

## List of Subjects in 7 CFR Part 301

Agricultural commodities, Plant diseases and pests, Quarantine, Reporting and recordkeeping requirements, Transportation.

**PART 301—DOMESTIC QUARANTINE NOTICES**

Accordingly, 7 CFR part 301 is amended as follows:

1. The authority citation for part 301 continues to read as follows:

Authority: 7 U.S.C. 150bb, 150dd, 150ee, 150ff, 161, 162, and 164–167; 7 CFR 2.22, 2.80, and 371.2(c).

2. In § 301.89–2, paragraphs (e) through (n) are redesignated as paragraphs (f) through (o), respectively, and a new paragraph (e) is added, as follows:

**§ 301.89–2 Regulated articles.**

\* \* \* \* \*

(e) *Tilletia indica* (Mitra) Mundkur;

\* \* \* \* \*

3. In § 301.89–3, paragraph (e), the designation of quarantined areas is amended by adding, in alphabetical order, entries for Imperial County and Riverside County in California, as follows:

**§ 301.89–3 Quarantined areas.**

\* \* \* \* \*

(e) \* \* \*

\* \* \* \* \*

## California

Imperial County. The entire county.

Riverside County. That portion of Riverside County in the Blythe and Ripley areas bounded by a line drawn as follows: Beginning at the intersection of State Highway 62 and the Riverside-San Bernardino County line, then east along the Riverside-San Bernardino County line to its intersection with the California-Arizona State line; then south along the California-Arizona State line to its intersection with the Riverside-Imperial County line; then west along the Riverside-Imperial County line to its intersection with Graham Pass Road; then northeast along Graham Pass Road to its intersection with Chuckwalla Valley Road; then west and northwest along Chuckwalla Valley Road to its intersection with Interstate Highway 10; then west along Interstate Highway 10 to its intersection with State Highway 177; then northeast and north along State Highway 177 to its intersection with State Highway 62; then northeast along State Highway 62 to the point of beginning.

Done in Washington, DC, this 19th day of April, 1996.

Terry L. Medley,

*Acting Administrator, Animal and Plant Health Inspection Service.*

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**FARM CREDIT ADMINISTRATION****12 CFR Part 621**

RIN 3052–AB54

**Accounting and Reporting Requirements**

AGENCY: Farm Credit Administration.

ACTION: Final rule.

**SUMMARY:** The Farm Credit Administration (FCA or Agency), by the Farm Credit Administration Board (Board), adopts as final without change an interim rule amending its regulations on high-risk assets. The interim rule was adopted on November 17, 1994 (59 FR 60886, Nov. 29, 1994). The interim rule reflected recent changes in generally accepted accounting principles (GAAP) that supported retention of existing regulatory guidance for Farm Credit System (System) institutions. Although the need for immediate regulatory action did not permit a public comment period before the interim rule took effect, the FCA requested post-promulgation public comment on the interim rule. This final rule addresses the comments received.

**EFFECTIVE DATE:** December 15, 1994.

**FOR FURTHER INFORMATION CONTACT:**

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**SUPPLEMENTARY INFORMATION:****I. Background**

Substantial amendments to the FCA's regulations on Accounting and Reporting Requirements at 12 CFR part 621 became effective on December 31, 1993. See 58 FR 48780, September 20, 1993. These regulations include requirements and standards for institutions to use in accounting for high-risk assets and disclosing loan performance characteristics. The amendments promoted consistency with industry practices in accounting and reporting and ensured that FCA regulatory requirements and standards remained consistent with GAAP.

Subpart C of part 621 provides System institutions and FCA examiners with clear guidance on how to categorize, account for, report, and disclose the

performance of high-risk assets. In particular, the regulations provide specific criteria for placing loans in nonaccrual status, for using cash basis versus cost recovery accounting practices, for upgrading loans from nonaccrual to accrual status, and for aggregating nonaccrual loans. The amended regulations promote consistent financial reporting among System institutions and Systemwide financial statements that are comparable to those of other federally regulated financial institutions.

Subpart C was subject to a “sunset” provision when originally adopted, because the FCA expected that aspects of subpart C guidance might conflict with the provisions of Statement of Financial Accounting Standards (SFAS) No. 114 when they were later implemented by System institutions.<sup>1</sup> However, in October 1994, the Financial Accounting Standards Board (FASB) amended SFAS No. 114 by adopting SFAS No. 118.<sup>2</sup> SFAS No. 118 removed those elements of SFAS No. 114 that would have conflicted with subpart C. As a result, the FCA decided to retain subpart C. To ensure the elimination of the sunset provision before it automatically rescinded subpart C at year-end 1994, the FCA issued an interim rule with a request for public comment (59 FR 60886, Nov. 29, 1994).

**II. Analysis of Public Comments**

The FCA received one comment letter on the interim rule. The letter was submitted by the Farm Credit Council (FCC) on behalf of its membership, together with the Farm Credit System's Accounting Standards Work Group under the direction of the Federal Farm Credit Banks Funding Corporation.

The FCC recognizes the FCA's efforts to promote accounting and financial reporting requirements consistent with the current practices of commercial banks. However, reiterating arguments from their July 14, 1993 comment letter on the proposed rule, the FCC continues to express concern about adopting specific accounting and financial reporting rules rather than general guidelines. The FCC believes the regulations should be broad enough to allow for evolutionary changes in GAAP and notes that other regulators do not

<sup>1</sup> Statement of Financial Accounting Standards No. 114, “Accounting by Creditors for Impairment of a Loan,” an amendment of SFAS Statement Nos. 5 and 15, dated May 1993, was subject to mandatory implementation by institutions for fiscal years beginning after December 15, 1994.

<sup>2</sup> Statement of Financial Accounting Standards No. 118, “Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures,” an amendment of FASB Statement No. 114, dated October 1994.

include such specific rules in their regulations. They urge the FCA to rescind the interim rule. Rescission would restore the sunset provision and retroactively eliminate §§ 621.6, 621.7, 621.8, 621.9 and 621.10 (subpart C).

The FCC bases its concern on the length of time necessary to amend FCA regulations. The FCC warns that the presence of specific requirements in the regulations could cause the System's financial reporting process to conflict with GAAP because the FCA would not be able to change its regulations quickly enough to remain current with GAAP guidelines for the accounting and financial reporting of high-risk assets. The FCC also points out that if the Agency were to lack a quorum of its Board, as has occurred in the past, it would be impossible to amend the regulations to be consistent with changes as may be required by GAAP.

The FCA observes in response that the application of GAAP to specific areas of accounting and financial reporting is not always well defined. This has been especially true of high-risk asset accounting. GAAP has not consistently provided specific authoritative guidance in the area of problem loan accounting and reporting until recently. While other financial institution regulators have addressed this issue by instituting specific guidance in their call report instructions, the FCA is addressing them in the accounting regulations. There is little substantive difference between these two approaches. Both the Office of the Comptroller of the Currency's (OCC) Call Report instructions and the FCA's regulations are published in the Federal Register, and both give the public an opportunity to provide comments prior to implementation of the revised policy direction.

The FCA continues to believe that, in areas such as high-risk accounting, the promulgation of regulations covering subjects not fully addressed by GAAP can be an effective method of promoting consistent accounting and reporting by System institutions. Since its adoption, the final regulation has improved the internal consistency of System financial disclosures regarding high-risk assets and made System accounting and reporting for such assets more comparable to the practices of the rest of the financial services industry. If GAAP provides future guidance and direction that conflicts with FCA regulations, the FCA agrees that it is important to respond to the changes. The FCA believes that it can address any inconsistencies that may develop between its regulations and GAAP in a timely fashion.

In support of its contention that the detailed nature of FCA regulations might make it difficult for the FCA to keep up with evolving trends in regulatory accounting guidance, the FCC notes two apparent inconsistencies between FCA regulations and the approach taken by other federal bank and thrift regulators. While not commenting substantively on the provisions, the FCC suggests that more flexible accounting and financial reporting guidelines would facilitate keeping System financial reporting consistent with other financial institutions. As noted, the FCA agrees with the broad goal of accounting and reporting consistency between the System and other financial institutions. However, in certain circumstances, the unique needs of the System may require FCA guidance that may differ from the approach of other regulators without affecting broad comparability of System financial reporting. This is the case with respect to the two examples of accounting and reporting guidance noted by the FCC.

First, the FCC notes that § 621.9(a) requires all contractual principal and interest due on the loan to be paid and the loan to be current before returning a nonaccrual loan to accrual status. The FCC compares this to guidance by other financial institution regulators that would permit institutions to return past due loans to accrual status if they are "reasonably assured of repayment within a reasonable time period."<sup>3</sup>

The FCA believes that any nonaccrual loan must demonstrate performance in order to be reinstated to accrual status. An essential demonstration of performance is that the loan be brought current. Under the final regulation, this must occur *before* an institution can resume interest accrual on that asset. However, the regulation also states that "[o]nce the ultimate collectibility of the recorded investment is no longer in doubt, payments received in cash on such loan may qualify for recognition as interest income," (i.e., cash basis accounting) if certain characteristics are met at the time the payment is received. Therefore, application of FCA's regulation results in an accounting treatment of income recognition on such assets similar to that allowed by the other financial institution regulators. In a second example, the FCC states that the OCC allows for cash basis interest income recognition on nonaccrual loans with partial charge-

offs before complete recovery of the charge-off. The FCC notes that this differs from the requirement in § 621.8 that interest income cannot be recognized on a nonaccrual loan with an unrecovered partial charge-off. The FCA believes that applying loan payments to recover partial charge-offs prior to recording interest income is a prudent and appropriate approach to eliminating doubt as to the loan's ultimate collectibility and is not inconsistent with GAAP. In addition, this requirement is mitigated by an exception in cases where the prior charge-off was taken as part of a formal restructuring of the loan. The FCA believes this approach is justified for this type of asset in light of the unique structure of the System and its concentration of credit in limited agricultural markets. Moreover, any differences in income recognition between the FCA and the OCC requirements are likely to be temporary if the loan continues to perform.

For the reasons stated in the interim rule release, supplemented by the above analysis and discussion, the FCA Board adopts the interim rule amending 12 CFR part 621, which was published at 59 FR 60886 on November 29, 1994, as final without change. The effective date of this rule remains December 15, 1994. The FCA will continue to follow closely any further developments under GAAP in the area of problem loan accounting and reporting and will adjust its requirements as necessary.

Dated: April 19, 1996.

Floyd F. Fithian,  
Secretary, Farm Credit Administration Board.  
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## DEPARTMENT OF TRANSPORTATION

### Federal Aviation Administration

#### 14 CFR Part 39

[Docket No. 95-SW-01-AD; Amendment 39-9577; AD 96-09-03]

#### Airworthiness Directives; Societe Nationale Industrielle Aerospatiale and Eurocopter France Model SA-365N, N1, and N2 Helicopters

**AGENCY:** Federal Aviation Administration, DOT.

**ACTION:** Final rule.

**SUMMARY:** This amendment adopts a new airworthiness directive (AD), applicable to Societe Nationale Industrielle Aerospatiale and Eurocopter France Model SA-365N, N1,

<sup>3</sup> Joint Statement of the OCC, Federal Deposit Insurance Corporation, Federal Reserve Board, and Office of Thrift Supervision titled "Revised Interagency Guidance on Returning Nonaccrual Loans to Accrual Status" issued June 10, 1993.