



Outside Audits

FIL-19-95  
February 23, 1995

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *FDIC Proposes Amendment to Annual Audit and Reporting Requirements (Part 363)*

On January 31, 1995, the FDIC Board of Directors proposed the attached amendment to the agency's annual independent audit and reporting requirements (Part 363) that would provide relief from duplicative reporting and audit committee requirements for certain sound, well-managed banks. The proposed amendment would implement Section 314(a) of the Riegle Community Development and Regulatory Improvement Act of 1994.

In general, existing rules require an institution with \$500 million or more in total assets to have an annual independent audit of its financial statements, to have an independent evaluation of its internal controls for financial reporting and compliance with designated laws, and to have an independent audit committee. Related reports also are required to be filed. These rules are part of an independent early warning system mandated by Congress in 1991.

The FDIC's proposed amendment would cover any institution that:

- Is a subsidiary of a multibank holding company;
- Has \$5 billion or more in total assets; *and*
- Has a composite "1" or "2" rating under the interagency CAMEL rating system.

The proposal states that any such institution could use the audit committee of its holding company and file its holding company's annual report. That would provide relief for any institution with \$9 billion or more in total assets because it previously had to file a separate report and have its own audit committee. These aspects of the FDIC proposal may affect approximately 70 institutions.

The vast majority of institutions report on a calendar year basis and are now in the process of preparing annual reports for 1994. In order to make the process less burdensome, the FDIC will not object if an institution chooses to follow the provisions of this proposal now instead of waiting for final rules to be adopted. *An institution using the holding company exception* should file with the FDIC two copies of any annual report and a letter identifying all institutions to which it applies. This material should go to the Regional Director of the FDIC's Division of Supervision responsible for the location where the lead institution is headquartered. In addition, two copies should be supplied to each institution's primary federal or state regulator. *An institution filing any report just for itself* should send it to the FDIC regional office responsible for the location of the institution's main office, whether or not the institution is a subsidiary of a holding company. A list of FDIC regional directors and addresses is attached.

The proposed amendment also would streamline and reformat the agreed-upon procedures for determining compliance with designated laws and regulations (Schedule A to Appendix A of the guidelines). This aspect of the amendment, which would affect about 1,000 banks, is intended to make the procedures more efficient and less burdensome for institutions and accountants to implement. The proposal also would revise and correct certain wording in the regulations to reduce the burden of compliance on insured institutions.

The FDIC will accept comments on the proposed amendment through April 17, 1995. For more information, please contact Doris L. Marsh, an Examination Specialist in the Division of Supervision, at (202) 898-8905.

Stanley J. Poling  
Director

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