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[Deregulation & the CPA  
Profession]

REMARKS BY

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L. WILLIAM SEIDMAN, CHAIRMAN  
FEDERAL DEPOSIT INSURANCE CORPORATION

BEFORE THE

AICPA NATIONAL CONFERENCE ON BANKING,

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1 Washington, D.C.  
November 8, 1985,

It's good to be back with the practicing CPA's -- though I must admit practicing today is a much tougher job than it was 10 years ago when I was in the business.

A number of FDIC people are here today, and since they have been with the Corporation much longer than I have, I invite them to correct any part of my statement that they feel needs to be changed. Just speak up and give me your name, department and Social Security number.

While I've not been at the FDIC long, I'm most impressed with the fine organization that former Chairman Bill Isaac put together. I'm pleased to have the opportunity to work with them.

Since I have been at the FDIC for only a few weeks, my appointment book is filling up much faster than my action agenda. I think this is serving me well, for it is giving me an opportunity to hear the opinions of others as I become familiar with the FDIC's operations and objectives. I hope to learn some more from your group today.

I do have some impressions about the tasks I will be addressing. And I hope you might be interested in hearing some of them.

I will confine my remarks to two areas: the relationship of the FDIC and other regulators to the CPA profession, and then some thoughts on supervision in a deregulated industry.

First, let me say I am pleased to find that the FDIC and the accounting profession are working together on a number of regulatory and legislative issues. I am particularly pleased with the fact that we are close to agreement on new bank audit guidelines which would formalize the procedures for exchanging our respective views on bank operations. The discussions between the FDIC staff and practitioners of the art have been productive. Independence and client relationships are being respected. And our examination process should be enhanced. I want you to know I believe a working dialogue on many issues confronting the banking industry is in our mutual interest. It should continue.

On the audit guidelines, I think it is important for us to get the formal process in motion for a healthy exchange of information between auditors and the people we have in the field. Such a move will enable practitioners to better serve their clients. And, the FDIC also should gain supervisory benefits. Our examiners will be able to obtain your thoughts as they formulate their conclusions, an opportunity that should eliminate some duplication of effort and technical misunderstandings.

The work the FDIC has been doing with your Banking Committee is encouraging, for cooperation will help us expedite the resolution of complex accounting issues. FDIC

examinations alone are not going to satisfy the increasing demands for information about our banking system. There is a growing need for independent professional discussions about bank operations. Working together, we can minimize duplication of effort and hopefully assist in the maintenance of our financial marketplace.

Fortunately, recognition of the need for information sharing should help us in the regulatory community structure auditing and disclosure requirements that are workable and understandable. Your thoughts will be particularly useful as we grapple with the accounting issues relating to international lending as well as the question of bank disclosure.

As a regulator, I think it is my responsibility to search for a uniformly accepted approach to accounting questions. I think international loans are a good example of a tough issue now before us. I am not sure how regulators are going to proceed with their international lending programs. I certainly am interested in exploring the problem with you.

There are a couple of other areas in the relationship I can mention which probably would not rate as matters that you find satisfactory.

One is the perception among some regulators that the client-auditor relationship of the profession presents the level of independence needed to provide information useful

to regulators. Evidence of this thought can be found in the recent Federal Home Loan Bank Board requirement that thrifts auditor could not be changed without the Board reviewing the matter. As you know the SEC also has some rules re change of auditors -- all designed to give auditors greater freedom from client persuasive powers.

Whether you or we like it or not, there are some perceptions that need to be addressed in the area of independence.

Another troublesome field is the one of our relationship involving litigation. In Penn Square and three other bank failure cases, we have questioned whether practitioners did an adequate job of auditing the institution's accounting systems. Certainly, there are many more cases where settlements were reached without litigation. Where auditing procedures are not properly applied, the FDIC and other regulators have a public responsibility to seek remedial action and we will do so.

We also have the obligation to remember that 20-20 hindsight is something that must be guarded against in evaluating the job done.

On a more pleasant note, we are a substantial user of accounting services and generally I find a satisfied client. We will seek whenever possible to use private sector services where they are cost effective and meet our needs. I suspect we shall find an increasing number of areas to employ your expertise.

Finally, let me give you an impression, which is becoming stronger each day as I learn about the FDIC and its supervisory duties.

Deregulation of bank operation in terms of substantial changes in what banks can do is working well, is a necessity in this fast-changing high tech environment, and will continue to accelerate. Alternative business decisions will be increasingly available to management.

By the same token, the need for supervision to assure the stability and soundness of the depository system will increase. In these times, it is easy to get in trouble fast, and supervision must be faster and more uniform than ever before.

As with the airlines, deregulation requires extra supervision of the safety of the system.

Here, too, we can and should be able to work together towards this common goal.

I look forward to hearing your views on these or any other matter you believe we should consider.

Our door will be open and we will listen.

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