

MEMORANDUM

TO: THE CEO OF EACH STATE-CHARTERED BANK, SAVINGS BANK, AND SAVINGS & LOAN ASSOCIATION

FROM: SID SEYMOUR

RE: DIRECTORS EXAMINATION REQUIREMENTS RULE

DATE: MARCH 21, 2002

The Directors' Examination Requirements Rule, which was published for comment in the December 20, 2001, issue of the *Louisiana Register*, has now become final (and effective) as of March 20, 2002. Attached is a copy of the final rule, as well as a new form that should be used when you submit the information to this office. We considered all comments and revised the proposed rule in the following areas: (1) the due date for the annual Directors' Examination was extended from the proposed ninety (90) days from the end of the period for which the report is issued to one hundred twenty (120) days, and (2) the definition of "principle shareholder," as it pertained to the definition of "outside director," was revised to accommodate those institutions that may have difficulty in meeting the audit committee composition requirements.

Since there appears to be some confusion regarding the submission of the 2001 Directors' Examination, we thought it would be helpful to share our responses to some of the most commonly asked questions.

- ◆ If your institution obtains an **opinion audit** from an independent CPA and the audit report is presented on an "**institution only**" basis, you do not need to submit the seven page directors report previously required in prior rules to the office. Within one hundred twenty days from the end of the period covered by your audited financial statements (April 30, 2002, if the report is for financial statements as of December 31, 2001), two copies of the following must be submitted: (1) the attached cover sheet identifying the name and address of the institution as well as the period covered, (2) a complete copy of the audited financial statements (including all footnotes), (3) a copy of any management or comment letters issued by the CPA, and (4) the institution's response to the management or comment letter.
- ◆ If your institution obtains an **opinion audit** from an independent CPA and the audit report is presented on a "**consolidated**" basis, and the audit meets the audit coverage criteria in Section (I) of the rule, you will no longer be required to submit

the seven page directors report to the office. Within one hundred twenty days from the end of the period covered by your audited financial statements (April 30, 2002, if the report is for financial statements as of December 31, 2001), two copies of the following must be submitted: (1) the attached cover sheet identifying the name and address of the institution as well as the period covered, (2) a complete copy of the audited financial statements (including all footnotes), (3) an "institution-only" balance sheet, (4) an "institution-only" income statement, (5) a copy of any management or comment letters issued by the CPA, and (6) the institution's response to the management or comment letter. Note: The need for "institution-only" balance sheets and income statements is **not** new. In the past, most institutions contracted with their CPA firms to provide "institution-only" balance sheet and income statements in the footnotes to the financial statements. As an alternative, the CPA firms have also provided consolidating worksheets breaking out all entities in the consolidated group. If your CPA firm does not provide this information, each institution must attach an "institution-only" balance sheet and income statement to the audit reports, before submitting the reports to this office.

- ◆ If your institution obtains a "balance sheet only" opinion audit, or an "attestation on the internal controls over financial reporting" report from an independent CPA, you do not need to submit the seven page directors report previously required in prior rules to the office. Within one hundred twenty days from the end of the period covered by your audited financial statements (April 30, 2002, if the report is for financial statements as of December 31, 2001), two copies of the following must be submitted: (1) the attached cover sheet identifying the name and address of the institution as well as the period covered, (2) a complete copy of the audited balance sheet (including all footnotes) or the attestation report issued in connection with the examination of internal controls over financial reporting, (3) a copy of any management or comment letters issued by the CPA, and (4) the institution's response to the management or comment letter.
- ◆ If your institution obtains an audit by a qualified independent CPA or internal auditor which is less in scope than the options shown above, you should contact Staff CPA Mrs. Dale Jacobs at (225) 922-0632 or by e-mail at djacobs@ofi.state.la.us to obtain the seven-page forms and instructions for completing the selected audit procedures required under the new rule.

If you have any other questions, please contact Mrs. Jacobs.