable to that of the public company's financial statements, or has experience actively supervising one or more persons engaged in such activities; • Understands internal controls and procedures for financial accounting; and • Understands audit committee functions. A person can acquire such attributes through one or more means, including education and experience as, or experience actively supervising, a public accountant, auditor, controller, principal accounting officer, or principal financial officer.		A FCU may choose on its own to disclose to NCUA whether or not it has a financial expert on its supervisory committee.