REMARKS OF MR. MORTIMER J. FOX, JR., AT A DINNER MEETING OF THE NEW YORK CITY BANK AUDITORS AND COMPTROLLERS CONFERENCE, MACHINERY CLUB, TUESDAY EVENING, NOVEMBER 19, 1935.

Mr. Chairman, members of the New York City Bank Auditors and Comptrollers Conference -

I welcome this opportunity to meet with you again and, under normal conditions, I would be sincerely grateful to the Chairman of your Program Committee for his invitation to partake of this very fine dinner with you. However, I believe he had begun to feel that we in Washington were giving creditable impersonations of Rip Van Winkle, and I don't blame him for wondering audibly what has happened since our meeting down there just a year ago this time, when we first started the unification and standardization movement.

As a matter of fact, I feel very much on the spot because, off the record, my sympathies are with you men. I am sure that if I were on the receiving end of the deluge of report forms which emanates from Washington, and for which I must frankly admit my share of the guilt, I would make a loud, long, and furious cry of protest. I can imagine the sotto voce profanity that greets each of these interruptions to your routine and I fully appreciate the difficulties you frequently experience in interpreting the intention of those who drafted the report blank. But I ask that you remember that we request only material which is both important and valuable to those who have to decide questions of policy affecting the country's entire banking structure; and I am sure that you can visualize the structural problems which confront us and which sometimes make forms almost unintelligible. To get a form in such shape that it can be used by 14,200 banks operating under 49 or more different banking codes is no easy assignment, especially when the task is complicated by limitations of time and by the widely divergent strata of intelligence which we have encountered in our dealings with those who lay claim to the name "banker". Actually then, my sympathy is almost counter-balanced by well-deserved self pity.

Seriously speaking, however, Mr. Brandon asked me to say a few words to you about the progress being made toward unification and standardization of the call report forms. I want to tell you what we have done since we started this work a year ago, and I also want to take this opportunity of discussing a few of our problems with you. I am sure that we can profit from an expression of the viewpoint of the members of this organization. The problems and situations that face you every day are as representative as any which might be found among any group of bankers in the United States comprising, as they do, the problems of both the large institutions which you represent and the many-sized correspondents which you serve. I sincerely hope that you will express yourselves freely, so that I may benefit from your helpful suggestions.

Now, let me rapidly review the work which has been done on the call report since I talked with you in April. At that time, you remember, we suggested that a joint meeting be called of the professional groups interested in the subject of call reports, which would include representatives of the National Association of Bank Auditors and Comptrollers, the American Bankers' Association, the Reserve City Bankers Association, State Bank Commissioners, the representatives of the Comptroller's office, the Federal Reserve Board, Treasury, Reconstruction Finance Corporation, and Federal Deposit Insurance Corporation.

This meeting was finally arranged and was held in Washington on May 22 and 23. The conference was well attended and the representatives who were chosen by the various groups were exceedingly helpful. In preparation for the conference, members of our staff undertook to get up a rather comprehensive study which contained an analysis of the problem and, particularly, the various types of call reports then in use. In addition, our staff, in cooperation with the representatives of other organizations, prepared a comprehensive agenda which was used by the meeting and which served to give it form and direction. After considerable discussion and a complete exploration of many of the arguments and many of the factors involved, the conference adopted certain resolutions. These resolutions were published at the time. Their text can be found in the July issue of "Banking". The resolutions served to crystallize the general feeling of that meeting and served as a general guide post for the work which was to be undertaken as the result of that meeting. As one of the consequences of that conference a Permanent Standing Committee was organized for the purpose of doing the work required in developing the call report, in an effort to get a revised form which would satisfy all Federal requirements and at the same time could be adopted by most of the states. In addition to the Permanent Standing Committee there was created a sub-committee to take under its wing the general task of preparing the basic form. This sub-committee is composed principally of representatives of the various Federal agencies concerned in this task.

The conference recommended that there be a division of the problems before us. It likewise recommended that one form be developed which could be uniformly adopted as the call report form, this report to contain primarily supervisory aspects and, secondly, some statistical aspects. Then, in addition, the conference recommended that a second form be developed which should be primarily a statistical form. Both of these forms were concerned only with condition reports of banks. The third form was to be the earnings and ~~dividends~~ dividend report form. We have concentrated our efforts on the first of these, since it has been felt that we had to develop one basic form first and that after that had been done the task of developing the subsequent forms would be somewhat simpler. Then, too, it was felt that the earnings and ~~dividends~~ dividend reports as now used by Federal agencies were pretty nearly satisfactory from our viewpoint and therefore required but little change.

After working on and off as consistently as our other duties would permit, and after holding joint conferences with the other Federal agencies, we have tentatively agreed upon a suggested form which is to be the basis for further discussion and analysis by the Permanent Standing Committee. This form has been sent to the agencies' field organizations for criticism and, directly upon its return to Washington with comments, it will be revised and submitted to the Permanent Standing Committee. The new report form, I feel, is an improvement over that which has existed heretofore and is particularly significant in that it represents a step in the direction toward which we can hope this general subject will proceed. I am sure you will be glad to know that the form does not differ very radically from that which is now in use.

Unfortunately I am not in a position to go into much detail concerning the particular features of this form since it has not yet been submitted to the Permanent Standing Committee. As an indication of the type of change that will be made, however, I might cite the following facts: We are attempting to display develop as real and intelligible a picture of a bank's condition as is possible with book figures by developing a true balance sheet with contingent items removed; by eliminating valuation reserves, where they exist, to reflect net book condition; by rearranging balance sheet items in a logical sequence comparable to that favored by most banks in their advertising; and by simplifying terminology. We are removing data whose usefulness is outmoded or which duplicate examination functions, and we have worked constantly toward the goal that what little new data it is found necessary to call for will produce a maximum of information with a minimum additional burden upon the banks.

Upon adoption of the form it is our intention to write, with the help of qualified bankers and accountants, an exhaustive instruction booklet defining all face and schedule items in detail. It seems reasonable to assume that this manual, in view of the fact that the approved form will presumably be used by nearly every bank in the country, will represent the greatest possible influence towards the adoption of uniform accounting terminology and practices by the country's banks.

Pending approval and adoption of the new form the Federal Deposit Insurance Corporation has made a very sincere effort to have the State Commissioners cooperate in activities of standardization and unification. Prior to each of our calls during the past year, we have written to the commissioners to remind them of the general effort that is being made along these lines and at the same time to offer to furnish the State Banking Departments with a sufficient supply of blank forms for their use. Our purpose in doing this has been to get as many as possible of the State departments to use the forms which the Federal agencies are using, in order that duplication may be avoided and in order that State banks will hot be required to fill out reports of condition on more than one form. This practice has been productive of satisfactory results and we are happy to report that on the joint call of June 29 of this year 14 states availed themselves of the opportunity of using our forms. We are now preparing for the call which is to come some time toward the end of the year and we have again written to the commissioners offering to supply them with sufficient blanks for their needs. The response again has been exceedingly satisfactory and the number of states which have already indicated their intention of using our forms has increased to 17. This does not tell the whole story, since there are certain other states which, though they use their own report blanks, actually are completely in line with the Federal forms since their blanks are substantially the same as the Federal forms. Many of the states, in replying to our recent letters on the subject, have indicated that while they are not in position to avail themselves of our offer at this particular time, they are very anxious to adopt the standard form just as soon as it has been developed and approved by the Permanent Standing Committee.

In a year's time, then, we have covered considerable ground. On the whole, we feel that the movement toward report unification and standardization is making satisfactory progress and that it will gain momentum now that the task is well under way. We are hopeful that the day is not far distant when bank condition statements will be rendered on a universally standard form.

Among other changes which were brought about by the Banking Act of 1935 was one in connection with the requirement to publish reports of condition. The Federal Deposit Insurance Corporation requested Congress to give it the right to require banks to publish reports of condition in a prescribed form. The Federal Reserve Board, on the other hand, followed the National Banking Act in regard to this point and was specifically directed by Congress to require that all State member banks publish their reports of condition whenever a call is made by the Board. The Federal Deposit Insurance Corporation has taken the position that it will not require State nonmember banks to publish condition statements submitted to the Corporation until such time as the standard and unified report has been adopted. It is quite likely that at that time the Federal Deposit Insurance Corporation will require that nonmember State banks publish official statements of condition after each Federal call. It will probably require that all statements of condition, when published, be substantially in the form which is adopted. Here again there are evidences of progress being made.

If banks are to publish statements of condition it is essential that such published statements be an accurate representation of their condition and that they be in a form which clearly gives the information desired and is at the same time intelligible to the depositing public. The inertia which has existed and the disinclination of bankers to publish accurate statements of their condition seems to me to be shortsighted.

The Federal agencies interested in banks, particularly the offices of the Comptroller of the Currency, Federal Reserve Board, and the FDIC, have made very sincere efforts to cut down the number of requests which various Federal departments are inclined to make on banks. We have worked in cooperation with the Central Statistical Board and have attempted to clear all requests for information from banks through that board, and, as a matter of fact, most of the requests for information from banks now are submitted to the three bank supervisory agencies before they are sent out. We have been fairly successful in limiting the number of requests and in incorporating them in reports. You will remember that last December the Federal agencies sent out requests for information for the Department of Agriculture and for the Federal Housing Administration. These supplements incorporated information which was likewise desired by the Farm Credit Administration. Then, too, the Department of Labor has been interested in certain information which has been incorporated in the call report. In June the bank supervisory agencies were successful in reducing to a minimum the information required by other governmental agencies and only recently we have been asked to consult in connection with some information which the Census Bureau is desirous of obtaining. Our effort in the last instance was to reduce the information which they would require in view of the fact that much of it was already available. So you see that the Federal bank supervisory agencies are on the job and are really making an effort to reduce the amount of unnecessary information and the duplication of information which is requested by other governmental departments.

While we are discussing duplication, I suppose I should express regret that it was necessary to complicate the reporting situation by the somewhat involved Certified Statements and supporting schedules which our Corporation inflicted upon you recently and which you will be obliged to render semi-annually hereafter. I honestly feel, though, that whatever blame attaches to the creation and distribution of this latest masterpiece should be laid, in large part, directly upon the doorsteps of those bankers whose fertile brains conceived the exceptions and ramifications which made it necessary. Much time and effort was spent in developing that form, as you know, and I believe that a fairly decent job was done, all things considered. The many hours which you men kindly gave toward ironing out some of the problems which were involved in its development are gratefully appreciated and I wish to take this opportunity of thanking you in behalf of the Corporation and particularly the Accounting and Auditor's divisions of the Corporation for the assistance which you have rendered in handling this rather difficult problem.

It is regrettable that the insured banks, particularly members of the Federal Reserve System, are subjected to two types of reports which are fairly similar in purpose. I have reference to the Certified Statement and its supporting data for assessment purposes, for the Insurance Corporation, and the semi-weekly, weekly, or semi-monthly reports to the Federal Reserve Board for the determination of reserves and reserve requirements. Recently our staff has given some attention to the differences which exist between these two fundamental concepts, in the hope that through analysis of these problems it would be possible to suggest to Congress certain changes in the law which would place the two on a more uniform basis. The problems which are involved here, however, are quite complex. I do not believe any action will be taken along these lines unless the bankers can first decide what they want and then undertake a very vigorous plan of education. For some reason the question of reserves has become so sacrosanct that a person is brave indeed who dares to criticize any of its aspects above a whisper. Like a polecat, the question must be cautiously approached for fear of the cloud of odoriferous publicity which comments will elicit and which will forever brand the critic as a braintruster or inflationist, or as an exponent of the school which advocates government control of the central bank.

By the gauge of practicability the present assessment base can be questioned and a problem exists here upon which I shall be very anxious to get your reactions. If the FDIC expects to insure deposits it must have adequate revenue at its disposal with which to pay off insurance losses. To be sure, insurance losses will be comparatively low for the next few years, as is customary after a severe depression or bank crisis such as we have just experienced. When we look back through history we see that the losses to depositors per annum in failed banks are relatively low immediately following periods of business depression. However, it is during this period of recovery that an insurance corporation of the nature of the FDIC should build up its reserves, so that when suspensions again become numerous and losses large in volume it will have available sufficient reserves with which to meet them.

We have estimated what amount of funds will be required should the losses of the future be comparable to those of the past. As you know, we have made a thorough analysis of the losses to depositors during the past 70 years. The results of these findings were discouraging in that they showed that the Corporation would have to have a large reserve which, under the present basis, it could raise only through assessment on insured banks. The estimated average loss per year for each $100 of deposits in active banks for the 70-year period 1865-1934 amounted to approximately 32¢. That figure represents the portion of total deposits which was lost to depositors. The unsecured insurable deposits which were lost to depositors per year for each $100 of deposits in active banks for the same 70-year period amounted to about 24¢. In other words, the loss to depositors with balances not in excess of $5,000 including the first $5,000 of larger accounts amounted to approximately 1/4 of 1% of the deposits in active commercial banks. If the loss experience of the future, therefore, were to be anywhere near the loss experience of the past, the Corporation would be obliged to assess banks at the rate of 1/4 of 1% of their total deposits. As you know, the Corporation is assessing banks at a rate only 1/3 as large as that which experience indicates is required, namely 1/12 of 1% of total deposits. In addition Congress has directed that the Corporation allow the banks certain deductions so that the assessments which are being collected from insured banks are considerably less than would be required wefe the date when the Corporation started business January 1, 1865 rather than January 1, 1934. It did not seem practicable to Congress to assess the banks at a rate which would be equal to the amount of losses to which depositors had been subjected in the past 70 years, because Congress anticipates an improved suspension record under the aegis of the Corporation and because it was felt that a higher rate would absorb too much of the bank's earnings. So you see the problem with which the Corporation is faced is one of getting enough revenue to build a sufficiently large reserve to fortify itself against insurance losses to which in all probability it will be subjected in the future.

Under no condition was it practicable to attempt to raise sufficient revenue through assessment on the insured portion of deposits alone since this would work undue hardship on the small banks which have a greater proportion of their total deposits insured. The Corporation was obliged to levy assessments on the basis of the banks' probable ability to pay and that is why assessments are based on total deposits. It is seen, however, that with the present assessment rate which many of the bankers feel still to be excessive, Congress is predicting that the annual rate of loss for the future will be only 1/3 as large as it has been for the past. Such a position is perhaps not too optimistic since, for one thing, the standard of bank supervision has been greatly improved. Then, again, standards of bank management are constantly improving and, finally, the Corporation has been given certain powers whereby it may protect itself and whereby it may serve to minimize insurance losses.

Many people feel that levying assessments on total deposits is inequitable and they are inclined to take the position that banks should pay for insurance according to the benefits which they receive. These people feel that the sole benefit to be derived from insurance is the pay-off provision. They overlook the fact that insurance in itself has a very stabilizing influence on the entire banking structure. They likewise overlook the fact that a system which breaks down regularly and which periodically subjects depositors to a complete loss of their funds is fundamentally faulty. These critics seem to believe that a system which permits of such tremendous sacrifices, a system which permits the loss of 3 billion 400 millions of dollars of depositors' funds in 70 years is a satisfactory banking system.

I do not feel that deposit insurance necessarily eliminates all of the evils of our banking system but it does to some extent reduce the sacrifices which depositors are obliged to make. At the time that the Corporation was established, it offered a practical means for restoring the shaken confidence of the public in banks. Banking could not have continued without the confidence of depositors. Depositors were panicky because they had already experienced great losses and they believed additional losses faced them. The entire structure had collapsed and it was essential that confidence be restored. The FDIC accomplished this purpose. The banking structure is now being firmly supported by the buttress of deposit insurance but this support must not be allowed to lull into a sense of security those whose duty it is to plan and ultimately to effect the alterations which will be necessary to make our system basically sound.