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United States Senate

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

January 27, 1977

Mr. Marshall Armstrong
Chairman of the Board
Financial Accounting Standards Board
Highridge Park
Stamford, CT 06905

Letter of Comment No. 6
File Reference 1038-01
Date Received 2/1/77

Dear Mr. Armstrong:

The New York Times recently reported that the "Financial Accounting Standards Board yesterday lifted the specter of multi-billion writedowns by the Nation's banks by proposing a relatively mild accounting treatment for the restructuring of 'troubled loans'". FASB requested that comments be filed on its proposal by March 10, 1976.

I am troubled by the aspect of the proposal which grants forgiveness from the write-down requirement to loans renegotiated before next June 30. A grace period of this magnitude appears unwarranted. It is a matter of public knowledge that the banking industry is in the process of renegotiating literally hundreds of millions of dollars in bad credits. Major portions of such loans were the result of poor management at best.

GAO recently reported that banks engage in unsafe or unsound practices with impunity. Regulatory laxity should not be reinforced by accounting favoritism. The banking industry is underpinned by a massive issuance program. Truth in accounting when applied to the banking industry will result in a discipline to bank management that would well serve the public interest.

The Committee on Banking, Housing and Urban Affairs will shortly hold oversight hearings on the condition of the banking system. The accounting rules you propose may have a substantial impact on the true health of that system.

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For the record, therefore, I would appreciate your comments on the matter I raise as well as the estimated dollar volume of write-downs which will be forgiven if your proposal is ultimately adopted.

Sincerely,

William Proxmire
Chairman

WP:lmg