

Remarks of Mr. Mortimer J. Fox, Jr., Chief, Division of Research and Statistics of the Federal Deposit Insurance Corporation before the Eastern Regional Conference of Bank Auditors and Comptrollers at a luncheon meeting at the Hotel Montclair, New York, April 26, 1935.

Mr. Chairman, Gentlemen:

It is pleasant to meet with you today and I thank your program committee for the invitation to discuss some aspects of bank statement standardization with you.

I realize that at the close of the fiscal and calendar periods those of us who are responsible for the requests for information which pile up on your desks are thoroughly unpopular. But let me ask that you keep open minds at these times of worry and work, and realize that our path is as thorny as yours. As an example: recently we finished our tabulation of year-end reports submitted to us by insured banks not members of the Federal Reserve System; seventy-seven hundred sets of reports were received and before we could even begin our tabulation, we had to write to forty-seven hundred of the reporting banks requesting amendments to their statements ranging in importance from the correction of transpositions and omissions to the construction of an entirely new report. Not too good a batting average for the bankers of the country, is it? So you see that we, too, have our troubles. My criticism doesn't apply to this group, I hope, because-- I hope--it is not the banks you represent which cause us trouble.

The function of condition reports has undergone a gradual, but at the same time, natural evolution. The call report was the first of the regulatory devices adopted by bank supervisory authorities, and it filled an important role in the early days of this country's banking history when distances were long and the means of traversing them

few and unreliable. As railroads, the telegraph and other means of communication developed, however, and as direct contacts between banker and authority became easier to arrange, the examination, special report, and the conference came into being. As a result of the closer personal and critical contact made possible by these new devices, the supervisory value of condition reports has to a large extent been displaced.

The inception of the requirement to publish these statements is comparatively recent. For many years banks objected strenuously to opening their books even to state supervisory authorities. Many of them were equally reluctant to take the stockholders into their confidence. The right of depositors to a knowledge of the use made of their funds was not even seriously discussed until successive waves of reform had encouraged the depositors to demand what they were not offered. Today the call report is intended primarily to be public-informing, and its supervisory value lies mainly in the fact that persons preparing them certify to certain statements which may be used in court proceedings in the discharge of the responsibilities of the supervisory authority. Then, too, an important psychological value attaches to the requirement that bankers prepare at intervals statements of the condition of their institutions.

The bank statements required by governmental authorities of one kind or another have gradually grown in number and complexity until they now constitute a serious burden to the banker. We find,

therefore, that the whole problem of reporting to supervisory agencies is being challenged, and justly so. We welcome your newly manifested interest, and I am confident that if we use it properly it will be possible to develop together a solution to the problem which is truly constructive.

You probably feel that you are often asked for data by the various Federal agencies only to satisfy the whims and fancies of some otherwise idle governmental bureaucrat. Let me disabuse your minds of this thought. It is true that there exists an apparent duplication of report requirements among the various agencies, but there can be no reasonable doubt as to the need of each agency for the information it requests. The ever-increasing responsibility of various governmental agencies in the conduct of the banking business has made it essential that those administering such affairs be more adequately informed in order that their policy decisions might be based upon factual data. It is the duty of those in charge of statistical, economic or bank operations divisions of governmental agencies to develop data which reflect the true condition of matters being deliberated by administrators, other governmental executives and Congress. You will agree, I am sure, that decisions affecting the Government's \$850 million investment in banks or the \$16 billion risk of the Federal Deposit Insurance Corporation cannot properly be made in a casual way. To be intelligent, they must be based upon facts scientifically correlated and analysed, and it is important that

adequate, reliable and sufficiently current data be constantly at hand.

The various Federal agencies concerned with bank supervision have managed, during the past year, to eliminate such duplication as existed among them. No bank, with the possible exception of banks of one class which are affiliated with banks of another class, is now subject to examination or to a call for reports by more than one of these agencies. The Comptroller of the Currency calls periodically for reports of condition and of earnings and dividends from national banks only. The Federal Reserve Board receives reports only from state member banks while the Federal Deposit Insurance Corporation examines and calls for reports from insured banks not members of the Federal Reserve System. The Reconstruction Finance Corporation uses the call and examination reports of the other offices.

The only other Federal agency requiring regular reports from banks is the Bureau of Internal Revenue. Such agencies as the Department of Agriculture or the Federal Housing Administration occasionally make specific requests, but this is done only with the cooperation and consent of one of the three supervisory groups mentioned above. The activities of the Securities Exchange Commission insofar as banks are concerned at this time is very limited.

The cooperation between Federal and state supervisory agencies has also made much progress during the past year. It is in this field, however, that the most remains to be accomplished. Progress must be slow since so many vital elements are involved. For example,

there exists a popular superstition that the Federal government is attempting to displace the state supervisory systems. This is entirely erroneous when one considers that strong supervision by state authorities is the best possible protection that the Federal Deposit Insurance Corporation specifically and the banking community generally can possibly have. A cooperative relationship between state and Federal bank authorities is a natural thing since their interests in sound bank management are one and the same, varying only as to degree. To say that one is attempting to destroy or displace the other is evidence of failure to consider the basic factors.

The National Association of State Bank Supervisors, following its annual convention at Baltimore last fall, appointed, at our request, a special committee to work with Federal authorities in the development of standard report forms. We are happy to say that we have enjoyed very fine cooperation from this group and we look forward with a great deal of pleasure to further association with them on this project of mutual interest.

It is natural, too, that a subject affecting so generally the bankers of the country should have attracted the attention of several professional groups. Last November a special group of the National Association of Bank Auditors and Comptrollers was invited to a meeting at the offices of the Corporation in Washington and at that time the existing Federal forms were reviewed and an open discussion was had on the more controversial items on

the forms which are now in use. It was the consensus of that meeting that the forms should not be changed until a thorough study could be made of the whole problem and until there was some degree of assurance that the new form would be universally adopted. Since that time officials of the Corporation have been in contact with a special committee of the Reserve City Bankers Association and this committee assures us that the Association is vitally interested in the problem of bank statement standardization and stands ready to lend its support to any activity in this direction. We understand, too, that committees of the American Bankers Association are studying the problem.

A form of report can and should be developed which will be at the same time less burdensome to you and more satisfactory to those to whom the reports are rendered. It is important that the interests of supervisory agencies, comptrollers and auditors and bankers generally be reviewed in order that we may arrive at a mutual understanding of the many problems involved.

A recent analysis made by us of the statutory requirements for various reports to be rendered by banks revealed that surprisingly little of the variation in present forms was due to specific legal requirements. We discovered that thirty-nine states either were already using or could adopt, without any amendment to existing statutes, a form comparable to that currently being used by the Federal agencies. In the remaining nine states the present form is inadequate only because it does not go into sufficient detail for certain items. Some states, for example, call for a list of the

parcels comprising banks' "other real estate" or for an itemized list of interbank balances. We are not confronted by an insurmountable legal wall. This fact alone should give the development of the standardized report form a considerable boost.

To complement the legal analysis a study was made of all report forms currently used by state bank supervisors and clearing houses, as well as of tax forms, forms for the annual reports of insurance companies and the financial statements of industrial concerns. This analysis has placed at our disposal a complete list of the items called, together with the frequency of their appearance.

I believe the background has been quite thoroughly covered and summarized and we are now eager to undertake the construction of a sound set of forms which will be uniformly acceptable and which will approach as nearly as possible the ideal.

To be valuable as supervisory aids the reports must continue to be exhaustive; to be of value as sources of information to depositors and the public they must lend themselves to simple and complete presentation of the facts of a bank's true condition; and, finally, to be reliable sources of statistical information, they must permit a uniform treatment of accounts despite the variety of accounting methods used by banks. It seems to me that the construction of new forms should be based on the premise that the condition report is an adjunct of the examination rather than a substitute therefor. In other words, where the examination is designed to check the observance of regulations and to analyze

asset values, the condition report should be confined to the analysis of asset types or the diversification of a bank's holdings; where the examination aims to analyze a static condition of accounts, the call report should be intended to reflect trends.

Whatever forms are developed must be designed for easy interpretation by bankers. To be of statistical value all reports must have been prepared uniformly, which means that country banker and city banker alike must be able adequately and accurately to transfer to the report the actual condition of his bank as reflected by his books.

I doubt whether the benefits which will accrue to bankers themselves as a result of the standardization of report forms are very generally realized. Most tangible, of course, will be the considerable reduction of time and expense now incurred in the preparation of reports for governmental agencies. But even more important is the fact that standardization will be the means of making available to bankers much information which will assist them to achieve a more efficient degree of bank operation. Through the analysis of typical statements of banks, developed by the compilation of hundreds of statements of similar institutions, we know that bank managements will find the means of improving their operating positions. For many years bankers have made consistent and profitable use of typical balance sheet and earnings statements for various industries in determining the relative worth as risks of credit applicants. At

no time, however, has such a yardstick been prepared for the bankers themselves and I feel sure that the profession will welcome the development of gauges of this sort.

The problem of the Federal Deposit Insurance Corporation is that of the small bank particularly and it is in an effort to assist the small banker to make sufficient earnings that the Corporation is primarily concerned. For this purpose we should like to engage aggressively in furnishing the many small bankers throughout the country with material which will help them, so to speak, to help themselves.

Among all the criticism that has been leveled at existing reports and at their perpetrators, very little of a constructive nature has appeared. This is a tendency with all of us, of course, but I feel that the time has come for concerted action designed to develop a satisfactory solution to our problem. As I have explained, the background has been covered as thoroughly as possible. What can be done we know, and in order to get it done, I now state my proposition. Since it is you men and others active in the profession who will derive the most benefit from statement standardization and simplification, I believe you will agree that it is you, through your professional groups, who should take the initiative from now on.

The suggestion which I make to you, and which I plan to make to the other groups with which we have been in contact is this: Let your officers select a committee to be known as the Committee on Statement Standardization. This committee can serve to gather and correlate the ideas of members of your organization. Then, for the

sake of the record, I should like to see each of these committees address the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Federal Reserve Board asking that those offices appoint representatives to work with the committees in developing desirable report forms. You will find us all quite amenable to your suggestions and eager to do everything in our power to hasten the realization of the project.

Vigorous and concerted action by all of us should make it possible to have new forms constructed and ready for general adoption within the next few months. I am sure that you will breathe a sigh of relief when you can satisfy the requirements of various agencies practically by preparing copies of only one report, and I am confident that I express the unanimous opinion of the supervisory contingent when I say that we could easily forego the tug at our heartstrings of letters like the following, which accompanied the reports submitted by a small middlewestern bank in response to our call last June:

"Gentlemen," writes the cashier, "we enclose herewith our report as of June 30, 1934. We don't mind telling you that it was some effort to make out reports to your Corporation, the Reconstruction Finance Corporation and the State Department with the temperature ranging 104 degrees! Likewise, the work all fell on me as cashier and my temperature was not far below that of the weather. Hoping our report will be acceptable to the Corporation without any further correspondence, we are--Very truly yours."

Thank you.