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Statement of the Shadow Financial Regulatory Committee

on

Disclosures by Financial Institutions of Financial Assets and Liabilities

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The Financial Accounting Standards Board (FASB) has taken a giant step in the right direction in its proposed "Disclosures About Financial Instruments." (Financial Accounting Service Exposure Draft 054, dated November 30, 1987.) If the proposal were implemented, companies would have to estimate annually market values and cash flow information on financial assets and liabilities that presently are reported only in terms of their historical costs.

This information is particularly useful for oversight of federally insured depository institutions (banks, savings and loans, and credit unions). In the absence of knowledge about when an institution is close to or actually economically insolvent, the agencies are less able to monitor and control the risks an insolvent institution might take. As a result, costs of insolvencies to the insurance agencies is likely to be higher. For example, the size of the current $50 billion deficit at the Federal Savings and Loan Insurance Corporation (FSLIC) could have been held to a greatly smaller amount had FSLIC acted sooner to recognize and reorganize insolvent savings and loans. These costs are inflicted on well-run, adequately capitalized thrifts and banks and, in the case of inadequate insurance resources, inevitably on to the taxpayers.

We are concerned, however, that the FASB's proposal in its current form might be so ambitious as to entail excessive cost. At least with respect to financial institutions, the reporting requirements ought to be directed solely to provide the banking regulatory and insurance agencies and the public with information about the state of insured depository institutions' economic net worth. Consequently, at this time we would suggest requiring financial institutions to report only the market value of their on- and off-balance sheet financial assets and liabilities. However, the reporting should be quarterly rather than annually.