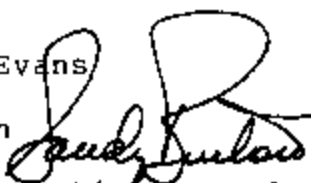


MEMORANDUM

October 28, 1975

TO: Commissioner Evans

FROM: John C. Burton 

SUBJECT: Responses to questions posed to Commissioner Evans
re: Guide 61

It seems appropriate for this office to respond to the following questions:

Question:

What disclosure requirements are going to be required concerning loan classifications and what other future disclosure requirement is the SEC contemplating for bank holding companies?

Response:

The three alternative approaches to disclosures related to non-performing loans were designed specifically to avoid the problems of disclosing loan classification, recognizing the legal and other difficulties pointed out by bankers and the Federal bank regulatory agencies. If one of these alternatives satisfactorily accomplishes the purpose of informing investors about the degree and magnitude of risk within the loan portfolio--and bear in mind that success depends as much upon the attitudes of banks in complying with the guide as it does upon the design of the guide--then there should be no reason to go further in this area. In other words, there should be no need to require disclosures of loan classifications.

As to future requirements, again it depends to some extent upon the success of the guides as presently proposed. Subsequent modifications of specific disclosures as we learn more are likely to occur, particularly in those areas which relate to foreign operations and commitments. Furthermore, we're not totally satisfied with disclosures about how management determined the appropriate amount of loan loss reserves. The guide as presently written is very broad, so whether in the future, these requirements will become more stringently defined depends to a

large extent upon how responsive the registrants are to the current requirements.

Finally, I should mention that there is some concern about insider loans--i.e., loans involving or in some way benefiting officers and directors. Currently, the bank only needs to make a statement to the effect that the terms of such loans are on a basis comparable to loans negotiated at arms length with other customers. Disclosure requirements on this area may be tightened in the future.

Question:

Can you foresee any relaxation of the restrictions and burdensome reporting the SEC has placed upon bank holding companies.

Response:

No. If anything, as I indicated previously, you may see more reporting requirements in the future. What I do see, however, is an increasing sophistication on the part of banks in the technical aspects of data collection and in management information systems so that banks will be able to respond to reporting requirements with increasingly less internal agony and with less expense.

Question:

It has been observed that the Securities and Exchange Commission has been adding more and more accounting requirements and expense on its registrants. Examples are reviews of quarterly reports, statements regarding the impact of inflation on the company's business and other items not previously required. These are becoming real burdens and my question is whether you consider both (1) the ability of the accounting firms to adequately obtain such information as well (2) as the additional expenses incurred by the registrant as a result of the many new rules being issued.

Response:

(1) Understand first that it is management's responsibility to obtain the information, so I assume you are referring to the internal accountants and not the CPAs. And the answer is yes. You'll note in Guide 61 that there are several statements to the effect that requirements are prospective if information is not currently available.

(2) The question of additional expense is also considered. Actually, both sides are considered, cost and benefit. Unfortunately, it is impossible to measure benefit objectively. And even cost, which presumably can be measured objectively, is very illusive because different companies allocate a variety of factors to the cost of complying with a specific disclosure requirement. For example, we requested comments on the cost of complying with ASR 177 regarding interim financial statements, and the estimates varied from 5% to 100% of the cost of the annual audit.

Only one thing can be said for certain, the man who obtains the additional information will invariably contend that the value of the benefit outweighs the cost, and the man who has to pay the bill will invariably contend that the additional cost is not justified by the benefit to be derived.