FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC ASKS FOR PUBLIC COMMENT ON PROPOSAL TO IMPLEMENT LAW REQUIRING
ANNUAL AUDITS OF INSURED BANKS AND THRIFTS, NEW REPORTING REQUIREMENTS

The FDIC Board of Directors today agreed to seek public comment on a proposal to implement new statutory requirements for outside audits of insured institutions and other measures to detect and prevent problems in a bank or thrift's financial management.

Section 112 of the FDIC Improvement Act of 1991 requires each insured institution with total assets of $150 million or more to file with the FDIC annual financial statements audited by an independent public accountant, although the agency has the authority to raise the $150 million threshold. The accountant also must review and attest to the effectiveness of the institution's internal controls and its compliance with safety and soundness regulations, using audit procedures agreed upon by the FDIC. Any change in an outside auditor must be brought to the attention of the FDIC by the institution. An institution subject to this law will be required to establish and maintain an audit committee composed entirely of outside directors who must review the audit findings with management and the outside accountant. Audit committees of "large institutions" have more stringent requirements.

The FDIC proposal announced today would maintain the $150 million threshold for being subject to the audit and reporting requirements of Section 112. The proposal would cover about 3,000 of the nation's 14,000 FDIC-insured banks and thrifts. The $150 million level is being proposed because it is consistent with Federal Reserve Board regulations for bank holding company audits and because most institutions of that size already get outside audits.

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In addition, banks and thrifts with assets of $500 million or more (approximately 1,000 of the 3,000) would be considered "large" under the proposal and therefore subject to more stringent audit committee requirements. Those include a prohibition against large loan or deposit customers serving on the audit committee and a requirement that the committee have access to its own outside counsel independent of management.

The FDIC proposal also would require auditors to meet certain qualifications, including independence from the institution and being enrolled in an accounting industry peer review program. Auditors also would be required to provide their work papers to the FDIC upon request.

In general, the Board is attempting to implement the law and maximize the benefits to the FDIC but also to limit the compliance costs for banks and thrifts. For example, the FDIC Board is asking for public comment on specific issues that include: Would it be appropriate to have one threshold for audit requirements but another, higher threshold for reporting on internal controls and compliance with laws and regulations? Is the $500 million-asset definition of a large institution the appropriate level for the more stringent audit committee requirements? What is the best definition of a large customer for purposes of deciding who can serve on an audit committee? Do the proposed procedures for evaluating compliance with laws and regulations make sense? And, what are the likely costs of the various audit and reporting requirements for individual institutions?

Written comments on the FDIC proposal are due 45 days after the plan appears in the <u>Federal Register</u>. The FDIC expects to adopt a final rule by year-end because the law requires the new auditing system to be in effect for the first fiscal year after December 31, 1992.

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