

# THE ADMINISTRATOR OF NATIONAL BANKS

WASHINGTON, D.C. 20219

May 7, 1975

Honorable Ray Garrett, Jr., Chairman  
Securities and Exchange Commission  
500 North Capitol Street, N.W.  
Washington, D.C.

Dear Ray:

I appreciated the opportunity for our recent discussions and those of our staffs with regard to the optimum application of the disclosure requirements of the Federal securities laws to the banking industry. These discussions indicate to me that any problems can be resolved in a manner which meets each of our agency's objectives in protecting the public interest. I know that you wish as much as I to avoid the type of development which occurred in the recently aborted Chemical New York Corporation offering of \$100 million in debentures.

There are an increasing number of leading banks and other financial institutions presently desirous of raising the long-term funds without which they cannot prudently participate in financing the economic recovery of the nation. As you are aware, for the past three or so years the incapacities of the long-term capital markets have obliged many corporations to rely more heavily, than is traditional, on commercial bank credit to meet their essential capital requirements. These demands on banks, as well as other factors, have created additional needs for long-term capital in the banking system in order to give banks the requisite lending capacity to expedite a strong economic recovery and expansion of the national economy. Banks can expand their capital in the magnitude required within the expected time frame only through public financing.

The public interest to be served by the resolution of any regulatory problems standing in the way of this financing transcends the significance of regulatory requirements of any one agency.

I know we are in agreement on the common objective of achieving full and meaningful disclosure while permitting the banking industry to raise funds at competitive rates in order to facilitate the important task of financing economic recovery. The recently appointed task force composed of senior staff of the SEC and the three Federal banking agencies was an important step in the right direction. I suggest that it meet as frequently as possible to complete what I understand to be its first task, the establishment of guidelines under your Accounting Series Release No. 166.

Presently my staff and many bankers inform me that some of the disclosures being requested by your staff pursuant to ASR 166 are neither meaningful nor material, and, indeed, may be misleading and counter-productive. Further, it tends to put those banking institutions which have to provide this untested information at a competitive disadvantage, since it has not been required in previous filings and reports.

Much of the information requested by your Division of Corporation Finance relates to internal loan policing procedures and classification systems of individual banks. The purpose of these systems, which are insisted upon by regulators as well as by good bankers is to maintain close surveillance of debt repayment potential. Any disclosure requirements which tended to cause issuers to minimize their internal classification totals, would obviously be contrary to sound management principles.

Let us jointly determine which items of information will enable the investor and depositor to make informed decisions. I suggest that the interagency group recommend guidelines for disclosure and that these guidelines be published for public comment. After full consideration of the comments, it should be possible for all four agencies to adopt requirements for optimum disclosure for use in annual reports, registration statements and offering circulars. I do not believe that the present banking climate is so different from the past as to warrant fundamental changes in disclosure which have not been carefully considered through a procedure permitting broad opportunity for comment from knowledgeable and experienced sources. This is not a fortuitous time for experimentation in the public markets. Until such time as the agencies, through the traditional rulemaking process have arrived at a consensus on new disclosure standards, we strongly urge that bank efforts to raise capital not be delayed or interdicted by demands for categories of data for which there are no established precedents.

As you know, I stand ready personally to meet with you and the Commission in working out these important problems. I fully recognize the public need and legal requirements for full and adequate disclosure. I have directed my staff to give priority to this concern, and to fully cooperate with the SEC and the other banking agencies.

Sincerely,

James E. Smith  
Comptroller of the Currency