

and not intended to be held to maturity.⁷

Furthermore, the Board believes that there is a distinction between the interest earned by a section 20 subsidiary from holding these kinds of securities and the profit made from underwriting or reselling them. The profit or loss a section 20 subsidiary earns on the resale of ineligible debt securities the subsidiary holds in inventory is the revenue that should be attributed to performing the functions of dealing in or underwriting these securities, the critical element of which is the actual offering and sale of the instruments involved.⁸ On the other hand, the interest a subsidiary earns on ineligible debt securities while it holds them in inventory is revenue best attributed to holding the securities as a member bank may do under the Glass-Steagall Act.⁹

Accordingly, the Board is amending its section 20 orders to specify that a section 20 subsidiary may treat interest earned on the types of debt securities that a member bank may hold for its own account, either for investment or as an underwriter or dealer, as eligible revenue in calculating compliance with the Board's revenue limitation.

With respect to the suggestion to defer action on this proposal, the Board does not believe that the impact of this interpretation on any particular firm is relevant to whether the interpretation properly reflects the requirements of section 20. However, the Board has used proprietary data to consider the impact the proposal could be expected to have on each section 20 subsidiary based on its activities and portfolio composition during prior quarters. Review of reports and other data provided by the section 20 subsidiaries indicates that the impact of the change will vary considerably

⁷ Statement of Financial Accounting Standards No. 115.

⁸ For purposes of the section 20 revenue limitation, the Board has viewed "public sale" to include the activity of dealing in securities—the process of buying and reselling to the public specific securities as part of an ongoing, regular business. *E.g., Citicorp, supra*, at 506–08. The term "underwriting" generally refers to the process by which new issues of securities are offered and sold to the public. *E.g., Securities Industry Association v. Board of Governors*, 807 F.2d 1052, 1062–66 (D.C. Cir. 1986), *cert. denied*, 483 U.S. 1005 (1987).

⁹ This distinction is further reflected in the current reporting requirements for section 20 subsidiaries and in Generally Accepted Accounting Principles for bank holding companies, which prescribe that interest revenue be reported separately from gains or losses on securities owned. FR Y–20 Instructions, Statement of Income, Schedule SUD-I, Line Items 2, 5; Securities and Exchange Commission FOCUS Report (Form X–17A–5 Part II) and instructions thereto. Generally Accepted Accounting Principles incorporate the format of the FOCUS Report.

depending on the products offered and inventory maintained by each subsidiary, as well as the profitability of those products.¹⁰

Similarly, the Board does not believe that there would be any benefit in seeking additional public comment regarding manipulation of the revenue test that could arise from the proposed amendment. The Board does not believe that the amendment would lead to manipulation of the test. Interest earned on a security is sufficiently distinct from the profit earned or loss incurred on a security as to allow the Board to monitor the appropriate classification of revenue. As noted, the Board's quarterly report for section 20 subsidiaries requires that they report interest income and dividends received separately from profit or loss.

Furthermore, the Board has supervised revenue test compliance by section 20 subsidiaries for nine years, and has developed substantial experience in ensuring that section 20 subsidiaries properly classify a variety of different types of revenue in computing compliance with the limitation on ineligible revenue.¹¹ Section 20 subsidiaries have adopted policies, procedures, accounting systems, and related controls to ensure proper classification of revenues. The Board expects section 20 subsidiaries will amend accounting systems and controls as necessary, and that internal auditors will continue to monitor revenue test compliance and revise their audit programs in response to the Board's action.

The Board will review suggestions for further changes offered by commenters at a later date.

By order of the Board of Governors of the Federal Reserve System, September 11, 1996.¹²

William W. Wiles,

Secretary of the Board.

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¹⁰ The change will have the greatest impact on those section 20 subsidiaries with debt and equity underwriting powers who are primary dealers and maintain substantial inventories of government and investment-grade ineligible debt securities. Data for two recent quarters indicates that if the change had been in effect, quarterly ineligible revenue for each such company would have decreased between 19 percent and 79 percent.

¹¹ As noted above, section 20 subsidiaries currently report interest income and dividends received separately from profit or loss on Form FR Y–20.

¹² Voting for this action: Chairman Greenspan, Vice Chair Rivlin, and Governors Kelley, Lindsey, Phillips, Yellen and Meyer.

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. Once the notices have been accepted for processing, they will also 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 must be received not later than September 23, 1996.

A. Federal Reserve Bank of Kansas City (John E. Yorke, Senior Vice President) 925 Grand Avenue, Kansas City, Missouri 64198:

1. *Jon and Angela Pope*, both of Hoxie, Kansas; to acquire an additional 29 percent, for a total of 52 percent, and Lois Madison, Hoxie, Kansas, to acquire an additional 9 percent, for a total of 30 percent, of the voting shares of Northwest Bancshares, Inc. Rexford, Kansas, and thereby indirectly acquire Peoples State Bank, Colby, Kansas.

Board of Governors of the Federal Reserve System, September 9, 1996.

Jennifer J. Johnson,

Deputy Secretary of the Board.

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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)).

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