



Federal Home Loan Bank of Pittsburgh

2003-19-3

James D. Roy
*President and
Chief Executive Officer*

January 8, 2004

Federal Housing Finance Board
1777 F. Street, N.W.
Washington D.C. 20006

RE: Proposed Rule Requiring SEC Registration

Dear Ladies and Gentlemen:

Thank you for the opportunity to comment on the Federal Housing Finance Board's ("Finance Board") proposed rule ("Proposed Rule") requiring the Federal Home Loan Banks ("FHLBanks") to register a class of their capital stock with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 ("1934 Act").

I. The Federal Home Loan Bank Of Pittsburgh ("Bank") Supports The Objective Of The FHLBanks Issuing Complete, Transparent Financial Disclosures, But SEC Registration Is Not The Best Approach.

The Bank supports the objective of having the FHLBanks issuing complete, transparent financial disclosures. The Bank, however, disagrees with the Finance Board's conclusion that the best way to achieve this objective is to require the FHLBanks to register with the SEC. There is no evidence that the benefit of having the SEC regulate the financial disclosures of the FHLBanks (as opposed to the Finance Board regulating the same disclosures) outweighs the potential costs imposed on member institutions and the communities they serve. Therefore, the Finance Board should require the FHLBanks to file enhanced financial disclosures, but it should retain jurisdiction for regulating those disclosures.

The Finance Board has long regulated the financial disclosures issued by the FHLBank System in regard to the debt issued to the general public through the Office of Finance ("OF"). Under Part 985 of the Finance Board's regulations, the Finance Board administers a periodic disclosure regime that requires the OF to issue financial disclosures and require these disclosures to be generally consistent with the SEC's Regulations S-K and S-X. Under the Proposed Rule, the Finance Board would continue to regulate these financial disclosures; and jurisdiction would not be transferred to the SEC even though these are the only financial disclosures relied on by the general public. Thus,

the Finance Board must believe, at some level, in its ability to properly regulate financial disclosures based on SEC rules.

The Bank believes the best way to improve the financial disclosures issued by the FHLBanks is to simply extend the rules set forth under Part 985 to the financial disclosures issued by the FHLBanks. Currently, the FHLBanks are not required to issue periodic financial disclosures. We believe requiring each FHLBank to issue periodic financial disclosures in accordance with Part 985 is all that is necessary to achieve the stated objective of improving the level of disclosure in the FHLBank System.

This approach would be consistent with how Congress requires financial institutions that are subject to safety and soundness regulation to file periodic financial disclosures. Congress has long held the view that, on balance, the safety and soundness regulator should retain jurisdiction (as opposed to the SEC) over the financial disclosures issued by institutions under their jurisdiction.

This approach would avoid the inevitable conflict between the mission of the SEC to protect the investor and the mission of the Finance Board to protect the safety and soundness of the FHLBanks and their ability to access the capital markets. Congress chartered the FHLBanks for the sole reason of accessing the capital markets on behalf of their member financial institutions. Congress has continued to affirm the important public policy role served by the FHLBanks. Unnecessary dual regulation that could jeopardize the FHLBanks' ability to fulfill this important role should be avoided.

Simply extending the SEC rules followed under Part 985 to the financial disclosures issued by the FHLBanks would also avoid imposing potential additional costs on member institutions and community group stakeholders in the FHLBank System. The SEC is not familiar with regulating 12 Congressionally chartered cooperative institutions that are jointly and severally obligated on the debt they collectively issue. There is a risk that the FHLBanks would not have unrestricted access to the capital markets during the period in which the SEC attempts to become familiar with the operations and disclosures of the FHLBanks. As a result, the FHLBanks may have to increase the amount of liquidity they hold on balance sheet in order to meet their obligations.

A recent study by the First Manhattan Consulting Group suggests that the costs to member institutions resulting from impaired access to the capital markets could be as high as \$1 billion each year.¹ This would result in a

¹ Up to \$500 million at the FHLBank level and another \$500 million at the member institution level.

reduction of up to \$50 million in grants under the FHLBanks' affordable housing programs. Thus, SEC registration could result in significant costs being imposed on both member institutions and the communities they serve. One might assume that there are significant public policy benefits that more than offset these potential adverse consequences. However, there has been no analytical work to suggest that SEC registration will result in any significant benefit to the investing public over having these disclosures regulated by the Finance Board.

Until such time as the benefit of SEC registration is studied and quantified, and that such benefit justifies the risks of added costs to member institutions and the communities they serve, SEC registration should not be required. Instead, the Finance Board should require that the level of financial disclosures issued by the FHLBanks be enhanced by requiring them to follow the SEC-based rules set forth in Part 985.

II. To The Extent The Finance Board Requires The FHLBanks To Register With The SEC, The Finance Board Should Take Steps to Mitigate The Costs Imposed on Member Institutions And The Communities They Serve.

In the event the Finance Board proceeds to require the FHLBanks to register with the SEC, the Finance Board should require the SEC to enter into a binding Memorandum of Understanding ("MOU") that addresses the unique accounting,² regulatory³ and economic⁴ issues associated with having the FHLBanks register with the SEC.⁵ The FHLBanks should be either a party to the MOU or a third-party beneficiary thereof.

The Finance Board's statutory responsibility to ensure that the FHLBanks are able to fulfill their public policy mission justifies requiring the SEC to enter into a MOU before the Finance Board requires the FHLBanks to voluntarily register under the 1934 Act. Having the FHLBanks register under the 1934 Act should not be treated as business as usual by the SEC. The potential adverse consequences are too great. The Finance Board and the SEC must work together to make dual regulation over a Government-Sponsored Enterprise produce good public policy.

² How the capital stock, REFCORF obligation, and joint and several obligation will be presented on the financial statements of the FHLBanks.

³ Sections 13(d), (e), (f) and (g); sections 14(a), (c), (d), and (f); and section 16 of the 1934 Act.

⁴ The costs associated with the FHLBanks having to add liquidity to mitigate the risk of being forced out of the debt markets while a comment issued by the SEC remains unresolved.

⁵ The FHLBanks should not be required to register with the SEC until all the accounting, regulatory and economic issues have been fully resolved and documented in the MOU.

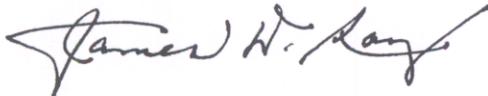
III. Conclusion.

The best way to achieve the objective of enhancing the financial disclosures issued by the FHLBanks is to require the FHLBanks to file periodic financial disclosures pursuant to the SEC-based rules set forth in Part 985 of the Finance Board regulations. There is no evidence that the investing public would benefit significantly from having the SEC, as opposed to the Finance Board, regulate how the FHLBanks issue disclosures under these SEC-based rules. Requiring SEC registration may introduce significant costs. On balance, the Finance Board should require additional periodic financial disclosures by the FHLBanks, but it should retain jurisdiction over these disclosures.

The Finance Board should be commended for its efforts to enhance the financial disclosures of the Federal Home Loan Banks. As a result of the Finance Board's leadership on this initiative, the financial disclosures issued by the Banks to its member institutions will be improved.

Thank you again for the opportunity to comment on the Proposed Rule.

Sincerely,

A handwritten signature in black ink, appearing to read "James H. King". The signature is written in a cursive style with a large, sweeping initial "J".