

environmental assessment has been prepared for this final rule.

### Paperwork Reduction Act

This final rule does not contain new or amended information collection requirements subject to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*). Existing requirements were approved by the Office of Management and Budget (OMB), approval numbers 3150-0009, 3150-0028, and 3150-0056.

### Public Protection Notification

The NRC may not conduct or sponsor, and a person is not required to respond to, a request for information or an information collection requirement unless the requesting document displays a currently valid OMB control number.

### Regulatory Analysis

A regulatory analysis has not been prepared for this final rule, because this rule is administrative, in that it amends the regulations to reflect administrative conforming changes made to 10 CFR part 70. This is considered a minor non-substantive amendment and will not have a significant impact on NRC licensees or the public.

### Backfit Analysis

The NRC has determined that the backfit rule (§§ 50.109, 70.76, 72.62, or 76.76) does not apply to this final rule because this amendment does not involve any provisions that would impose backfits as defined in the backfit rule. This amendment is considered a minor non-substantive amendment; therefore, a backfit analysis is not required.

### List of Subjects in 10 CFR Part 70

Criminal penalties, Hazardous materials transportation, Material control and accounting, Nuclear materials, Packaging and containers, Radiation protection, Reporting and recordkeeping requirements, Scientific equipment, Security measures, Special nuclear material.

■ For the reasons set out in the preamble and under the authority of the Atomic Energy Act of 1954, as amended, the Energy Reorganization Act of 1974, as amended, and 5 U.S.C. 552 and 553, NRC is making the following conforming changes to 10 CFR Part 70.

### PART 70—DOMESTIC LICENSING OF SPECIAL NUCLEAR MATERIAL

■ 1. The authority citation for part 70 continues to read as follows:

**Authority:** Secs. 51, 53, 161, 182, 183, 68 Stat. 929, 930, 948, 953, 954, as amended,

sec. 234, 83 Stat. 444, as amended, (42 U.S.C. 2071, 2073, 2201, 2232, 2233, 2282, 2297f); secs. 201, as amended, 202, 204, 206, 88 Stat. 1242, as amended, 1244, 1245, 1246 (42 U.S.C. 5841, 5842, 5845, 5846). Sec. 193, 104 Stat. 2835, as amended by Pub. L. 104-134, 110 Stat. 1321, 1321-349 (42 U.S.C. 2243); sec. 1704, 112 Stat. 2750 (44 U.S.C. 3504 note).

Sections 70.1(c) and 70.20a(b) also issued under secs. 135, 141, Pub. L. 97-425, 96 Stat. 2232, 2241 (42 U.S.C. 10155, 10161). Section 70.7 also issued under Pub. L. 95-601, sec. 10, 92 Stat. 2951 (42 U.S.C. 5851). Section 70.21(g) also issued under sec. 122, 68 Stat. 939 (42 U.S.C. 2152). Section 70.31 also issued under sec. 57d, Pub. L. 93-377, 88 Stat. 475 (42 U.S.C. 2077). Sections 70.36 and 70.44 also issued under secs. 184, 68 Stat. 954, as amended (42 U.S.C. 2234). Section 70.81 also issued under secs. 186, 187, 68 Stat. 955 (42 U.S.C. 2236, 2237). Section 70.82 also issued under sec. 108, 68 Stat. 939, as amended (42 U.S.C. 2138).

■ 2. In § 70.19, the introductory text in paragraph (c) is revised to read as follows:

#### § 70.19 General license for calibration or reference sources.

\* \* \* \* \*

(c) The general license in paragraph (a) of this section is subject to the provisions of §§ 70.32, 70.50, 70.55, 70.56, 70.91, 70.81, and 70.82; the provisions of §§ 74.11 and 74.19 of this chapter; and to the provisions of parts 19, 20, and 21 of this chapter. In addition, persons who receive title to own, acquire, deliver, receive, possess, use or transfer one or more calibration or reference sources under this general license:

\* \* \* \* \*

■ 3. In § 70.20a, paragraph (a) is revised to read as follows:

#### § 70.20a General license to possess special nuclear material for transport.

(a) A general license is issued to any person to possess formula quantities of strategic special nuclear material of the types and quantities subject to the requirements of §§ 73.20, 73.25, 73.26 and 73.27 of this chapter, and irradiated reactor fuel containing material of the types and quantities subject to the requirements of § 73.37 of this chapter, in the regular course of carriage for another or storage incident. Carriers generally licensed under § 70.20b are exempt from the requirements of this section. Carriers of irradiated reactor fuel for the United States Department of Energy are also exempt from the requirements of this section. The general license is subject to the applicable provisions of §§ 70.7 (a) through (e), 70.32 (a) and (b), and

§§ 70.42, 70.52, 70.55, 70.91, 70.81, 70.82 and 10 CFR 74.11.

\* \* \* \* \*

■ 4. In § 70.20b, paragraph (b) is revised to read as follows:

#### § 70.20b General license for carriers of transient shipments of formula quantities of strategic special nuclear material, special nuclear material of moderate strategic significance, special nuclear material of low strategic significance, and irradiated reactor fuel.

\* \* \* \* \*

(b) Persons generally licensed under this section are exempt from the requirements of parts 19 and 20 of this chapter and the requirements of this part, except §§ 70.32 (a) and (b), 70.52, 70.55, 70.91, 70.81, and 70.82.

\* \* \* \* \*

■ 5. In § 70.51, paragraph (c)(2) is revised to read as follows:

#### § 70.51 Records requirements.

\* \* \* \* \*

(c) \* \* \*

(2) If there is a conflict between the Commission's regulations in this part, license condition, or other written Commission approval or authorization pertaining to the retention period for the same type of record, the retention period specified in the regulations in this part for these records shall apply unless the Commission, under § 70.17 has granted a specific exemption from the record retention requirements specified in the regulations in this part.

Dated at Rockville, Maryland, this 8th day of June, 2007.

For the Nuclear Regulatory Commission.

**Luis A. Reyes,**

*Executive Director for Operations.*

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## DEPARTMENT OF THE TREASURY

### Office of Thrift Supervision

#### 12 CFR Parts 563b and 575

[No. OTS-2007-0014]

RIN 1550-AC07

#### Stock Benefit Plans in Mutual-to-Stock Conversions and Mutual Holding Company Structures

**AGENCY:** Office of Thrift Supervision, Treasury.

**ACTION:** Final rule.

**SUMMARY:** The Office of Thrift Supervision (OTS) is clarifying its regulations regarding stock benefit plans established after mutual-to-stock

conversions or in mutual holding company structures. In addition, OTS is modifying the voting requirements for the adoption of certain stock benefit plans in mutual holding company structures by providing that the plans must be approved by a majority of the minority shares voting on the plan. Also, OTS is making several minor changes to the regulations governing mutual-to-stock conversions and minority stock issuances.

**DATES:** This rule is effective on October 1, 2007.

**FOR FURTHER INFORMATION CONTACT:**

Donald W. Dwyer, (202) 906-6414, Director, Applications, Examinations and Supervision—Operations; Aaron B. Kahn, (202) 906-6263, Assistant Chief Counsel, Business Transactions Division or David A. Permut, (202) 906-7505, Senior Attorney, Business Transactions Division, Office of Chief Counsel, Office of Thrift Supervision, 1700 G Street, NW., Washington, DC 20552.

**SUPPLEMENTARY INFORMATION:**

**I. Introduction**

On July 20, 2006, OTS published a notice of proposed rulemaking (NPR) that proposed changes to the OTS mutual-to-stock conversion regulations, 12 CFR Part 563b (Conversion Regulations), and the OTS mutual holding company regulations, 12 CFR Part 575 (MHC Regulations) regarding stock benefit plans established after mutual-to-stock conversions or in mutual holding company (MHC) structures.<sup>1</sup>

For several years, the MHC Regulations have required that a majority of the outstanding minority shares approve stock benefit plans. In the NPR, OTS proposed to reduce the voting requirements for the establishment of stock benefit plans in MHC structures, by: (1) Eliminating the requirement for a separate minority shareholder vote when more than a year has passed after a Minority Stock Issuance that was conducted in accordance with the stock purchase priorities set forth in Part 563b; and (2) during the first year after a Minority Stock Issuance conducted in accordance with the Part 563b conversion priorities,

requiring that a majority of the minority shares that actually vote on the matter, as opposed to a majority of outstanding minority shares, approve the stock benefit plans.

In addition, OTS proposed a number of other changes to its regulations. OTS proposed, among other things, to: (i) Clarify the Conversion Regulations and the MHC Regulations by referring to the specific type of plan addressed, rather than referring to plans in terms of their tax-qualified or non-tax qualified nature; (ii) eliminate 12 CFR 575.7(b)(3), which requires stock offering materials to disclose the amount of any discount on minority stock; (iii) add certain provisions to the plan size limits in sections 575.8(a)(3) and 575.8(a)(4) that parallel the restrictions in the Conversion Regulations; (iv) amend 12 CFR 575.8 to state that the quantitative limits on the size of plans in section 575.8 supersede related quantitative limits in the Conversion Regulations; (v) amend section 575.8 to state that plan restrictions in proposed sections 563b.500(a)(4) through 563b.500(a)(14) apply in the context of a Minority Stock Issuance for only one year after the Subsidiary Company engages in a Minority Stock Issuance that is conducted in accordance with the purchase priorities set forth in the Conversion Regulations; and (vi) amend the Conversion Regulations to permit converting savings associations to set smaller maximum purchase limitations in conversion stock offerings. Also, OTS proposed to move or delete several provisions in order to organize the regulations more effectively and to clarify the regulations.

**II. Description of Comments**

OTS received 84 comments, from 78 commenters, regarding the NPR. Of these comment letters, 19 were submitted by individual investors, 47 were submitted by savings associations, savings banks, or holding companies, or insiders thereof, two were submitted by legal counsel for savings associations or holding companies, eight were submitted by investment advisors and related entities, two were submitted by counsel for investment advisors, and six were submitted by trade associations.

All of the comment letters except one (that is, 83 comments) addressed, either solely, or among other issues, the issue of the elimination of the minority vote more than one year after completion of a Minority Stock Issuance.

Of these 83 comments, 53 were in favor of the proposed elimination of the vote requirement, and 30 objected to the elimination of the requirement. The comments were, without exception,

divided based on the type of commenter. All of the comments in favor of the proposal were submitted by savings associations or savings banks, holding companies, insiders of such entities, counsel that routinely represents such entities, or trade associations that include such entities. All of the comments from individual investors, investment advisors, counsel for investment advisors, and one trade association that does not have savings associations as members, opposed the elimination of the voting requirement.

Of the 53 comments in favor of the proposed change, 45 indicated that the minority voting requirement enables minority shareholders to obtain leverage in the affairs of the Subsidiary Company beyond the confines of the establishment of a plan, and to engage in hostile activities. Certain of the comments claimed that activist shareholders' concerns are not with the plans themselves, but that activist shareholders use the leverage that the vote on such plans provides, in order to pursue other goals. Forty comments claimed that the minority vote "disenfranchises" the MHC. Eight comments claimed that a minority vote is contrary to the concept of MHC control over the Subsidiary Company, and three comments claimed that the proposal "preserves the full benefits of the MHC charter." Four comments claimed that the minority vote ignores the interests of depositors.

Also, 41 comments asserted that minority voting requirements are unnecessary because OTS imposes restrictions on the size of plans, and 39 comments claimed that market forces will limit plans to reasonable levels. One comment noted that the staff of the Federal Deposit Insurance Corporation (FDIC) has provided advice that the lack of a minority vote after one year is acceptable.<sup>2</sup> One comment noted that there is no "majority of the minority" voting requirement under state law. Another comment observed that nothing in stock exchange rules or the NASDAQ rules requires a majority of the minority vote when there is a majority shareholder.

Three comments claimed that the minority vote requirement was unduly burdensome. One comment claimed that the minority vote might hamper the ability of an institution to attract management. One comment claimed that a minority vote was unnecessary

<sup>1</sup> See 71 FR 41179 (Jul. 20, 2006). Savings associations that propose to convert to stock form are subject to the Conversion Regulations. Subsidiary mutual holding companies and savings associations (collectively, Subsidiary Companies) in MHC structures that propose to issue common stock in a minority stock issuance (Minority Stock Issuance) (that is, a stock offering in which the Subsidiary Company issues stock to entities other than the parent MHC) are subject to both the Conversion Regulations and the MHC Regulations, including the provisions therein pertaining to stock benefit plans.

<sup>2</sup> See, letter from John P. Henrie, Section Chief, Risk Management and Applications Section, FDIC, to Mr. Raymond A. Tiernan, Esquire (July 6, 2005) (FDIC Letter). See also, letter from the Board of Governors of the Federal Reserve System to Raymond A. Tiernan, Esq. (Sept. 22, 2006).

because directors have fiduciary duties, and must comply with them. Finally, two comments stated that investors who object to the lack of a minority vote simply should not purchase the stock.

Of the 30 comments that objected to the proposal, 26 stated that the elimination of the voting requirement presented conflict of interest concerns. Eight comments stated that the proposal was contrary to good corporate governance. Two comments claimed that the lack of a voting requirement amounts to an exemption from OTS' Conflicts of Interest Regulation (Conflict Regulation).<sup>3</sup> In addition, two comments claimed that the proposal would harm shareholders.

Three comments asserted that plans are "excessive" or "significant" already. Four comments stated that, in light of recent concerns regarding options, or recent corporate problems, this was not an optimal time to make the proposed changes. Three comments stated that the requirement for a minority vote is not unduly restrictive, either because the minority vote adds little actual expense, or because the benefits are worth the expense. Three commenters claimed that the proposal, if adopted, will have an unfavorable effect on the cost of capital, or will not help the market for the securities. One comment stated that, to the extent the regulation would cause Subsidiary Companies to wait until a year has passed to enact stock benefit plans, the plans would be more expensive, because it is likely the stock price would rise over time.

Four of the comments that objected to the proposal claimed that depositors of the MHC have no real voice in the selection of the MHC's directors. Two comments suggested that benefit plans should be put to a depositor vote.

Two comments objected to the applicability of the rule to existing MHC structures, and indicated that the regulation, if adopted, should apply only to MHC structures established after promulgation of the proposed regulation. Finally, seven comments claimed that OTS did not provide a sufficient explanation for the proposed rule change. Forty-six comments addressed other aspects of the NPR. Of these comments, 37 were form letters from savings associations and savings banks that generally praised the proposed regulations for clarifying the regulations. Two comments objected to the change to the majority of the minority vote requirement from a majority of outstanding shares to a majority of shares actually voting. Four comments stated that the regulations

would reduce regulatory burden. Two comments supported the reduction in the maximum purchase limitations for stock offerings. One comment expressed support for the proposed changes to several specific provisions of § 575.8.

One comment questioned the need to eliminate the requirement to disclose the reasons for the discount on minority stock in a Minority Stock Issuance. Finally, six other comments suggested certain specific changes to the regulation, which are discussed separately below.

### III. Discussion of the Final Regulation

#### A. Requirement of a majority of the minority vote

OTS, in issuing the NPR, stated that it believed the minority vote requirement after one year was unduly restrictive. In full conversions, the Conversion Regulations require a vote for only one year after the mutual-to-stock conversion. While Minority Stock Issuances are distinguishable from full conversions because Subsidiary Companies that issue stock have a continuing mutual interest, and entities that complete a full conversion do not have such an interest, stock benefit plans established more than one year after a Minority Stock Issuance do not affect the mutual interest if the plans are funded with stock repurchases. Under such circumstances, plans do not reduce the percentage of stock held by minority shareholders below the percentage that they held upon completion of the Minority Stock Issuance.

Also, although the "majority of the minority" voting requirement has existed for over ten years, it is our understanding that a stock benefit plan put to a shareholder vote has never failed to receive the requisite vote. Under these circumstances, and given the regulatory burdens to which depository institutions are subjected, it is appropriate to inquire whether the cost of obtaining a vote exceeds the benefits.

Further, the FDIC has not required a "majority of the minority" vote more than one year after a minority stock issuance.<sup>4</sup> Therefore, under existing regulations, OTS has been subjecting MHC structures that are under its jurisdiction to requirements that are more onerous than MHC structures that are regulated by the FDIC.

OTS has carefully considered the comments received in response to the NPR. Most of the comments that opposed the proposed elimination of the majority of the minority vote

requirement after one year following a Minority Stock Issuance asserted that the proposal created an unacceptable conflict of interest. Without the requirement of a separate minority vote, conflicts of interest exist in the context of stock benefit plans in an MHC structure, because individuals who direct the voting of the MHC's stock also participate in the plan.

The commenters who noted that stock exchange rules and state authorities do not require a separate minority vote where there is a majority shareholder are correct. However, it is not the mere existence of a majority shareholder that may raise conflict of interest concerns. Instead, it is the fact that in MHC structures, the individuals who direct the vote of the MHC's shares have participants in the stock benefit plans that the MHC votes to authorize.

Several commenters claimed that, notwithstanding any potential conflict of interest, a minority vote was unnecessary because directors already have fiduciary duties, OTS regulates the size of plans, or market forces will control the size of plans. OTS does not believe, however, that the existence of fiduciary duties guarantees that parties with such duties will always act appropriately. For example, the Conflict Regulation states that directors and other parties have fiduciary duties, but imposes certain requirements to ensure that the relevant parties comply with their fiduciary duties. Also, although OTS regulations provide some limitations on the size of stock benefit plans, OTS believes that, within such limitations (absent supervisory concerns), the size of plans is a shareholder decision. Further, while accounting and disclosure requirements exist with respect to stock benefit plans, such requirements do not necessarily eliminate conflict of interest issues.

The essence of several comments that supported the proposal was that the MHC should always have the sole ability to control the operations of the Subsidiary Company. Historically, however, OTS has required a majority of the minority vote when a Subsidiary Company proposes to engage in certain actions that would have a significant direct effect on minority shareholders.<sup>5</sup>

<sup>5</sup> In addition to requiring a majority of the minority vote for stock benefit plans, OTS regulations require a separate minority shareholder vote for the establishment of a charitable foundation in connection with a Minority Stock Issuance, and for any second-step stock conversion. See 12 CFR 575.11(i) and 575.12(a)(3). In addition, minority shareholders must vote separately with respect to any charitable foundation established in connection with a second-step conversion. See 12 CFR 563b.555.

<sup>3</sup> 12 CFR 563.200 (2006).

<sup>4</sup> See FDIC Letter.

Although the relevant statutes and regulations generally preserve the continuing control of the mutual, majority interest, OTS has long recognized that it is appropriate to consider minority interests separately in certain situations.<sup>6</sup>

Several commenters who supported the proposal asserted that activist shareholders often have used the minority vote requirement for stock benefit plans as leverage to influence management to take actions the activist shareholders sought on other matters. Even if certain minority shareholders have used the minority vote requirement as a means of pursuing other interests, however, it does not mean that the purpose of the minority voting requirements is invalid.

Having considered the public comments, and considering the conflict of interest issues involved, OTS concludes that it is appropriate to continue to impose the separate minority shareholder vote requirement for stock benefit plans in MHC structures, regardless of the amount of time that has passed since the most recent Minority Stock Issuance.

#### *B. Minority Vote Required for Approval of Stock Benefit Plans*

In the NPR, OTS proposed to change the minority vote required for approval of a stock benefit plan, from a majority of all outstanding minority shares to a majority of minority shares actually voting. OTS believes this change is appropriate because a simple majority shareholder vote is the standard for approval of most corporate measures. While the OTS stock charter requires that a majority of all shareholders vote on plans, the charter itself does not require a majority of the minority vote on any issue. OTS believes that in instances where a stock benefit plan is presented for a shareholder vote, it is reasonable to consider only the votes of the minority shareholders voting on the plan issue, particularly given that all minority shareholders are given notice of the vote, and such notice will be required to set forth the applicable vote requirement.

#### *C. Definitions in § 563b.500(a) of Types of Stock Benefit Plans*

In the NPR, OTS proposed to clarify 12 CFR 563b.500(a) by referring to the

<sup>6</sup> See, e.g., the discussion regarding the imposition of the majority of the minority voting requirement regarding stock benefit plans, 59 FR 22725 at 22729 (May 3, 1994), and the discussion regarding the imposition of a majority of the minority vote requirement in the context of second-step conversions, 67 FR 52010, at 52015 (Aug. 9, 2002).

specific type of plan addressed (that is, an Employee Stock Ownership Plan (ESOP), Stock Option Plan (Option Plan), or Management Recognition Plan (MRP)), rather than referring to plans in terms of their tax-qualified or non-tax-qualified nature. One commenter objected to this proposed change as it related to tax-qualified plans, noting that converting savings associations do implement tax-qualified plans other than ESOPs.

OTS believes that the proposed regulation adequately addressed the possibility that tax-qualified plans would not necessarily be ESOPs. Proposed section 563b.500(a) defined the term "ESOP" as an employee stock ownership plan or other tax-qualified employee stock benefit plan. Accordingly, OTS is not revising this provision in the final regulations. OTS is, however, revising the definition of the term "ESOP" in section 575.8(a)(3) to conform to the section 563b.500(a) definition.

#### *D. Plan Requirements in Section 563b.500(a)*

One commenter claimed that sections 563b.500(a)(4) and 563b.500(a)(5), as proposed, were ambiguous. The commenter claimed that section 563b.500(a)(4) could be read either as limiting an individual to receiving 25 percent or less of the shares of each type of plan, or as applying to 25 percent of all of the shares issued under the various plans. Proposed section 563b.500(a)(4) required that "[n]o individual receives more than 25 percent of the shares under your ESOP, MRP, or Option Plan." In order to make it clear that the 25 percent limitation will be applied to each plan separately, OTS is revising the regulation to require that no individual receive more than 25 percent of the shares under "any plan."

Proposed section 563b.500(a)(5) required that "[y]our directors who are not your officers do not receive more than five percent of the shares of your MRP or Option Plan individually, or 30 percent of any such plan in the aggregate." Although the proposal did not revise the language of the previous regulatory requirement, and parties engaging in conversions or Minority Stock Issuances have not claimed the language is unclear, OTS is revising the section to provide greater clarity. The final regulation provides that "Each of your directors who is not an officer does not receive more than five percent of the shares of your MRP or Option Plan, and all of your directors who are not officers do not receive, in the aggregate, more than 30 percent of the shares of your MRP or Option Plan."

#### *E. Disclosure of Discounts on Minority Stock in Minority Stock Issuances*

In the NPR, OTS proposed to rescind 12 CFR 575.7(b)(3), which requires stock offering materials to disclose the amount of any discount on minority stock due to the minority status of the stock to be offered, and how the amount of the discount was determined. OTS explained that the general securities offering disclosure requirements, which require disclosure of material information, are sufficient to address the issue of disclosure of the amount and reasons for any such discount.

One commenter believed that more explanation regarding this proposed change was appropriate, including an explanation of why OTS did not consider generally applicable securities disclosure requirements to provide a basis for sufficient disclosure when the regulation was initially promulgated.

Information regarding the amount and derivation of the discount on Minority Stock Issuances due to the minority nature of the stock is included in the appraisal for the securities offering, which is an exhibit to the offering materials. Accordingly, information regarding the discount is available to any potential purchaser in the Minority Stock Issuance.

Where OTS determines that one of its regulatory requirements is redundant, OTS believes it is appropriate to remove the redundant requirement. Accordingly, OTS is rescinding section 575.7(b)(3) as proposed.

#### *F. Plan Size Restrictions in § 575.8*

The restrictions on the size of stock benefit plans set forth at 12 CFR 575.8(a)(3) through 575.8(a)(7) are set forth both in terms of the percentage of the savings association's outstanding common stock and in terms of the percentage of the savings association's stockholders' equity. One commenter suggested that all limits based on the equity of a savings association should be eliminated, and stated that such limits penalize holding companies that leverage their capital to generate better returns for stockholders.

The NPR did not propose any substantive change in the limitations in section 575.8(a) pertaining to stockholders' equity. These limitations have been in place since the MHC Regulations were initially promulgated in 1993. OTS is not aware of any situations in which the stockholders' equity provisions placed an additional burden on MHCs. Moreover, OTS believes it is appropriate to include a limitation based on the equity of a Subsidiary Company, given that stock

benefit plans award management a share of the equity of the Subsidiary Company.

#### G. Proposed Changes to § 575.8(a)(9)

In the NPR, OTS proposed to retain the existing aggregate limitation on the size of the Option Plans and MRPs set forth at section 575.8(a)(9) of the MHC Regulations, and to clarify that the limitation therein is a separate limitation on Option Plans and MRPs that applies to each Minority Stock Issuance. One commenter suggested that the section be revised to provide that existing benefit plans would not have to be reduced if those plans exceeded the 25 percent limitation as a result of stock repurchases. OTS does not intend to require a reduction in the size of preexisting plans in the situation where the common stock encompassed by those plans exceeds 25 percent of the outstanding stock as a result of stock becoming treasury stock through repurchases prior to a new stock issuance. However, because OTS believes that it would be highly unlikely for preexisting plans to continue to exceed the 25 percent limitation after the close of a subsequent stock issuance, even where such plans would exceed the 25 percent limitation prior to the issuance, OTS is not adding language to the regulation that would explicitly except that situation from the regulatory limitation.

### IV. Regulatory Findings

#### A. Paperwork Reduction Act

OTS has determined that this rule does not involve a change to collections of information previously approved under the Paperwork Reduction Act (44 U.S.C. 3501 *et seq.*).

#### B. Executive Order 12866

The Director of OTS has determined that this rule does not constitute a "significant regulatory action" for purposes of Executive Order 12866.

#### C. Regulatory Flexibility Act

Pursuant to section 605(b) of the Regulatory Flexibility Act (RFA) (5 U.S.C. 601), the Director certifies that this rule will not have a significant economic impact on a substantial number of small entities. The rule makes certain changes that should reduce burdens on all savings associations, including small institutions. First, the rule clarifies the regulations regarding stock benefit plans in connection with mutual-to-stock conversions and Minority Stock Issuances. These clarifications will reduce the burden of complying with the OTS regulations on stock benefit

plans. Second, OTS has reduced the voting requirement to adopt stock benefit plans in MHC structures, which reduces burden on institutions establishing stock benefit plans. Finally, the rule will reduce burden by broadening the purchase limitations, thereby promoting a wider distribution of stock in a Conversion Offering or Minority Stock Issuance. All of the changes are minor and should not have a significant impact on small institutions. Accordingly, OTS has determined that a Regulatory Flexibility Analysis is not required.

#### D. Unfunded Mandates Reform Act of 1995

OTS has determined that the rule will not result in expenditures by state, local, or tribal governments or by the private sector of \$100 million or more and that a budgetary impact statement is not required under Section 202 of the Unfunded Mandates Reform Act of 1995, Pub. L. 104-4 (Unfunded Mandates Act). The rule would make certain changes that should reduce burdens on savings associations. First, the rule clarifies OTS regulations regarding stock benefit plans in connection with mutual-to-stock conversions and Minority Stock Issuances, which should reduce the burden of complying with the OTS regulations on stock benefit plans. Second, OTS has reduced the voting requirement to adopt stock benefit plans in MHC structures, which reduces burden on institutions establishing stock benefit plans. Finally, the rule will reduce burden by broadening the purchase limitations, to promote a wider distribution of stock in a Conversion Offering or Minority Stock Issuance. All of the changes are minor and should not have a significant impact on small institutions. Accordingly, a budgetary impact statement is not required under section 202 of the Unfunded Mandates Act.

#### List of Subjects

##### 12 CFR Part 563b

Reporting and recordkeeping requirements, Savings associations, Securities.

##### 12 CFR Part 575

Administrative practice and procedure, Capital, Holding companies, Reporting and recordkeeping requirements, Savings Associations, Securities.

■ Accordingly, the Office of Thrift Supervision amends Chapter V of title 12 of the Code of Federal Regulations, as set forth below.

### PART 563b—CONVERSIONS FROM MUTUAL TO STOCK FORM

■ 1. The authority citation for part 563b continues to read as follows:

**Authority:** 12 U.S.C. 1462, 1462a, 1463, 1464, 1467a, 2901; 15 U.S.C. 78c, 78l, 78m, 78n, 78w.

#### § 563b.385 [Amended]

■ 2. Amend § 563b.385(a) by removing the phrase "between one percent and" and adding the words "up to" in its place.

■ 3. Revise § 563b.500 to read as follows:

#### § 563b.500. What management stock benefit plans may I implement?

(a) During the 12 months after your conversion, you may implement a stock option plan (Option Plan), an employee stock ownership plan or other tax-qualified employee stock benefit plan (collectively, ESOP), and a management recognition plan (MRP), provided you meet all of the following requirements.

(1) You disclose the plans in your proxy statement and offering circular and indicate in your offering circular that there will be a separate shareholder vote on the Option Plan and the MRP at least six months after the conversion. No shareholder vote is required to implement the ESOP. Your ESOP must be tax-qualified.

(2) Your Option Plan does not encompass more than ten percent of the number of shares that you issued in the conversion.

(3)(i) Your ESOP and MRP do not encompass, in the aggregate, more than ten percent of the number of shares that you issued in the conversion. If you have tangible capital of ten percent or more following the conversion, OTS may permit your ESOP and MRP to encompass, in the aggregate, up to 12 percent of the number of shares issued in the conversion; and

(ii) Your MRP does not encompass more than three percent of the number of shares that you issued in the conversion. If you have tangible capital of ten percent or more after the conversion, OTS may permit your MRP to encompass up to four percent of the number of shares that you issued in the conversion.

(4) No individual receives more than 25 percent of the shares under any plan.

(5) Your directors who are not your officers do not receive more than five percent of the shares of your MRP or Option Plan individually, or 30 percent of any such plan in the aggregate.

(6) Your shareholders approve each of the Option Plan and the MRP by a majority of the total votes eligible to be

cast at a duly called meeting before you establish or implement the plan. You may not hold this meeting until six months after your conversion.

(7) When you distribute proxies or related material to shareholders in connection with the vote on a plan, you state that the plan complies with OTS regulations and that OTS does not endorse or approve the plan in any way. You may not make any written or oral representations to the contrary.

(8) You do not grant stock options at less than the market price at the time of grant.

(9) You do not fund the Option Plan or the MRP at the time of the conversion.

(10) Your plan does not begin to vest earlier than one year after shareholders approve the plan, and does not vest at a rate exceeding 20 percent per year.

(11) Your plan permits accelerated vesting only for disability or death, or if you undergo a change of control.

(12) Your plan provides that your executive officers or directors must exercise or forfeit their options in the event the institution becomes critically undercapitalized (as defined in § 565.4 of this chapter), is subject to OTS enforcement action, or receives a capital directive under § 565.7 of this chapter.

(13) You file a copy of the proposed Option Plan or MRP with OTS and certify to OTS that the plan approved by the shareholders is the same plan that you filed with, and disclosed in, the proxy materials distributed to shareholders in connection with the vote on the plan.

(14) You file the plan and the certification with OTS within five calendar days after your shareholders approve the plan.

(b) You may provide dividend equivalent rights or dividend adjustment rights to allow for stock splits or other adjustments to your stock in your ESOP, MRP, and Option Plan.

(c) The restrictions in paragraph (a) of this section do not apply to plans implemented more than 12 months after the conversion, provided that materials pertaining to any shareholder vote regarding such plans are not distributed within the 12 months after the conversion. If a plan adopted in conformity with paragraph (a) of this section is amended more than 12 months following your conversion, your shareholders must ratify any material deviations to the requirements in paragraph (a).

## PART 575—MUTUAL HOLDING COMPANIES

■ 4. The authority citation for part 575 continues to read as follows:

**Authority:** 12 U.S.C. 1462, 1462a, 1463, 1464, 1467a, 1828, 2901.

■ 5. Amend § 575.7 by:

- a. Removing the first sentence of paragraph (a);
- b. Removing paragraphs (b)(1) and (3);
- c. Removing the word “not” from paragraph (b)(2);
- d. Redesignating paragraph (b)(2) as paragraph (a)(9);
- e. Redesignating paragraphs (c), (d), and (e) as (b), (c), and (d) respectively; and
- f. Revising newly designated paragraph (d).

The revision reads as follows:

### § 575.7 Issuances of stock by savings association subsidiaries of mutual holding companies.

\* \* \* \* \*

(d) *Procedural and substantive requirements.* The procedural and substantive requirements of 12 CFR part 563b shall apply to all mutual holding company stock issuances under this section, unless clearly inapplicable, as determined by OTS. For purposes of this paragraph (d), the term *conversion* as it appears in the provisions of Part 563b of this chapter shall refer to the stock issuance, and the term *converted* or *converting savings association* shall refer to the savings association undertaking the stock issuance.

■ 6. In § 575.8, revise paragraphs (a)(3) through (a)(9) and add paragraph (c) to read as follows:

### § 575.8 Contents of Stock Issuance Plans.

(a) Mandatory provisions. \* \* \*

\* \* \* \* \*

(3) Provide that all employee stock ownership plans or other tax-qualified employee stock benefit plans (collectively, ESOPs) must not encompass, in the aggregate, more than either 4.9 percent of the outstanding shares of the savings association's common stock or 4.9 percent of the savings association's stockholders' equity at the close of the proposed issuance.

(4) Provide that all ESOPs and management recognition plans (MRPs) must not encompass, in the aggregate, more than either 4.9 percent of the outstanding shares of the savings association's common stock or 4.9 percent of the savings association's stockholders' equity at the close of the

proposed issuance. However, if the savings association's tangible capital equals at least ten percent at the time of implementation of the plan, OTS may permit such ESOPs and MRPs to encompass, in the aggregate, up to 5.88 percent of the outstanding common stock or stockholders' equity at the close of the proposed issuance.

(5) Provide that all MRPs must not encompass, in the aggregate, more than either 1.47 percent of the common stock of the savings association or 1.47 percent of the savings association's stockholders' equity at the close of the proposed issuance. However, if the savings association's tangible capital is at least ten percent at the time of implementation of the plan, OTS may permit MRPs to encompass, in the aggregate, up to 1.96 percent of the outstanding shares of the savings association's common stock or 1.96 percent of the savings association's stockholders' equity at the close of the proposed issuance.

(6) Provide that all stock option plans (Option Plans) must not encompass, in the aggregate, more than either 4.9 percent of the savings association's outstanding common stock at the close of the proposed issuance or 4.9 percent of the savings association's stockholders' equity at the close of the proposed issuance.

(7) Provide that an ESOP, a MRP or an Option Plan modified or adopted no earlier than one year after the close of: the proposed issuance, or any subsequent issuance that is made in substantial conformity with the purchase priorities set forth in part 563b, may exceed the percentage limitations contained in paragraphs (a)(3) through (6) of this section (plan expansion), subject to the following two requirements. First, all common stock awarded in connection with any plan expansion must be acquired for such awards in the secondary market. Second, such acquisitions must begin no earlier than when such plan expansion is permitted to be made.

(8)(i) Provide that the aggregate amount of common stock that may be encompassed under all Option Plans and MRPs, or acquired by all insiders of the association and associates of insiders of the association, must not exceed the following percentages of common stock or stockholders' equity of the savings association, held by persons other than the savings association's mutual holding company parent at the close of the proposed issuance:

Institution size	Officer and director purchases (percent)
\$ 50,000,000 or less .....	35
\$ 50,000,001–100,000,000 .....	34
\$100,000,001–150,000,000 .....	33
\$150,000,001–200,000,000 .....	32
\$200,000,001–250,000,000 .....	31
\$250,000,001–300,000,000 .....	30
\$300,000,001–350,000,000 .....	29
\$350,000,001–400,000,000 .....	28
\$400,000,001–450,000,000 .....	27
\$450,000,001–500,000,000 .....	26
Over \$500,000,000 .....	25

(ii) The percentage limitations contained in paragraph 8(i) may be exceeded provided that all stock acquired by insiders and associates of insiders or awarded under all MRPs and Option Plans in excess of those limitations is acquired in the secondary market. If acquired for such awards on the secondary market, such acquisitions must begin no earlier than one year after the close of the proposed issuance or any subsequent issuance that is made in substantial conformity with the purchase priorities set forth in Part 563b.

(iii) In calculating the number of shares held by insiders and their associates under this provision, shares awarded but not delivered under an ESOP, MRP, or Option Plan that are attributable to such persons shall not be counted as being acquired by such persons.

(9) Provide that the amount of common stock that may be encompassed under all Option Plans and MRPs must not exceed, in the aggregate, 25 percent of the outstanding common stock held by persons other than the savings association's mutual holding company parent at the close of the proposed issuance.

\* \* \* \* \*

(c) *Applicability of provisions of § 563b.500(a) to minority stock issuances.* Notwithstanding § 575.7(d) of this section, § 563b.500(a)(2) and (3) do not apply to minority stock issuances, because the permissible sizes of ESOPs, MRPs, and Option Plans in minority stock issuances are subject to each of the requirements set forth at paragraphs (a)(3) through (a)(9) of this section. Section 563b.500, paragraphs (a)(4) through (14), apply for one year after the savings association engages in a minority stock issuance that is conducted in accordance with the purchase priorities set forth in part 563b. In addition to the shareholder vote requirement for Option Plans and MRPs set forth at § 563b.500(a)(6), any

Option Plans and MRPs put to a shareholder vote after a minority stock issuance that is conducted in accordance with the purchase priorities set forth in part 563b must be approved by a majority of the votes cast by stockholders other than the mutual holding company.

Dated: June 18, 2007.

By the Office of Thrift Supervision.

**John M. Reich,**

*Director*

[FR Doc. E7–12168 Filed 6–26–07; 8:45 am]

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**DEPARTMENT OF TRANSPORTATION**

**Federal Aviation Administration**

**14 CFR Part 65**

[Docket No. FAA–2007–27108; Amendment No. 65–50]

RIN 2120–AI83

**Inspection Authorization 2-Year Renewal**

**AGENCY:** Federal Aviation Administration (FAA), DOT.

**ACTION:** Direct final rule; confirmation of effective date.

**SUMMARY:** On January 30, 2007, the FAA issued a direct final rule, “Inspection Authorization 2-Year Renewal,” which amended the renewal period for inspection authorizations and requested comments. This document responds to the comments received and confirms the effective date of the rule.

**DATES:** The effective date for the direct final rule published on January 30, 2007 (72 FR 4400) is confirmed as March 1, 2007.

**ADDRESSES:** The complete docket for the direct final rule on Inspection Authorization, Docket No. 27108 may be examined at <http://dms.dot.gov> at any time or go to the Docket Management

Facility in Room W12–140 of the West Building, Ground Floor at 1200 New Jersey Avenue, SE., Washington, DC, between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays.

**FOR FURTHER INFORMATION CONTACT:** Kim Barnette (AFS–350), Aircraft Maintenance Division, General Aviation and Avionics Branch, Flight Standards Service, Federal Aviation Administration, 800 Independence Avenue SW., Washington, DC 20591, telephone (202) 493–4922.

**SUPPLEMENTARY INFORMATION:**

**Background**

On January 30, 2007, the FAA published a direct final rule (72 FR 4933) amending the renewal period for inspection authorizations. The rule became effective on March 1, 2007.

The direct final rule is the product of discussions between industry representatives (including the Professional Aviation Maintenance Association) and the FAA. The discussions led to a consensus to change the 1-year inspection authorization renewal period to once every two years. Under the direct final rule, the expiration date of an inspection authorization changed from March 31 of each year to March 31 of each odd-numbered year. The intent of the rule is to relieve administrative costs associated with renewing inspection authorizations for both FAA and the IA holders without affecting safety.

The rule retains the annual activity requirement for each year of the 2-year IA period. Consistent with the annual aspects of the former rule, an IA holder must perform one of the five activities listed in § 65.93 (a)(1)–(5) during the first year of the 2-year IA period. A new paragraph (c) states if the IA holder does not complete one of those activities by March 31 of the first year, the holder may not exercise the inspection authorization privileges after that date. However, the holder may resume exercising IA privileges during the