

(2) *Internal controls.* (i) Each bank holding company or foreign bank shall cause its subsidiary banks, thrifts, branches or agencies³ to adopt policies and procedures, including appropriate limits on exposure, to govern their participation in transactions underwritten or arranged by a section 20 affiliate.

(ii) Each bank holding company or foreign bank shall ensure that an independent and thorough credit evaluation has been undertaken in connection with participation by a bank, thrift, or branch or agency in such transactions, and that adequate documentation of that evaluation is maintained for review by examiners of the appropriate federal banking agency and the Federal Reserve.

(3) *Interlocks restriction.* (i) Directors, officers or employees of a bank or thrift subsidiary of a bank holding company, or a bank or thrift subsidiary or branch or agency of a foreign bank, shall not serve as a majority of the board of directors or the chief executive officer of an affiliated section 20 subsidiary.

(ii) Directors, officers or employees of a section 20 subsidiary shall not serve as a majority of the board of directors or the chief executive officer of an affiliated bank or thrift subsidiary or branch or agency, except that the manager of a branch or agency may act as a director of the underwriting subsidiary.

(iii) For purposes of this standard, the manager of a branch or agency of a foreign bank generally will be considered to be the chief executive officer of the branch or agency.

(4) *Customer disclosure*—(i) *Disclosure to section 20 customers.* A section 20 subsidiary shall provide each of its retail customers⁴ the same written and oral disclosures, and obtain the same customer acknowledgment, required by the Interagency Statement on Retail Sales of Nondeposit Investment Products as if it were a depository institution.

(ii) *Disclosures accompanying investment advice.* A director, officer, or employee of a bank, thrift, branch or agency may not express an opinion on the value or the advisability of the purchase or the sale of a bank-ineligible security that he or she knows is being underwritten or dealt in by a section 20 affiliate unless he or she notifies the customer of the affiliate's role.

(5) *Intra-day credit.* Any intra-day extension of credit to a section 20 subsidiary by an affiliated bank, thrift, branch or agency shall be on market terms consistent with section 23B of the Federal Reserve Act.

(6) *Restriction on funding purchases of securities during underwriting period.* No bank, thrift, branch or agency shall knowingly extend credit to a customer secured by, or for the purpose of purchasing, any bank-ineligible security that a section 20 affiliate is underwriting or has underwritten within the past 30 days, unless:

(i) The extension of credit is made pursuant to, and consistent with any conditions imposed in a preexisting line of credit that was not established in contemplation of the underwriting; or

(ii) The extension of credit is made in connection with clearing transactions for the section 20 affiliate.

(7) *Reporting requirement.* (i) Each bank holding company or foreign bank shall submit quarterly to the appropriate Federal Reserve Bank any FOCUS report filed with the NASD or other self-regulatory organizations, and any information required by the Board to monitor compliance with these operating standards and section 20 of the Glass-Steagall Act, on forms provided by the Board.

(ii) In the event that a section 20 subsidiary is required to furnish notice concerning its capitalization to the Securities and Exchange Commission pursuant to 17 CFR 240.17a-11, a copy of the notice shall be filed concurrently with the appropriate Federal Reserve Bank.

(8) *Foreign banks.* A foreign bank shall ensure that any extension of credit by its branch or agency to a section 20 affiliate, and any purchase by such branch or agency, as principal or fiduciary, of securities for which a section 20 affiliate is a principal underwriter, conforms to sections 23A and 23B of the Federal Reserve Act, and that its branches and agencies not advertise or suggest that they are responsible for the obligations of a section 20 affiliate, consistent with section 23B(c) of the Federal Reserve Act.

By order of the Board of Governors of the Federal Reserve System, August 22, 1997.

William W. Wiles,

Secretary of the Board.

[FR Doc. 97-22840 Filed 8-26-97; 8:45 am]

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DEPARTMENT OF THE TREASURY

Office of Thrift Supervision

12 CFR Part 543

[No. 97-83]

RIN 1550-AB06

Incorporation, Organization, and Conversion of Federal Mutual Associations

AGENCY: Office of Thrift Supervision, Treasury.

ACTION: Final rule.

SUMMARY: The Office of Thrift Supervision (OTS) is issuing a final rule amending its regulations governing conversions to federal mutual savings associations. The final rule permits the direct conversion of all types of mutual depository institutions into federal mutual savings associations. This final rule simplifies the conversion process.

EFFECTIVE DATE: August 27, 1997.

FOR FURTHER INFORMATION CONTACT: David A. Permut, Counsel (Banking and Finance) Business Transactions Division (202/906-7505); Scott Ciardi, Senior Analyst, Corporate Activities Division (202/906-6960); or Kevin A. Corcoran, Assistant Chief Counsel for Business Transactions (202/906-6962), Business Transactions Division, Chief Counsel's Office, Office of Thrift Supervision, 1700 G Street, NW., Washington, D.C. 20552.

SUPPLEMENTARY INFORMATION:

I. Background

The OTS is issuing a final regulation that permits all types of mutual depository institutions to convert directly to a federal mutual savings association charter.¹ The regulation is consistent with OTS's long-standing position that depository institutions should be free to operate under whatever charter best suits their business needs, consistent with safety and soundness. The OTS previously has granted federal savings associations explicit authority to convert directly to a bank charter,² and has promulgated regulations enabling stock depository institutions to convert directly to a federal stock savings association charter.³

The OTS published a notice of proposed rulemaking regarding direct

¹ Canada, Barclays PLC and Barclays Bank PLC, 76 Federal Reserve Bulletin 158, (1990).

² The terms "branch" and "agency" refer to a U.S. branch and agency of a foreign bank.

³ For purposes of this operating standard, a retail customer is any customer that is not an "accredited investor" as defined in 17 CFR 230.501(a).

¹ Section 2(5) of the Home Owners' Loan Act defines "federal savings associations" to include federal savings associations and federal savings banks. Accordingly, references herein to federal savings associations include federal savings banks.

² 12 CFR 552.2-7.

³ 12 CFR 552.2-6.

conversions of mutual depository institutions to federal mutual charters in the **Federal Register** on April 2, 1997.⁴ The public comment period closed on June 9, 1997. The OTS received two comments regarding the proposal, both from trade associations. Both commenters supported the proposal generally, without commenting on specific aspects of the proposed regulation. In light of the commenters' support and the OTS's continuing belief that this approach will promote efficiency and reduce regulatory burden, today's final regulation adopts the proposed regulation without changes.

II. Description of the Final Rule

Pursuant to its authority under section 5(a) of the Home Owners' Loan Act ("HOLA"), the OTS is amending §§ 543.8 and 543.9 as proposed, to permit any type of mutual depository institution to convert directly to a federal mutual savings association.⁵ Previously, mutual depository institutions could convert to a federal mutual charter indirectly, by chartering a federal mutual association, and combining the other depository institution with the new federal association in a merger or purchase and assumption transaction. The final regulation eliminates unnecessary regulatory burdens associated with indirect conversions. The rule applies all existing regulatory requirements currently applicable to direct conversions by state mutual associations and savings banks to this expanded class of applicants and revises §§ 543.8 and 543.9 as described below.

Section 543.8 permits conversions of mutual depository institutions to federal mutual associations, subject to three requirements. First, the institution must, upon consummation of the conversion, have its deposits insured by the Federal Deposit Insurance Corporation ("FDIC"). See also § 543.9(c)(3).

Second, the depository institution, in accomplishing the conversion, must comply with all applicable state and federal statutes and regulations, and OTS policies, and must obtain all necessary regulatory and member approvals. This provision requires, among other things, that the converting depository institution have the authority to convert to a federal association under

the statutes and regulations applicable to the converting institution and that the conversion be approved by a vote of its members pursuant to the laws applicable to the converting institution.

Third, a depository institution converting to a federal mutual association charter must conform with the investment limitations of Section 5(c) of the HOLA⁶ within a time frame prescribed by the OTS. Section 552.2-6 of the OTS regulations already contains this requirement for federal stock associations.

The rule also revises Section 543.9(a) to set forth the filing requirements. Section 543.9(c) is revised to eliminate the statement that the OTS will not consider the application of a converting institution not insured by the FDIC until the FDIC completes an eligibility examination. The OTS does not believe it is necessary to delay consideration of an application until the eligibility examination has been completed. Moreover, the OTS has the ability to deem a conversion application incomplete, if processing of the application hinges on the final results of the eligibility examination, under the application processing procedures at Section 516.2.

In addition, Section 543.9(c) now explicitly provides that the OTS will consider applications to convert to a federal mutual charter under the standards set forth at section 5(e) of the HOLA, as well as Section 543.2(g). The revised regulation explicitly states that converting institutions that have been in existence as depository institutions for less than three years will be subject to all approval criteria and other requirements applicable to *de novo* federal associations.⁷

The OTS notes that applicants utilizing the provisions of the new direct conversion regulation should file their applications on OTS Form number 1582.

IV. Executive Order 12866

The Director of the OTS has determined that this final rule does not constitute a "significant regulatory action" for the purposes of Executive Order 12866.

V. Regulatory Flexibility Act Analysis

Pursuant to Section 605(b) of the Regulatory Flexibility Act, the OTS certifies that this rule, which will reduce regulatory burdens, will not have a significant economic impact on a substantial number of small entities.

⁶ 12 U.S.C. 1464(c).

⁷ See 12 CFR 543.3, added by 62 FR 27177, May 19, 1997.

The final regulation merely reduces regulatory burden for all institutions, including small entities that convert from a mutual charter to a federal mutual charter. Accordingly, a Regulatory Flexibility Analysis is not required.

VI. Unfunded Mandates Act of 1995

Section 202 of the Unfunded Mandates Reform Act of 1995, Public Law 104-4 (Unfunded Mandates Act), requires that an agency prepare a budgetary impact statement before promulgating a rule that includes a federal mandate that may result in expenditures by state, local, and tribal governments, in the aggregate, or by the private sector, or \$100 million or more in any one year. If a budgetary impact statement is required, Section 205 of the Unfunded Mandates Act also requires an agency to identify and consider a reasonable number of regulatory alternatives before promulgating a rule. The OTS has determined that the final rule will not result in expenditures by state, local or tribal governments or by the private sector of \$100 million or more. Accordingly, this rulemaking is not subject to Section 202 of the Unfunded Mandates Act.

VII. Effective Date

The OTS finds good cause for dispensing with the 30-day delayed effective date ordinarily prescribed by the Administrative Procedure Act (5 U.S.C. 553(d)). This rule confers a benefit on any institution wishing to convert to a federal mutual charter by reducing the number of steps required for conversion.

In addition, section 302 of the Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4802(b)(1)) (CDRIA) delays the effective date of regulations promulgated by the Federal banking agencies that impose additional reporting, disclosure, or new requirements, to the first day of the first calendar quarter following publication of the final rule. OTS believes that CDRIA does not apply to this final rule because it imposes no new burden.

List of Subjects in 12 CFR Part 543

Conversions, Reporting and recordkeeping requirements, Savings associations.

Accordingly, the Office of Thrift Supervision amends chapter V, title 12, Code of Federal Regulations, as set forth below.

⁴ 62 FR 17115 (April 9, 1997).

⁵ As discussed in the proposal, section 5(a) of the HOLA gives the OTS plenary authority to provide for the organization and regulation of federal savings associations, consistent with the "best practices" of thrift institutions in the United States and for the purpose of encouraging such institutions to provide credit for housing safely and soundly.

PART 543—INCORPORATION, ORGANIZATION, AND CONVERSION OF FEDERAL MUTUAL ASSOCIATIONS

1. The authority citation for part 543 continues to read as follows:

Authority: 12 U.S.C. 1462, 1462a, 1463, 1464, 1467a, 2901 *et seq.*

2. Section 543.8 is amended by revising the heading and paragraph (a) to read as follows:

§ 543.8 Conversion of depository institutions to Federal mutual charter.

(a) With the approval of the OTS, any depository institution, as defined in § 552.13 of this chapter, that is in mutual form, may convert into a Federal mutual savings association, provided that:

(1) The depository institution, upon conversion, will have its deposits insured by the Federal Deposit Insurance Corporation;

(2) The depository institution, in accomplishing the conversion, complies with all applicable state and federal statutes and regulations, and OTS policies, and obtains all necessary regulatory and member approvals; and

(3) The resulting Federal mutual association conforms, within the time prescribed by the OTS, to the requirements of section 5(c) of the Home Owners' Loan Act.

* * * * *

3. Section 543.9 is amended by revising paragraph (a) and the introductory text of paragraph (c) to read as follows:

§ 543.9 Application for conversion to Federal mutual charter.

(a) *Filing.* Any depository institution that proposes to convert to a Federal mutual association as provided in § 543.8 shall, after approval by its board of directors, file in accordance with § 516.1 of this chapter an application on forms obtained from the OTS. The applicant shall submit any financial statements or other information the OTS may require.

* * * * *

(c) *Action on application.* The OTS will consider such application and any information submitted with the application, and may approve the application in accordance with section 5(e) of the Home Owners' Loan Act and § 543.2(g)(1). Converting depository institutions that have been in existence less than three years will be subject to all approval criteria and other requirements applicable to *de novo* Federal associations. Approval of an

application and issuance by the OTS of a charter will be subject to:

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Dated: August 19, 1997.

By the Office of Thrift Supervision.

Nicolas P. Retsinas,

Director.

[FR Doc. 97-22798 Filed 8-26-97; 8:45 am]

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DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 39

[Docket No. 96-ANE-40; Amendment 39-10112; AD 97-18-02]

RIN 2120-AA64

Airworthiness Directives; Hartzell Propeller Inc. ()HC-() (2,3)(X,V)()-() Series and HA-A2V20-1B Series Propellers With Aluminum Blades

AGENCY: Federal Aviation Administration, DOT.

ACTION: Final rule; request for comments.

SUMMARY: This amendment supersedes four existing airworthiness directives (ADs), applicable to Hartzell Propeller Inc. ()HC-() (2,3)(X,V)()-() series propellers with aluminum blades, that currently require inspections for cracks in blade shanks and clamps. This amendment requires initial and repetitive dye penetrant and eddy current inspections of the blade and an optical comparator inspection of the blade retention area, and, if necessary, replacement with serviceable parts. In addition, this AD requires initial and repetitive visual and magnetic particle inspection of the blade clamp, dye penetrant inspection of the blade internal bearing bore, and, if necessary, replacement with serviceable parts. Also, for all HC-(1,4,5,8)(2,3)(X,V)()-() steel hub propellers, this AD requires an additional initial and repetitive visual and magnetic particle inspection of the hub and, if necessary, replacement with serviceable parts. This amendment is prompted by reports of cracked blades, blade clamps, and hubs and reports of blade separations. The actions specified by this AD are intended to prevent blade separation due to cracked blades, hubs, or blade clamps, which can result in loss of control of the airplane.

DATES: Effective September 11, 1997.

The incorporation by reference of certain publications listed in the regulations is approved by the Director of the Federal Register as of September 11, 1997.

Comments for inclusion in the Rules Docket must be received on or before October 27, 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-40, 12 New England Executive Park, Burlington, MA 01803-5299. Comments may also be sent via the Internet using the following address: "9-ad-engineprop@faa.dot.gov". Comments sent via the Internet must contain the docket number in the subject line.

The service information referenced in this AD may be obtained from Hartzell Propeller Inc., One Propeller Place, Piqua, OH 45356-2634, ATTN: Product Support; telephone (937) 778-4200, fax (937) 778-4321. This information may be examined at the FAA, New England Region, Office of the Assistant Chief Counsel, Burlington, MA; or at the Office of the Federal Register, 800 North Capitol Street, NW., suite 700, Washington, DC.

FOR FURTHER INFORMATION CONTACT: Tomaso DiPaolo, Aerospace Engineer, Chicago Aircraft Certification Office, FAA, Small Airplane Directorate, 2300 East Devon Ave., Des Plaines, IL 60018; telephone (847) 294-7031, fax (847) 294-7834.

SUPPLEMENTARY INFORMATION: The Federal Aviation Administration (FAA) issued airworthiness directive (AD) 68-13-02, Amendment 39-614 (33 FR 9252, June 22, 1968), applicable to Hartzell Propeller Inc. Model PHC-A3VF-4/V8433-2R and -4R propellers, to require repetitive inspections for cracks in blade shanks at intervals not to exceed 400 hours Time in Service (TIS). That action was prompted by reports of cracks in blade shanks. That condition, if not corrected, could result in loss of a blade due to blade shank cracks, which could result in loss of aircraft control.

The FAA issued AD 68-19-04, Amendment 39-868 (34 FR 18296, November 15, 1969), applicable to Hartzell Propeller Inc. Model HC-A2XF, HC-12X20, HC-82VF, BHC-A2XF, HC-13X20, HC-82VK, HC-A2XK, HC-D3X20, HC-82VL, HC-A2XL, HC-82X20, HC-83XF, HC-A3XK, HC-82XF, HC-83XK, HC-A3VK, HC-82XG, HC-83X20, HC-82XK, and HC-82KL propellers, with 8433, V8433, 8833, and V8833 blades, to require repetitive inspections for cracks in blade shanks at intervals not to exceed 1,000 hours TIS. That action was prompted by reports of cracks in blade shanks. That condition, if not corrected, could result in loss of a blade due to blade shank cracks,