



January 23, 2008

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

Dear Mr. Feldman:

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the notice of proposed rulemaking regarding Annual Independent Audits and Reporting Requirements. CSBS applauds the FDIC for providing clearer and more complete guidance to institutions concerning compliance with the Federal Deposit Insurance Act (FDIC Act) and the FDIC's implementing regulations.

In our review of the Notice of Proposed Rulemaking (NPR) we were dismayed to note the NPR refers to the FDIC or the appropriate federal regulator, but not to the appropriate state regulator. For example, the "Notice by accountant of termination of services" section on page 62323 of the *Federal Register* requires notification to the FDIC and the appropriate federal banking agency. Another example can be found in the "Peer reviews" section on page 62324, where peer review reports are to be filed with the FDIC. For those institutions that are state-chartered, it is absolutely vital that the appropriate state regulator be notified of filed reports. Therefore, we encourage the FDIC to fully include appropriate state regulators and refer to "any applicable state laws" in the revised rules.

CSBS accepts the proposed revision to require management to disclose any noncompliance with applicable federal and, we must add state safety and soundness laws and regulations. However, CSBS believes any disclosure, regardless of compliance or noncompliance, should remain confidential. If all occurrences of noncompliance are made widely available, the general public may mistake a minor error for a systemic failure to comply. Also, if only disclosures of noncompliance are kept confidential, the public will infer that confidential reports indicate noncompliance. We strongly encourage the FDIC to include disclosure of noncompliance with applicable state laws as well.

We also encourage the FDIC to develop a compliance checklist for both publicly-traded and privately-held institutions which will reflect all requirements of the finalized rule. This checklist will reduce regulatory burden and help ensure institutions are in full compliance with all aspects of the finalized rule.

We have one recommendation with regard to additional requirements for holding companies with total financial institution assets equal to or in excess of 75 percent of total

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holding company assets. We recommend that if an auditing firm considers any subsidiary institution's activities to be immaterial to the financial statements of the consolidated entity and thus does not perform substantial tests of the subsidiary's records, the holding company audit committee should be required to obtain additional audit coverage for such subsidiaries that meets one of the four alternative annual external audit programs listed in the 1999 Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations. The four alternatives are: financial statement audits by an independent public accountant; balance sheet audits performed by an independent public accountant; reporting by an independent public accountant on an institution's internal control structure over financial reporting; or an agreed-upon procedures or State-required examination.

Again, we commend the FDIC for its efforts to clarify guidance and reduce regulatory burden. Thank you for the opportunity to comment.

Best personal regards,

A handwritten signature in black ink that reads "Neil Milner". The signature is written in a cursive, flowing style with a large initial "N".

Neil Milner
President & CEO