

(ii) The terms of payment if they differ from prompt payment set out in section 46.2(z) and (aa) of this part, and the parties have expressly agreed to such terms in writing before the affected transactions occur.

10. A new § 46.49 is added to read as follows:

§ 46.49 Written notifications and complaints.

(a) *Written notification*, as used in section 6(b) of the Act, means:

(1) Any written statement reporting or complaining of a PACA violation(s) filed by any officer or agency of any State or Territory having jurisdiction over licensees or persons subject to license, or any other interested person who has knowledge of or information regarding a possible violation, other than an employee of an agency of USDA administering this Act or a person filing a complaint under Section 6(c);

(2) Any written notice of intent to preserve the benefits of the trust established under section 5 of this Act; or

(3) Any official certificate(s) of the United States Government or States or Territories of the United States.

(b) Any written notification may be filed by delivering it to any office of USDA or any official thereof responsible for administering the Act. A written notification which is so filed, or any expansion of an investigation resulting from any indication of additional further violations of the Act found as a consequence of an investigation based on written notification or complaint, shall also be deemed to constitute a complaint under section 13(a) of this Act.

(c) Upon becoming aware of a complaint under Section 6(a) or 6(b) of this Act, the Secretary will determine if reasonable grounds exist for an investigation of such complaint for disciplinary action. If the investigation substantiates the existence of violations, a formal disciplinary complaint may be filed by the Secretary as described under Section 6(c)(2) of the Act.

(d) Whenever an investigation, initiated as a result of a written notification or complaint under Section 6(b) of the Act, is commenced, or expanded to include new violations, notice shall be given by the Secretary to the subject of the investigation within thirty (30) days of the commencement or expansion of the investigation. Within one hundred and eighty (180) days after giving initial notice, the Secretary shall provide the subject of the investigation with notice of the status of the investigation, including whether the Secretary intends to issue a complaint

under Section 6(c)(2) of this Act, terminate the investigation, or continue or expand the investigation. Thereafter, the subject of the investigation may request in writing, no more frequently than every ninety (90) days, a status report from the Chief of the PACA Branch who shall respond thereto within fourteen (14) days of receiving the request. When an investigation is terminated, the Secretary shall, within fourteen (14) days, notify the subject of the investigation of the termination. In every case in which notice or response is required under this subsection such notice or response shall be accomplished by personal service or by posting the notice or response by certified mail to the last known address of the subject of the investigation.

Dated: March 21, 1997.

Eric M. Forman,

Acting Director, Fruit and Vegetable Division.

[FR Doc. 97-7807 Filed 3-28-97; 8:45 am]

BILLING CODE 3410-02-P

FARM CREDIT ADMINISTRATION

12 CFR Parts 620 and 630

RIN 3052-AB62

Disclosure to Shareholders; Disclosure to Investors in Systemwide and Consolidated Bank Debt Obligations of the Farm Credit System; Quarterly Report

AGENCY: Farm Credit Administration.

ACTION: Final rule.

SUMMARY: The Farm Credit Administration (FCA or Agency) adopts final amendments to its regulations governing the preparation, filing, and distribution of Farm Credit System (FCS or System) bank and association reports to shareholders and investors. The rule implements a statutory amendment that supersedes the regulatory requirement that FCS institutions disseminate quarterly reports to shareholders.

The rule also imposes a new notice requirement designed to improve shareholder access to timely information and disclosure regarding adverse events affecting their institutions. Under the new regulations, FCS institutions must prepare and distribute a notice to shareholders when their permanent capital falls below the regulatory minimum standard.

To facilitate the presentation of financial statements by FCS institutions in a manner that conforms with generally accepted accounting principles (GAAP), the rule removes the requirement that banks must present

their financial statements on a combined basis with their related associations.

The rule also makes other technical changes to FCA regulations governing disclosure to shareholders and investors.

DATES: The final rule shall become effective upon the expiration of 30 days after this publication during which either or both Houses of Congress are in session. Notice of the effective date will be published in the **Federal Register**.

FOR FURTHER INFORMATION CONTACT:

Laurie A. Rea, Policy Analyst, Policy Development and Risk Control, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4498;

or

William L. Larsen, Senior Attorney, Office of General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4020, TDD (703) 883-4444.

SUPPLEMENTARY INFORMATION:

I. Background

On August 28, 1996, the FCA proposed amendments to its regulations governing disclosure to shareholders and investors.¹ The rulemaking implements section 211 of the Farm Credit System Reform Act of 1996 (1996 Act),² addresses two regulatory petitions received by the Agency, and takes other related actions. To conform with the 1996 Act, the FCA proposed amending subpart C of part 620 to eliminate existing regulatory requirements for distribution of quarterly reports to shareholders. To improve shareholder access to timely information and disclosure regarding adverse events affecting their institutions, the FCA proposed a new requirement that System institutions provide notice to shareholders in the event of noncompliance with regulatory permanent capital requirements, followed by subsequent notices in situations of continued deterioration in permanent capital. The FCA also responded to petitions of System institutions by proposing to remove the requirement that banks present their

¹ See 61 FR 53331, October 11, 1996.

² Pub. L. 104-105, 110 Stat. 162 (Feb. 10, 1996). Section 211 of the 1996 Act provides that "the requirements of the Farm Credit Administration governing the dissemination to stockholders of quarterly reports of System institutions may not be more burdensome or costly than the requirements applicable to national banks." Section 211 applies only to dissemination requirements and does not affect the requirement that FCS institutions continue to prepare and file quarterly reports with the FCA in accordance with the quarterly report filing and content requirements of part 620.

financial statements on a combined basis with their related associations and to allow incorporation by reference of information contained in offering documents for Farm Credit debt securities into the Systemwide financial reports to investors.³ The FCA also proposed technical changes to clarify the reporting requirements of related organizations in their disclosure to shareholders and investors.

The FCA received two comment letters on the proposed rule. The Farm Credit Council (FCC) submitted a letter based on input from individual members and the System's Accounting Standards Work Group. The Farm Credit Services of the Midlands, PCA/FLCA (Midlands), also commented. In general, the commenters supported the FCA's proposal to implement the 1996 Act, while also raising specific concerns and suggestions for change. As set forth below, the final regulations retain much of the content of the proposed regulations, but clarify and ease some proposed requirements in response to comments.

II. Final Amendments

A. Quarterly Reports

The commenters supported the FCA's proposal to implement section 211 of the 1996 Act regarding dissemination of quarterly reports to shareholders. The FCA adopts as final the amendments to subpart C of part 620 and related provisions⁴ as proposed.

Under the final regulations, routine distribution of quarterly reports by System institutions to shareholders is voluntary rather than mandatory. The FCA emphasizes that FCS institutions are not prohibited by the 1996 Act or these regulations from continuing to publish or distribute quarterly reports to their shareholders. Moreover, each FCS bank and direct lender association is required to make quarterly reports available to shareholders on request and must continue to file quarterly reports with the FCA. Associations are no longer required to distribute quarterly reports along with their information statements, regardless of the date of their annual meetings.

Midlands commented on current § 615.5250(a)(2) of this chapter, which requires institutions to provide prospective borrowers with a copy of the institution's most recent quarterly report (if more recent than the annual report) prior to loan closing, at which time the borrower must purchase equities as a condition for obtaining a

loan. Midlands agreed that prospective borrowers have the right to current association financial information, but, citing logistical problems in supplying an accurate number of quarterly reports to its branches, suggested that the requirement be changed to require only notice of availability of quarterly reports to prospective borrowers. The FCA continues to believe that it is important to provide the most current financial information at the time a borrower is required to purchase the institution's equities. Thus, the current requirement is unchanged. Any logistical problems that may be associated with providing a copy of the quarterly report to prospective borrowers will have to be addressed through available facilities such as fax, copier, and electronic or overnight mail.

B. Notice to Shareholders

The FCA proposed that notice be provided to shareholders when an institution's capital falls below the regulatory minimum permanent capital standard. Proposed § 620.15(a) would have required each FCS bank and direct lender association to prepare, file with the FCA, and distribute to shareholders, a notice within 20 days following the monthend that the institution initially determines that it is not in compliance with the minimum permanent capital standards established in part 615 of FCA regulations. Under certain circumstances, reporting institutions also would have been required to prepare and distribute a subsequent notice to shareholders. If the reporting institution's permanent capital ratio decreased by one-half of 1 percent or more from the level reported in a notice, the reporting institution would be required to distribute another notice to shareholders within 20 days of the end of the current month. In addition, the FCA proposed minimum content requirements for notices under new § 620.17.

The FCC raised objections to the proposed requirement that notice be provided to shareholders in instances of noncompliance with the permanent capital standard. The FCC asserted that the proposed notice requirement in § 620.15(a) is unnecessary and could be confusing or even misleading taken out of the context of an institution's financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations. The FCC also found it difficult to reconcile the notice requirement with the elimination of quarterly report dissemination by the 1996 Act.

After consideration of these comments, the FCA continues to believe

that the notice requirement will benefit shareholders and impose no undue burdens on System institutions. For the reasons set forth below and as noted in the preamble to the proposed rule, the FCA issues a new subpart D relating to the preparation and distribution of a notice to shareholders substantially as proposed.

As discussed above, the FCA has deleted the quarterly report dissemination requirement in accordance with the 1996 Act. The FCA believes that the limited notice to shareholders is necessary to provide shareholders with timely notice of important information that affects the ability of the institution to distribute earnings and retire stock.⁵ The Farm Credit Act of 1971, as amended (Act), encourages borrower/shareholder participation in management, control, and ownership of FCS institutions.⁶ In the Farm Credit Amendments Act of 1985,⁷ Congress expressly authorized the FCA to regulate disclosure to shareholders. Unlike shareholders of companies subject to Securities and Exchange Commission (SEC) disclosure requirements who have access to an established marketplace for financial information based on SEC filings,⁸ System shareholders rely primarily on FCS institutions to provide them with current information regarding their institutions. The FCA believes it is critical that shareholders receive timely notice of material changes in the capital position of the institutions they own so that they are equipped to exercise their ownership role.

In proposing these regulations, the FCA sought to balance the competing considerations of providing adequate

⁵ See 12 U.S.C. 2154a(d)(1), which states that: " * * * the board of directors of a System institution may not reduce the permanent capital of the institution through the payment of patronage refunds or dividends or retirement of stock, if after or due to such action, the permanent capital of the institution would thereafter fail to meet the minimum capital adequacy standards established under section 2154a of this title." See also 12 CFR 615.5215.

⁶ See 12 U.S.C. 2001(b).

⁷ Pub. L. 99-205, 99 Stat. 1678 (Dec. 23, 1985). See section 5.19(b)(1) of the Act.

⁸ In addition to annual and quarterly filings, under sections 13 or 15(d) of the Securities Exchange Act of 1934, registrants are required to file a current report with the SEC within 5-15 days (depending on the event) upon determination of the occurrence of any of the following events: (1) changes in control of registrant, (2) significant acquisition or disposition of assets, (3) bankruptcy or receivership, (4) changes in registrant's certifying accountant, (5) other events that the registrant deems of significant importance to security holders, and (6) resignations of registrant's directors because of a disagreement with the registrant on any matter relating to the registrant's operation, policies, or practices. The SEC does not require current reports to be distributed to shareholders.

³ See 12 CFR Part 630.

⁴ Sections 620.1(o) and 620.2(a), (b)(3)(i), (f) through (i).

notice to shareholders concerning their investments and minimizing regulatory burden on FCS institutions. FCS institutions required to file and distribute a notice will incur costs associated with preparing and distributing the materials. However, since notice is required only in those extraordinary circumstances where an institution is not in compliance with the FCA's minimum permanent capital standard,⁹ the FCA does not expect the regulations will significantly increase regulatory burden on System institutions. In the limited instances when notice is required, the rule will help ensure timely and adequate disclosure to shareholders/members who have investments at risk and rely on the dependable credit services of the FCS institutions. In addition, such notices will inform shareholders of the effect that failure to meet the minimum capital standard has on their institution's ability to retire stock and distribute earnings.

The FCC also expressed concern that both the time period for calculating noncompliance with permanent capital requirements and the timeframe allowed by the proposed rule for distributing the notice are inadequate. Under proposed § 620.15(a), each Farm Credit bank and direct lender association required to prepare a notice would have been required to distribute the notice to shareholders within 20 days following the monthend that the institution initially determines that it is not in compliance with the minimum permanent capital standard prescribed under § 615.5205 of this chapter. The FCC noted that existing regulations only require that an institution's permanent capital ratio (PCR) be reported on a quarterly basis. The FCC suggested that the FCA substitute the phrase "end of the fiscal quarter" for "monthend" in § 620.15(a) and "any subsequent quarterend" for "any subsequent monthend" in proposed § 620.15(b).

The FCA declines to adopt a quarterly timeframe for the initial notice of noncompliance with the PCR because it would undermine the goal of disseminating this information to shareholders quickly. Moreover, there is no added burden on FCS institutions in connection with calculation of the PCR. Although FCS institutions are only required by current regulations to report their PCR on a quarterly basis, § 615.5205(a) of this chapter requires that each FCS institution shall at all times maintain permanent capital at a

level of at least 7 percent of its risk-adjusted assets. The FCA further expects FCS institutions to have procedures in place that permit calculation of their PCR on any given date.¹⁰

In response to the argument that monthly notices of subsequent deterioration would be burdensome, the FCA accepts the suggestion of the FCC to modify final § 620.15(b) to require subsequent notices following the end of any subsequent fiscal quarter instead of the end of any subsequent month as proposed. The FCA does not believe that this change seriously disadvantages shareholders. Once alerted by the initial notice, concerned shareholders may elect to follow up on their institution's condition more often than quarterly if they wish.

The FCC also commented that it is likely that an institution required to distribute a notice of noncompliance with regulatory minimum capital standards would need to provide additional supplemental information to make the information more meaningful. The FCC suggested that the required timeframe for distributing the notice and any subsequent notices in proposed § 620.15 (a) and (b) be changed from 20 days to 45 days. The FCA agrees that additional information may make the disclosures more meaningful to shareholders and, to facilitate such additional disclosure, has decided to increase the timeframe for preparation and distribution of the initial notice by 10 days. Final § 620.15(a) thus requires distribution of the notice within 30 days following the monthend that the institution initially determines that it is not in compliance with the minimum permanent capital standards.

The FCA adopts the suggestion of the FCC to permit distribution of a subsequent notice to shareholders within 45 days following the end of any subsequent quarter at which the institution's PCR decreases by one-half of 1 percent or more from the level reported in the most recent notice distributed to shareholders. This timeframe for preparation and distribution of subsequent notices to shareholders under § 620.15(b) will coincide with the time allowed institutions to prepare and file their quarterly reports with the FCA under § 620.2. Final § 620.15(c) and the content requirements for the notice in § 620.17 are adopted as proposed.

The FCA also invited comments on the use of the total surplus to risk-

adjusted assets standard¹¹ to determine the point at which shareholders would be informed that their institution is experiencing financial difficulties. Both commenters opposed the use of the total surplus ratio as the trigger for the notice requirement. The FCC commented that the total surplus to risk-adjusted assets ratio is not always an indicator of impaired financial condition and thus, such notices could unnecessarily alarm shareholders when the institution continues to have a reasonable margin to protect its investment. The FCC also argued that the FCA should provide additional notice and opportunity for comment before adopting a notice requirement triggered by failure to meet the total surplus standard, which was not in effect at the time the notice requirement was proposed.

The FCA believes that persuasive arguments exist for adopting a total surplus trigger for the notice to shareholders, as explained in the proposed and final capital regulations.¹² However, the FCA has decided not to adopt a total surplus standard as the triggering point for the notice at this time. Rather, the FCA will carefully monitor implementation of the new capital standards and will consider changing the notice trigger from the PCR to the total surplus ratio as FCS institutions gain experience with the new standards.

III. Combined Financial Statement Presentation Requirements

The FCA proposed removing the requirement that banks must present the financial statements of the bank and its related associations on a combined basis. The intent of the proposal was to facilitate the presentation of financial statements by FCS institutions in a manner that conforms with GAAP. Under the proposed regulations, banks that present their financial statements on a stand-alone basis would be required to present, in the footnotes to their financial statements, a condensed statement of condition and statement of income for their related associations on a combined basis. The FCA adopts the regulations substantially as proposed.

In its comment concurring with this proposal, the FCC requested that the FCA clarify the language of § 620.2(g)(2) to indicate that banks presenting their financial statements on a stand-alone

¹¹ The total surplus to risk-adjusted assets standard is part of the new capital requirements recently adopted by the FCA. See 62 FR 4429, January 30, 1997.

¹² See 60 FR 38521, July 27, 1995. See also "Basis for Conclusions and Positions Taken in the Final Capital Adequacy Regulations" at 62 FR 4429, 4434, January 30, 1997.

⁹ All FCS institutions were in compliance with the regulatory minimum permanent capital standard as of December 31, 1996.

¹⁰ FCA Bookletter No. 256—OFA, Permanent Capital Ratio—Average Daily Balance, May 24, 1990.

basis are only required to present the supplemental combined statements in the footnotes accompanying their annual reports. The final regulations include this suggested clarification. Further, the FCC requested that the FCA confirm that once a reporting entity is determined under GAAP to be the preferred reporting entity, it would require a significant change in facts and circumstances to change the reporting basis of such entity. The FCA agrees that, under GAAP, it would require a significant change in facts and circumstances to support a change in a reporting entity's method of financial statement presentation (e.g., from reporting on a combined basis to reporting on a stand-alone basis).

In general, the FCA believes the relationship between a bank and its related associations is an important one that warrants discussion in the financial statements to achieve full and complete disclosure regardless of how the bank presents its financial statements. In adopting the regulations substantially as proposed, the FCA reiterates its position that presentation of combined financial statements conforms with GAAP and is the most appropriate method of disclosure to shareholders of FCBs and their related associations. Similarly, based on the financial and operational interdependence of the banks and their associations, and the banks' joint and several liability for Systemwide debt securities, the FCA believes combined financial statements continue to provide the most meaningful disclosure under GAAP for purposes of the System's reports to investors.

Under final § 620.4, any bank that presents its financial statements on a combined basis must distribute its annual report to the shareholders of related associations. Where bank preparation of bank-only financial statements is supported by GAAP, the regulation does not require that the bank distribute its annual report to the shareholders of related associations in ordinary circumstances. However, § 620.4(b)(2) provides that for periods where the bank has experienced a significant event that has a material effect on the associations, the bank's annual report must be distributed to the related associations' shareholders.

IV. Technical Changes to Part 620

The FCA proposed several technical changes to part 620 to clarify the reporting requirements of related organizations. The FCA received no comments on the proposed changes. The amendments are adopted as proposed.

V. Report to Investors

Lastly, the FCA proposed to add new § 630.3(f), which would permit the Federal Farm Credit Banks Funding Corporation to incorporate by reference information contained in offering documents for Farm Credit debt securities into the Systemwide financial reports to investors. The FCA received one comment in support of the new section and adopts § 630.3(f) as proposed.

VI. Regulatory Impact

The FCA has determined that the final regulations will not have a significant effect on the general economy and are not a significant regulatory action under Executive Order 12866. In addition, the final regulations pertain only to FCS institutions and, therefore, will not conflict with the rules and regulations of other financial regulatory agencies. Due to the nature of the regulations, it is unlikely that the regulations will have any material impact on governmental entitlements, grants, user fees, or loan programs.

List of Subjects

12 CFR Part 620

Accounting, Agriculture, Banks, banking, Reporting and recordkeeping requirements, Rural areas.

12 CFR Part 630

Accounting, Agriculture, Banks, banking, Credit, Organization and functions (Government agencies), Reporting and recordkeeping requirements, Rural areas.

For the reasons stated in the preamble, parts 620 and 630 of chapter VI, title 12 of the Code of Federal Regulations are amended to read as follows:

PART 620—DISCLOSURE TO SHAREHOLDERS

1. The authority citation for part 620 continues to read as follows:

Authority: Secs. 5.17, 5.19, 8.11 of the Farm Credit Act (12 U.S.C. 2252, 2254, 2279aa–11); sec. 424 of Pub. L. 100–233, 101 Stat. 1568, 1656.

Subpart A—General

2. Section 620.1 is amended by redesignating paragraphs (o), (p), and (q) as new paragraphs (p), (q), and (r), respectively, and adding new paragraph (o) to read as follows:

§ 620.1 Definitions.

* * * * *

(o) *Report* refers to the annual report, quarterly report, notice, or information

statement required by this part unless otherwise specified.

* * * * *

3. Section 620.2 is amended by revising paragraphs (a), (b)(3)(i), and (f) through (i) to read as follows:

§ 620.2 Preparing and filing the reports.

* * * * *

(a) Three copies of each report required by this section, including financial statements and related schedules, exhibits, and all other papers and documents that are part of the report shall be filed with the Chief Examiner, Farm Credit Administration, McLean, Virginia 22102–5090, or with such other Farm Credit Administration offices as the Chief Examiner designates. The Farm Credit Administration must receive the report within the period prescribed under applicable subpart sections. The reports shall be available for public inspection at the issuing institution and the Farm Credit Administration office with which the reports are filed. Bank reports shall also be available for public inspection at each related association office.

(b) * * *

(3)(i) For each quarterly report or notice filed under this section, each member of the board or one of the following board members formally designated by action of the board to certify reports of condition and performance on behalf of the individual board members: The chairperson of the board; the chairperson of the audit committee; or a board member designated by the chairperson of the board.

* * * * *

(f) No disclosure required by subparts B and E of this part shall be deemed to violate any regulation of the Farm Credit Administration.

(g) Each Farm Credit institution shall present its reports in accordance with generally accepted accounting principles and in a manner that provides the most meaningful disclosure to shareholders.

(1) Any Farm Credit institution that presents its annual and quarterly financial statements on a combined or consolidated basis shall also include in the report the statement of condition and statement of income of the institution on a stand-alone basis. The stand-alone statements may be in summary form and shall disclose the basis of presentation if different from accounting policies of the combined or consolidated statements.

(2) Any bank that prepares its financial statements on a stand-alone basis shall provide in the footnotes

accompanying its annual report supplemental information containing a condensed statement of condition and statement of income for the bank's related associations on a combined basis. The condensed statements may be unaudited and shall disclose the basis of presentation if different from accounting policies of the bank-only statements.

(h)(1) Each annual report or notice shall include a statement in a prominent location within the report or notice that the institution's quarterly reports are available free of charge on request. The statement shall include approximate dates of availability of the quarterly reports and the telephone numbers and addresses where shareholders may obtain a copy of the reports.

(2) Each association shall include a statement in a prominent location within each report that the shareholders' investment in the association may be materially affected by the financial condition and results of operations of the related bank and (if not otherwise provided) that a copy of the bank's financial reports to shareholders will be made available free of charge on request. The statement shall also include the telephone numbers and addresses where shareholders may obtain copies of the related bank's financial reports.

(3) Each institution shall, after receiving a request for a report, mail or otherwise furnish the report to the requestor. The first copy of the requested report shall be provided to the requestor free of charge.

(i) Any events that have affected one or more related organizations of the reporting institution that are likely to have a material effect on the financial condition, results of operations, cost of funds, or reliability of sources of funds of the reporting institution shall be considered significant events for the reporting institution and shall be disclosed in the reports. Any significant event affecting the reporting institution that occurred during the preceding fiscal quarters that continues to have a material effect on the reporting institution shall be considered significant events of the current fiscal quarter and shall be disclosed in the reports.

Subpart B—Annual Report to Shareholders

4. Section 620.4 is amended by revising paragraph (b) to read as follows:

§ 620.4 Preparing and distributing the annual report.

* * * * *

(b)(1) Any bank that presents its financial statements on a combined

basis shall distribute its annual report to the shareholders of related associations within the period required by paragraph (a) of this section. Each bank shall coordinate such distribution with its related associations.

(2) Any bank that presents its financial statements on a bank-only basis shall distribute its annual report to the shareholders of related associations within the period required by paragraph (a) of this section in all instances where the bank experiences a significant event that has a material effect on the associations. Each bank shall coordinate such distribution with its related associations.

* * * * *

5. Section 620.5 is amended by revising paragraph (g)(2)(vi) to read as follows:

§ 620.5 Contents of the annual report to shareholders.

(g) * * *

(2) * * *

(vi) Discuss any events affecting a related organization that are likely to have a material effect on the reporting institution's financial condition, results of operations, cost of funds, or reliability of sources of funds.

* * * * *

Subpart C—Quarterly Report

6. The heading for subpart C is revised as set forth above.

7. Section 620.10 is revised to read as follows:

§ 620.10 Preparing the quarterly report.

(a) Each Farm Credit bank and direct lender association shall prepare a quarterly report within 45 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

(b) The report shall contain, at a minimum, the information specified in § 620.11 and, in addition, such other material information (including significant events) as is necessary to make the required disclosures, in light of the circumstances under which they are made, not misleading.

8. Part 620 is amended by redesignating subparts D, E, and F as new subparts E, F, and G, respectively, and adding a new subpart D to read as follows:

Subpart D—Notice to Shareholders

§ 620.15 Notice.

(a) Each Farm Credit bank and direct lender association shall prepare, file with the Farm Credit Administration, and distribute a notice to shareholders,

within 30 days following the monthend that the institution initially determines that it is not in compliance with the minimum permanent capital standard prescribed under § 615.5205 of this chapter.

(b) An institution that has given notice to shareholders pursuant to paragraph (a) of this section or subsequent notice pursuant to this paragraph shall also prepare, file with the Farm Credit Administration, and distribute to shareholders a notice within 45 days following the end of any subsequent quarter at which the institution's permanent capital ratio decreases by one-half of 1 percent or more from the level reported in the most recent notice distributed to shareholders.

(c) Each institution required to prepare a notice under § 620.15 (a) or (b) shall distribute the notice to shareholders by mail or otherwise furnish the information required in the notice by publishing it in any publication with circulation wide enough to be reasonably assured that all of the institution's shareholders have access to the information in a timely manner.

§ 620.17 Contents of the notice.

(a) The information required to be included in a notice must be conspicuous, easily understandable, and not misleading.

(b) A notice, at a minimum, shall include:

(1) A statement that:

(i) Briefly describes the regulatory minimum permanent capital standard established by the Farm Credit Administration and the notice requirement of § 620.15(a);

(ii) Indicates the institution's current level of permanent capital; and

(iii) Notifies shareholders that the institution's permanent capital is below the Farm Credit Administration regulatory minimum standard.

(2) A statement of the effect that noncompliance has had on the institution and its shareholders, including whether the institution is currently prohibited by statute or regulation from retiring stock or distributing earnings or whether the Farm Credit Administration has issued a capital directive or other enforcement action to the institution.

(3) A complete description of any event(s) that may have significantly contributed to the institution's noncompliance with the minimum permanent capital standard.

(4) A statement that the institution is required by regulation to distribute another notice to shareholders within 45

days following the end of any subsequent quarter at which the institution's permanent capital ratio decreases by one half of 1 percent or more from the level reported in the notice.

Subpart E—Association Annual Meeting Information Statement

9. Section 620.20 is amended by removing paragraph (c) and revising paragraph (b) to read as follows:

§ 620.20 Preparing and distributing the information statement.

(b) The statement shall incorporate by reference the annual report to shareholders required by subpart B of this part and contain the information specified in § 620.21 and such other material information as is necessary to make the required statement, in light of the circumstances under which it is made, not misleading.

PART 630—DISCLOSURE TO INVESTORS IN SYSTEMWIDE AND CONSOLIDATED BANK DEBT OBLIGATIONS OF THE FARM CREDIT SYSTEM

10. The authority citation for part 630 is revised to read as follows:

Authority: Secs. 5.17, 5.19 of the Farm Credit Act (12 U.S.C. 2252, 2254).

Subpart A—General

11. Section 630.3 is amended by redesignating existing paragraphs (f) and (g) as new paragraphs (g) and (h), respectively, and adding new paragraph (f) to read as follows:

§ 630.3 Publishing and filing the report to investors.

(f) Information in documents prepared for investors in connection with the offering of debt securities issued through the Federal Farm Credit Banks Funding Corporation may be incorporated by reference in the annual and quarterly reports in answer or partial answer to any item required in the reports under this part. A complete description of any offering documents incorporated by reference must be clearly identified in the report (e.g., *Federal Farm Credit Banks Consolidated Systemwide Bonds and Discount Notes*—Offering Circular issued on [insert date]). Offering documents incorporated by reference in either an annual or quarterly report prepared under this part must be filed with the Chief Examiner, Farm Credit Administration, McLean, Virginia 22102-5090, either prior to or at the

time of submission of the report under paragraph (h) of this section. Any offering document incorporated by reference is subject to the delivery and availability requirements set forth in § 630.4(a) (5) and (6).

* * * * *

Dated: March 20, 1997.

Jeanette Brinkley,

Acting Secretary, Farm Credit Administration Board.

[FR Doc. 97-8000 Filed 3-28-97; 8:45 am]

BILLING CODE 6705-01-P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. 96-ANE-34; Amendment 39-9956; AD 97-05-12]

RIN 2120-AA64

Airworthiness Directives; General Electric Aircraft Engines CT7 Series Turboprop Engines

AGENCY: Federal Aviation Administration, DOT.

ACTION: Final rule; request for comments.

SUMMARY: This amendment adopts a new airworthiness directive (AD) that is applicable to General Electric Aircraft Engines (GE) CT7 series turboprop engines. This action requires eddy current inspection of disk holes of stage 1 and 2 gas generator turbine (GGT) disks for cracks, and, if necessary, replacement with serviceable parts. This amendment is prompted by a report of a stage 2 GGT disk failure. The actions specified in this AD are intended to prevent a stage 1 or 2 GGT disk failure, which could result in an uncontained engine failure and damage to the aircraft.

DATES: Effective April 15, 1997.

The incorporation by reference of certain publications listed in the regulations is approved by the Director of the Federal Register as of April 15, 1997.

Comments for inclusion in the Rules Docket must be received on or before May 30, 1997.

ADDRESSES: Submit comments in triplicate to the Federal Aviation Administration (FAA), New England Region, Office of the Assistant Chief Counsel, Attention: Rules Docket No. 96-ANE-34, 12 New England Executive Park, Burlington, MA 01803-5299.

The service information referenced in this AD may be obtained from GE Aircraft Engines, 1000 Western Ave.,

Lynn, MA 01910; telephone (617) 594-3140, fax (617) 594-4805. This information may be examined at the FAA, New England Region, Office of the Assistant Chief Counsel, 12 New England Executive Park, Burlington, MA; or at the Office of the Federal Register, 800 North Capitol Street, NW., suite 700, Washington, DC.

FOR FURTHER INFORMATION CONTACT: Dave Keenan, Aerospace Engineer, Engine Certification Office, FAA, Engine and Propeller Directorate, 12 New England Executive Park, Burlington, MA 01803-5299; telephone (617) 238-7139, fax (617) 238-7199.

SUPPLEMENTARY INFORMATION: The Federal Aviation Administration (FAA) has received a report of a General Electric Aircraft Engines (GE) CT7 series turboprop engine, installed on a SAAB-SCANIA SF340 aircraft, that experienced an uncontained stage 2 gas generator turbine (GGT) failure during takeoff. The investigation revealed that the failure was caused by a crack in a disk cooling hole. The most likely cause of the cracking was machining damage to the disk cooling hole during manufacturing. This condition, if not corrected, could result in a stage 1 or 2 GGT disk failure, which could result in an uncontained engine failure and damage to the aircraft.

The FAA has reviewed and approved the technical contents of GE (CT7-TP Series) Alert Service Bulletin (SB) A72-393, dated November 26, 1996, that lists by serial number (S/N) affected stage 1 and 2 GGT disks, and (CT7-TP Series) SB 72-390, Revision 1, dated December 11, 1996, that describes the procedures for eddy current inspection (ECI) of disk holes for cracks.

Since an unsafe condition has been identified that is likely to exist or develop on other engines of the same type design, this AD is being issued to prevent stage 1 or 2 GGT disk failure, which could result in an uncontained engine failure and damage to the aircraft. This AD requires a one-time ECI for cracks of disk holes of stage 1 and 2 GGT disks, and, if necessary, replacement with serviceable parts. The inspection compliance time is at the next GGT module removal, or 9 months after the effective date of this AD, whichever occurs first. The actions are required to be accomplished in accordance with the SBs described previously.

Since a situation exists that requires the immediate adoption of this regulation, it is found that notice and opportunity for prior public comment hereon are impracticable, and that good