Subject	Old section I	New section I
Subject	Old section II	New section II
Procedures for the Independent Public Accountant: Designated Laws and Regulations Internal Auditor's Workpapers Testing Reports Concerning Holding Companies	A. & B.1 B.2 C. D.	A. & B.1 B.2 B.3 B.4

D. Timing and Effective Date

Since the vast majority of covered institutions have fiscal years that coincide with the calendar year, they will be or are in the process of preparing the annual reports and having the agreed-upon procedures performed. In order to make this process less burdensome for institutions and their accountants, the FDIC will raise no objection if an institution chooses to follow immediately the provisions of this proposal for any fiscal year that ends prior to such time as any final amendment is adopted. However, if an institution chooses to follow these provisions and procedures, it must do so for both of the Designated Laws.

III. Regulatory Flexibility Act

The rule expressly exempts insured depository institutions having assets of less than \$500 million, and, for that reason, is inapplicable to small entities. Therefore, pursuant to section 605(b) of the Regulatory Flexibility Act (Pub. L. 96–354, 5 U.S.C. 601 *et seq.*), the FDIC Board of Directors certifies that the rule would not have a significant impact on a substantial number of small entities.

IV. Paperwork Reduction Act

The proposed rule would reduce the burden in a collection of information that has been reviewed and approved by the Office of Management and Budget under control number 3064-0113 pursuant to the Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seg.). The currently approved burden for this collection is 76,330 hours per year. Of the reports filed during the first year of implementation of Part 363, nearly half (500) were submitted using the holding company exception. However, institutions generally reported that the time expended was greater than had been previously estimated. For this reason, the hours per response estimated is nearly double the previous estimate.

The amended provisions of RCDRIA permit additional use of the holding company exception. Additional burden reduction is expected from the reformatted and streamlined specific procedures in Schedule A to Appendix A to Part 363. It is expected that the

proposal would reduce the currently approved burden by 18,360 hours, to an industry-wide total of 57,970 hours per

The total estimated reporting burden for the collection under Part 363 as it is proposed to be amended would be:

Number of Respondents: 450. Number of Responses Per Respondent: 3.19.

Total Annual Responses: 1,435.5. Hours per Response: 40.38.

Total Annual Burden Hours: 57,970.

The proposed changes to this collection of information have been submitted to OMB for review and approval pursuant to the Paperwork Reduction Act. Comments on the accuracy of the burden estimate, and suggestions for reducing the burden, should be directed to the Office of Management and Budget, Paperwork Reduction Project 3064–0113, Washington, D.C. 20503, with copies of such comments to Steven F. Hanft, Office of the Executive Secretary, Room F-400, 550 17th St. N.W., Washington, D.C. 20429.

List of Subjects in 12 CFR Part 363

Accounting, Administrative practice and procedure, Banks, Banking, Reporting and recordkeeping requirements.

For the reasons set forth in the preamble, the Board of Directors of the FDIC proposes to amend part 363 of title 12, chapter III, of the Code of Federal Regulations as follows:

PART 363—ANNUAL INDEPENDENT AUDITS AND REPORTING REQUIREMENTS

1. The authority citation for part 363 continues to read as follows:

Authority: 12 U.S.C. 1831m.

2. Section 363.1 is amended by revising paragraph (b) to read as follows:

§ 363.1 Scope.

(b) Compliance by subsidiaries of holding companies. (1) The audited financial statements requirement of § 363.2(a) may be satisfied for an insured depository institution that is a subsidiary of a holding company by

audited financial statements of the consolidated holding company

(2) The other requirements of this part for an insured depository institution that is a subsidiary of a holding company may be satisfied by the holding company if:

(i) The services and functions comparable to those required of the insured depository institution by this part are provided at the holding company level; and

(ii) Either the insured depository institution has total assets as of the beginning of such fiscal year of:

(A) Less than \$5 billion; or

(B) \$5 billion or more and a composite CAMEL rating of 1 or 2.

- (3) The appropriate federal banking agency may suspend the exception in paragraph (b)(2) of this section regarding any institution with total assets in excess of \$9 billion for any period of time during which the appropriate federal banking agency determines that the institution's exemption would create a significant risk to the affected deposit insurance fund.
- 3. Section 363.4 is amended by revising paragraph (b) to read as follows:

§ 363.4 Filing and notice requirements.

- (b) Public availability. The annual report in paragraph (a)(1) of this section shall be available for public inspection.
- 4. Section 363.5 is amended by revising paragraph (b) to read as follows:

§ 363.5 Audit committees.

(b) Committees of large institutions. The audit committee of any insured depository institution that has total assets of more than § 3 billion, measured as of the beginning of each fiscal year, shall include members with banking or related financial management expertise, have access to its own outside counsel, and not include any large customers of the institution. If a large institution is a subsidiary of a holding company and relies on the audit committee of the holding company to comply with this part, the holding company audit committee shall not include any members who are large customers of the subsidiary institution.