



## **NATIONAL CREDIT UNION ADMINISTRATION**

### **12 CFR Part 715**

#### **RIN 3133-AF74**

#### **Supervisory Committee Audits and Verifications**

**AGENCY:** National Credit Union Administration (NCUA).

**ACTION:** Proposed rule.

**SUMMARY:** The NCUA Board is proposing to amend its regulations governing supervisory committee audits to eliminate unnecessary, redundant, and overly prescriptive provisions. This action is necessary to reduce regulatory burden, increase operational flexibility for credit unions, and streamline the rules by removing requirements that are outdated or duplicative of other authorities. The intended effect of this proposal is to simplify compliance for credit unions without compromising the integrity of the audit process.

**DATES:** Comments must be received by [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION].

**ADDRESSES:** Comments may be submitted in one of the following ways. **(Please send comments by one method only):**

- *Federal eRulemaking Portal:* <https://www.regulations.gov>. The docket number for this proposed rule is NCUA–2025–1303. Follow the “Submit a comment” instructions. If you are reading this document on [federalregister.gov](https://www.federalregister.gov), you may use the green “SUBMIT A PUBLIC COMMENT” button beneath this rulemaking’s title to submit a comment to the [regulations.gov](https://www.regulations.gov) docket. A plain language summary of the proposed rule is also available on the docket website.
- *Mail:* Address to Melane Conyers-Ausbrooks, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314–3428.
- *Hand Delivery/Courier:* Same as mailing address.

Mailed and hand-delivered comments must be received by the close of the comment period.

*Public inspection:* Please follow the search instructions on <https://www.regulations.gov> to view the public comments. Do not include any personally identifiable information (such as name, address, or other contact information) or confidential business information that you do not want publicly disclosed. All comments are public records; they are publicly displayed exactly as received, and will not be deleted, modified, or redacted. Comments may be submitted anonymously. If you are unable to access public comments on the internet, you may contact the NCUA for alternative access by calling (703) 518–6540 or emailing [OGCMail@ncua.gov](mailto:OGCMail@ncua.gov).

**FOR FURTHER INFORMATION CONTACT:** Ian Marena, Associate General Counsel, Office of General Counsel, at (703) 518-6540 or at 1775 Duke Street, Alexandria, VA 22314.

## **SUPPLEMENTARY INFORMATION:**

### **I. Introduction**

#### *A. Background*

The NCUA Board proposes to amend its regulations at 12 CFR part 715, which govern the supervisory committee audit and verification responsibilities for federally insured credit unions (FICUs). The primary purpose of this regulation is to ensure that FICUs meet required financial reporting objectives and establish practices and procedures sufficient to safeguard members' assets from error, conflicts of interest, self-dealing, and fraud.

The current proposal seeks to partially or wholly eliminate several sections of this part. The following is a description of the purpose and function of those sections as they currently exist.

Section 715.2 defines key terms used throughout the part. It establishes the meaning of technical terms such as *financial statements*, *financial statement audit*, *GAAP*, and *GAAS*. It also defines terms specific to the rule's framework, such as *compensated person*, which refers to an accounting or auditing professional compensated for performing more than one supervisory committee audit per year, and *working papers*, which are the records supporting the auditor's findings. This section distinguishes a formal *financial statement audit* from the broader *supervisory committee audit* responsibility, which can be fulfilled through several alternative engagements.

Section 715.8 sets forth the requirements for the verification of member accounts. This requirement is derived from 12 U.S.C. 1761d and obligates the supervisory committee to verify members' passbooks and accounts against the credit union's records at least once every two years. The regulation permits several methods for this verification, including a 100 percent controlled verification of all member share and loan

accounts, a statistical sampling method, or a non-statistical sampling method consistent with GAAS when performed by a state-licensed independent person.

Section 715.9 governs the engagement of an outside, compensated person to assist the supervisory committee. To ensure auditor independence, the section prohibits such a person from being related by blood or marriage to any management employee or official of the credit union. It also mandates that the engagement be formalized through a written engagement letter contracted directly with the supervisory committee. This letter must specify the terms, conditions, objectives, and compensation for the engagement; identify the basis of accounting to be used; and set a target date for the delivery of the written audit report. The engagement letter must also certify that regulators will be provided unconditional access to the complete set of original working papers and acknowledge that these papers will be retained for at least three years.

Section 715.10 outlines the supervisory committee's responsibilities for the audit report and working papers. Upon receiving a written audit report, the committee must submit it to the board of directors and provide a summary of the audit to the members at the next annual meeting. If a member requests it, the committee must provide access to the full audit report. This section also holds the supervisory committee responsible for maintaining a complete set of original working papers for each audit and for providing the NCUA with unconditional access to these papers upon request.

Section 715.12 provides statutory remedies for the NCUA Board to address non-compliance by a federal credit union (FCU). The Board may compel a credit union to obtain a supervisory committee audit performed by an independent, state-licensed person if the credit union's supervisory committee fails to obtain a required annual audit or obtains one that does not meet the requirements of part 715. The Board may also compel a full financial statement audit if the credit union has experienced "serious and persistent recordkeeping deficiencies." The rule defines a deficiency as "serious" if financial

reporting objectives are not met and member assets are not safeguarded, and “persistent” if it continues beyond a reasonable period.

Section 741.202 applies supervisory committee audit and verification and other requirements of part 715 to all FICUs, which extends coverage to federally insured, state-chartered credit unions.

The reasons for the proposed changes are discussed in the preamble, under the heading “Discussion.”

### *B. Legal Authority*

Sections 115 and 202(a)(6) of the FCU Act set forth provisions addressing auditing and accounting requirements.<sup>1</sup> Section 115 of the FCU Act requires a FCU’s supervisory committee to make an annual audit and submit a report of that audit to the FCU’s board of directors and a summary of that report to the FCU’s members at the next annual meeting.<sup>2</sup> Further, the supervisory committee is required to make supplemental reports as it deems necessary.

Section 202(a)(6)(A) of the FCU Act is a general grant of authority to the Board to prescribe audit standards that require an outside, independent audit by a certified public accountant for any fiscal year for which a FICU has not conducted an annual supervisory committee audit, has not received a complete and satisfactory supervisory committee audit, or during which the FICU has experienced persistent or serious recordkeeping deficiencies.<sup>3</sup>

Section 202(a)(6)(C) of the FCU Act generally requires FICUs having assets of \$10 million or more to use accounting principles consistent with GAAP in all reports or statements required to be filed with the Board. The Board, and state credit union

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<sup>1</sup> 12 U.S.C. 1761d; 12 U.S.C. 1782(a)(6).

<sup>2</sup> 12 U.S.C. 1761d.

<sup>3</sup> 12 U.S.C. 1782(a)(6)(C).

supervisors under applicable state law, may require credit unions having less than \$10 million in assets to follow GAAP.

Section 202(a)(6)(D) of the FCU Act imposes audit requirements for larger FICUs. Specifically, a FICU having assets of \$500 million or more is required to obtain an annual independent audit of its financial statements performed in accordance with GAAS, hereafter referred to as a “financial statement audit.” That audit must be performed by an independent certified public accountant or public accountant licensed to do so by an appropriate state or jurisdiction.<sup>4</sup>

Additionally, if an FCU having total assets of less than \$500 million but more than \$10 million elects to obtain a financial statement audit, the audit must be performed consistent with the accountancy laws of the appropriate state or jurisdiction.<sup>5</sup>

## **II. Proposed Rule**

The Board is proposing several amendments to 12 CFR part 715 to reduce regulatory burden, eliminate unnecessary and redundant provisions, and increase flexibility for FICUs. These changes are consistent with the Board’s ongoing efforts to modernize its regulations and ensure they remain effective and efficient without imposing undue burdens. The proposed changes are discussed in detail below.

### *A. Elimination of Unnecessary and Prescriptive Requirements*

The Board proposes to eliminate several provisions that are overly prescriptive, unnecessarily rigid, or redundant of existing statutory duties. These changes are intended to provide FICUs with greater flexibility in meeting their audit compliance obligations while maintaining the integrity of the audit and verification process.

#### 1. Section 715.2

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<sup>4</sup> 12 U.S.C. 1782(a)(6)(D).

<sup>5</sup> 12 U.S.C. 1782(a)(6)(D)(ii).

The Board is proposing to amend § 715.2(h), which defines “Internal control” for part 715. The current definition defines this term as the process designed by a FICU’s board, officers, and employees to provide reasonable assurance of reliable financial reporting and safeguarding of assets against unauthorized acquisition, use, or disposition. The definition also describes internal control components in detail, specifying five components and describing reliable financial reporting. The second sentence of the paragraph, which enumerates the five components of an internal control structure, is overly prescriptive and risks becoming obsolete. This list is derived from a specific framework that may evolve over time. Removing this static definition would make the regulation more durable and allow FICUs and auditors to apply current, industry-accepted frameworks for evaluating internal controls. The third sentence, which defines reliable financial reporting by referencing only the preparation of Call Reports, is unduly narrow and is also proposed for removal to provide a more comprehensive understanding of the term.

## 2. Section 715.8

The Board is proposing to amend § 715.8(a), which details specific methods for the verification of member accounts. The FCU Act, at 12 U.S.C. 1761d, imposes a clear and self-executing duty on the supervisory committee to verify member accounts at least once every 2 years. The regulation requires members’ accounts to be verified against the records of the treasurer of the credit union. The Board proposes to amend this requirement to state more generally that members’ accounts must be verified against the credit union’s records. The Board notes that the treasurer’s records belong to the credit union. Thus, while the treasurer must maintain the records under the FCU Act, the supervisory committee is responsible for checking these records against members’ account records.

## 3. Section 715.9

The Board is proposing to amend § 715.9(b), which provides details on engagement letters with outside, compensated auditors. The current provision requires the scope of work to be documented in an engagement letter contracted with the supervisory committee. The provision also details how the engagement letter must be signed by both parties. The Board finds this additional detail and prescription unnecessary. Without this description, the provision is clear that the supervisory committee must enter into a contract with the outside, compensated auditor. Prescribing this process in greater detail adds to the body of regulations that FICUs must follow without any clear benefit. Therefore, the Board proposes to remove the final sentence of this provision.

#### 4. Section 715.10

The Board is also proposing to amend § 715.10(a) by removing the sentence that requires a supervisory committee to provide the NCUA with a copy of audit reports upon request. This provision is entirely redundant of the Board's existing authority. The Board has broad statutory power under the FCU Act to access all books and records of any FICU during its examination and supervision activities.<sup>6</sup> This inherent authority includes the power to obtain audit reports, which are records of the credit union. Eliminating this duplicative regulatory language streamlines the rule without in any way diminishing the agency's access to information or its oversight capabilities.

#### 5. Section 715.12

Finally, the Board proposes to remove two sentences from § 715.12(b). This provision currently describes the objective of a financial statement audit compelled by the NCUA and states that an "adverse opinion or disclaimer of opinion should be the exception rather than the norm." This language is unnecessary because GAAS already establishes the objectives of a financial statement audit. This commentary in the regulation is best read as guidance and could cause confusion if auditing standards evolve

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<sup>6</sup> 12 U.S.C. 1756, 1784, 1789.

to provide different objectives or expectations for financial statement audits. Therefore, the Board proposes to remove the final two sentences of this provision to reduce potential confusion.

The Board requests public comment on all of these proposed changes.

Commenters are also invited to address whether the removal of prescriptive language in §§ 715.9(b) and 715.12(b) achieves the goal of reducing administrative burden without compromising audit integrity.

### **III. Regulatory Procedures**

#### *A. Providing Accountability Through Transparency Act of 2023*

The Providing Accountability Through Transparency Act of 2023 (5 U.S.C. 553(b)(4)) (Act) requires that a notice of proposed rulemaking include the internet address of a summary of not more than 100 words in length of a proposed rule, in plain language, that shall be posted on the internet website under section 206(d) of the E-Government Act of 2002 (44 U.S.C. 3501 note) (commonly known as regulations.gov). The Act, under its terms, applies to notices of proposed rulemaking and does not expressly include other types of documents that the Board publishes voluntarily for public comment, such as notices and interim-final rules that request comment despite invoking “good cause” to forgo such notice and public procedure. The Board, however, has elected to address the Act’s requirement in these types of documents in the interests of administrative consistency and transparency.

In summary, the Board is proposing to amend its regulations governing supervisory committee audits to eliminate unnecessary, redundant, and overly prescriptive provisions. This action is necessary to reduce regulatory burden, increase operational flexibility for credit unions, and streamline the rules by removing requirements that are outdated or duplicative of other authorities. The intended effect of

this proposal is to simplify compliance for credit unions without compromising the integrity of the audit process.

The proposal and the required summary can be found at <https://www.regulations.gov>.

*B. Executive Orders 12866, 13563, and 14192*

Pursuant to Executive Order 12866 (“Regulatory Planning and Review”), as amended by Executive Order 14215, a determination must be made whether a regulatory action is significant and therefore subject to review by the Office of Management and Budget (OMB) in accordance with the requirements of the Executive Order.<sup>7</sup> Executive Order 13563 (“Improving Regulation and Regulatory Review”) supplements and reaffirms the principles, structures, and definitions governing contemporary regulatory review established in Executive Order 12866.<sup>8</sup> This proposed rule was drafted and reviewed in accordance with Executive Order 12866 and Executive Order 13563. OMB has determined that this proposed rule is not a “significant regulatory action” as defined in section 3(f)(1) of Executive Order 12866.

Executive Order 14192 (“Unleashing Prosperity Through Deregulation”) requires that any new incremental costs associated with new regulations shall, to the extent permitted by law, be offset by the elimination of existing costs associated with at least 10 prior regulations.<sup>9</sup> This proposed rule is expected to be a deregulatory action for purposes of Executive Order 14192.

*C. Regulatory Flexibility Act*

The Regulatory Flexibility Act<sup>10</sup> generally requires an agency to conduct a regulatory flexibility analysis of any rule subject to notice and comment rulemaking

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<sup>7</sup> 58 FR 51735 (Oct. 4, 1993).

<sup>8</sup> 76 FR 3821 (Jan.21, 2011).

<sup>9</sup> 90 FR 9065 (Feb. 6, 2025),

<sup>10</sup> 5 U.S.C. 601 *et seq.*

requirements, unless the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities. If the agency makes such a certification, it shall publish the certification at the time of publication of either the proposed rule or the final rule, along with a statement providing the factual basis for such certification.<sup>11</sup> For purposes of this analysis, the NCUA considers small credit unions to be those having under \$100 million in assets.<sup>12</sup> The Board fully considered the potential economic impacts of the regulatory amendments on small credit unions.

The proposed changes would reduce burden and confusion by streamlining certain provisions in the NCUA's audit regulations that apply to all FICUs. The changes would not substantially change FICUs' audit obligations or the nature of these audits. Rather, the proposed changes would provide clarity and generally reduce the level of detail in the regulations, which may provide relief to FICUs, but are not likely to have a significant economic impact.

Accordingly, the NCUA certifies the proposed rule would not have a significant economic impact on a substantial number of small credit unions.

#### *D. Paperwork Reduction Act*

The Paperwork Reduction Act of 1995 (PRA) generally provides that an agency may not conduct or sponsor, and not withstanding any other provision of law, a person is not required to respond to, a collection of information, unless it displays a currently valid Office of Management and Budget control number. The PRA applies to rulemakings in which an agency creates a new or amends existing information collection requirements. For purposes of the PRA, an information-collection requirement may take the form of a reporting, recordkeeping, or a third-party disclosure requirement. The NCUA has

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<sup>11</sup> 5 U.S.C. 605(b).

<sup>12</sup> 80 FR 57512 (Sept. 24, 2015).

determined that the changes described in this notice do not create a new information collection or revise an existing information collection as defined by the PRA.

*E. Executive Order 13132 on Federalism*

Executive Order 13132 encourages certain regulatory agencies to consider the impact of their actions on state and local interests. The NCUA, an agency as defined in 44 U.S.C. 3502(5), complies with the executive order to adhere to fundamental federalism principles. The NCUA's audit regulations apply to all FICUs, including federally insured, state-chartered credit unions. The proposed changes would not change or impose any new burdens on FICUs, including state-chartered credit unions. The proposed changes would streamline and clarify certain provisions without changing FICUs' audit obligations. The rulemaking would therefore not have direct effect on the states, the relationship between the national government and the states, or the distribution of power and responsibilities among the various levels of government.

*F. Assessment of Federal Regulations and Policies on Families*

The NCUA has determined that this proposed rule would not affect family well-being within the meaning of section 654 of the Treasury and General Government Appropriations Act, 1999.<sup>13</sup> The proposed rule concerns FICUs' audit obligations and procedures. Any effect on members' accounts, and by extension their financial well-being, is likely to be indirect.

**List of Subjects in 12 CFR Part 715**

Accounting, credit unions, reporting and recordkeeping requirements

By the National Credit Union Administration Board, this 8<sup>th</sup> day of December 2025.

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Melane Conyers-Ausbrooks,

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<sup>13</sup> Public Law 105-277, 112 Stat. 2681 (1998).

For the reasons stated in the preamble, the NCUA Board proposes to amend 12 CFR part 715 as follows:

**PART 715 – SUPERVISORY COMMITTEE AUDITS AND VERIFICATIONS**

1. The authority citation for part 715 continues to read as follows:

**Authority:** 12 U.S.C. 1761(b), 1761d, 1782(a)(6).

2. Revise § 715.2 (h) to read as follows:

**§ 715.2 Definitions used in this part.**

\* \* \* \* \*

(h) *Internal control* refers to the process, established by the credit union's board of directors, officers and employees, designed to provide reasonable assurance of reliable financial reporting and safeguarding of assets against unauthorized acquisition, use, or disposition. Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition refers to prevention or timely detection of transactions involving such unauthorized access, use, or disposition of assets which could result in a loss that is material to the financial statements.

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**§ 715.8 [Amended]**

3. In § 715.8(a), remove the words “of the treasurer”.

4. Revise § 715.9 (b) to read as follows:

**§ 715.9 Assistance from outside, compensated person.**

\* \* \* \* \*

(b) *Engagement letter.* The engagement of a compensated auditor to perform all or a portion of the scope of a financial statement audit or supervisory committee audit shall be evidenced by an engagement letter. In all cases, the engagement must be contracted directly with the Supervisory Committee.

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5. Revise § 715.10 (a) to read as follows:

**§ 715.10 Audit report and working paper maintenance and access.**

(a) *Audit report.* Upon completion and/or receipt of the written report of a financial statement audit or a supervisory committee audit, the Supervisory Committee must verify that the audit was performed and reported in accordance with the terms of the engagement letter prescribed herein. The Supervisory Committee must submit the report(s) to the board of directors, and provide a summary of the results of the audit to the members of the credit union orally or in writing at the next annual meeting of the credit union. If a member so requests, the Supervisory Committee shall provide the member access to the full audit report.

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6. Revise § 715.12 (b) to read as follows:

**§ 715.12 Statutory audit remedies for Federal credit unions.**

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(b) *Financial statement audit required.* The NCUA Board may compel a federal credit union to obtain a financial statement audit performed in accordance with GAAS by an independent person who is licensed by the State or jurisdiction in which the credit union is principally located (even if such audit is not required by § 715.5), for any fiscal year in

which the credit union has experienced serious and persistent recordkeeping deficiencies as defined in paragraph (c) of this section.

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