

NORTH CAROLINA BANKERS ASSOCIATION



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August 31, 2005

DELIVERED VIA E-MAIL

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Annual Independent Audits and Reporting Requirements, 70 Fed. Reg. 147,
44293 (August 2, 2005); RIN 3064-AC91

Dear Mr. Feldman:

The North Carolina Bankers Association (NCBA) is pleased to have this opportunity to comment on the proposed changes to Part 363 of the Federal Deposit Insurance Corporation's regulations (12 CFR § 363 et seq.). Under current FDIC regulations, insured depository institutions having total assets in excess of \$500 million must conduct annual independent audits and assess the effectiveness of internal control over financial reporting. The proposed amendments would increase the asset size threshold from \$500 million to \$1 billion for internal control assessments by management and external auditors. The threshold for requiring audit committee members to be independent of management would also be raised from \$500 million to \$1 billion.

On behalf of its 144 member banks, savings institutions, and trust companies, the NCBA would like to express its support for the FDIC's proposal. As noted in the proposal, industry consolidation and inflation have drastically changed the banking landscape since the \$500 million threshold was set in 1993. In addition, the banking industry has had to adapt to a plethora of new regulations during that time period. The Sarbanes-Oxley Act, in particular, has presented a unique set of challenges for those financial institutions which are publicly traded. Therefore, it is extremely encouraging to see the FDIC exploring ways to reduce the regulatory burden. Raising the threshold to \$1 billion for internal control assessments would help reduce the costs incurred by many financial institutions without compromising safety and soundness. Management of those financial institutions affected by the change would still be responsible for maintaining strong internal controls, but the financial institutions' audit costs would be greatly reduced.

The NCBA would also like to commend the FDIC for recognizing that some financial institutions have experienced difficulty in finding well-qualified persons who are both willing to serve as directors and audit committee members and who are independent of management. Where a financial institution has made good faith efforts to find outside directors who are willing to serve on audit committees and who are independent of management, and those efforts have proven unsuccessful, an exception should be granted. The FDIC's proposal to raise the asset size threshold to \$1 billion for requiring audit committee members to be independent of management, while at the same time encouraging financial institutions to make good faith efforts to locate audit committee members who are independent of management, strikes the appropriate balance.

The North Carolina Bankers Association appreciates being given the opportunity to submit these comments. If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

A handwritten signature in cursive script that reads "Nathan R. Batts".

Nathan R. Batts
Associate Counsel