American Airlines
Federal Credit Union

APR 10 '06 PM12:45 BOARD

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April 7, 2006

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

Dear Ms. Rupp:

Re: Comments on Proposed Rulemaking: Supervisory Committee Audits

American Airlines Federal Credit Union (AAFCU) appreciates the opportunity to comment on the proposed revisions to Parts 704, 715 and 741 (Proposed Rules). AAFCU is a federally chartered credit union domiciled in Texas. Total assets at December 31, 2005 were approximately 4.0 billion with about $2.2 billion in loans and about $1.6 billion in investments. Regular shares accounts for over $2.2 billion in funds with IRA and 401(K) making up most of the balance of liabilities.

Certain principles underpin our comments. The rules and regulations written by NCUA for the credit union movement are unique and should remain so. The credit union movement is an independent industry. We have, and should have, our own regulators, rules and regulations and authoritative literature. (Accounting should be, as with all industries, GAAP.) There is every reason to keep us separate both in regulations and in the mind of the public and lawmakers. While it may be tempting to say "me too" with respect to Sarbanes-Oxley (SOX) is would prove to our disadvantage to be seen as "community banking light."

A. Internal Control Assessment and Attestation

In reviewing Question 1 on attestation on internal controls, AAFCU believes attestation should remain voluntary. The NCUA provides guidance encouraging large credit union to voluntarily provide such a report. We concur with language that "strongly encourages," but does not require, the process. Credit unions are not public companies. We do not report to the SEC, do not issue stock and do not have access to capital markets. SOX is, in large measure, a reaction to malfeasance on the part of corporate officials who appear to have knowingly and willingly violated their fiduciary duty to stockholders in order to achieve personal, financial gain. Further, this malfeasance appears not to have been isolated. In

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he credit union movement losses and malfeasance occur; however, we are not aware of an upward trend in such losses or an increase in risk to the insurance und. Also, with the fundamental difference between for-profit, public companies and not-for-profit non-public companies, the financial incentives to misrepresent inancial statements are not as large. We believe current rules have proven adequate to protect the fund and, until trends to the contrary are in evidence, urrent rules will continue to be adequate.

Question 2 asks for recommendations for asset size threshold for requiring an ttestation. Without regard to our answer to question 1 above, we believe that ny requirements NCUA might adopt should continue to conform to NCUA's recedent of a $500 million threshold. We acknowledge that the FDIC's $1 illion threshold may produce different liability coverage ratios than a $500 million threshold will produce in credit unions (for FDIC we expect the coverage o be higher than in credit unions). But the root cause of that difference is not-or-profit v. for-profit, cooperative v. competitive, access to capital markets v. on-access and, of course, size. We believe there is value in small credit unions nd do not agree that it is in the members best interests to see costs at small redit unions increased to the point of liquidation or merger becomes more likely.

uestions 3-7 are omitted because we do not believe the attestation should be andatory.

. Standards Governing Internal Control Assessments and Attestations.

uestion 8 asks for recommendations on an attestation standard. Consistent ith the answer to question 1 above, credit unions are non-for-profit rganizations. Given that the AICPA appears ready to adopt revisions to AT 501 at are more in line with the PCAOB's requirements, we believe that NCUA hould maintain the distinction between for-profit and not-for-profit and adopt AT 01 as the standard governing internal control assessments and attestations.

uestion 9 asks if NCUA should mandate COSO's Internal control – Integrated ramework as the standard all credit union management must follow when ssessing internal control. While, in general, we believe managements to be ompetent and fully capable of selecting an appropriate standard, we recognize e desirability of having a common language when assessing internal control. 'e believe the establishing of a common standard outweighs the theoretical esirability of choice of standard and support the use of the COSO model.

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C. Qualifications of Supervisory Committee Members.

Questions 10, 11, 12 and 13 ask for recommendations on Supervisory Committee Members. Addressing question 13 first, yes, we believe that requiring Supervisory Committee members to meet certain minimum standards would make it more difficult to recruit competent individuals to serve. We see three primary obstacles:

1. Simple availability. Not all sponsors and fields of membership will posses the necessary talent pool. If the asset size cutoff for applying the requirement is too low, this could be a significant problem. Even in larger organizations, e.g., industrial sponsors, finding banking or related financial management expertise may prove difficult.
2. Risk. As credit unions become larger and, presumably, more complex, risk increases. Risk to SC members also increases. It may be difficult to recruit and retain sophisticated financial and legal talent at the SC level, given the level of risk inherent in being responsible for a financial institution.
3. Lack of compensation. Closely related to risk is reward. The perception of high levels of personal risk combined with lack of reward is likely to prove an obstacle to those considering volunteering.

Given the obstacles to recruitment and retention, but considering the need to have trained, experienced talent on the SC, we believe that NCUA should establish requirements for credit unions with assets greater than $500 million.

D. Independence of State-Licensed, Compensated Auditors.

Question 14: Compensated auditors who perform financial statement audit and/or attestations should be fully independent. The auditor should meet the AICPA's independence standards. However, as admirable as asking the auditor to meet the SEC's independence standards may be, we believe it clouds the distinction between not-for-profit credit unions and for-profit, SEC filing entities. We should meet the AICPA standards only.

E. Audit Options, Reports and Engagements.

Questions 15 and 16 ask if there is value in retaining balance sheet audits and the Supervisory Committee Guide audit for credit unions with less than $500 million in assets. We are not aware of any loss trends among smaller credit unions that might be mitigated by eliminating these items. For smaller credit unions, this should remain an option.

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Questions 17, 18, 19 and 20 ask recommendations for submitting audits, management letters and attestations to NCUA. We believe that any required documents should be submitted to NCUA within 120 days after the audit period. All reports should be supplied to, and reviewed with, the SC prior to issue. The SC minutes should document the meeting and delivery of the required reports. Credit unions should have the ability to request additional time to comply with the 120-day period.

Question 21 asks recommendations informing NCUA of hiring, changes, resignations and dismissal of auditors. We believe it is the best interests of the credit unions, the auditors and NCUA for the process of changing auditors to be as transparent as possible. We support the notification of NCUA when credit unions change auditors. The amount and nature of the communication to NCUA should be determined by circumstances.

Question 22 asks if SC's should be prohibited from executing engagement letters that limit auditor liability. Yes, this should be prohibited. SC should not be able to waive liability to conduct a competent and well-executed audit.

Thank you for considering our comments on this issue. Please feel free to call at (817) 963-6294 with any question or comment.

Sincerely,

John D Boyd

John D. Boyd
General Auditor

Cc: John M. Tippets
President & CEO
American Airlines Federal Credit Union