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FDIC STAFF TO FOCUS ON SMALL BANKS IN DEVELOPMENT OF BANK AUDIT REGULATION

The Federal Deposit Insurance Corporation has decided not to propose a regulation requiring a full opinion "outside" audit for banks at this time, according to FDIC Chairman L. William Seidman.

"There are two reasons for this decision," Mr. Seidman said. "First, practically all large banks already obtain such audits annually. Second, many small banks may be unable to afford or obtain a full opinion audit. Rather than pursue an audit regulation, we hope to focus attention on an effective, limited scope audit program for smaller banks."

The FDIC staff is developing the framework for an independent, "special review" of small banks as part of the agency's effort to encourage all banks to effectively audit their operations, Mr. Seidman said.

"The available data indicate that well over 90 percent of the banking institutions with more than $100 million in assets already have an opinion audit, and we do not believe regulatory audit requirements are necessary for this group at this time. For banks under $100 million only 58 percent have a full opinion audit. We believe many smaller institutions that do not have audits could improve safety and soundness if a less than full scope audit could be designed for this purpose," Mr. Seidman said.

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"Our staff will focus its efforts on developing an affordable special audit for small banks. Our objective must be to work with the CPAs and the banking industry on a review program for these small institutions," the FDIC Chairman added.

Mr. Seidman observed that all federal bank supervisors agree that banks obtaining an independent review of their operations are less likely to fail or encounter major difficulties than those that don't. Staff working on an audit regulation, however, has concluded that small banks could benefit from less costly, limited audit procedures. This would meet the problems of those small banks that might be unduly burdened by the added cost of a full opinion audit or might find it difficult to obtain competent bank auditors in their area.

"There is no point in establishing an audit regulation applicable only to institutions with more than $100 million in assets because it would affect only a handful of banks, thus failing to produce the benefits we anticipate. Approximately 76 percent of the bank failures we have seen in recent years involved unaudited, small banks," Mr. Seidman said.

Under current policies, independent audits are expected from institutions with more than $50 million in assets that are converting to FDIC insurance coverage. Furthermore, newly-chartered banks insured by the FDIC must obtain an independent audit during their first three years of operation.

"Available data indicate that a regulation establishing that banks with an asset size of $50 million have to have full scope audits would require about 1,000 more banks to obtain such audits," Mr. Seidman said. "The FDIC will continue to apply its existing policies, where applicable, and work toward meaningful, but less than full scope, audits for small banks that do not currently obtain such audits."