commenting would be aggrieved by approval of the proposal.

Unless otherwise noted, comments regarding the applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than April 24, 1996.

A. Federal Reserve Bank of New York (Christopher J. McCurdy, Senior Vice President) 33 Liberty Street, New York, New York 10045:

1. Industrial Bank of Japan, Limited, Tokyo, Japan; to acquire Government Pricing Information Systems, Inc., New York, New York, and thereby engage in data processing activities pursuant to § 225.25(b)(7) of the Board's Regulation Y.

2. Societe Generale, Paris, France; to engage *de novo* through its subsidiary, FIMAT Futures USA, Inc., New York, New York, in expanding its existing authority to provide securities brokerage and investment advisory services with respect to all classes of securities to the full extent pursuant to §§ 225.25(b)(4) and (15) of the Board's Regulation Y.

B. Federal Reserve Bank of Cleveland (John J. Wixted, Jr., Vice President) 1455 East Sixth Street, Cleveland, Ohio 44101:

1. PNC Bank Corp., Pittsburgh, Pennsylvania; through its wholly-owned subsidiary, PNC Venture Corp., to make an approximate 20 percent voting equity investment in BankVest Capital Corp, Westboro, Massachusetts, and thereby engage in lease financing activities pursuant to § 225.25(b)(5) of the Board's Regulation Y.

C. Federal Reserve Bank of St. Louis (Randall C. Sumner, Vice President) 411 Locust Street, St. Louis, Missouri 63166:

1. Farmers Bancshares, Inc., Hardinsburg, Kentucky; to engage *de novo* in the selling of insurance directly related to extensions of credit made by its finance company subsidiary, Farmers Bancshares Finance Corp., Inc., Hardinsburg, Kentucky, pursuant to § 225.25(b)(8)(ii) of the Board's Regulation Y.

D. Federal Reserve Bank of Kansas City (John E. Yorke, Senior Vice President) 925 Grand Avenue, Kansas City, Missouri 64198:

1. FEO Investments, Hoskins, Nebraska; to engage *de novo* through its subsidiary, Meadow Ridge Partners, L.L.C., Norfolk, Nebraska, in community development activities pursuant to § 225.25(b)(6) of the Board's Regulation Y.

Board of Governors of the Federal Reserve System, April 4, 1996.

Jennifer J. Johnson,

Deputy Secretary of the Board.

[FR Doc. 96-8894 Filed 4-9-96; 8:45 am]

BILLING CODE 6210-01-F

Sunshine Act Meeting

AGENCY HOLDING THE MEETING: Board of Governors of the Federal Reserve System.

TIME AND DATE: 10:00 a.m., Monday, April 15, 1996.

PLACE: Marriner S. Eccles Federal Reserve Board Building, C Street entrance between 20th and 21st Streets, N.W., Washington, D.C. 20551.

STATUS: Closed.

MATTERS TO BE CONSIDERED:

1. Personnel actions (appointments, promotions, assignments, reassignments, and salary actions) involving individual Federal Reserve System employees.

2. Any items carried forward from a previously announced meeting.

CONTACT PERSON FOR MORE INFORMATION: Mr. Joseph R. Coyne, Assistant to the Board; (202) 452–3204. You may call (202) 452–3207, beginning at approximately 5 p.m. two business days before this meeting, for a recorded announcement of bank and bank holding company applications scheduled for the meeting.

Dated: April 5, 1996.

Jennifer J. Johnson,

Deputy Secretary of the Board.

[FR Doc. 96–9003 Filed 4–8–96; 8:45 am]

BILLING CODE 6210–01–P

Report to Congressional Committees Regarding Differences in Capital and Accounting Standards Among the Federal Banking and Thrift Agencies

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of report to the Committee on Banking, Housing, and Urban Affairs of the United States Senate and to the Committee on Banking, Finance and Urban Affairs of the United States House of Representatives.

SUMMARY: This report has been prepared by the Federal Reserve Board pursuant to section 121 of the Federal Deposit Insurance Corporation Improvement Act of 1991. Section 121 requires each Federal banking and thrift agency to report annually to the above specified Congressional Committees regarding any differences between the accounting or capital standards used by such agency and the accounting or capital standards used by other banking and thrift agencies. The report must also contain an explanation of the reasons for any discrepancy in such accounting or capital standards. The report must be published in the Federal Register.

FOR FURTHER INFORMATION CONTACT: Rhoger H Pugh, Assistant Director (202/728–5883), Norah Barger, Manager (202/452–2402), Gerald A. Edwards, Jr., Assistant Director (202/452–2741), Robert E. Motyka, Supervisory Financial Analyst (202/452–3621), or Arthur W. Lindo, Supervisory Financial Analyst (202/452–2695), Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), Dorothea Thompson (202/452–3544), Board of Governors of the Federal Reserve System, 20th & C Streets NW., Washington, DC 20551.

Introduction and Overview

This is the sixth annual report [1] on the differences in capital standards and accounting practices that currently exist among the three banking agencies (the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC)) and the Office of Thrift Supervision (OTS).[2] Section One of the report focuses on differences in the agencies' capital standards; Section Two discusses differences in accounting standards. The remainder of this introduction provides an overview of the discussion contained in these sections.

Capital Standards

As stated in the previous reports to the Congress, the three bank regulatory agencies have, for a number of years, employed a common regulatory framework that establishes minimum capital adequacy ratios for commercial banking organizations. In 1989, all three banking agencies and the OTS adopted a risk-based capital framework that was based upon the international capital accord (Basle Accord) developed by the Basle Committee on Banking Regulations and Supervisory Practices (referred to as the Basle Supervisors' Committee) and endorsed by the central bank governors of the G–10 countries.

[1] The first two reports prepared by the Federal Reserve Board were made pursuant to section 1215 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The third, fourth, and fifth reports were made pursuant to section 121 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), which superseded section 1215 of FIRREA.

[2] At the federal level, the Federal Reserve System has primary supervisory responsibility for state-chartered banks that are members of the Federal Reserve System as well as all bank holding companies. The FDIC has primary responsibility for state nonmember banks and FDIC-supervised savings banks. National banks are supervised by the OCC. The OTS has primary responsibility for savings and loan associations.

The risk-based capital framework establishes minimum ratios of total and Tier 1 (core) capital to risk-weighted assets. The Basle Accord requires banking organizations to have total capital equal to at least 8 percent, and Tier 1 capital equal to at least 4 percent, of risk-weighted assets after a phase-in period that ended on December 31, 1992. Tier 1 capital is principally comprised of common shareholders' equity and qualifying perpetual preferred stock, less disallowed intangibles, such as goodwill. The other component of total capital, Tier 2, may include certain supplementary capital items, such as general loan loss reserves and subordinated debt. The risk-based capital requirements are viewed by the three banking agencies and the OTS as minimum standards, and most institutions are expected to, and generally do, maintain capital levels well above the minimums.

In addition to specifying identical ratios, the risk-based capital framework implemented by the three banking agencies includes a common definition of regulatory capital and a uniform system of risk weights and categories. While the minimum standards and risk weighting framework are common to all the banking agencies, there are some technical differences in language and interpretation among the agencies. The OTS employs a similar risk-based capital framework, although it differs in some respects from that adopted by the three banking agencies. These differences, as well as other technical differences in the agencies' capital standards, are discussed in Section One of this report.

In addition to the risk-based capital requirements, the agencies also have established leverage standards setting forth minimum ratios of capital to total assets. As discussed in Section One, the three banking agencies employ uniform leverage standards, while the OTS has established, pursuant to FIRREA, somewhat different standards.

The staffs of the agencies meet regularly to identify and address differences and inconsistencies in their capital standards. The agencies are committed to continuing this process in an effort to achieve full uniformity in their capital standards. In this regard, Section One contains discussions of the banking agencies' efforts during the past year to achieve uniformity with respect to final rules on the capital treatment of the sale of assets with recourse that were required by Sections 208 and 350 of the Riegle Community Development and Regulatory Improvement Act of 1994, implementation of proposed amendments made by the Basle Supervisors' Committee to the Basle Accord with regard to country transfer risk and, the recognition of the effects of netting on potential future exposure of derivative contracts, guidelines on interest rate risk, and the capital treatment of certain assets to address recent accounting changes issued by the Financial Accounting Standards Board (FASB), specifically FASB statements nos. 115 (''Accounting for Certain Investments in Debt and Equity Securities''), 109 (''Accounting for Income Taxes''), and 122 (''Accounting for Mortgage Servicing Rights'').

Accounting Standards

Over the years, the three banking agencies, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), have developed Uniform Reports of Condition and Income (Call Reports) for all commercial banks and FDIC-supervised savings banks. The reporting standards followed by the three banking agencies are substantially consistent, aside from a few limited exceptions, with generally accepted accounting principles (GAAP) as they are applied by commercial banks.[3] The uniform bank Call Report serves as the basis for calculating risk-based capital and leverage ratios, as well as for other regulatory purposes. Thus, material differences in regulatory accounting and reporting standards among commercial banks and FDIC-supervised savings banks do not exist.

The OTS requires each thrift institution to file the Thrift Financial Report (TFR), which is generally consistent with GAAP. The TFR differs in some respects from the bank Call Report in that, as previously mentioned, there are a few areas in which the bank Call Report departs from GAAP. A summary of the differences between the bank Call Report and the TFR is presented in Section Two.

As in the past, the agencies are continuing interagency efforts to reduce paperwork and regulatory burdens. The Federal Reserve has taken a leadership role in coordinating these efforts in developing supervisory guidance to further improve regulatory reporting requirements. For example, during 1995, senior Federal Reserve and FASB officials met a number of times to foster greater communication and closer coordination on major accounting issues affecting the banking industry. These efforts included discussion of a supervisory framework for derivatives reporting, a FASB special report that clarifies the reporting for debt and equity securities pursuant to FASB Statement No. 115, and the remaining few differences between GAAP and regulatory reporting standards. Furthermore, in 1995 the agencies adopted for regulatory reporting purposes a new FASB accounting standard on mortgage servicing rights.

On November 3, 1995, the FFIEC announced that the agencies would fully adopt GAAP as the reporting basis in the basic bank Call Report schedules, effective with the March 1997 report date. The adoption of GAAP will reduce regulatory burden by developing greater consistency in the information collected in bank Call Reports, bank holding company FR Y–9C reports, and general purpose financial statements. The adoption of GAAP for Call Report purposes should eliminate the differences in accounting standards among the agencies that are set forth later in this report.

Section One—Differences in Capital Standards Among Federal Banking Thrift Supervisory Agencies

Overview

Leverage Capital Ratios

The three banking agencies employ a leverage standard based upon the common definition of Tier 1 capital contained in their risk-based capital guidelines. These standards, established in the second half of 1990 and in early 1991, require the most highly-rated institutions to meet a minimum Tier 1 capital ratio of 3 percent. For all other institutions, these standards generally require an additional cushion of at least 100 to 200 basis points, i.e., a minimum leverage ratio of at least 4 to 5 percent, depending upon an organization's financial condition.

As required by FIRREA, the OTS has established a 3 percent core capital ratio and a 1.5 percent tangible capital leverage requirement for thrift institutions. However, the OTS has not yet finalized a new leverage rule, which has been under consideration for some time. This leverage rule is intended to conform to the leverage rules of the three banking agencies. The differences that will exist after the OTS has adopted its new standard pertain to the definition of core capital. While this definition generally conforms to Tier 1 bank capital, certain adjustments discussed in this report apply to the core capital definition used by savings associations.

[3] In those cases where bank Call Report standards are different from GAAP, the regulatory reporting requirements are intended to be more conservative than GAAP.

Risk-Based Capital Ratios

The three banking agencies have adopted risk-based capital standards consistent with the Basle Accord. These standards, which were fully phased in at the end of 1992, require all commercial banking organizations to maintain a minimum ratio of total capital (Tier 1 plus Tier 2) to risk-weighted assets of 8 percent. Tier 1 capital includes common stock and surplus, retained earnings, qualifying perpetual preferred stock and surplus, and minority interests in consolidated subsidiaries, less goodwill. Tier 1 capital must comprise at least 50 percent of the total risk-based capital requirement. Tier 2 capital includes such components as general loan loss reserves, subordinated term debt, and certain other preferred stock and convertible debt capital instruments, subject to appropriate limitations and conditions. Risk-weighted assets are calculated by assigning risk weights of 0, 20, 50, and 100 percent to broad categories of assets and off-balance sheet items based upon their relative credit risks. The OTS has adopted a risk-based capital standard that in most respects is similar to the framework adopted by the banking agencies.

All the banking agencies view the risk-based capital standard as a minimum supervisory benchmark. In part, this is because the risk-based capital standard focuses primarily on credit risk; it does not take full or explicit account of certain other banking risks, such as exposure to changes in interest rates. The full range of risks to which depository institutions are exposed are reviewed and evaluated carefully during on-site examinations. In view of these risks, most banking organizations are expected to operate with capital levels well above the minimum risk-based and leverage capital requirements.

Efforts to Incorporate Non-Credit Risks

The Federal Reserve has for some time been working with the other U.S. banking agencies and with regulatory authorities abroad to develop methods of measuring certain market and price risks and determining appropriate capital standards for these risks. These efforts have related to interest rate risk arising from all activities of a bank and to market risk associated (principally) with an institution's trading activities. Significant progress has been made in both areas.

Regarding domestic efforts, the banking agencies have for several years been working to develop capital standards pertaining to interest rate risk. This effort was undertaken both in response to a specific statutory directive contained in section 305 of the FDICIA and to improve the agencies' overall supervision of banking organizations. Most recently, the agencies in August 1995 amended their capital standards to emphasize the importance of reviewing the effect of interest rate movements on the economic value of a bank's equity capital. At the same time, the agencies also issued for public comment a proposed measure of risk that supervisors would consider when evaluating capital adequacy. The comments on that quantitative measure and related reporting requirements remain under review by the agencies.

In the international forum, the Basle Supervisors Committee issued a second proposal in April 1995 dealing with capital standards for market risk arising from foreign exchange and commodity positions of banks and from their traded debt and equity instruments. This proposal was developed in order to foster a more equitable level of competition among internationally active banking organizations and to provide these institutions with greater incentives to manage this risk prudently. The Committee's proposal was adopted on December 11, 1995 and permits institutions to use either a standardized measure of risk developed by supervisors or, alternatively, their own internal value-at-risk models in measuring market risk and calculating their capital requirements. This amendment to the 1988 Basle Capital Accord will go into effect no later than the end of 1997, pending relevant rulemaking procedures in member countries. The Federal Reserve, in cooperation with the other U.S. banking agencies, expects to incorporate this amendment into its own capital standards in early 1996.

Recent Interagency Efforts

In addition to coordinating efforts to incorporate noncredit risks, the agencies worked together during 1995 to issue proposals for public comment that would amend the agencies' respective risk-based capital standards with respect to: 1) the sale of assets with recourse; 2) higher capital charges for long-dated and noninterest and nonexchange rate derivative contracts and reduced capital charges for the potential future exposure of contracts that are affected by netting arrangements; and 3) the definition of the OECD-based group of countries for the purpose of specifying country transfer risk. The agencies also coordinated efforts to make modifications in their capital guidelines in light of recent changes in accounting standards.

Recourse

The agencies issued a joint proposal on May 24, 1994, that would amend their respective risk-based capital guidelines with regard to assets sold with recourse and direct credit substitutes. This publication included a notice and an advanced notice of proposed rulemakings. The intent of the notice of proposed rulemaking was to allow banking organizations to maintain lower amounts of capital against low-level recourse transactions. The advanced notice of proposed rulemaking represented a preliminary proposal to use credit ratings to match the risk-based capital assessment more closely to an institution's relative risk of loss in certain asset securitizations.

Following issuance of this notice, Section 350 of the Riegle Community Development and Regulatory Improvement Act of 1994 (Riegle Act) was enacted. This Section required the agencies to amend their respective risk-based capital standards to take account of low-level recourse, which would also implement the proposed rulemaking on low-level recourse transactions issued in May, 1994. The Board approved a final rule on February 7, 1995, that was effective on March 22, 1995, thus satisfying the requirements of Section 350 of the Riegle Act. The FDIC and OCC also issued final rules in 1995 to implement Section 350. The OTS already had a capital rule in place that satisfied the requirements of Section 350.

In addition, Section 208 of the Riegle Act directed the Federal banking agencies to revise the current regulatory capital treatment applied to banks that sell small business obligations with recourse. The Federal Reserve approved a final rule implementing Section 208 before the statutory deadline of March 22, 1995. However, because of renewed interagency discussions, the Board issued a revised final rule implementing Section 208 that was published in the Federal Register on August 31, 1995. The other agencies also published interim rules implementing Section 208 and expect to issue final rules in 1996. The effect of the final rules is to lower the capital charge for certain sales of small business loans with recourse.

With regard to the advance notice of proposed rulemaking, the agencies met throughout 1995 to discuss various alternative approaches that were suggested by commenters.

Derivative Contracts and Recognizing the Effects of Netting on Potential Future Exposure

The agencies worked together on proposing amendments to their respective risk-based capital guidelines that were based on proposed revisions to the Basle Accord that the Basle Supervisors Committee initiated in July 1994. The Board issued for public comment, on August 22, 1994, a proposed rulemaking that would: (1) increase the capital charge for the potential future counterparty exposure of interest and exchange rate contracts that are over five years in remaining maturity, as well as of equity, precious metals, and other commodity-related contracts; and (2) recognize the effects of bilateral netting arrangements in calculating the potential future exposure for contracts subject to qualifying netting arrangements. Effective at year-end 1995, the G–10 Governors have approved a revision to the Basle Accord to permit institutions to recognize the effects of bilateral netting arrangements when calculating potential future exposure for contracts subject to qualifying bilateral netting arrangements. The Board issued a final rulemaking on September 5, 1995, the effective date of which was October 1, 1995. The other banking agencies also issued rules implementing these Basle revisions in 1995.

Country Transfer Risk

In July 1994, the G–10 Governors announced their intention to modify the Basle Accord in 1995 with regard to country transfer risk. Specifically, it was agreed to revise the definition of the OECD-based group of countries [4] that are accorded a preferential risk weight. The revision, which was adopted by the Basle Supervisors Committee and endorsed by the G–10 Governors in 1995, retains the OECD-based group of countries as the principle criterion for preferential risk weight status, but exclude for five years any country that reschedules its external sovereign debt. The Board and the OCC issued a joint notice of proposed rulemaking on October 14, 1994, that sought public comment on an amendment to their respective risk-based capital guidelines. The Board and the OCC worked with the FDIC to issue a final rule that is expected to be issued in early 1996.

Capital Impact of Recent Changes to Accounting Standards

Recently, FASB issued pronouncements concerning new and modified financial accounting standards. The adoption of some of these standards for regulatory reporting purposes had the potential of affecting the definition and calculation of regulatory capital. Accordingly, the staffs of the agencies worked together to propose uniform regulatory capital responses to such accounting changes. Over this past year, the agencies dealt with the capital effects of these accounting issues in the manner described below.

FAS 115, *''Accounting for Certain Investments in Debt and Equity Securities.''*

As discussed in last year's report, the agencies issued in 1993 and early 1994 proposed amendments to their respective risk-based capital standards that would include in Tier 1 capital the net unrealized changes in value of securities available for sale for purposes of calculating the risk-based and leverage capital ratios of banking organizations. On November 10, 1994, the FFIEC recommended to the agencies that they not adopt FAS 115 for capital purposes. Acting on this recommendation, the Board, on November 30, 1994, adopted a final rule effective December 31, 1994. Under the final rule, institutions are generally directed not to include in Tier 1 capital the component of common stockholders' equity, net unrealized holding gains and losses on securities available for sale, which was created by FAS 115. The other agencies approved similar rules in 1995.

FAS 109, *''Accounting for Income Taxes.''*

The agencies issued in 1993 proposals to limit the amount of deferred tax assets includable in calculating Tier 1 capital. Under the proposals, certain deferred tax assets are limited to the lesser of 10 percent of Tier 1 capital or the amount of such assets the institution expects to realize in the subsequent year. On November 18, 1994, the FFIEC recommended that the agencies finalize these proposals. In 1995, the Board, along with the other banking agencies, issued a final rule that was similar to the proposal.

FAS 122, *''Accounting for Mortgage Servicing Rights.''*

The Board, along with the OCC, FDIC, and OTS, issued an interim final rule, which became effective on August 1, 1995, that amends the agencies' capital adequacy guidelines to treat originated mortgage servicing rights (OMSRs) the same as purchased mortgage servicing rights (PMSRs) for regulatory capital purposes. These rules were developed in response to the issuance of FAS 122, which eliminates the distinction between OMSRs and PMSRs by requiring OMSRs to be capitalized as balance sheet assets, a treatment previously required only for PMSRs. Under the interim rule, both OMSRs and PMSRs are included in (not deducted from) regulatory capital when determining Tier 1 (core) capital for purposes of the agencies' risk-based and leverage capital standards and in the calculation of tangible equity for purposes of prompt corrective action. OMSRS are subject to the regulatory capital limitations that previously applied only to PMSRs. Staffs of the agencies have reviewed the comments and interagency discussions are expected to begin shortly in anticipation of a final rule sometime in 1996.

Specific Capital Differences

Differences among the risk-based capital standards of the OTS and the three banking agencies are discussed below.

Certain Collateralized Transactions

On December 23, 1992, the Federal Reserve Board issued an amendment to its risk-based and leverage capital guidelines that lowers from 20 to 0 percent the risk category for collateralized transactions meeting certain criteria. This preferential treatment is only available for claims fully collateralized by cash on deposit in the bank or by securities issued or guaranteed by OECD central governments or U.S. government agencies. In addition, a positive margin of collateral must be maintained on a daily basis fully taking into account any change in the banking organization's exposure to the obligor or counterparty under a claim in relation to the market value of the collateral held in support of that claim.

As reported in the previous two reports, the OCC, on August 18, 1993, issued a proposal for public comment that would also lower the risk weight for certain collateralized transactions. On December 28, 1994, the OCC issued a final rule that is somewhat similar to the Board's final rule, but permits any

[4] The OECD-based group of countries currently includes members of the Organization of Economic Cooperation and Development and countries that have concluded special lending arrangements with the International Monetary Fund (IMF) associated with the Fund's General Arrangements to Borrow. Saudi Arabia is the only non-OECD country that has concluded such arrangements.

portion of a claim collateralized by cash or OECD government securities to receive a zero percent risk weight, provided that the collateral is marked to market daily and a positive margin is maintained. The FDIC and OTS have rules in place that permit portions of claims collateralized by cash or OECD government securities to receive a 20 percent risk weight. Staffs of the four agencies have been meeting in an attempt to resolve these differences.

Equity Investments

In general, commercial banks that are members of the Federal Reserve System are not permitted to invest in equity securities, nor are they generally permitted to engage in real estate investment or development activities. To the extent that commercial banks are permitted to hold equity securities (for example, in connection with debts previously contracted), the three banking agencies generally assign such investments to the 100 percent risk category for risk-based capital purposes.

Under the three banking agencies' rules, the agencies may, on a case-by-case basis, deduct equity investments from the parent bank's capital or make other adjustments, if necessary, to assess an appropriate capital charge above the minimum requirement. The banking agencies' treatment of investments in subsidiaries is discussed below.

The OTS risk-based capital standards require that thrift institutions deduct certain equity investments from capital over a phase-in period, which ended on July 1, 1994, as explained more fully below in the section on subsidiaries.

FSLIC/FDIC—Covered Assets (Assets Subject to Guarantee Arrangements by the FSLIC or FDIC)

The three banking agencies generally place these assets in the 20 percent risk category, the same category to which claims on depository institutions and government-sponsored agencies are assigned.

The OTS places these assets in the zero percent risk category.

Limitation on Subordinated Debt and Limited-Life Preferred Stock

Consistent with the Basle Accord, the three banking agencies limit the amount of subordinated debt and limited-life preferred stock that may be included in Tier 2 capital. This limit, in effect, states that these components together may not exceed 50 percent of Tier 1 capital. In addition, maturing capital instruments must be discounted by 20 percent in each of the last five years prior to maturity.

Neither subordinated debt nor limited-life preferred stock is a permanent source of funds, and subordinated debt cannot absorb losses while the bank continues to operate as a going-concern. On the other hand, both capital components can provide a cushion of protection to the FDIC insurance fund. Thus, the 50 percent limitation permits the inclusion of some subordinated debt in capital, while assuring that permanent stockholders' equity capital remains the predominant element in bank regulatory capital.

The OTS has no limitation on the total amount of limited-life preferred stock or maturing capital instruments that may be included within Tier 2 capital. In addition, the OTS allows thrifts the option of: (1) discounting maturing capital instruments issued on or after November 7, 1989, by 20 percent a year over the last 5 years of their term—the approach required by the banking agencies; or (2) including the full amount of such instruments provided that the amount maturing in any of the next seven years does not exceed 20 percent of the thrift's total capital.

Subsidiaries

Consistent with the Basle Accord and long-standing supervisory practices, the three banking agencies generally consolidate all significant majority-owned subsidiaries of the parent organization for capital purposes. This consolidation assures that the capital requirements are related to all of the risks to which the banking organization is exposed.

As with most other bank subsidiaries, banking and finance subsidiaries generally are consolidated for regulatory capital purposes. However, in cases where banking and finance subsidiaries are not consolidated, the Federal Reserve, consistent with the Basle Accord, generally deducts investments in such subsidiaries in determining the adequacy of the parent bank's capital.

The Federal Reserve's risk-based capital guidelines provide a degree of flexibility in the capital treatment of unconsolidated subsidiaries (other than banking and finance subsidiaries) and investments in joint ventures and associated companies. For example, the Federal Reserve may deduct investments in such subsidiaries from an organization's capital, may apply an appropriate risk-weighted capital charge against the proportionate share of the assets of the entity, may require a line-by-line consolidation of the entity, or otherwise may require that the parent organization maintain a level of capital above the minimum standard that is sufficient to compensate for any risks associated with the investment.

The guidelines also permit the deduction of investments in subsidiaries that, while consolidated for accounting purposes, are not consolidated for certain specified supervisory or regulatory purposes. For example, the Federal Reserve deducts investments in, and unsecured advances to, Section 20 securities subsidiaries from the parent bank holding company's capital. The FDIC accords similar treatment to securities subsidiaries of state nonmember banks established pursuant to Section 337.4 of the FDIC regulations.

Similarly, in accordance with Section 325.5(f) of the FDIC regulations, a state nonmember bank must deduct investments in, and extensions of credit to, certain mortgage banking subsidiaries in computing the parent bank's capital. (The Federal Reserve does not have a similar requirement with regard to mortgage banking subsidiaries. The OCC does not have requirements dealing specifically with the capital treatment of either mortgage banking or securities subsidiaries. The OCC, however, does reserve the right to require a national bank, on a case-by-case basis, to deduct from capital investments in, and extensions of credit to, any nonbanking subsidiary.)

The deduction of investments in subsidiaries from the parent's capital is designed to ensure that the capital supporting the subsidiary is not also used as the basis of further leveraging and risk-taking by the parent banking organization. In deducting investments in, and advances to, certain subsidiaries from the parent's capital, the Federal Reserve expects the parent banking organization to meet or exceed minimum regulatory capital standards without reliance on the capital invested in the particular subsidiary. In assessing the overall capital adequacy of banking organizations, the Federal Reserve may also consider the organization's fully consolidated capital position.

Under the OTS capital guidelines, a distinction, mandated by FIRREA, is drawn between subsidiaries that are engaged in activities that are permissible for national banks and subsidiaries that are engaged in ''impermissible'' activities for national banks. Subsidiaries of thrift institutions that engage only in permissible activities are consolidated on a line-by-line basis if majority-owned and on a pro rata basis if ownership is between 5 percent and 50 percent. As a general rule, investments, including loans, in subsidiaries that engage in impermissible activities are deducted in determining the capital adequacy of the

parent. However, investments, including loans, outstanding as of April 12, 1989, to subsidiaries that were engaged in impermissible activities prior to that date are grandfathered and were phased-out of capital over a transition period that expired on July 1, 1994. During this transition period, investments in subsidiaries engaged in impermissible activities that have not been phased-out of capital were consolidated on a pro rata basis.

Nonresidential Construction and Land Loans

The three banking agencies assign loans for real estate development and construction purposes to the 100 percent risk category. Reserves or charge-offs are required, in accordance with examiner judgment, when weaknesses or losses develop in such loans. The banking agencies have no requirement for an automatic charge-off when the amount of a loan exceeds the fair value of the property pledged as collateral for the loan.

The OTS generally assigns these loans to the 100 percent risk category. However, if the amount of the loan exceeds 80 percent of the fair value of the property, that excess portion must be deducted from capital in accordance with a phase-in arrangement, which ended on July 1, 1994.

Mortgage-Backed Securities (MBS)

The three banking agencies, in general, place privately-issued MBSs in a risk category appropriate to the underlying assets but in no case to the zero percent risk category. In the case of privately-issued MBSs where the direct underlying assets are mortgages, this treatment generally results in a risk weight of 50 percent or 100 percent. Privately-issued MBSs that have government agency or government-sponsored agency securities as their direct underlying assets are generally assigned to the 20 percent risk category.

The OTS assigns privately-issued high quality mortgage-related securities to the 20 percent risk category. These are, generally, privately-issued MBSs with AA or better investment ratings.

At the same time, both the banking and thrift agencies automatically assign to the 100 percent risk weight category certain MBSs, including interest-only strips, residuals, and similar instruments that can absorb more than their pro rata share of loss. The Federal Reserve, in conjunction with the other banking agencies and the OTS, issued, on January 10, 1992, more specific guidance as to the types of ''high risk'' MBSs that will qualify for a 100 percent risk weight.

Assets Sold with Recourse

In general, recourse arrangements allow the purchaser of an asset to ''put'' the asset back to the originating institution under certain circumstances, for example, if the asset ceases to perform satisfactorily. This, in turn, can expose the originating institution to any loss associated with the asset. On May 25, 1994, the three banking agencies and the OTS, under the auspices of the FFIEC, sought public comment on various aspects of the capital treatment of recourse transactions by publishing a Notice of Proposed Rulemaking (NPR) and an Advance Notice of Proposed Rulemaking (ANPR), which is a more preliminary step in the formal rulemaking process.

The NPR proposed to amend the banking agencies' risk-based capital guidelines by:

(1) reducing the risk-based capital charge for ''low level'' recourse arrangements to an amount equal to the maximum contractual recourse obligation;

(2) requiring equivalent capital treatment of recourse arrangements and direct credit substitutes that provide first dollar loss protection. This would increase the capital assessment for *first loss* standby letters of credit and purchased subordinated interests that only provide partial credit enhancement; and,

(3) defining ''recourse'' and associated terms such as ''standard representations and warranties.''

The ANPR proposed incorporating into the risk-based capital guidelines a framework based on formal credit ratings for assessing capital against exposures with different levels of risk in certain asset securitizations. Thus, if there is more risk in a particular position with a securitized transaction, a higher capital charge should be accorded.

As described more fully above, Section 350 of the Riegle Act required the agencies to finalize a rule amending their respective risk-based capital standards to take account of low-level recourse, as was proposed by the NPR issued by the agencies. The low-level approach was implemented by the Federal Reserve by a final rule issued on February 7, 1995, and made effective on March 22, 1995, which satisfied the requirements of Section 350 of the Riegle Act. The FDIC and OCC also issued final rules in 1995 to implement Section 350. The OTS already had a capital rule in place that satisfied the requirements of Section 350.

Section 208 of the Riegle Act directed the Federal banking agencies to revise the current regulatory capital treatment applied to banks that sell small business obligations with recourse. The Federal Reserve approved a final rule implementing Section 208 before the statutory deadline of March 22, 1995. However, because of renewed interagency discussions, the Board issued a revised final rule implementing Section 208 that was published in the Federal Register on August 31, 1995. The other agencies also published final rules implementing Section 208 this year.

With regard to the ANPR, the agencies have been meeting throughout the past year to consider approaches suggested by commenters.

Agricultural Loan Loss Amortization

In the computation of regulatory capital, those banks accepted into the agricultural loan loss amortization program pursuant to Title VIII of the Competitive Equality Banking Act of 1987 are permitted to defer and amortize losses incurred on agricultural loans between January 1, 1984 and December 31, 1991.

The program also applies to losses incurred between January 1, 1983 and December 31, 1991, as a result of reappraisals and sales of agricultural Other Real Estate Owned (OREO) and agricultural personal property. These loans must be fully amortized over a period not to exceed seven years and, in any case, must be fully amortized by year-end 1998. Thrifts are not eligible to participate in the agricultural loan loss amortization program established by this statute.

Treatment of Junior Liens on 1- to 4-Family Residential Properties

In some cases, a banking organization may make two loans on a single residential property, one loan secured by a first lien, the other by a second lien. In such a situation, the Federal Reserve views these two transactions as a single loan, provided there are no intervening liens. This could result in assigning the total amount of these transactions to the 100 percent risk weight category, if, in the aggregate, the two loans exceeded a prudent loan-to-value ratio and, therefore, did not qualify for the 50 percent risk weight. This approach is intended to avoid possible circumvention of the capital requirements and capture the risks associated with the combined transactions.

The FDIC, OCC, and the OTS generally assign the loan secured by the first lien to the 50 percent risk-weight category and the loan secured by the

second lien to the 100 percent risk-weight category.

Pledged Deposits and Nonwithdrawable Accounts

The capital guidelines of the OTS permit thrift institutions to include in capital certain pledged deposits and nonwithdrawable accounts that meet the criteria of the OTS. Income Capital Certificates and Mutual Capital Certificates held by the OTS may also be included in capital by thrift institutions. These instruments are not relevant to commercial banks, and, therefore, they are not addressed in the three banking agencies' capital guidelines.

Mutual Funds

The three banking agencies generally assign all of a bank's holdings in a mutual fund to the risk category appropriate to the highest risk asset that a particular mutual fund is permitted to hold under its operating rules. The purpose of this is to take into account the maximum degree of risk to which a bank may be exposed when investing in a mutual fund in view of the fact that the future composition and risk characteristics of the fund's holding cannot be known in advance.

The OTS applies a capital charge appropriate to the riskiest asset that a mutual fund is actually holding at a particular time. In addition, both the OTS and the OCC guidelines also permit, on a case-by-case basis, investments in mutual funds to be allocated on a pro rata basis in a manner consistent with the actual composition of the mutual fund.

Section Two—Differences in Accounting Standards Among Federal Banking and Thrift Supervisory Agencies

Under the auspices of the FFIEC, the three banking agencies have developed uniform reporting standards for commercial banks which are used in the preparation of the Call Report. The FDIC has also applied these uniform Call Report standards to savings banks under its supervision. The income statement and balance sheet accounts presented in the Call Report are used by the bank supervisory agencies for determining the capital adequacy of banks and for other regulatory, supervisory, surveillance, analytical, and general statistical purposes.

Section 121 of FDICIA requires accounting principles applicable to financial reports (including the Call Report) filed by federally insured depository institutions with a federal banking agency to be uniform and consistent with generally accepted accounting principles (GAAP). However, under Section 121, a federal banking agency *may* require institutions to use accounting principles ''no less stringent than GAAP'' when the agency determines that a specific accounting standard under GAAP does not meet these new accounting objectives. The banking agencies believe that GAAP generally satisfies the three accounting objectives included in FDICIA Section 121. The three accounting objectives in FDICIA Section 121 mandate that accounting principles should:

1. Result in financial statements and reports of condition that accurately reflect the institution's capital;

2. Facilitate effective supervision of depository institutions; and

3. Facilitate prompt corrective action at least cost to the insurance funds.

As indicated above, Section 121 of FDICIA requires the Federal Reserve and the other federal banking agencies to utilize accounting principles for regulatory reports that are consistent with GAAP or are no less stringent than GAAP. The reporting instructions for Call Reports that are required by the three banking agencies are substantially consistent, aside from a few limited exceptions, with GAAP as applied by commercial banks. In those cases where accounting principles applicable to bank Call Reports are different from GAAP, the regulatory accounting principles are intended to be more conservative than GAAP. Thus, the accounting principles that are followed for regulatory reporting purposes are consistent with the objectives and mandate of FDICIA Section 121.

The OTS has developed and maintains a separate reporting system for the thrift institutions under its supervision. The TFR is based on GAAP as applied by thrifts.

On November 3, 1995, the FFIEC announced that it is adopting GAAP as the reporting basis for the basic balance sheet, income statement, and related schedules in the bank Call Reports, effective with the March 1997 report date. This action will eliminate the existing differences between GAAP and regulatory accounting principles. The agencies believe that the FFIEC action is consistent with the objectives of FDICIA 121 and the objectives of Section 307(b) of the Riegle Community Development and Regulatory Improvement Act of 1994, which requires the agencies to work jointly to develop a single form for the filing of core information by banks, savings associations, and bank holding companies. The adoption of GAAP for Call Report purposes should eliminate the differences in accounting standards among the agencies that are set forth below.

A summary of the primary differences in accounting principles by the federal banking and thrift agencies for regulatory reporting purposes are set forth below, based on a study developed on an interagency basis:

Futures and Forward Contracts

The banking agencies, as a general rule, do not permit the deferral of gains and losses by banks on futures and forwards whether or not they are used for hedging purposes. All changes in market value of futures and forward contracts are reported in current period income. The banking agencies adopted this reporting standard as a supervisory policy prior to the adoption of FASB Statement No. 80, which allows hedge accounting, under certain circumstances. Contrary to this general rule, hedge accounting in accordance with FASB Statement No. 80 is permitted by the three banking agencies only for futures and forward contracts used in mortgage banking operations.

The OTS practice is to follow FASB Statement No. 80 for futures contracts. In accordance with this statement, when hedging criteria are satisfied, the accounting for the futures contract is related to the accounting for the hedged item. Changes in the market value of the futures contract are recognized in income when the effects of related changes in the price or interest rate of the hedged item are recognized. Such reporting can result in deferred gains and losses which would be reflected as liabilities and assets on the thrift's balance sheet in accordance with GAAP.

Excess Servicing Fees

As a general rule, the three banking agencies do not follow GAAP for excess servicing fees. Excess servicing results when loans are sold with servicing retained and the stated servicing fee rate is greater than the normal servicing fee rate. With the exception of sales of pools of first lien one-to-four family residential mortgages for which the banking agencies' approach is consistent with FASB Statement No. 65, excess servicing fee income in banks must be reported as realized over the life of the transferred asset, not recognized up front as required by FASB Statement No. 65.

The OTS allows the present value of the future excess servicing fee to be treated as an adjustment to the sales price for purposes of recognizing gain or loss on the sale. This approach is consistent with FASB Statement No. 65.

In-Substance Defeasance of Debt

The banking agencies do not permit banks to report defeasance of their debt obligations in accordance with FASB Statement No. 76. Defeasance involves a debtor irrevocably placing risk-free monetary assets in a trust solely for satisfying the debt. Under FASB Statement No. 76, the assets in the trust and the defeased debt are removed from the balance sheet and a gain or loss for the current period can be recognized. However, for Call Report purposes, banks may not remove assets or *defeased* liabilities from their balance sheets or recognize resulting gains or losses. FASB has recently proposed to amend GAAP to adopt an approach similar to the Call Report treatment for these transactions.

OTS practice is to follow FASB Statement No. 76.

Sales of Assets with Recourse

In accordance with FASB Statement No. 77, a transfer of receivables with recourse is recognized as a sale if: (1) the transferor surrenders control of the future economic benefits; (2) the transferor's obligation under the recourse provisions can be reasonably estimated; and (3) the transferee cannot require repurchase of the receivables except pursuant to the recourse provisions.

The practice of the three banking agencies is generally to permit commercial banks to report transfers of receivables with recourse as sales only when the transferring institution (1) retains no risk of loss from the assets transferred and (2) has no obligation for the payment of principal or interest on the assets transferred. As a result, virtually no transfers of assets with recourse can be reported as sales. However, this rule does not apply to the transfer of first lien 1- to 4-family residential or agricultural mortgage loans under certain government-sponsored programs (including the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation). Transfers of mortgages under these programs are generally treated as sales for Call Report purposes.

Furthermore, private transfers of first lien 1- to 4-family residential mortgages are also reported as sales if the transferring institution retains only an insignificant risk of loss on the assets transferred. However, the seller's obligation under recourse provisions related to sales of mortgage loans under the government programs is viewed as an off-balance sheet exposure. Thus, for risk-based capital purposes, capital is generally expected to be held for recourse obligations associated with such transactions.

The OTS policy is to follow FASB Statement No. 77. However, in the calculation of risk-based capital under the OTS guidelines, off-balance sheet recourse obligations generally are converted at 100 percent. This effectively negates the sale treatment recognized on a GAAP basis for risk-based capital purposes, but not for leverage capital purposes. Thus, by making this adjustment in the risk-based capital calculation, the differences between the OTS and the banking agencies for capital adequacy measurement purposes, are substantially reduced.

Push-Down Accounting

When a depository institution is acquired in a purchase transaction, but retains its separate corporate existence, the institution is required to revalue all of the assets and liabilities at fair value at the time of acquisition. When push-down accounting is applied, the same revaluation made by the parent holding company is made at the depository institution level.

The three banking agencies require push-down accounting when there is at least a 95 percent change in ownership. This approach is generally consistent with interpretations of the Securities and Exchange Commission.

The OTS requires push-down accounting when there is at least a 90 percent change in ownership.

Negative Goodwill

The three banking agencies require that negative goodwill be reported as a liability, and not be netted against goodwill assets. Such a policy ensures that all goodwill assets are deducted in regulatory capital calculations, consistent with the Basle Accord.

The OTS permits negative goodwill to offset goodwill assets reported in the financial statements.

Offsetting

The three banking agencies generally prohibit netting of assets and liabilities in the Call Report. However, FASB Interpretation No. 39 (FIN 39) netting requirements have been adopted for Call Report purposes solely for assets and liabilities that arise from off-balance-sheet instruments. For example, under FIN 39, the assets and liabilities arising from these contracts may be netted when there is a legally enforceable bilateral master netting agreement.

The OTS policy on netting for all assets and liabilities is consistent with GAAP, as set forth in FIN 39. FIN 39 allows institutions to offset assets and liabilities (e.g., loans and deposits) when four conditions are met. Moreover, the OTS permits netting for off-balance sheet conditional and exchange contracts to the same extent as the banking agencies.

By order of the Board of Governors of the Federal Reserve System, April 4, 1996.

Jennifer J. Johnson,

Deputy Secretary of the Board.

[FR Doc. 96–8873 Filed 4–9–96; 8:45am]

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GENERAL ACCOUNTING OFFICE

Federal Accounting Standards Advisory Board

AGENCY: General Accounting Office.

ACTION: Notice of meeting.

SUMMARY: Pursuant to section 10(a)(2) of the Federal Advisory Committee Act (Pub. L. 92–463), as amended, notice is hereby given that the Federal Accounting Standards Advisory Board will meet on Thursday, April 25, 1996, from 9:00 a.m. to 4:00 p.m. in room 7C13 of the General Accounting Office, 441 G St., N.W., Washington, D.C.

The purpose of the meeting is to (1) review and approve for release for public comment the draft *Invitation for Views: Accounting for the Cost of Capital* document and (2) discuss the Codification project and the *Accounting for Natural Resources* document.

Any interested person may attend the meeting as an observer. Board discussions and reviews are open to the public.

FOR FURTHER INFORMATION CONTACT: Ronald S. Young, Executive Staff Director, 750 First St., N.E., Room 1001, Washington, D.C. 20002, or call (202) 512–7350.

Authority: Federal Advisory Committee Act. Pub. L. 92–463, Section 10(a)(2), 86 Stat. 770, 774 (1972) (current version at 5 U.S.C. app. section 10(a)(2) (1988); 41 CFR 101–6.1015 (1990).

Dated: April 4, 1996.

Ronald S. Young,

Executive Director.

[FR Doc. 96–8852 Filed 4–9–96; 8:45 am]

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DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of National AIDS Policy; Notice of Meeting of the Presidential Advisory Council on HIV/AIDS and Its Subcommittees

Pursuant to Pub. L. 92–463, notice is hereby given of the meeting of the