To: comments@fdic.gov

Subject: Comment on Adjusting and Indexing Certain Regulatory Thresholds Docket No. RIN 3064-AG15

I appreciate the efforts of the Federal Deposit Insurance Corporation (FDIC) to modernize regulatory thresholds and align them with inflationary trends. With respect to Questions 9,10 and 11 within the context of proposed changes to 12 CFR Part 363 — Annual Independent Audits and Reporting Requirements (Part 363), I would like to offer the following comments on the proposed changes:

Support for ICFR Threshold Adjustment

I strongly support the proposed increase in the threshold for Internal Control over Financial Reporting (ICFR) from $1 billion to $5 billion in assets. This adjustment reflects the evolving scale and complexity of financial institutions and appropriately reduces regulatory burden for smaller banks.

While banks within this range will continue to foster a suitable control environment for their sizes supported by external financial statement audits, risk-based internal audits of functional areas, third party loan reviews, and regulator examinations, the strain of ICFR audits is substantial. The burden is felt both directly, through external and internal audit costs to test key controls, and indirectly, through the significant number of productive hours spent administering support for these tests. For banks that do not present a higher risk profile, this level of scrutiny can be disproportionate. Triggering an integrated audit—a requirement usually limited to publicly traded companies—on a two-decades old amendment to Part 363 is no longer pertinent and does not materially alter safety and soundness of these banks.

With $1.2 billion in assets, Blue Sky Bank (the Bank) invested considerable resources in ICFR implementation during the year ending December 31, 2024. The Bank, as I assume many other institutions benefiting from this proposal, will preserve the existing integrated framework due to a variety of factors, including enhanced risk monitoring, adherence to best practices, and preparation for a potential ICFR triggering event such as becoming an SEC filer or exceeding the new threshold. However, the Bank will be able to do so without incurring most costs currently associated with ICFR audits. The annual expense avoided by the Bank is expected to exceed $100 thousand. This change will allow institutions to focus resources more effectively while still maintaining sound governance practices.

Concern Regarding External Audit Threshold Increase

However, I do not support the proposed increase in the external audit requirement threshold from $500 million to $1 billion. External audits serve as a critical safeguard, essentially mandating the hiring and retention of qualified personnel with expertise in financial reporting. These individuals are often Certified Public Accountants or hold other professional designations that emphasize ethical responsibilities and technical competence. If banks are not incentivized to create and maintain proper accounting operations, there is a higher probability of negative outcomes for safety and soundness. Having seen firsthand the distressed state of accounting records at several banks not subject to an external audit, I am concerned about the implications of replicating such conditions on a larger scale.

This requirement has broader implications beyond the audit itself. It can directly deteriorate the quality and reliability of the quarterly call report filings. While independent auditors do not directly audit or issue an opinion on the call report, it is standard audit procedure to reconcile the audited financial statements to the year-end call report to ensure consistency and accuracy in reporting. Auditors also frequently analyze intra-year filings for consistency, identification of red flags, and raise questions when discrepancies arise. Additionally, these audits ensure base level internal controls are in place, primarily surrounding reconciliation of balance sheet accounts and monitoring financial results.

Weakening this requirement could lead to less reliable financial data entering the public domain, undermining transparency and potentially eroding trust in the banking system. At a time when public confidence in financial institutions is paramount, keeping rigorous external audit standards in place for this asset range is essential.

In response to other filed comments on this matter, while bank directors and shareholders may not always rely on audited financial statements to make strategic decisions, the underlying reliability of all financial information—from ad hoc management reporting to quarterly regulatory filings—is dramatically improved when external audits are in place. This enhanced reliability benefits not only internal stakeholders, but also regulators, customers, and the public.

An added consideration is the risk of contagion within the financial system when banks and bank holding companies (BHCs) lacking audited annual financial statements—and therefore quarterly call reports not subject to external auditor oversight and year-end reconcilement—accrue debt from other institutions. Whether through term loans, lines of credit, or subordinated debt, lending institutions may bypass best practices and extend credit based on unaudited financial representations, which may be inaccurate. If most banks under $1 billion are not required to undergo annual external audits (unless mandated at the state level), this could introduce systemic vulnerabilities and undermine prudent lending standards.

Closing Remarks

I respectfully urge the FDIC to approve the proposed ICFR threshold increase from $1 billion to $5 billion, which appropriately balances regulatory burden with risk. At the same time, I encourage the FDIC to reconsider the proposed external audit threshold increase. These adjustments will help ensure that regulatory oversight remains both effective and proportionate. The Bank expects to undergo an integrated audit as of December 31, 2025, and is hopeful of changes becoming effective by the year beginning January 1, 2026.

Thank you for the opportunity to provide feedback.

Sincerely,

Zachary Allen, CPA
SVP, Corporate Controller
Blue Sky Bank
Oklahoma City, OK