

for reporting and drawing funds: 83.537, Community Disaster Loans; 83.538, Cora Brown Fund Program; 83.539, Crisis Counseling; 83.540, Disaster Legal Services Program; 83.541, Disaster Unemployment Assistance (DUA); 83.542, Fire Suppression Assistance; 83.543, Individual and Family Grant (IFG) Program; 83.544, Public Assistance Grants; 83.545, Disaster Housing Program; 83.548, Hazard Mitigation Grant Program)

Lacy E. Suiter,

Executive Associate Director, Response and Recovery Directorate.

[FR Doc. 98-19823 Filed 7-23-98; 8:45 am]

BILLING CODE 6718-02-P

FEDERAL HOUSING FINANCE BOARD

[No. 98-27]

Statement of Policy: Disclosures in the Combined Annual and Quarterly Financial Reports of the Federal Home Loan Bank System

AGENCY: Federal Housing Finance Board.

ACTION: Final Policy Statement.

SUMMARY: The Board of Directors of the Federal Housing Finance Board (Finance Board) is adopting a statement of policy entitled "Disclosures in the Combined Annual and Quarterly Financial Reports of the Federal Home Loan Bank System." The policy statement will generally require that the combined annual and quarterly financial reports of the Federal Home Loan Bank (FHLBank) System be prepared in a manner that is consistent, in the judgment of the Finance Board, with the financial and other disclosure requirements promulgated by the Securities and Exchange Commission (SEC).

EFFECTIVE DATE: August 24, 1998.

FOR FURTHER INFORMATION CONTACT: Joseph A. McKenzie, Director, Financial Analysis and Reporting Division, Office of Policy, 202-408-2845, or Deborah F. Silberman, General Counsel, Office of General Counsel, 202-408-2570, Federal Housing Finance Board, 1777 F Street, NW, Washington, DC 20006.

SUPPLEMENTARY INFORMATION: The FHLBank Act (12 U.S.C. 1431(c)) authorizes the Finance Board to issue consolidated obligations (COs) that are the joint-and-several obligations of the FHLBanks. As issuer of the COs the Finance Board has assumed the responsibility of preparing combined FHLBank System annual and quarterly financial reports that are used in conjunction with the issuance of the COs.

Until now, the Finance Board has established no formal policies as to the scope and content of the information presented in the FHLBank System combined annual and quarterly financial reports. Since the establishment of the Finance Board in 1989, the combined annual report has grown in length as the disclosures have become more detailed and more comprehensive. Current disclosure practices represent an evolution of generally accepted accounting principles (GAAP) and industry disclosure standards, and reflect a consensus among Finance Board staff, FHLBank staff, the independent outside accountant for the combined financial report, and outside bond counsel.

The scope, form, and content of the combined FHLBank System annual and quarterly financial reports closely resemble reports issued by both corporate securities issuers that are required to register their securities with the SEC under the Securities Exchange Act of 1934, 15 U.S.C. 78a *et seq.*, (1934 Act), and by other Government Sponsored Enterprises (GSEs) that are, like the FHLBank System, exempt from such requirements.

The Finance Board is adopting this final policy statement about financial and other disclosures in the combined annual and quarterly financial reports for two reasons. First, the Finance Board will address a significant policy matter on how the FHLBanks provide disclosures and raise debt in the capital markets. The Finance Board believes that, as one of the largest issuers of debt securities in the U.S. capital markets, it has an obligation to provide purchasers of FHLBank System debt with adequate and accurate financial disclosure that is consistent with industry standards. One of the statutory responsibilities of the Finance Board is to ensure that the FHLBanks remain able to raise funds in the capital markets (see 12 U.S.C. 1422a (a)(3)(b)(iii)).¹ The Finance Board believes that the rules promulgated by the SEC pursuant to the Federal securities laws represent "best practice," and that financial and other disclosure concerning the FHLBank System should conform to this standard to the greatest extent practicable.

Second, the Finance Board believes that adoption of the final policy statement and final rule should address Congressional concerns about FHLBank System disclosure, as described in the

notice of the proposed policy statement, 63 FR 5381 at 5382 (Feb. 2, 1998).

The Finance Board published the proposed policy statement for notice and comment on February 2, 1998 (63 FR 5381, Feb. 2, 1998). In response to this proposal and a related proposed regulation on financial disclosures by the FHLBanks, the Finance Board received a total of six comments. Four of the comments were from or on behalf of FHLBanks, one comment was from a trade association, and one comment was from a public accounting firm. With respect to the proposed policy statement, the comments addressed the following major issues: the method of applying SEC reporting and disclosure requirements; disclosures about derivatives; Federal preemption of State securities laws; and implementation date.

Analysis of Comments Received

Method of Applying SEC Reporting and Disclosure Requirements

The proposed policy statement provided that the combined annual and quarterly reports of the FHLBank System would follow SEC requirements with certain exceptions. Several commenters urged that, instead of enumerating exceptions, the Finance Board specify the areas in which the FHLBank System would follow the SEC requirements in place at the time that the policy statement was adopted. The commenters expressed concern that the Bank System would automatically be subject to yet-unwritten SEC rules if the policy statement were adopted in the proposed form. The commenters preferred the approach of formal adoption by the Finance Board each time the SEC changes its reporting and disclosure rules.

The Finance Board is adopting the procedure outlined in the proposed policy statement without change. The final policy statement enumerates areas for which no disclosure or modified disclosure will be made of information that, in the judgment of the Finance Board, would otherwise be required by the SEC's rules to be disclosed in a particular way. This will make clear that the Finance Board fully intends to provide disclosure on an ongoing basis that is consistent to the extent practicable and in the judgment of the Finance Board with the SEC's reporting and disclosure requirements, even if the SEC changes its rules. In addition, the Finance Board will not have to take formal action each time the SEC modifies its reporting and disclosure requirements to render the Finance

¹ At December 31, 1997, consolidated obligations outstanding exceeded \$304 billion, and the amount of consolidated obligations issued in 1997 exceeded \$2.1 trillion.

Board's policies consistent with those of the SEC.

The policy statement makes it clear that consistency with the SEC's reporting and disclosure rules as they affect the combined annual and quarterly financial reports of the FHLBank System will be determined solely by the Finance Board.

Derivatives

In February 1997, the SEC amended its rules by adding new disclosure and reporting requirements about derivatives. These requirements are codified as Item 305(b) of Regulation S-K (17 CFR 229.305) (Derivatives Rule). In general, the Derivatives Rule requires registrants to provide *qualitative* information about their use of derivatives, their strategies using derivatives, and any limits the entity places on derivatives. In addition, Item 305(a) of Regulation S-K requires registrants to present certain *quantitative* information about derivatives. The Derivatives Rule gives registrants a number of options on how best to present this information. The qualitative and quantitative information about derivatives is not part of the entity's financial statements, and, accordingly, the entity's independent outside accountant does not have to attest to the statements made.

The proposed policy statement on financial disclosure indicated that the Finance Board would provide the qualitative disclosures required by the Derivatives Rule in the 1997 combined FHLBank System annual financial report, but would defer making the quantitative disclosures until the 1998 combined FHLBank System annual financial report.

Two commenters recommended deferring the qualitative disclosures until 1998 because of a concern that any disclosures made in 1997 may not be consistent with disclosures made when the Finance Board fully implements the rule in 1998. However, one of the commenters recommended that the Finance Board "consider enhancing the section 305-affected disclosures [that appeared in the 1996 annual financial report] only where they are not dependent on the yet to be determined quantitative disclosures."

The Finance Board has expanded the discussion of risk management that appeared in the 1996 combined annual financial report, and this expanded discussion appears in the 1997 combined annual financial report. The Finance Board believes that this expanded discussion meets all the qualitative derivative disclosure requirements by the Derivatives Rule,

but the disclosure is in no way dependent on the prospective quantitative disclosures.

Federal Preemption

A number of commenters recommended that the Finance Board state explicitly in both the policy statement and the regulation that the FHLBank Act and any regulations promulgated by the Finance Board thereunder occupy the field and preempt State law in matters related to the issuance of CO's. These commenters expressed concern that the Finance Board should explicitly express its intention to exercise its preemptive authority over State law so that the Finance Board and the FHLBanks may limit their liability and avoid attempts by States to impose their laws or regulations on the Finance Board's issuance of COs.

The Finance Board believes that such statements are unnecessary and inappropriate for the purposes of the policy statement and the regulation, and therefore has not included such a statement in either the policy statement or the regulation.

Implementation Date. Two commenters recommended deferring all derivatives disclosures until the 1998 combined FHLBank System annual financial report. Two other commenters recommended deferring the effective date of the policy statement to the end of 1999.

Disclosure Standards

In light of the comments received and based on further analysis, the Finance Board is adopting the policy statement with several changes that are addressed below. These changes do two things. First, the changes clarify that consistency with the SEC's reporting and disclosure rules as they affect the combined annual and quarterly financial reports of the FHLBank System will be determined solely by the Finance Board. Second, the final policy statement enumerates a number of additional areas that the Finance Board will carve out from disclosure in the combined FHLBank System reports because, in its judgment, the Finance Board believes such disclosure is either inapplicable or inappropriate for the FHLBank System.

The Finance Board believes that the combined FHLBank System annual and quarterly financial reports are generally consistent with SEC disclosure requirements, with several exceptions. The final policy statement requires, as a general matter, that the combined FHLBank System annual and quarterly financial reports be prepared in a

manner that is consistent, in the judgment of the Finance Board, with the SEC's regulations to the greatest extent practicable, with certain noted exceptions.

The Finance Board intends to comply with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (FASB 131). For purposes of FASB 131, the Finance Board considers each FHLBank to be a segment. In complying with FASB 131, the Finance Board will provide combining schedules for the statement of condition and the statement of income in the quarterly combined financial report of the FHLBank System. The Finance Board already provides these combining schedules in the annual combined financial report.

Exceptions to Following SEC Rules

Derivatives

On February 10, 1997, the SEC published the Derivatives Rule. It applies to all filings made with the SEC after June 15, 1997, and encompasses all types of derivatives—commodity, currency, equity, and financial. The Finance Board believes that the only facet of the FHLBanks' operations that meets the threshold test for disclosure in the Derivatives Rule is the interest-rate risk associated with financial derivatives.

The Derivatives Rule presents only one issue unique to the FHLBank System. The System combined financial report rolls up the financial information of 12 independent portfolios and eliminates all material transactions among the FHLBanks. Many complex financial organizations fall within the scope of the rule, but these complex organizations ultimately report to a single board of directors. The FHLBanks report to 12 separate boards of directors, and each has differing investment strategies, yet each FHLBank is jointly and severally liable for the consolidated obligations of the FHLBank System issued by the Finance Board.

Information for the System's quantitative disclosures would come from simulation of interest-rate shocks in the asset-liability management models of the FHLBanks. The FHLBanks use different modeling software and assumptions. Any analysis should first ensure some uniformity of assumptions and methodology to make sure the results will be meaningful and comparable. Furthermore, there are conceptual difficulties in how the Finance Board could combine the results of these 12 sets of simulations to present a System derivatives disclosure.

It may not be possible to present a combined quantitative derivatives disclosure, and the Finance Board instead may present separate quantitative derivatives disclosures in 1998 for each of the FHLBanks.

In light of these complexities, the Finance Board is making the qualitative disclosures about derivatives in the 1997 combined financial report, but will make the quantitative disclosures in the 1998 combined annual financial report. Finance Board staff will work with FHLBanks' staff in developing a methodology for arriving at a common set of assumptions for the quantitative analysis that would appear in the 1998 combined financial report.

Related-Party Transactions

SEC regulations require the disclosure of any transaction greater than \$60,000 between a director and a related party. Due to the cooperative nature of the FHLBank System, it is expected that the FHLBanks will have business dealings with members whose officers also serve as directors of the FHLBank. It would be unwieldy to present full disclosures of all credit relationships between the FHLBanks and the members their directors represent in the combined annual report. However, the Finance Board is including in the combined annual report an aggregate disclosure about the percentage of advances to members whose officers serve as directors of an FHLBank. In addition, the Finance Board is including a disclosure in the annual financial report that shows the 10 largest advance borrowers in the FHLBank System and the 5 largest advance borrowers by FHLBank along with indicating which of these members had an officer that also served as an FHLBank director.

Information about Directors and Officers

The SEC's regulations require disclosure of a wide variety of information about all directors and executive officers of the registrant. The required information includes name, age, current and previous positions with the registrant, terms of office, family relationships with the registrant, business experience, and other directorships. The Finance Board believes that presenting biographical information on all FHLBank directors and all FHLBank executive officers in the combined annual report would be unwieldy and not particularly enlightening. The FHLBanks may wish to consider making this disclosure in their individual annual reports. The Finance Board has expanded the biographical information about

members of the Board of Directors of the Finance Board and FHLBank presidents by including the age of those persons. In addition, the Finance Board is providing similar biographical information about the managing director of the Office of Finance and the chairs and vice chairs of the FHLBanks.

Submission of Matters to a Vote of Stockholders

The SEC's regulations require registrants to provide certain information about matters submitted to stockholders for a vote. The only item that FHLBank stockholders vote upon is the annual election of directors. For two reasons, the Finance Board has determined to exclude election-of-director information from the combined annual financial statements. First, matters concerning election of directors can be handled more expeditiously and efficiently by separate mailings to an FHLBank's stockholders as a part of the election process. The combined financial report is primarily a disclosure document for bond holders. Second, election of directors occurs in the fall, but the annual combined financial report is published in late spring, making it impossible to provide timely information about the election of directors in the combined annual report.

Compensation

Item 402 of the SEC's Regulation S-K (17 CFR 229.402) sets forth the requirements for disclosure of compensation for the chief executive officer and the four next most highly compensated executive officers other than the chief executive officer. The policy statement will require disclosure of compensation information only for the presidents of the 12 FHLBanks and the managing director of the Office of Finance.

Exhibits

The policy statement will not require the FHLBanks to file the exhibits specified to be filed with the SEC by the SEC's regulations.

Per Share Information

The SEC has a number of requirements that certain financial information be presented on a per-share basis. Per share disclosure is not meaningful or appropriate for the FHLBank System, because stock in the FHLBanks is not publicly traded and is based on statutory requirements. The amount of shares expands and contracts as member assets or advances change. Furthermore, members purchase FHLBank stock at par and can redeem it at par.

Ownership of Capital Stock

Item 403 of the SEC's Regulation S-K (17 CFR 229.403) requires certain disclosures about the beneficial ownership of capital stock. The policy statement requires, and the annual FHLBank System 1997 combined financial report will provide instead, a listing of the top 10 holders of capital stock in the FHLBank System and a listing of the top 5 holders of capital stock by FHLBank. These listings will identify all those members and officer of which serves and an FHLBank director.

Dates

SEC registrants are required to file their annual reports within 90 days from the end of their fiscal year, and quarterly reports are to be filed within 45 days from the end of a fiscal quarter. Since the Finance Board cannot begin preparing the combined financial reports until the FHLBanks finish their annual and quarterly reports, the time frames for the publication of the combined annual and quarterly reports need to be adjusted accordingly. It is Finance Board's intention generally to make the annual report available by June 30, and to make the quarterly reports available within 90 days of the end of a quarter.

Distribution

While the SEC rules apply to entities with publicly traded stock, the stock in the FHLBanks is not publicly traded, and minimum capital stock holdings are set in statute. Furthermore, only members of an FHLBank may own stock in that FHLBank. Members purchase stock at its par value, and voluntary members may redeem stock at its par value. Nevertheless, the Finance Board believes that disclosure to the stockholders of an FHLBank is as important as disclosure to the purchasers of FHLBank debt. Therefore, the Finance Board will distribute a copy of the annual and quarterly combined financial reports to each FHLBank member.

The text of the proposed policy follows:

Federal Housing Finance Board— Statement of Policy

Disclosures in the Combined Annual and Quarterly Financial Reports of the Federal Home Loan Bank System

1. Policy Objective

The Federal Housing Finance Board (Finance Board) policy on Disclosures in the Combined Annual and Quarterly Financial Reports of the Federal Home Loan Bank System provides that purchasers of Federal Home Loan Bank

(FHLBank) System consolidated obligations receive information consistent, in the judgment of the Finance Board and to the extent practicable, with disclosures required to be made by Securities and Exchange Commission (SEC) registrants. The Finance Board has the explicit statutory responsibility to ensure that the FHLBanks are able to raise funds in the capital markets, and assuring that it is providing industry-standard disclosures facilitates the issuance of this debt.

2. General Policy

It is the policy of the Finance Board that in preparing the combined FHLBank System annual and quarterly financial reports the Finance Board will maintain consistency to the extent practicable with the requirements of the SEC's Regulations S-K and S-X (see 17 CFR Parts 229 and 210). With respect to the combined FHLBank System annual and quarterly reports, consistency with the SEC's regulations will be determined solely by the Finance Board.

The Finance Board will comply with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (FASB 131). It will include in the quarterly combined financial report the combining schedules required by FASB 131.

3. Exceptions to the General Policy

a. *Derivatives.* Item 305, Regulation S-K, 17 CFR 229.305, requires certain registrants to present information about their derivatives holdings and activities. The requirement includes a discussion of accounting policy for derivatives, a qualitative discussion about derivatives by management, and an analysis that presents quantitative information about derivatives. The presentation of the quantitative information will be deferred until the 1998 combined annual report of the FHLBank System.

b. *Related-Party Transactions.* Item 404 of Regulation S-K, 17 CFR 229.404, requires the disclosure of certain relationships and related party transactions. In light of the cooperative nature of the FHLBank System, related-party transactions are to be expected, and a disclosure of all related-party transactions that meet the threshold would not be meaningful. Instead, the combined annual report will provide disclosures on (1) the percent of advances to members an officer of which serves and an FHLBank director, and (2) a listing of the top 10 holders of advances in the FHLBank System and the top 5 holders of advances by FHLBank, with a further disclosure that

indicates which of these members had an officer that served as an FHLBank.

c. *Biographical Information.* The biographical information required by Items 401 and 405 of Regulation S-K, 17 CFR 229.401, 229.405, will be provided only for the members of the Board of Directors of the Finance Board, FHLBank presidents, the managing director of the Office of Finance, and FHLBank chairs and vice chairs.

d. *Compensation.* The information on compensation required by Item 402 of Regulation S-K, 17 CFR 229.402, will be provided only for members of the FHLBank presidents and the managing director of the Office of Finance. Since stock in each FHLBank trades at par, the Finance Board will not include the performance graph specified in Item 402(l) of Regulation S-K, 17 CFR 229.402(l).

e. *Submission of Matters to a Vote of Stockholders.* No information will be presented on matters submitted to shareholders for a vote, as otherwise required by Item 4 of the SEC's form 10-K, 17 CFR 249.310. The only item shareholders vote upon is the annual election directors.

f. *Exhibits.* The exhibits required by Item 601 of Regulation S-K, 17 CFR 229.601, are not applicable and will not be provided.

g. *Per Share Information.* The statement of financial information as required by Items 301 and 302 of Rule S-K, 17 CFR 229.301 and 302, is inapplicable because the shares of the FHLBanks are subscription capital that trades at par, and the shares expand or contract with changes in member assets or advance levels.

h. *Beneficial Ownership.* Item 403 of Rule S-K, 17 CFR 229.403, requires the disclosure of security ownership of certain beneficial owners and management. The combined financial report will provide a listing of the 10 largest holders of capital stock and a listing of the 5 largest holders of capital stock by FHLBank. This listing will also indicate which members had an officer that served as a director of an FHLBank.

i. *Dates.* The Finance Board generally intends to make the annual combined financial report available within 180 days from the end of the previous year. It plans to make quarterly reports available 90 days from the end of the previous quarter.

4. Distribution

The Finance Board will distribute a copy of the annual and quarterly combined financial reports to each FHLBank member.

Dated: June 24, 1998.

By the Board of Directors of the Federal Housing Finance Board.

Bruce A. Morrison,
Chairperson.

[FR Doc. 98-19809 Filed 7-23-98; 8:45 am]

BILLING CODE 6725-01-P

FEDERAL RESERVE SYSTEM

Change in Bank Control Notices; Acquisitions of Shares of Banks or Bank Holding Companies; Correction

This notice corrects a notice (FR Doc. 98-19292) published on page 38836 of the issue for Monday, July 20, 1998.

Under the Federal Reserve Bank of Chicago heading, the entry for State Financial Services Corporation, Hales Corners, Wisconsin, is revised to read as follows:

A. Federal Reserve Bank of Chicago (Philip Jackson, Applications Officer)
230 South LaSalle Street, Chicago,
Illinois 60690-1413:

1. *State Financial Services Corporation*, Hales Corners, Wisconsin; to acquire Home Bancorp of Elgin, Inc., Elgin, Illinois, a savings and loan holding company, and indirectly acquire Home Federal Savings and Loan Association of Elgin, Elgin, Illinois, pursuant to § 225.28 (b)(4)(ii) of Regulation Y.

Comments on this application must be received by August 13, 1998.

Board of Governors of the Federal Reserve System, July 20, 1998.

Robert deV. Frierson,
Associate Secretary of the Board.

[FR Doc. 98-19709 Filed 7-23-98; 8:45 am]

BILLING CODE 6210-01-F

FEDERAL RESERVE SYSTEM

Change in Bank Control Notices; Acquisitions of Shares of Banks or Bank Holding Companies

The notificants listed below have applied under the Change in Bank Control Act (12 U.S.C. 1817(j)) and § 225.41 of the Board's Regulation Y (12 CFR 225.41) to acquire a bank or bank holding company. The factors that are considered in acting on the notices are set forth in paragraph 7 of the Act (12 U.S.C. 1817(j)(7)).

The notices are available for immediate inspection at the Federal Reserve Bank indicated. The notices also will be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing to the Reserve Bank indicated for that notice or to the offices of the Board of Governors. Comments