

# NACUSO

PMB 3419 Via Lido  
Suite 135  
Newport Beach, CA 92663

August 27, 2004

Jonathan G. Katz, Secretary  
United States Securities and Exchange Commission  
450 5th Street, NW  
Washington, DC 20549-0609

Re: Comment Letter to Proposed Regulation B  
File Number S7-26-04

Dear Mr. Katz,

This letter is written on behalf of the National Association of Credit Union Service Organizations ("NACUSO") and its members. NACUSO is a trade association comprised of credit unions and credit union service organizations ("CUSOs"). CUSOs are service organizations owned by credit unions.

NACUSO is in favor of the exemptions provided to credit unions under proposed Regulation B and endorses the adoption of Regulation B with the stated exemptions for credit unions.

NACUSO requests that Regulation B also grant credit unions an exemption to enter into networking arrangements through CUSOs that are wholly owned by one or more credit unions. This request is very important to the credit union and CUSO members of NACUSO.

Prior to July 2001, credit unions could not receive revenue in networking arrangements in excess of a credit union's actual expenses. CUSOs did not have this expense reimbursement limitation and thus, credit unions formed CUSOs to enter into networking agreements with broker/dealers. In July 2001, the National Credit Union Administration passed the Incidental Powers Regulation that removed the expense reimbursement limitations on credit unions, permitting credit unions to receive a full share of revenue generated in networking arrangements. Under the Chubb Securities No-Action Letter, CUSOs were no longer "required service corporations".

CUSOs have been used by credit unions for twenty (20) years in networking arrangements. There is no evidence of any abuse or harm to investors as a result of CUSOs being used by credit unions for this purpose. There is no evidence that the use of CUSOs by credit unions in networking arrangements will pose a greater threat to investors than credit unions that do not use CUSOs.

We understand that the SEC feels comfortable in dealing with financial institutions as there is a regulator that directly regulates the financial institution. In the case of an issue involved with the investment program, the SEC has confidence that it could contact the financial institution's regulator and that regulator will assist the SEC to resolve the issue. As you are aware, the respective credit union regulators regulate a credit union's investment in its CUSO but do not directly regulate the CUSO. We submit that this is an immaterial distinction in practice as it relates to these networking arrangements. In the case of a serious regulatory issue, the credit union regulator has the ability to require the credit union to divest itself of its CUSO investment and terminate the credit union's affiliation with the CUSO. This is a very powerful inducement to a credit union to cause its CUSO to act in accordance with the directives of the regulator. It is our contention that in the event that there is a problem in a networking arrangement, the SEC and the credit union regulator would have the same level of power and influence over a CUSO as they do a credit union.

Credit unions are non-profit financial cooperatives. Credit unions do not create investment products and therefore do not sell credit union proprietary investment products. Traditionally, credit unions have worked together to jointly provide financial services and operational services. As of year-end 2003, there are 9,709 credit unions and only 1,163 credit unions (about 12%) have assets in excess of \$100,000,000. A common rule of thumb used by broker/dealers working with credit unions is that credit unions must have at least \$100,000,000 to \$150,000,000 in assets in order to support a registered representative. Credit unions also find that they need to have five or six registered representatives in order to afford a non-producing, full-time manager. A full-time manager of the investment program is a key component for success. Thus, both small and large credit unions find it highly desirable to have a credit union service organization that will aggregate the resources to effectively provide registered representatives, management and marketing services for investment programs. Of course, all personnel that provide these services would be fully and properly licensed with the broker/dealer.

The inability of CUSOs to provide this centralized hub of expertise is a severe detriment to the ability of many credit unions and their affiliated broker/dealers to effectively offer investment services. The inability to aggregate resources through a CUSO could prevent most credit unions from having networking arrangements. Serving small credit unions would be cost prohibitive to broker/dealers without the ability to use a CUSO to centralize the investment services management, compliance and registered representative services. This type of cooperative effort is unique to the credit unions. It is driven by the culture of cooperation among credit unions and by economic necessity.

The integrity and effectiveness of the credit union networking exemption would not be diminished by permitting credit unions to use CUSOs that are wholly owned by one or more credit unions. NACUSO submits that the benefits of having a centralized CUSO for multiple

credit unions would enhance the ability of the broker/dealers to provide effective and efficient investment services. The ability to aggregate resources greatly aids the effectiveness of broker/dealers and the efficiency of the oversight function by the NASD and SEC. NACUSO strongly encourages the SEC to permit credit unions to use CUSOs in networking arrangements.

We thank you for the opportunity to comment and would welcome any questions you may have regarding these comments.

Very truly yours,

***Robert Dorsa***

Robert Dorsa, NACUSO President

***Guy Messick***

Guy Messick, NACUSO General Counsel