

(iii) An endorser, guarantor or comaker on the credit.

§ 614.4460 What approval policy must you adopt to make loans to designated parties?

You must adopt an approval policy to make loans to designated parties. Your policy must set forth the procedures you will follow in approving loans to designated parties. Depending on the size of the loan, you may choose from any of the following approval procedures:

(a) If you are a bank or association, your board of directors (or a committee of your board) may approve loans to designated parties;

(b) If you are an association, your funding bank may approve loans to designated parties; or

(c) If you are a bank or association, your board of directors may delegate to your management approval for loans of \$25,000 or less to designated parties, with post review by your board of directors.

Dated: March 13, 2000.

Vivian L. Portis,

Secretary, Farm Credit Administration Board.
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FARM CREDIT ADMINISTRATION

12 CFR Part 620

RIN 3052-AB94

Disclosure to Shareholders; Annual Report

AGENCY: Farm Credit Administration.

ACTION: Proposed rule.

SUMMARY: Our regulations require Farm Credit Banks (FCBs) and agricultural credit banks (collectively referred to as banks) that present their financial statements on a combined basis to distribute their annual reports to the shareholders of their related associations. We propose to revise this requirement to provide that a bank generally need not distribute its annual report to the shareholders of any related association that discloses, in a separate section of its annual report, specified information about its financial and supervisory relationship with the bank. The proposed amendment would, however, require any bank that experiences a "significant event" to distribute its annual report to the shareholders of its related associations. We also propose to amend our regulation to provide that shareholders of Farm Credit System (System) institutions may obtain copies of an institution's financial reports by

electronic mail or on its Web site, as well as by traditional mail or telephone. This revision would benefit banks, associations and their shareholders because it would allow them to share necessary information at a reduced cost.

DATES: Please send your comments to us by April 17, 2000.

ADDRESSES: You may send comments by electronic mail to "reg-com@fca.gov" or through the Pending Regulations section of our Web site at "www.fca.gov." You may also send comments to Patricia W. DiMuzio, Director, Regulation and Policy Division, Office of Policy and Analysis, Farm Credit Administration, 1501 Farm Credit Drive, McLean, Virginia 22102-5090 or by fax to (703) 734-5784. You may review copies of all comments we receive in the Office of Policy and Analysis, Farm Credit Administration.

FOR FURTHER INFORMATION CONTACT:

Robert E. Donnelly, Senior Accountant, Office of Policy and Analysis, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4450, TDD (703) 883-4444;

or

Jennifer A. Cohn, Attorney, Office of General Counsel, Farm Credit Administration, McLean, VA 22102-5090, (703) 883-4020, TDD (703) 883-4444.

SUPPLEMENTARY INFORMATION:

I. Objectives

The objectives of our proposed amendment are to:

- Allow banks (and indirectly their related associations and their shareholders) to save significant printing and mailing costs by relaxing the requirement that they must routinely distribute their annual reports to the shareholders of their related associations; and
- Ensure that association shareholders continue to receive the information they need about how their associations' relationships with related banks affect their own investments in the associations.

II. Background

A. Reducing Regulatory Burden

On August 18, 1998, we published a notice in the **Federal Register** that invited commenters to identify existing regulations and policies that impose unnecessary burdens on the System. *See* 63 FR 44176 (Aug. 18, 1998).¹ We specifically requested commenters to focus on those regulations and policies

that are ineffective, duplicate other requirements, or impose burdens that are greater than the benefits received. We took this action as part of our continuing effort to improve the regulatory environment so the System can better serve farmers and ranchers.

Among the comment letters we received, two asked us to repeal the requirement imposed by § 620.4(b)(1). This regulation requires any bank that presents its financial statements on a combined basis with its related associations to distribute its annual report to the shareholders of the related associations. One comment letter was from the Farm Credit System Accounting Standards Work Group (ASWG), on behalf of banks that present their financial statements on a combined basis. The other comment letter was from the Farm Credit Bank of Texas (which also has a representative on the ASWG). Both commenters contended the requirement that banks distribute their annual report to an association's shareholders is of minimal benefit to those shareholders. The commenters pointed out that we already require associations to include in their own annual reports information about their financial and supervisory relationships with their related banks. The commenters stated that because of the high costs of printing and mailing annual reports to the associations' shareholders (costs that are reflected in the costs of funds of the associations and interest rates to their shareholders), the regulation imposes an undue burden. We considered these comments in drafting this proposed rule.

B. Policy Background of This Rule

We first required banks to distribute their annual reports to their related associations' shareholders in March 1986. At that time, our regulations required banks to supervise closely the activities of their related associations. In addition, many associations were experiencing severe financial difficulties and were relying heavily on their related banks for financial assistance. During the mid-1980s, banks were also experiencing their own financial difficulties. These financial difficulties were caused both by rapid changes in interest rates that hindered the banks' debt funding strategies and by the financial stress from the banks providing financial assistance to their related associations.

In part because banks and associations were so interdependent, in the mid-1980s we issued a regulation requiring banks to distribute their annual reports to shareholders of related associations. In this way, the

¹ On November 18, 1998, we extended the comment period to January 19, 1999. *See* 63 FR 64013 (Nov. 18, 1998).

associations' shareholders had access to full information about how the financial condition of the related banks affected their own investments in their associations. In addition, we issued a regulation requiring banks to present their financial statements on a combined basis with their related associations.²

Through the intervening years, with the objective of making associations more accountable for their actions, we have changed or removed many of the regulatory provisions that caused associations to be financially dependent on their banks. For instance, we adopted regulations that have caused associations to strengthen their capital positions. In addition, we are using our enforcement authorities effectively to cause associations to operate in a more safe and sound manner. Because of these and other factors, all associations have improved their financial strength to a point that they are able to operate in a more independent manner.

In 1997, recognizing that circumstances had changed and that GAAP may no longer require certain banks to present their financial statements on a combined basis, we amended our regulations to allow banks to present their financial statements on any basis that conforms to GAAP.³ At the same time, we amended the annual report distribution requirement to allow any bank that presents its financial statements on a bank-only basis (*e.g.*, CoBank, ACB (CoBank)) not to distribute its annual reports to the shareholders of its related associations on a routine basis. We now require banks that prepare their financial statements on a bank-only basis to provide annual reports to their related associations' shareholders only when the banks are affected by a "significant event."⁴ We have ensured, however, that shareholders continue to receive information about the financial and supervisory relationship between their associations and the related bank. In another regulation, we require all associations to disclose in their annual reports information about these relationships.⁵ We believe this set of regulations strikes the proper balance

between a bank's desire to minimize costs and shareholders' needs to receive information about how the bank's condition affects the operations and financial condition of their associations.

III. Analysis of Regulation Amendments by Section

This revision would make several changes based on our plain language initiatives. In addition, it would allow shareholders to obtain copies of an institution's financial reports by electronic mail or on its Web site, as well as by mail or telephone.

Finally, the revision would provide that a bank generally need not distribute its annual report to the shareholders of any related association that discloses, in a separate section of its annual report, specified information about its financial and supervisory relationship with the bank. The regulation would, however, require any bank that experiences a "significant event" to distribute its annual report to the shareholders of its related associations. We believe our proposed revision would provide the regulatory relief the commenters requested. As discussed above in section II.B., we have allowed CoBank not to distribute its annual reports to the shareholders of related associations since 1996. We believe this arrangement has been beneficial for the affected shareholders and associations as well as CoBank. This revision would extend similar relief to the FCBs.⁶

A. Section 620.2(h)

Existing § 620.2(h) requires institutions, in relevant part, to provide telephone numbers and addresses where shareholders may get copies of certain financial reports the institutions are required to make available. We propose to amend this rule to provide that institutions must also provide electronic mail and Web site addresses, if available. For institutions and shareholders that have this capability, we believe this extra method of receiving and responding to requests for financial reports would be cost-effective and convenient.

We also propose to reorganize this section using plain language. Other than the change discussed in the previous

paragraph, we do not propose to change the meaning of the section.

B. Section 620.4(b)

Existing § 620.4(b)(2) generally allows banks that present their financial statements on a bank-only basis not to distribute their annual reports to the shareholders of their related associations. These banks must distribute the reports to shareholders of related associations only when the banks experience a "significant event" that has a "material effect" on the associations, as those terms are defined in § 620.1 of our regulations. Currently, CoBank is the only bank that presents its financial statements on a bank-only basis. CoBank, therefore, is the only bank that we have not generally required to distribute its annual report to the shareholders of its related associations.⁷

Our amended regulation would treat all banks (including CoBank) in a similar way with respect to the distribution of annual reports. Banks generally would not need to distribute their annual reports to the shareholders of any associations that disclosed, in a separate section of their own annual reports, specified information about their financial and supervisory relationship with their banks.⁸ Any bank that experienced a "significant event" that has a "material effect" on the associations, however, would have to distribute its annual report to the shareholders of its related associations. The information included in this separate section is information that other existing regulations already require associations to disclose in their annual reports.⁹ Our amendment would merely provide that if an association presented this information in a separate section of its annual report, its related bank would not be required to distribute its own annual report to the association's shareholders.¹⁰

The separate section, which could incorporate by reference information from other sections of the annual report, would have to include:

⁷ Based on facts and circumstances to date, GAAP has required the banks (other than CoBank) to present their financial statements on a combined basis with their related associations. As a result, these banks have been subject to the requirements of existing § 620.4(b)(1), which requires them to distribute their annual reports to the shareholders of related associations on a routine basis.

⁸ Although this amended rule would permit banks not to distribute their annual reports on a routine basis, GAAP may continue to require them to present their financial statements on a combined basis depending on the facts and circumstances.

⁹ See §§ 620.2(h), 620.5.

¹⁰ This rule would not prohibit any bank from distributing its annual reports to the shareholders of related associations if it wished to do so.

² Based on the facts and circumstances that existed in the 1980s, this requirement conformed at that time with generally accepted accounting principles (GAAP).

³ See § 620.2(g), which reads: "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."

⁴ In addition, § 620.2(h)(3) requires all System institutions to make their reports available free of charge upon request.

⁵ See § 620.5.

⁶ In late 1999, the ASWG, on behalf of the FCBs, requested that we relieve the FCBs from having to distribute their annual reports to shareholders of related associations until any change to the regulation becomes effective. In January 2000, we provided a letter to the ASWG stating that, subject to the same conditions we are proposing in this regulatory amendment, we would take no action against any FCB that did not distribute its annual report as required by § 620.4(b)(1). Unless we tell the FCBs otherwise, our letter remains in effect until this rulemaking becomes effective.

1. The statement required by § 620.2(h)(2), telling shareholders:

- That their investment in the association may be materially affected by the financial condition and results of operations of the related bank;
- That (if not otherwise provided) a copy of the bank's financial reports to shareholders will be made available free of charge upon request; and
- The telephone numbers and addresses (including, if available, electronic mail and Web site addresses) where shareholders may obtain copies of the related bank's financial reports.

2. If applicable, the following information required by § 620.5:

- The association's obligation to borrow only from the bank unless the bank gives approval to the association to borrow elsewhere;
- The major terms of any capital preservation, loss sharing, or financial assistance agreements between the association and the bank;
- Any bank bylaw provisions authorizing the bank to access the capital of the association;
- The extent to which the bank has assumed the association's exposure to interest rate risk; and
- Any other material operational and financial conditions that may contribute to an interdependent relationship between the association and the bank.

If associations chose to present this information in a separate section of their annual reports, we believe shareholders would be able to review the information they need about how their associations' relationships with their related banks affect their own investments more easily. With this information, we believe shareholders would be able to decide whether they should ask for a copy of the bank's annual report. If a particular association chose not to present this information in a separate section, its related bank would continue to be required to distribute its annual report to the shareholders of that association.

We considered an alternative to our bank distribution proposal that would require the association, rather than its bank, to distribute the bank's annual report. Currently, associations reimburse their banks either directly or indirectly for the cost of preparing and distributing the banks' annual reports to the shareholders of associations. Allowing the banks to require their associations to distribute the banks' annual reports would provide added flexibility to the distribution process. We believe this added flexibility could lead to cost savings that would benefit not only the banks and their related associations, but also association shareholders. We note that regardless of

whether a bank or an association makes this distribution, the cost to the association should remain more or less the same. We ask commenters to consider whether this alternative is more appropriate.

Since 1996 we have permitted CoBank (because it presents its financial statements on a bank-only basis) not to distribute its annual reports to the shareholders of its related associations even if the associations have not presented the specified information in a separate section. We believe, however, that presenting this information in a separate section would impose minimal, if any, burden on CoBank's four related associations. In addition, we believe it is important to treat all System banks and associations in a consistent manner. Therefore, this rule would apply to CoBank as well as to the FCBs.

List of Subjects in 12 CFR Part 620

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

For the reasons stated in the preamble, we propose to amend part 620 of chapter VI, title 12 of the Code of Federal Regulations 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); secs. 424 of Pub. L. 100–233, 101 Stat. 1568, 1656.

Subpart A—General

2. Revise § 620.2(h)(1) and (2) to read as follows:

§ 620.2 Preparing and filing the reports.

* * * * *

(h)(1) Each annual report or notice must state, in a prominent location within the report or notice:

- (i) That the institution's quarterly reports are available free of charge on request;
 - (ii) The approximate dates the quarterly reports will be available; and
 - (iii) The telephone numbers and addresses (including, if available, electronic mail and Web site addresses) where shareholders may obtain a copy of the reports.
- (2) Each association must state, in a prominent location within each report:
- (i) That the shareholders' investment in the association may be materially affected by the financial condition and results of operations of the related bank;
 - (ii) That (if not otherwise provided) a copy of the bank's financial reports to

shareholders will be made available free of charge on request; and

- (iii) The telephone numbers and addresses (including, if available, electronic mail and Web site addresses) where shareholders may obtain copies of the related bank's financial reports.

* * * * *

Subpart B—Annual Report to Shareholders

3. Revise § 620.4(b) to read as follows:

§ 620.4 Preparing and distributing the annual report.

* * * * *

(b)(1) Except as required by paragraph (b)(2) of this section, a bank need not distribute its annual report to the shareholders of any related association that discloses, in a separate section of its annual report, its financial and supervisory relationship with the bank. This separate section may incorporate by reference information from other sections of the annual report. At a minimum, the separate section must include the statement required by § 620.2(h)(2) and the following information required by § 620.5, if applicable:

(i) The association's obligation to borrow only from the bank unless the bank gives approval to the association to borrow elsewhere;

(ii) The major terms of any capital preservation, loss sharing, or financial assistance agreements between the association and the bank;

(iii) Any bank bylaw provisions authorizing the bank to access the capital of the association;

(iv) The extent to which the bank has assumed the association's exposure to interest rate risk; and

(v) Any other material operational and financial conditions that may contribute to an interdependent relationship between the association and the bank.

(2) A bank must distribute its annual report within the period required by paragraph (a) of this section to:

(i) The shareholders of any related association that does not make the disclosure described in paragraph (b)(1) of this section; or

(ii) The shareholders of all related associations if the bank experiences a significant event that has a material effect on those associations.

(3) Any bank that is required by paragraph (b)(2) of this section to distribute its annual report must coordinate its distribution with its related associations.

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Dated: March 13, 2000.

Vivian L. Portis,

Secretary, Farm Credit Administration Board.

[FR Doc. 00-6569 Filed 3-16-00; 8:45 am]

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DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 71

[Airspace Docket No. 2000-ANE-91]

Proposed Establishment of Class D and Class E Airspace; Oxford, CT

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Notice of proposed rulemaking.

SUMMARY: This action proposes the establishment of Class D and Class E airspace areas at Oxford, CT (KOKC) to accommodate a new Air Traffic Control Tower at Waterbury-Oxford Airport, Oxford, Connecticut.

DATES: Comments for inclusion in the Rules Docket must be received on or before May 16, 2000.

ADDRESSES: Send comments on the proposal to: Manager, Airspace Branch, ANE-520, Federal Aviation Administration, Docket No. 2000-ANE-91, 12 New England Executive Park, Burlington, MA 01803-5299; telephone (781) 238-7520; fax (781) 238-7596. Comments may also be sent electronically via the internet to the following address: "9-ane-airspace@faa.gov"

The official docket file may be examined in the Office of the Regional Counsel, New England Region, ANE-7, Room 401, 12 New England Executive Park, Burlington, MA 01803-5299; telephone (781) 238-7050; fax (781) 238-7055.

An informal docket may also be examined during normal business hours in the Air Traffic Division, Room 408, by contacting the Manager, Airspace Branch at the first address listed above.

FOR FURTHER INFORMATION CONTACT: David T. Bayley, Air Traffic Division, Airspace Branch, ANE-520.7, Federal Aviation Administration, 12 New England Executive Park, Burlington, MA 01803-5299; telephone (781) 238-7586; fax (781) 238-7596.

SUPPLEMENTARY INFORMATION:

Comments Invited

Interested persons are invited to participate in this proposed rulemaking by submitting such written data, views, or arguments as they may desire. Communications should identify the

Rules Docket number and be submitted in triplicate to the address specified under the caption **ADDRESSES**. All communications received on or before the closing date for comments will be considered, and this rule may be amended or withdrawn in light of the comments received. Factual information that supports the commenter's ideas and suggestions is extremely helpful in evaluating the effectiveness of this action and determining whether additional rulemaking action would be needed.

Comments are specifically invited on the overall regulatory economic, environmental, and energy aspects of the rule that might suggest a need to modify the rule. All comments submitted will be available, both before and after the closing date for comments, in the Rules Docket for examination by interested persons. A report that summarizes each FAA-public contact concerned with the substance of this action will be filed in the Rules Docket.

Commenters wishing the FAA to acknowledge receipt of their comments submitted in response to this rule must submit a self-addressed, stamped postcard on which the following statement is made: "Comments to Docket No. 2000-ANE-91." The postcard will be date stamped and returned to the commenter.

Availability of NRPM's

Any person may obtain a copy of this NRPM by submitting a request to the Federal Aviation Administration, Airspace Branch, ANE-520, Federal Aviation Administration, 12 New England Executive Park, Burlington, MA 01803-5299. Communications must identify the docket number of this NRPM. Persons interested in being placed on a mailing list for future NPRM's should also request a copy of Advisory Circular No. 11-2a, which describes the application procedure.

The Proposal

The State of Connecticut has notified the FAA that it has approved plans for the construction of a permanent Air Traffic Control Tower (ATCT) at Waterbury-Oxford Airport (KOKC), Oxford, Connecticut. Construction of the new ATCT should be complete in May 2000, and the State has applied to have the ATCT operated under the FAA Contract Tower Program. Accordingly, the State has requested that the FAA establish a Class D airspace area in vicinity of the Waterbury-Oxford Airport commensurate with the commissioning of the new ATCT. Air traffic at the Waterbury-Oxford Airport has grown over the past year and

presently includes both high-speed jets and slower speed reciprocating powered light aircraft and rotorcraft.

The FAA establishes Class D airspace where necessary to provide a safe environment for aircraft transiting between the enroute and terminal airspace structures. This is particularly true when aircraft with greatly different performance characteristics operate at the same airport. Class D airspace areas encompass that airspace in the vicinity of an airport from the surface upward to a specified altitude in which pilots of aircraft must establish and maintain two-way radio communications with the ATCT at that airport. This proposal would create a Class D airspace area in the vicinity of the Waterbury-Oxford Airport extending upward from the surface to 3,200 feet MSL within a 5-mile radius of the airport.

In addition, the FAA finds that Class E airspace area, extending from the surface as an extension of the Class D airspace area, is necessary in order to provide sufficient controlled airspace to accommodate those aircraft arriving at the airport using a standard instrument approach procedure (SIAP). The Waterbury Oxford Airport has a SIAP that requires the establishment of a Class E surface airspace area extending to northwest of the airport along the TBY NDB 353° bearing to a point 7.6 miles from the airport. These proposals will provide for the safe and efficient use of the navigable airspace in the vicinity of the Waterbury-Oxford Airport, and promote safe flight operations under both Instrument Flight Rules (IFR) and Visual Flight Rules (VFR) by aircraft transiting to and from enroute airspace structure.

Class D airspace designations are published in Paragraph 5000 of FAA Order 7400.9G, and Class E airspace designations for airspace designated as extensions of a Class D airspace area are published in paragraph 6004 of FAA Order 7500.9G. FAA Order 7400.9G, dated September 1, 1999, and effective September 16, 1999, is incorporated by reference in 14 CFR 71.1. The Class D and Class E airspace designations listed in this document will be published subsequently in this Order.

Agency Findings

This rule does not have federalism implications, as defined in Executive Order 13132, because it does not have a substantial direct effect on the States, on the relationship between the national government and the States, or on the distribution of power and responsibilities among the various levels of government. Accordingly, the FAA has not consulted with state