

subsections of the procedures for more efficient performance of the procedures and ease of reference. The amendments to the Federal Reserve Board's Regulation O (12 CFR Part 215), the federal rules governing insider loans, necessitated citation changes.

The proposed revisions to the procedures should make them less burdensome for institutions and accountants since they will permit the use of the most recently completed Reports of Condition and Income (Call Report) or Thrift Financial Report (TFR) available when the procedures are being performed rather than requiring the use of only the year-end Call Report or TFR. The scope of the required reading of board and committee minutes and reports under the Securities Exchange Act of 1934 (15 U.S.C. 78a) would also be more clearly defined. Inadvertent overdrafts in an aggregate amount of \$1,000 or less, which are exempt from Regulation O proscriptions (See 12 CFR 215.4(e)), would no longer need to be separately tracked by institutions, listed when certain representations are made by management, or tested by the accountant. Where accountants were expected to compare insider transactions to transactions with nonaffiliated persons, the comparison period within which nonaffiliated transactions can take place would be expanded from four to eight weeks. In addition, where no maximum number transactions to which comparisons must be made were previously included, comparisons would now be limited to a maximum of three. If no comparable transactions exist, an alternative

procedure would be available to the institution.

To ensure that some tests were performed on each category of extension of credit, including overdrafts and loans from correspondent banks, accountants would be requested to obtain three separate samples. In accordance with suggestions received for the procedures covering extensions granted and outstanding during the year, the proposal would have accountants focus the testing on a sample of insiders rather than a sample of transactions.

Under the guidelines, an institution may choose to have some of the testing required in the agreed-upon procedures performed by its internal auditor with less testing performed by its independent public accountant. When the holding company exception set forth in section 36(i) is used at a holding company with more than one covered subsidiary institution, the proposal would extend to internal auditors the same testing requirements that are now applicable to independent public accountants. This would eliminate the existing requirement that internal auditors perform the procedures on each covered subsidiary every year. Thus, the testing of samples from all covered subsidiaries every two or three years that has been required of independent public accountants would now apply to internal auditors, and a requirement that the lead institution or a few very large covered subsidiary institutions be included every year has been added for both accountants and internal auditors. However, in response to the proposed reduction in testing requirements

applicable to internal auditors, the FDIC would increase the size of the sample required to be tested by the independent public accountant from 20 to 30 percent of the transactions in the sample used by the internal auditor. This change would generally not result in any increase in the number of transactions tested by the independent public accountant for reports on holding companies with two or more covered subsidiary institutions. Previously, the internal auditor had to perform procedures on a sample of transactions from each covered subsidiary and the independent public accountant had to test a sample from the consolidated holding company that was at least 20 percent of the size of the aggregate samples used by the internal auditor. Under the proposal, the internal auditor may also select a sample on a consolidated holding company basis (so long as some transactions come from each covered subsidiary institution at least every two or three years), but the accountant would have to test a sample of transactions that was at least 30 percent of the size of the sample used by the internal auditor. In most cases, testing 30 percent of the number of transactions in the one sample from the consolidated entity used by the internal auditor will consist of fewer transactions to test than 20 percent of the transactions included in the samples aggregated from each covered institution.

The changes and reformatting in the procedures from the current rule to the proposal are outlined in the table below:

Subject	Old section I	New section I
<b>Insider Loans:</b>		
Designated Laws and Regulations .....	A.1	A.1
General Information .....	A.2.a.	A.2.a
Calculations .....	A.2.b	A.4
Policies and Procedures .....	A.2.c	A.3
Insider Transactions .....	A.2.d	A.5
Loans to Correspondent Banks .....	A.2.d.(1)	A.10
Aggregate Indebtedness .....	A.2.d.(2)(a)	A.2.b.(3) A.2.d.(7) A.8
Executive Officers .....	A.2.d.(2)(b) & (c) A.2.e.(ii)	Deleted A.7
Insider Extensions of Credit .....	A.2.d.(2)(d) & (e) A.2.d.(5) & (6) A.2.d.(3)	A.5, A.6
Overdrafts .....		A.9
Reports on Indebtedness to Correspondent Banks .....	A.2.e.	A.10
<b>Dividend Restrictions:</b>		
Designated Laws and Regulations .....	B.1	B.1
General Information .....	B.2	B.2
Policies and Procedures .....	B.2.b	B.3
Board Minutes .....	B.2.c	B.4
Calculation of Undercapitalization .....	B.2.d	B.5
Dividends Declared by Banks .....	B.2.e	B.6
Dividends Declared by Savings Associations .....	B.2.f	B.7