

circumstances under which the appropriate federal banking agency may require a large institution subsidiary of a holding company to have its own audit committee and report separately.

*Section 363.4—Filing and notice requirements.* The citation in § 363.4(b) would be corrected so that it is clear that only the annual report in § 363.4(a)(1) is available for public inspection. This correction would make the Rule consistent with section 36 of the FDI Act.

*Section 363.5—Audit committees.* A new sentence would be added at the end of § 363.5(b) to make the rule consistent with the amendment to section 36(i) made by section 314 of RCDRIA. The new sentence prohibits any large customers of a large insured depository institution from being members of the audit committee of the institution's holding company if the institution relies on the audit committee of the holding company to comply with this rule.

#### *B. Amendments to Appendix A to Part 363—Guidelines and Interpretations*

*Guideline 4. Comparable Services and Functions—*An amendment to Guideline 4(c) under "Scope of Rule" would replace the word "all" with the word "those" to clarify that only information pertaining to covered institutions must be included in reports filed under Part 363.

*Guideline 9. Safeguarding of Assets.* The third and fourth sentences of Guideline 9 and the addition of a phrase to the footnote would be revised. When Part 363 was adopted, the FDIC determined that "safeguarding of assets", as the term relates to internal control policies and procedures for financial reporting, should be addressed in the management report and the independent public accountant's attestation discussed in guideline 18. In May, 1994, the Committee of Sponsoring Organizations (COSO) of the Treadway Commission issued an Addendum to the "Reporting to External Parties" volume of COSO's September 1992 Internal Control—Integrated Framework (COSO Report). The Addendum expanded the discussion of the scope of a management report on internal controls to address additional controls pertaining to safeguarding of assets. It states that "Such internal control can be judged effective if the board of directors and management have reasonable assurance that unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the financial statements is being prevented or detected on a timely basis". The

FDIC, therefore, believes that the concern that existed at the time of the adoption of Part 363 over the lack of criteria against which the accountant may judge safeguarding of assets for financial reporting no longer exists. Thus, the last two sentences and the footnote to this Guideline would be revised.

*Guideline 10. Standards for Internal Controls.* The footnote to Guideline 10 includes a list of sources of information on safeguarding of assets and standards for internal controls for financial reporting that may be considered for use by institutions. The Addendum to the COSO Report now contains information regarding safeguarding of assets. Therefore, a reference to this standard would be added to the list in the footnote, and Guideline 10 revised appropriately.

In addition, the American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards No. 55 (SAS 55), "Consideration of the Internal Control Structure in a Financial Statement Audit". SAS 55 has superseded AICPA Statement on Auditing Standards No. 30 (SAS 30), "Reporting on Internal Accounting Control", which is currently listed as a standard in the footnote to Guideline 10. Therefore, SAS 30 would be deleted from the footnote and replaced with SAS 55.

*Guideline 15. Peer Reviews—*The footnote to Guideline 15 includes the names of the three peer and quality review programs of the AICPA. Since the AICPA is combining two of these programs into a single peer review program, the footnote to Guideline 15 would be amended to identify the two acceptable peer review programs to which an independent public accountant performing audit and attestation work may belong.

*Guideline 24. Relief from Filing Deadlines—*The phrase referring to section 36 of the FDI Act in the second sentence of Guideline 24 would be deleted since section 36 does not provide authority to the FDIC to provide relief to, or exempt institutions from, provisions in the statute. This Guideline has also been revised to make it more readable.

*Guideline 31. Holding Company Audit Committees—*The first sentence of Guideline 31 would be amended to clarify that a holding company audit committee, on which subsidiary institutions rely in order to comply with this rule, must meet the requirements for the audit committee of the largest subsidiary institution.

The proposal would revise Guideline 31 because it has been widely

misunderstood. The first two sentences of this Guideline apply to the situation where an insured depository institution subsidiary has \$5 billion or more in total assets, and a 3, 4, or 5 composite CAMEL rating. Such a subsidiary must have its own audit committee separate from the audit committee of the holding company. It was not clear that the third sentence of Guideline 31 addressed the situation where an insured depository institution subsidiary has either less than \$5 billion in total assets, or \$5 billion or more in total assets and a 1 or 2 composite CAMEL rating, and its holding company performs services and functions comparable to those required by the statute. In the latter situation, an institution may choose to rely on the holding company's audit committee. The members of the audit committee of the holding company are expected to meet the membership requirements of the largest subsidiary depository institution and may perform the duties of the audit committee for a subsidiary institution without becoming directors of the institution. This Guideline would be amended to clarify its meaning.

*Guideline 32. Duties—*The second sentence of Guideline 32 would be amended to complete the citation to certain sections of Part 363. The sentence states that the duties of a covered institution's audit committee should be appropriate to the size of the institution and the complexity of its operations, and should include reviewing with management and the independent public accountant the basis for the reports issued under §§ 363.2 (a) and (b) and 363.3 (a) and (b) of the rule. At present, the citation refers only to § 363.2(b) of the rule.

#### *C. Amendments to Schedule A to Appendix A—Agreed Upon Procedures for Determining Compliance with Designated Laws*

The agreed upon procedures in Schedule A would be amended to clarify the numbering system, make the procedures consistent with amendments to insider loan regulations, and adopt suggestions of institutions and accountants to make the performance of the agreed upon procedures more efficient and less burdensome.

Proposed formatting changes include renumbering the paragraphs and adding more subject titles. The procedures applicable to insider extensions of credit granted, insider extensions of credit outstanding, aggregate insider extensions of credit outstanding, overdrafts, limitations on extensions of credit to executive officers, and reports on indebtedness to correspondent banks would all be placed in separate